CONSOLIDATED ACCOUNTS

2005 financial year

FONDIARIA-SAI S.p.A.

FONDIARIA-SAI S.p.A. - REGISTERED OFFICE IN FLORENCE - P.ZA DELLA LIBERTA' 6 - REGISTERED OFFICE IN TURIN - Corso G. Galilei, 12 – SHARE CAPITAL € 173,880,363 FULLY PAID-UP – TAX REFERENCE, VAT REGISTRATION NUMBER AND ENTRY NUMBER IN THE FLORENCE REGISTER OF COMPANIES 00818570012 – COMPANY AUTHORISED TO CARRY OUT INSURANCE BUSINESS IN ACCORDANCE WITH art.65 OF ROYAL DECREE LAW 966 OF 29 APRIL 1923 AS CONVERTED INTO LAW 473 OF 17 april 1925.

Corporate Mission.
Vision and Values.

Our objective is to create value for shareholders and stakeholders, facing the challenges created by the market, both now and in a wider and more durable context.

The Fondiaria-SAI Group is aware of its role in society and sees the insurance sector as a fascinating factory of people and knowledge, which has a key role to play in the financial system and provides a service to society by responding to the need for security of individuals and communities.

The Group's activity is constantly directed at making the most of:

- clients, guaranteeing them transparency and clarity while introducing improvements and innovation
- employees, in the conviction that each individual plays a decisive part in achieving success at work and improving the quality of the service offered.

Responsibility, team spirit, innovation and communication are the values that systematically guide our actions.

Following the merger by incorporation of "La Fondiaria Assicurazioni" into "SAI-Società Assicuratrice Industriale", which took place on 31 December 2002, the Group developed and approved a business plan for the insurance sector which covers the period 2003-2005 and was presented to the financial community on 3 April 2003.

With reference to the above business plan, over the last three years the Group has consolidated its leadership in the Non-Life sector (particularly in the Motor TPL segment) achieving 1st place (at the end of 2004) in the Italian insurance market, earning premiums in the Non-Life insurance sector equal to € 7,144m as at 31/12/2005 (€ 7,010m as at 31/12/2004; € 6,823.5m as at 31/12/2003) This result has been achieved thanks to:

- careful selection of risks, aimed at maintaining a profitable portfolio in terms of combined ratio, which stood at 92.2% as at 31/12/2005 (31/12/2004: 92.4%, 31/12/2003: 91.5%).
- economies of scale resulting from the process of industrial and corporate integration launched during 2002;
- technical skills of the Group in developing more competitive products and tariff structures, which have allowed the sales performance of the largest network of brokers in the Italian market (over 3500 brokers throughout the country, 1,448 financial promoters as at 31/12/2005) to be improved.

At the same time, the existing Life business has been relaunched, speeding up growth in the Life sector with premium income of approximately € 2,361m as at 31/12/2005 (€ 2,808m as at 31/12/2004; € 2,420m as at 31/12/2003), rebalancing the total premium portfolio.

PRINCIPAL EVENTS IN 2005

Social responsibility

- Publication of Fondiaria-SAI's first Social Statement relating to 2004.
- Drafting and adoption of a Code of Ethics to which the Group's main companies can refer.
- Registration of the Fondiaria-SAI Foundation in the register of corporate persons in October 2005. The Fondiaria-SAI Foundation is the natural outcome of a series of past and current initiatives taken by the Group to disseminate art and culture, carry out promotional activities targeted at the young, support social solidarity initiatives and fund medical and scientific research. For further details about the Fondiaria-SAI Foundation see the Social Responsibility chapter of the Management Report.

Major company reorganisations and real estate

- September 2005: increase in the shareholding in Banca SAI S.p.A. from 80.47% to 100%
- December 2005: merger by incorporation of Progestim S.p.A. into Immobiliare Lombarda S.p.A.
- December 2005: subsequent to the required authorisation being issued by Isvap, sale by Fondiaria-SAI to the parent company Premafin Finanziaria of 100% of the capital of International Strategy S.r.l.
- December 2005: signing of the contract for the purchase by Milano Assicurazioni of 100% of Campo Carlo Magno S.p.A. and Campo Carlo Magno Sport S.r.l. and of the company leasing contracts for companies including Atahotels S.p.A..

- Principal activities involving the regeneration of a number of urban areas in which the Group is taking part:

    - Milan: regeneration of the city's exhibition district, development of the area allocated to the "Città della Moda" (Fashion City) and regeneration of the "Isola" district;
    - Florence: the initiative known as "Castello" (castle) area and regeneration of the former tobacco factories area;
    - Rome: the initiative known as "Progetto Alfiere", aimed at regenerating an office complex in the EUR district.
    - Turin: development project for the "Spina 3" area known as "Cinque Cerchi" (Five Circles)

- Main property acquisitions made by the Group:

    - Property for hotel use in Parma, by the subsidiary Progestim (now Immobiliare Lombarda).
    - Property for tourism/hotel use known as "Grand Hotel Fiera Milano", by the subsidiary Meridiano Risparmio S.r.l.

- Purchase by the subsidiary Progestim (now Immobiliare Lombarda) of buildable land with the respective volumetric rights in Milan.

- Creation of two new Group structures for the purpose of channelling into a single *service* the management of tender procedures launched by public bodies and the taking-on of risks associated with large companies (known respectively as the GARE (TENDERS) and GRANDI AZIENDE (LARGE COMPANIES) structures), optimising the support service for the Group's brokers who also intend to operate in the market segments thus identified.

- Opening of the first branch of BancaSai for clients, headquartered in Florence. The new branch supports and supplements the financial negotiation activity, which includes various financial promoters and a group of private bankers.

For further information about regeneration and property acquisition activities, see the "Property Sector" chapter of the Management Report.

Important events during the financial year

- First half of 2005: establishment of the Group's network of authorised body shops known as PRESTO&BENE, conceived and set up for the purpose of making the vehicle repair service provided to damaged clients even more efficient.
- December 2005: signing of the agreement for the development of bank insurance activities with the Banca Popolare di Milano Group

New insurance and financial products

- **Fondiaria-SAI S.p.A.**

  <u>Non-Life insurance business</u>
  Launch of the NUOVA 1ª GLOBAL product which, thanks to the introduction of further risk selection and offer differentiation factors, as well as to its fulfilment of the latest regulatory requirements, is an innovative product considered to be among the best on the market in terms of quality, comprehensiveness and value for money.

  In the retail sector, the work of reviewing and refining the offer with a view to achieving standardisation throughout the Group continued, while work was completed for the launch of unified products in the Home and Family sector during 2006.

  During 2005, law 210 of 2004 came into effect with the introduction of its implementation decree, which requires the property rights of the purchasers of private properties to be protected by a guarantee and decennial liability insurance. Following the research carried out, the new DECENNALE POSTUMA (DECENNIAL LIABILITY) product relating to the aforesaid law will be launched during the first four months of 2006.

- **Milano Assicurazioni S.p.A.**

  Non-Life insurance business
  Launch in the CASA BASE and FAMIGLIA BASE market of two new retail products characterised by a combination of benefits and a pre-set premium. CASA BASE offers Clients, both owners and tenants, initial protection of their home from the risks of fire and theft. FAMIGLIA BASE is instead a product

aimed at insuring the head of the family against liability arising from his/her property and his/her relationships.

A new Group product has also been launched aimed at providing financial protection for the insured in the event of an occupational and non-occupational accident, known as La Mia Assicurazione Infortuni.

This product, which was released in January 2006, replaces and improves the current PROTEZIONE INFORTUNI (ACCIDENT PROTECTION) product. A new product called Ritiro Patente (Licence Withdrawal) has been created to protect the insured client's driving licence. The product, which is sold exclusively under the brand of Milano Assicurazioni and its divisions, provides a financial contribution to assist with obtaining a new licence or recovering the points lost.

The following new products have been launched by subsidiaries:

Dialogo Assicurazioni:

- DIALOGO IN CASA, aimed at protecting the insured against financial losses caused by damage to his home following a fire or theft.
- DIALOGO IN FAMIGLIA, aimed at insuring the head of the family against liability arising from his/her home and his/her relationships.

Systema Assicurazioni:

- SYSTEMA PATRIMONIO, aimed at protecting the insured against financial losses caused by damage to his home following a fire or theft.

- Fondiaria-SAI S.p.A. and Milano Assicurazioni S.p.A.

  Life Business Pension Funds and Managed Savings: continuing with the process of reviewing and updating its offer, which began during the previous financial year, the Group launched two new products in the strategic segment of single premiums (Open Unico and Open Risparmio) associated with segregated accounts and aimed at satisfying specific targeted savings and investment requirements of clients.
  Pursuing the aim of increasing the distribution of high value annual premium products for the two Companies, a new product called Open Protetto was marketed during the year, aimed at satisfying the medium to long term savings requirements of clients. The product is an insurance savings plan characterised by being linked to a new individually managed assets programme which allows assets to be invested in the property sector and provides a range of insurance cover options, some of them intrinsic to the product and others complementary and optionally available to the client.

  Two instalments of Index Linked products were launched during the financial year, the first one characterised by the presence of annual coupons for pre-set and variable amounts, and the second by a mechanism associated with the growth of an innovative European share index.

  Finally, with the aim of increasing the level of penetration in the sector of collective insurance risk cover, further restyling of the product list was carried out, launching the new PLURAL VITA product line for Groups and executives.

This initiative allowed interesting results to be achieved in terms of protecting the Client portfolio by taking targeted action aimed at maintaining portfolios affected by expiring policies.

- **BancaSai S.p.A.**

  Current accounts
  Creation of a new line called EASY, including three different types of current account with completely different features to one another (Easy[1], Easy[2], Easy[3]) to satisfy specific needs: basic zero cost transactions, securities transactions primarily with deposit requirements, high use of banking services with the transparency and clarity of a fixed cost for an unlimited number of transactions.

  Debit and credit cards
  Rationalisation of the entire range, with two types of Bancomat/PagoBancomat that can be used, as the client chooses, only in Italy or both in Italy and abroad.
  Offerta di carte CartaSì disponibili nelle versioni Classic, Gold, Platinum, Business, Business Gold e Freedom, con una nuova politica di offerta che prevede ora l'affiliazione ai due circuiti internazionali Visa e Mastercard.

SIGNIFICANT EVENTS OCCURRING AFTER THE END OF THE FINANCIAL YEAR

- January 2006

  - Sale of the entire shareholding held by the Fondiaria-SAI Group in Swiss Life Holding.
  - Signing with Gaula Consultadoria e Investimentos Lda. of a contract of sale and purchase of 99.97% of the capital of Liguria Assicurazioni S.p.A..
  - Signing with Atahotels of the leasing contract for the hotel and conference centre complex known as "Principi di Piemonte", which allowed it to be opened to the public to coincide with the "Turin 2006" olympic event.

- Following the agreement for the development of bancassurance activities with the Banca Popolare di Milano Group, signed on 21/12/2005, in February 2006, Fondiaria-SAI announced, in agreement with its subsidiary Milano Assicurazioni S.p.A., that it had appointed the latter to purchase shares in Bipiemme Vita S.p.A. The transaction is subject to the authorisations being obtained from the relevant Authorities.
- In a letter dated 11 January 2006, the parent company announced that it was willing to increase its overall shareholding owned in Capitalia and contributed to the Shareholders' Agreement, directly and through Milano Assicurazioni, from the current 2.57% to 3.50%.
- During the first few months of 2006, negotiations were completed with the American Hines property group aimed at setting up a joint venture with the Fondiaria-SAI Group to carry out a property development project in the area of Milano known as "EX VARESINE", adjacent to the "GARIBALDI REPUBBLICA"

area which had been the subject of a similar agreement signed last year by the subsidiary MILANO ASSICURAZIONI and the same leading US group.

For further details about the matters discussed, see the “Significant events after the end of the 2005 financial year” chapter of the Management Report.

CONTENTS

STATUTORY AND MANAGEMENT BODIES OF FONDIARIA-SAI S.p.A.
BOARD OF DIRECTORS

Salvatore Ligresti	*Honorary Chairman*
Jonella Ligresti*	*Chairman*
Giulia Maria Ligresti*	*Vice Chairman*
Massimo Pini*	*Vice Chairman*
Antonio Talarico*	*Vice Chairman*
Fausto Marchionni*	*Managing Director – Chief Executive Officer*
Andrea Broggini	
Carmelo Caruso	
Mariella Cerutti Marocco	
Carlo d'Urso	
Vincenzo La Russa*	
Gioacchino Paolo Ligresti*	
Lia Lo Vecchio	
Siro Lombardini	
Enzo Mei	
Giuseppe Morbidelli	
Cosimo Rucellai	
Oreste Severgnini	
Salvatore Spiniello	
Oscar Zannoni	
Alberto Marras	*Secretary to the Board and to the Executive Committee*

** Members of the Executive Board*

In addition to representing the company as stated in article 21 of the Company's by-laws, the Chairman, Mrs Jonella Ligresti, and the Managing Director, Prof. Fausto Marchionni, are vested with all the powers of ordinary and extraordinary administration, to be used with a single signature and with the possibility of conferring mandates and powers of attorney, with the exception of the following exclusively:
- transfer and/or purchase of real estate with a value greater than € 10m per transaction;
- transfer and/or purchase of shareholdings with a value greater than € 25m per transaction and controlling shareholdings;
- taking on loans for an amount greater than € 50m per transaction;
- issue of non-insurance guarantees in favour of third parties.

All the powers not already vested in the Chairman and Managing Director are conferred upon the Executive Committee, with the exception of those expressly reserved for the Board by law or statute and without prejudice to the Board's exclusive competence for each resolution concerning transactions with related parties as identified by the Board.
The Board of Directors was appointed by the general meeting held on 29 April 2003.
The Board's term will end at the same time as that the Board of Auditors, with the meeting to approve the accounts for the financial year.

BOARD OF AUDITORS

Benito Giovanni Marino
Chairman

Giancarlo Mantovani
Regular auditor

Marco Spadacini
Regular auditor

Sergio Castellini
Alternate auditor

Giorgio Di Giuliomaria
Alternate auditor

Maria Luisa Mosconi
Alternate auditor

INDEPENDENT AUDITORS

DELOITTE & TOUCHE S.p.A.

COMMON REPRESENTATIVE OF SAVINGS SHAREHOLDERS

Sandro Quagliotti

CHIEF EXECUTIVE OFFICER

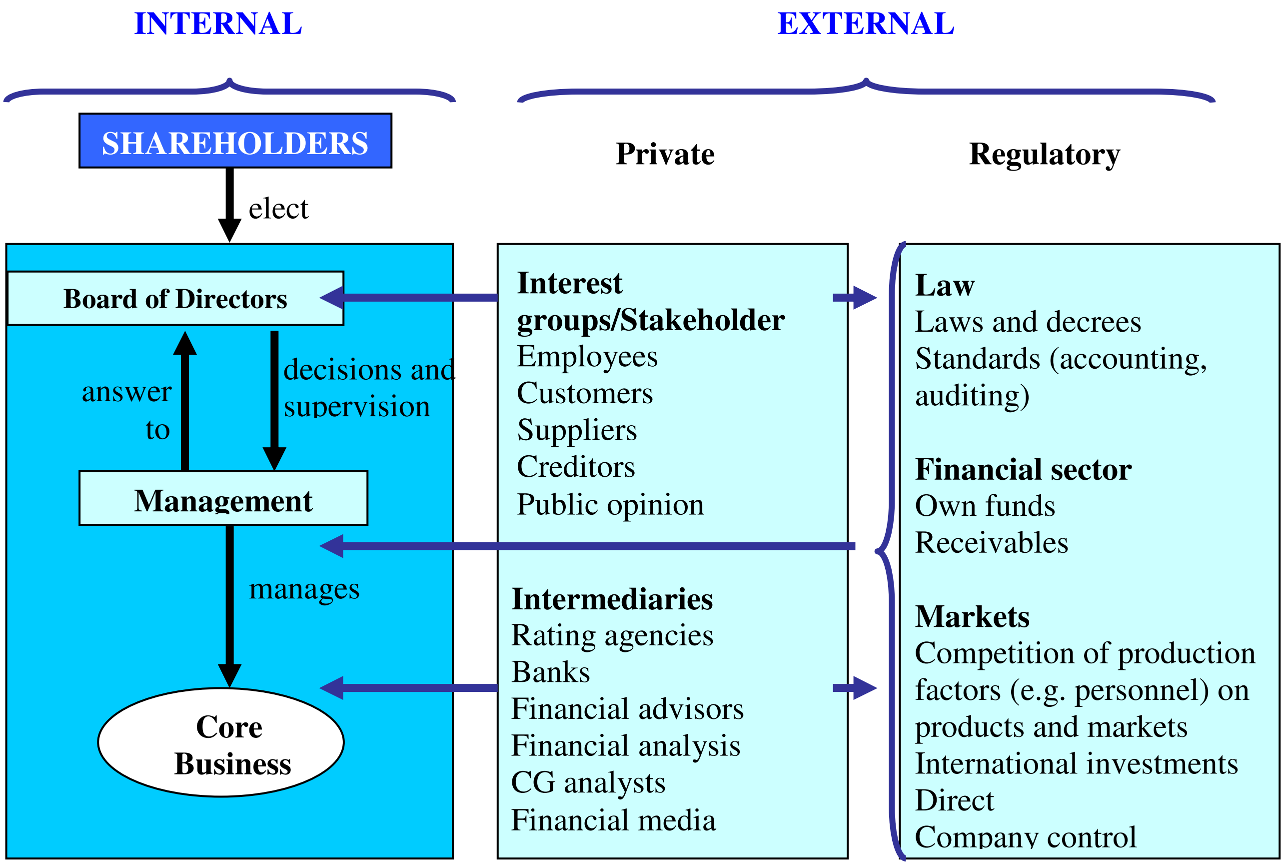
Fausto Marchionni

SUBSIDIARIES AND ASSOCIATED COMPANIES (table)

OTHER SIGNIFICANT SHAREHOLDINGS (table)

CORPORATE GOVERNANCE

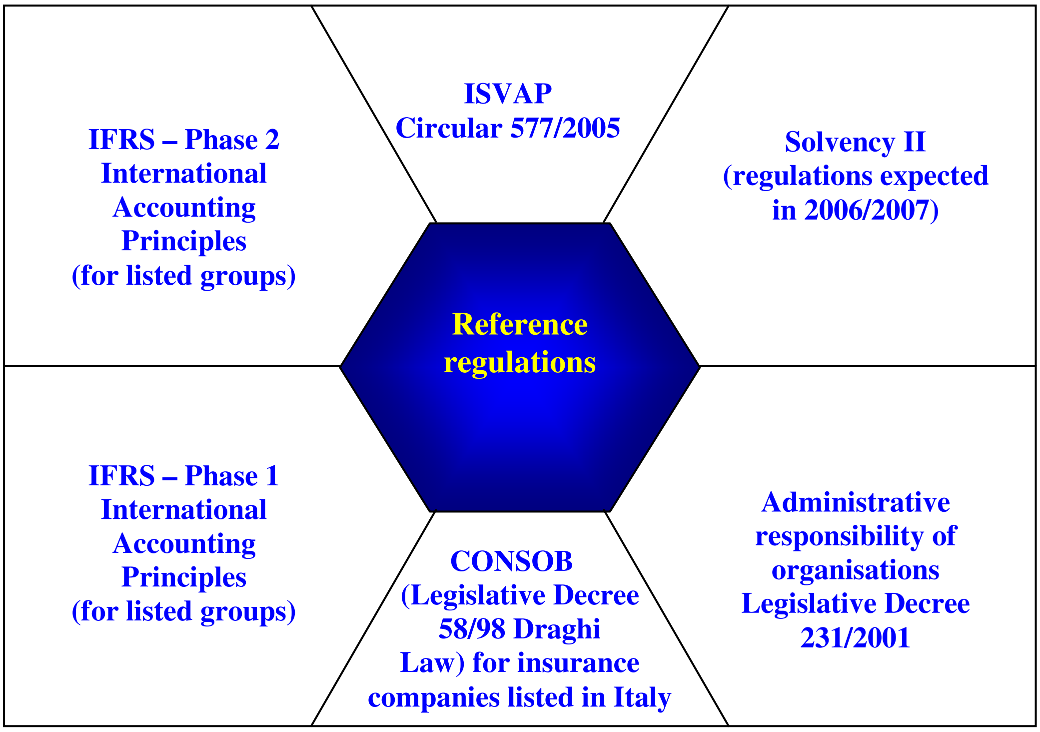
Value-led company management and control systems are an increasingly important competitive factor for companies of all sizes. The term Corporate Governance essentially refers to the behaviour, interaction and responsibilities of the various parties involved in the activities of the company. Depending on the definitions, this circle of people can include shareholders, managers and the Board of Directors, or extend to employees, clients, suppliers, creditors and public opinion.



Source: World Bank

Risk Management

Developments in legislation and regulations increasing focus on risks relating to company processes, systems and control structure organisation.



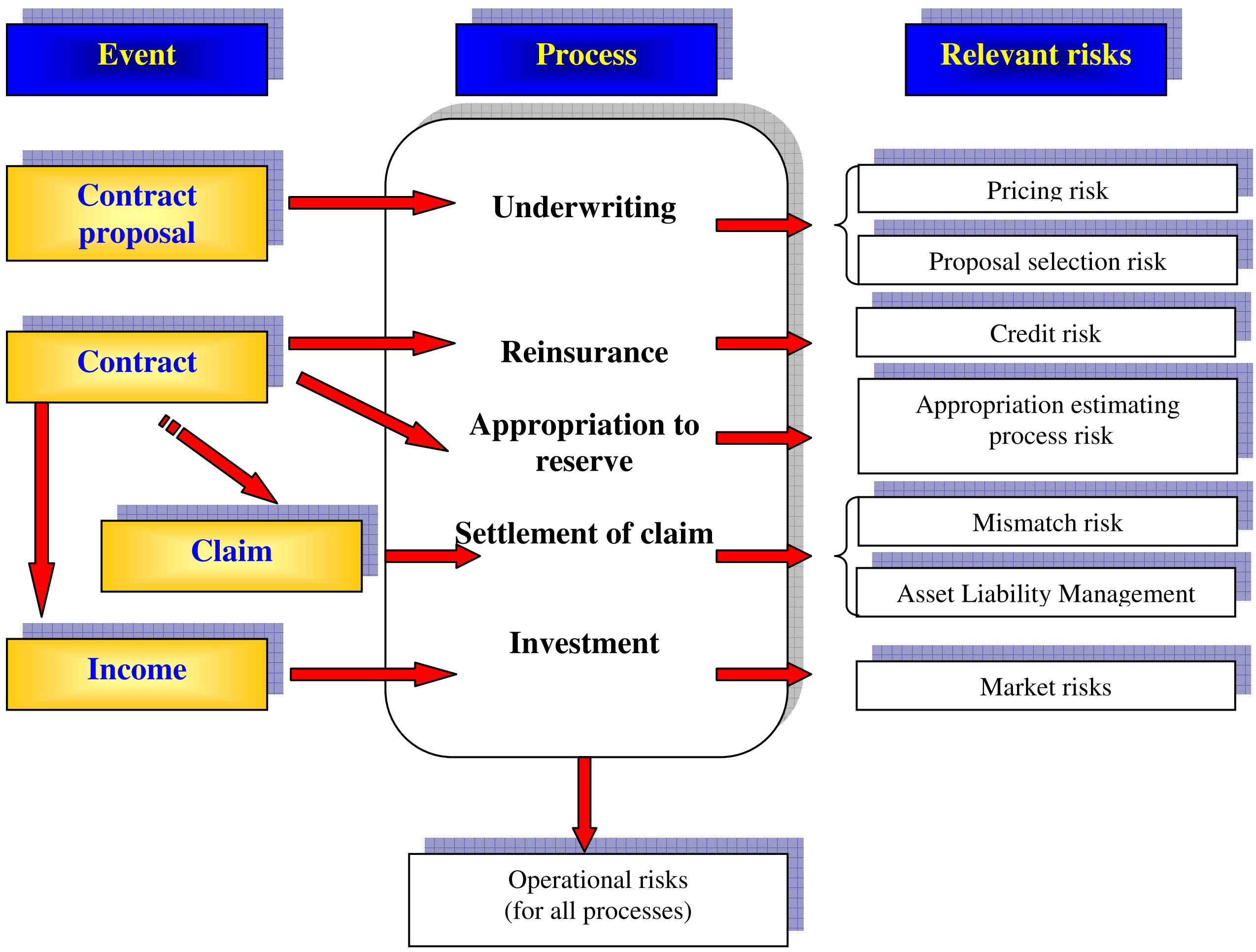
Main laws and regulations with a significant impact on the organisation and processes of insurance companies

By means of circular 577/D on “Provisions regarding internal control systems and risk management”, ISVAP required insurance companies to disseminate a risk management culture and specified its principles, methods and means. Companies are therefore required to establish a risk management function, suited to the nature, dimensions and complexity of the company, the organisational placement of which can be freely determined by the companies, in compliance with the principle of separation between operational and control functions.
The main purpose of the aforesaid circular is specifically to promote the establishment within insurance companies of suitable internal control and risk management systems. The circular also signals a technical turning point, which could not be avoided under European Solvency and IAS regulations, in the governance of the Life and Non-Life insurance business relating to calculation of the degree of risk, in view of the role now assigned to IT systems for organising responsibility. The internal control system of insurance groups must be aimed at maintaining the economic, financial and asset balance of the individual companies, taking into account the effect of their membership of the Group.

The Group believes that, in view of the increasing globalisation of the market, with particularly sophisticated transaction methods and financial instruments, appropriate coordination structures and organisational processes are fundamental, both to protect the company against unexpected events and to benefit from any competitive advantages resulting from its capacity to assume higher levels of risk in a responsible and protected way.

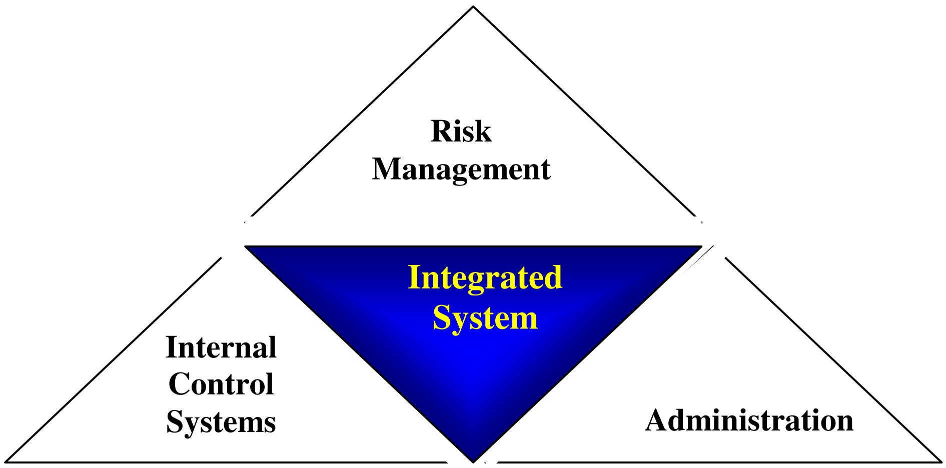
The aforementioned circular is a step forward towards integrated management of the risks of insurance companies:

- insurance risks, such as underwriting and reserve risks;
- financial risks, such as market, credit and liquidity risks;
- operating risks in the broader sense, such as risks associated with belonging to the Group, legal and reputation risks.



Example of the correlation between processes and risks in the insurance sector

The Fondiaria-SAI Group is therefore equipping itself to comply with the new provisions issued by the regulatory body for the creation of a management system that can detect, measure, monitor and consider financial, insurance and operating risks.
A process is therefore being launched with the aim of providing reasonable certainty about the efficiency and effectiveness of the activities carried out, by ensuring the reliability of information in the accounts and compliance with laws and regulations as regards the risks that absorb a significant amount of capital in the context of the Group's operations.



Evolution of the risks-opportunities analysis into an integrated system

CORPORATE GOVERNANCE REPORT

With reference to corporate governance, the information already set out in the Statutory Accounts of Fondiaria-SAI has been provided below, given that the corporate governance functions are concentrated in the parent company.

Section 1 – The Company's governance structure: general outline

Information is provided below on the governance structure of the Company and on the implementation of the principles and recommendations contained in the Code of Self-Discipline for listed companies, drawn up by the corporate governance committee set up for this purpose on the initiative of Borsa Italiana S.p.A. (hereinafter referred to as "the Code"), as reviewed in July 2002.

As is well known, the Code has been recently reviewed (in March 2006) by the corporate governance committee set up within Borsa Italiana S.p.A. to re-examine the current principles applicable to listed companies, so as to bring them into line with developments in national and Community legislation. The Company will gradually adapt to the recommendations contained in the new Code where they are not already in line with company practice, bearing in mind the specific requirements of the company.

Board of Directors and Executive Committee

The Board of Directors is responsible for establishing the strategic and organisational direction taken by the Company and the Group, as well as for verifying that the necessary controls exist to monitor the performance of the Company and its subsidiaries.
Directors cannot be appointed for a period of more than three financial years and are re-electable.
There is no provision for list voting in the by-laws with regard to the appointment of directors. Within the terms established by current legislation, the by-law amendments that are required in order to implement the rule introduced by law no. 262 of 28 December 2005 (hereinafter referred to as the "Savings Law") will be submitted for examination and approval by the general meeting of shareholders. As is well known, this rule provides for the compulsory introduction of a list voting mechanism for the appointment of the Board of Directors of listed companies, so as to guarantee that at least one Director can be elected by the minority, although the actual methods by which appointment are made may be freely established by the by-laws.
While awaiting promulgation of the regulation required by article 147(v) of Legislative Decree no. 58/98 (hereinafter referred to as the "Finance Consolidation Act"), as introduced by the Savings Law and containing requirements for the honourability of directors, the latter must satisfy the requirements for their post established by the special rules applicable to insurance companies (Ministerial Decree 186/1997).
The Board of Directors has delegated its tasks to an Executive Committee, excluding those that the Board has reserved exclusively for itself and those which cannot be delegated by law.

Under the terms of article 14 of its by-laws, with the exception of matters that are reserved for the shareholders’ meeting or the board of directors by law, the Board is permitted to delegate its responsibilities to the Chairman, the Vice Chairmen and/or one or more of its members, determining the content, limits and any procedures for exercising the delegated responsibilities.
Under the terms of this clause of the by-laws, the Board has assigned specific powers to the Chairman and to the Managing Director.
The functions, responsibilities and duties of the Board of Directors, the Executive Committee and the Chairman are described in the second section of this report.

Board of Auditors

The Board of Auditors performs the tasks assigned to it by Legislative Decree no. 58/98.
Auditors remain in office for three financial years. The procedure for appointing them, under the terms of the law and the by-laws, is suited to ensuring that one regular member and one alternative member can elected by the minority.
While awaiting promulgation of the regulation required by articles 148, paragraph 4, and 148(ii) of the Finance Consolidation Act, as amended and/or supplemented by the Savings Law, the honourability and professionalism requirements of auditors are established by Ministerial Decree no. 162/2000, implementing Legislative Decree no. 58/98, and by the company by-laws, which also established the limits to be placed on the number of tasks assigned to auditors. In particular, under the terms of the by-laws, auditors who are in incompatibility situations described in the law and the by-laws, as well as any that hold the position of regular auditor in more than ten insurance companies with registered offices in Italy or companies issuing financial instruments quoted in Italian regulated markets, to the exclusion of the parent companies, their subsidiaries and associated companies of FONDIARIA-SAI, may not be appointed and, if elected, will lose office,

Shareholders' meeting and shareholdings

A Shareholders' Meeting is held at least once a year to approve the accounts for the financial year and to resolve on all the other matters submitted to it for approval by the Board of Directors in accordance with the law.
The share capital, which consists of ordinary and savings shares with their associated rights as provided for in the by-laws, is controlled by Premafin Finanziaria – Holding di Partecipazioni S.p.A., in accordance with article 2359, paragraph 1, no. 2) of the Italian Civil Code.
FONDIARIA-SAI is not aware of any shareholders' agreements relating to participation in the capital of the Company itself.

Management and coordination

The Company is not subject to management and coordination by others under the terms of articles 2497 *et seq.* of the Italian Civil Code. Instead it performs management and coordination activities in accordance with the aforesaid legislation in respect of its subsidiaries, including Milano Assicurazioni, Immobiliare Lombarda and their respective direct subsidiaries.
The Company has also imposed rules of conduct on its subsidiaries, so as to ensure that the coordination and control tasks are carried in respect of the Group companies, as well as the ensure compliance with the duties of transparency and disclosure in respect of the public which have been placed on listed issuers by current legislation. These rules of conduct provide, among other things, for appropriate resolutions to be made by the Board of Directors or the Executive Committee of FONDIARIA-SAI regarding specific operations relating to subsidiaries which are considered significant based on the nature or value of the operation itself.

Section 2 – information about the implementation of provisions contained in the Code of Self-Discipline

This section illustrates the organisational solutions adopted and, where they differ from those recommended by the Code, the reasons for the choices made.

Role of the Board of Directors and its composition

Apart from exercising the powers and fulfilling the duties required by the Italian Civil Code, the Board of Directors exclusively performs the following functions in accordance with the law and/or company practice:

- it examines and approves the strategic, business and financial plans of the Company and of the Group to which it belongs; In compliance with the responsibilities assigned to the administrative bodies of the individual subsidiaries, the Board of Diectors determines the Group's industrial strategies on a proposal from the Managing Director;
- periodically checks the adequacy of the internal control system, assisted in this work by the Internal Control Committee described in greater detail further on;
- assigns and revokes the powers of directors and of the Executive Committee, establishing the limits and methods for exercising the powers themselves;
- assesses, on the basis of the information and reports received from the delegated bodies, the adequacy of the organisational, administrative and accounting structure of the Company and the general performance of management;
- determines, with the favourable opinion of the Board of Auditors, the remuneration of managing directors and of people who hold particular posts or to whom specific tasks have been assigned, as well as the subdivision of the overall consideration payable to the Board of Directors and the Executive Committee.

Further details of the functions performed exclusively by the Board of Directors are provided further on in the description of operations carried out with related parties.

Under the terms of article 18 of the by-laws, the Board of Directors has delegated its responsibilities to an Executive Committee currently consisting of 7 members. These responsibilities exclude any that cannot be delegated by law and the Board of Directors retains exclusive responsibilities for taking decisions concerning major operations with related parties as identified further on. The Board of Auditors is required to attend meeting of the Executive Committee.

The Board of Directors and the Executive Committee, implementing principles of conduct that are already in line with the recent review of the Code, examined and approve, normally in advance, any operations that may have a significant impact on the finance, economics or assets of the Company and its subsidiaries.

The membership of the Board of Directors, which remains unchanged since 31 December 2005 and consists of 19 members, is shown elsewhere in this document. The current mandate will expire at the time of the shareholders' meeting held to approve the accounts as at 31 December 2005.

A resolution for the appointment of the Directors was passed on 29 April 2003 on a proposal from the shareholders.

We should also remind you that the Board of Directors has appointed Ing. Salvatore Ligresti as Honorary Chairman of the Company, inviting him to attend all the meetings of the Board itself and of the Executive Committee.

As stated elsewhere in the accounts document, the Executive Committee currently consists of 7 members, including the Chairman, the three Vice Chairmen and the Managing Director. The current composition has remained unchanged since 31 December 2005.

The Chairman, Vice Chairmen and Managing Director are entitled to exercise statutory representation of the company in respect of third parties and in court.

The authority to grant management powers to the Chairman, Vice Chairmen and Managing Director is vested in the Board of Directors in accordance with article 14 of the by-laws.

The Board of Directors has currently delegated all powers of ordinary and extraordinary administration to the Chairman and Managing Director, to be exercised by sole signature and with the power to grant mandates and powers of attorney, with the exception of the following powers exclusively:
- transfer and/or purchase of real estate with a value greater than € 10m per transaction;
- transfer and/or purchase of shareholdings with a value greater than € 25m per transaction and controlling shareholdings;
- taking on loans for an amount greater than € 50m per transaction;
- issue of non-insurance guarantees in favour of third parties.

Delegated persons are directly responsible for the actions they take in the exercise of their delegations. The entire Board of Directors does however continue to hold an overarching power to guide and control the activities of the various component parts of the company, each director being in any case required to act in an informed way.

Delegated persons report to the Executive Committee or to the Board of Directors during all meetings with regard to the powers assigned to them as above.

In any case, the Board receives comprehensive information from the Executive Committee or the executive directors regarding operations carried out by the Company or its subsidiaries that are considered significant, in terms of dimensions or characteristics. These delegated persons also report on the general performance and outlook for management operations, in accordance with article 2381 of the Italian Civil Code. The same information is also supplied to auditors, on the occasion of Board meetings, in accordance with article 150 of the Finance Consolidation Act, with regard to operations in which directors have an interest.

The delegated persons (executive directors and Executive Committee) also supply adequate information to the Board of Directors and Auditors, during every Board meeting, regarding operations that are atypical, unusual, or carried out with related parties, the examination or approval of which are not reserved for the Board of Directors.

We inform you that during 2005:
the Board of Directors met 9 times;

the Executive Committee met 5 times.

A similar frequency of meetings can be expected in the 2006 financial year.

In addition to the Chairman and the Managing Director – who, as we have already said, hold powers for the management of the Company granted to them by the Board – Vice President Antonio Talarico should also be considered an executive director because of the management powers and/or leadership functions assigned to him in subsidiaries operating in the property sector, including Progestim S.p.A. and, following the merger by incorporation of the latter into Immobiliare Lombarda S.p.A., in Immobiliare Lombarda itself, which is responsible for managing the property portfolio belonging to the Company and the Group. The same can be said of Director Gioacchino Paolo Ligresti, who acts as the Chairman, with management powers, of Immobiliare Lombarda.

All the directors, other than the ones mentioned above, are to be considered non-executive directors, given that they have no management powers and/or leadership functions in the company. The number and authoritative nature of the non-executive directors are such as to ensure that they play a significant role in approving the resolutions of the Board, to which they bring their specific skills, contributing to decisions that are in the interests of the company. The contribution of non-executive directors is particularly useful when issues arise in which the interests of the executive directors may not match the more general ones of shareholders. The non-executive component of the Board is in fact able to assess the proposals and activities of the managing directors with greater detachment.

Also in accordance with the definitions contained in the Code, the independent non-executive directors are: Andrea Broggini, Carmelo Caruso, Mariella Cerutti Marocco, Siro Lombardini, Enzo Mei, Giuseppe Morbidelli, Massimo Pini, Cosimo Rucellai, Oreste Severgnini, Salvatore Spiniello, Oscar Zannoni. The above directors do not in fact have economic relations, either directly, indirectly or through a third party, with the Company, its subsidiaries or the executive directors and/or the controlling shareholders that are such as to influence their independence of judgement, and they do not hold, either directly, indirectly or through third parties, shareholdings of a size that would allow them to exercise control or a significant influence on the Company, nor are they parties to shareholders' agreements for control of the same, nor are they close family members of the executive directors of the Company or of persons who are in the situations specified above.

The number of independent directors is such as to counterbalance the number of the other directors on the Board.

The Board of Directors has verified the independence of its non-executive members by referring to the written statements provided by each director, at the specific request of the Company, based on the definition contained in the Code.

In general, directors accept their post when they believe that they can dedicate the necessary time to diligently performing their role, considering, among other things, the posts they may hold in other companies. Directors are required to understand the tasks and responsibilities that are inherent to their post. Both the Chairman and the Managing Director work to ensure that the Board is informed about the main legislative and regulatory innovations affecting the Company and its management bodies.

In accordance with the code of self-discipline for listed companies, we now provide a list of the Director or Auditor posts held as at 28 March 2006 by the directors of the Company in other companies listed on Italian or foreign regulated markets, in financial, banking, insurance companies or in companies of a significant size.

Jonella LIGRESTI

Chairman of:	SAI HOLDING ITALIA S.p.A.
Vice Chairman of:	ATAHOTELS S.p.A. GILLI S.r.l. PREMAFIN FINANZIARIA S.p.A.
Director of:	ASSONIME An association of the following Italian joint-stock companies: CAPITALIA S.p.A. FINADIN S.p.A. Finanziaria di Investimenti MEDIOBANCA S.p.A. MILANO ASSICURAZIONI S.p.A. RCS MediaGroup S.p.A.

Giulia Maria LIGRESTI

Chairman and Managing Director of:	PREMAFIN FINANZIARIA S.p.A.
Chairman of:	GILLI S.r.l.
Managing Director of:	SAI HOLDING ITALIA S.p.A. SAIFIN SAIFINANZIARIA S.p.A.
Director of:	FINADIN S.p.A. Finanziaria di Investimenti ISTITUTO EUROPEO DI ONCOLOGIA S.r.l. MILANO ASSICURAZIONI S.p.A. ORCHESTRA FILARMONICA DELLA SCALA PIRELLI & C. S.p.A. SAILUX S.A. SAINTERNATIONAL S.A. TELECOM ITALIA MEDIA S.p.A.

Massimo PINI

Vice Chairman of:	SASA Assicurazioni Riassicurazioni S.p.A.

	IMMOBILIARE LOMBARDA S.p.A.
Director of:	FINADIN S.p.A. Finanziaria di Investimenti MILANO ASSICURAZIONI S.p.A. SEICOS S.p.A.

Antonio TALARICO

Chairman of:	ATAHOTELS S.p.A. FINADIN S.p.A. Finanziaria di Investimenti INTERNATIONAL STRATEGY S.r.l. NUOVE INIZIATIVE TOSCANE S.r.l. SAIAGRICOLA S.p.A.
Managing Director of:	IMMOBILIARE LOMBARDA S.p.A.
Director of:	MILANO ASSICURAZIONI S.p.A. SAI INVESTIMENTI SGR S.p.A.

Fausto MARCHIONNI

Chairman and Managing Director of:	MILANO ASSICURAZIONI S.p.A. SIAT S.p.A.
Chairman of:	BANCA SAI S.p.A. BIM VITA S.p.A. NOVARA ASSICURA S.p.A. PRONTO ASSISTANCE SERVIZI S.p.A. SAI INVESTIMENTI SGR S.p.A. SAI-SISTEMI ASSICURATIVI S.r.l. SASA Assicurazioni Riassicurazioni S.p.A.
Vice Chairman of:	IMMOBILIARE LOMBARDA S.p.A. NOVARA VITA S.p.A.
Director of:	ANIA (responsible for Welfare) ASSONIME An association of the following Italian joint-stock companies: IRSA

Andrea BROGGINI

Director of:	BANCA EUROMOBILIARE (Suisse) S.A. FEDERAZIONE DELLE COOP. MIGROS GENERALI (Schweiz) HOLDING GESTIONI LOMBARDE (Suisse) S.A. KIEGER AG MARCH LIMITED

Carmelo CARUSO

Does not hold any post in any Italian or foreign listed companies, in financial, banking, insurance companies or in companies of a significant size.

Mariella CERUTTI MAROCCO

Chairman of: CERFIN S.p.A.

Carlo d'URSO

Vice Chairman of: IMMSI S.p.A.

Director of: AVVENIRE SIM S.p.A.
BANCA BSI ITALIA S.p.A.
BANCA SAI S.p.A.
F.C. INTERNAZIONALE MILANO S.p.A.
GARDALAND S.p.A.
G.I.M. - Generale Industrie Metallurgiche S.p.A.
MICOS BANCA S.p.A.
PIAGGIO HOLDING NETHERLANDS B.V.
PREMAFIN FINANZIARIA S.p.A.
SISAL S.p.A.

Vincenzo LA RUSSA

Director of: IMMOBILIARE LOMBARDA S.p.A.

Chairman of the Board
of Auditors of: INNOVAZIONE ITALIA S.p.A.
IN.CO.SA. S.r.l.

Gioacchino Paolo LIGRESTI

Chairman of: IMMOBILIARE LOMBARDA S.p.A.
SRP ASSET MANAGEMENT S.A.

Vice Chairman of: ATAHOTELS S.p.A.
BANCA SAI S.p.A.
MILANO ASSICURAZIONI S.p.A.
PREMAFIN FINANZIARIA S.p.A.
SAI INVESTIMENTI SGR S.p.A.
SAIAGRICOLA S.p.A.

Director of:	FINSAI INTERNATIONAL S.A. GILLI S.r.l. SAILUX S.A. SAINTERNATIONAL S.A. TIM ITALIA S.p.A.

Lia LO VECCHIO

Director of:	ATAHOTELS S.p.A. MILANO ASSICURAZIONI S.p.A. SAIAGRICOLA S.p.A. SIAT S.p.A.

Siro LOMBARDINI

Does not hold a post in any Italian or foreign listed companies, in financial, banking, insurance companies or in companies of a significant size.

Enzo MEI

Chairman of:	SOCIETÀ GESTIONE CAPANNELLE S.p.A.
Managing Director of:	GENERAL SERVICE ITALIA S.p.A.
Consigliere di:	BANCA GALILEO S.p.A. DATA SERVICE S.p.A.

Giuseppe MORBIDELLI

Director of:	CASSA DI RISPARMIO DI FIRENZE S.p.A.

Cosimo RUCELLAI

Vice Chairman of:	MERCANTILE LEASING S.p.A. MILANO ASSICURAZIONI S.p.A.

Oreste SEVERGNINI

Director of:	ALI S.p.A. BANCA POP. COMM. E INDUSTRIA S.p.A. RATTI S.p.A. SIDI S.p.A. Società Italiana di Informatica

Chairman of the Board
of Auditors of: ASTER ASSOCIATE TERMOIMPIANTI S.p.A.
DALMINE S.p.A.
IGLI S.p.A.
TECHINT S.p.A.

Regular auditor of: DE AGOSTINI S.p.A.
RECORDATI S.p.A.

Salvatore SPINIELLO

Director of: BANCA SAI S.p.A.
IMMOBILIARE LOMBARDA S.p.A
SASA Assicurazioni Riassicurazioni S.p.A.
SIAT S.p.A.

Chairman of the Board
of Auditors of: ATAHOTELS S.p.A.
GRANDI LAVORI FINCOSIT S.p.A:
LAZARD INVESTIMENTI S.p.A.
UNICREDIT Banca per la Casa S.p.A.

Regular auditor of: EDISON S.p.A.
EMITTENTI TITOLI S.p.A.
TELECOM ITALIA S.p.A.
TELECOM ITALIA MEDIA S.p.A.
UNICREDIT BANCA S.p.A.

Oscar ZANNONI

Chairman of: GRUPPO CERAMICHE RICCHETTI S.p.A.
ARCA S.p.A.
FINCISA S.p.A.
SIC S.p.A.

Director of: AFIN S.p.A.
FIN-ANZ S.p.A.
FINANZIARIA NORDICA S.p.A.
HERMES INVESTIMENTI S.p.A.

As things stand, the Board believes that the number of director and/or auditor posts held by the Directors in other companies is compatible with effective performance of their role in the Board of Directors of FONDIARIA-SAI, considering the nature and size of the companies in which they hold these posts and, in some cases, the fact that these companies belong to the Group.

The director or auditor posts held by the regular members of the Board of Auditors in other companies listed on Italian regulated markets are shown below:

Marco SPADACINI

Director of: A. MONDADORI EDITORE S.p.A.

Chairman of the Board
of Auditors of: SORIN S.p.A.

Regular auditor of: AUTOSTRADE S.p.A.
IMMSI S.p.A.
SNIA S.p.A.

The Chairman of the Board of Auditors, Mr Benito Giovanni MARINO, and the Regular Auditor, Mr Giancarlo MANTOVANI, do not currently hold posts in other listed companies.

Chairman of the Board of Directors

The Chairman of the Board of Directors convenes and runs the meetings of the Board of Directors and Executive Board. The Chairman endeavours to ensure that the directors and members of the Committee are provided with the documentation and information they need in advance of the meeting, unless there are particular requirements and emergencies regarding the nature of the resolutions to be approved, any confidentiality requirements and the promptness with which the Board or Executive Committee are required to take certain decisions. With the agreement of the persons attending the meeting, the Chairman may invite people who are external to these bodies to take part in meetings of the Board of Directors and Executive Committee, to listen to the debate and/or act as advisors. The Chairman of the Board of Directors also chairs and runs the Shareholders' Meeting. As explained, the Chairman also has the powers granted to him by the Board, as specified above.

Processing of confidential information

The Company has for a long time had a consolidated practice which establishes rules of conduct for the management and processing of confidential information and for the disclosure of company documents and information, particularly as regards so-called price-sensitive information.
The responsibility for managing confidential information regarding the Company and its subsidiaries generally lies with the Managing Director. The executives and employees of the Company and its subsidiaries have a duty to guard the secrecy of the confidential information that may come to their knowledge.
All contacts with the press and other communication media (or with financial analysts and professional investors) aimed at disclosing documents and information of a corporate nature, must be expressly authorised by the Managing Director. The Company is a member of the Network Information System circuit, organised and

managed by Borsa Italiana S.p.A. electronically to distribute information that must be supplied to the market.
The procedure is intended to prevent these communications been sent selectively (giving priority to certain recipients over others), later than required or in an incomplete or inadequate form.

In accordance with the regulatory provisions issued by Borsa Italiana S.p.A., the Company has adopted an appropriate code of conduct regarding so-called internal dealing, aimed at establishing the duties of disclosure regarding transactions on financial instruments carried out by so-called “relevant persons”, meaning those who have access to relevant information because of the post they hold. The Company has also informed the relevant persons of their duties and responsibilities relating to the operations that are the subject of the code of conduct.
This code has been revised by the Board of Directors because, as is well known, following the transposal into our legal system of the Community directive on market abuses, the subject is now regulated by the Finance Consolidation Act and by Consob’s Rules for Issuers, in force from 1 April 2006. The new code is available on the Company’s website.
Also as regards the legal and regulatory provisions mentioned above, the Company has established an appropriate register of people who, because of their working and professional activity, or because of the functions they perform, have access to so-called “privileged” information.
Finally, in view of the innovations introduced by the aforesaid legislation regarding insider trading and market manipulation offences, an appropriate procedure has been established, aimed at all sections of the company and intended to reduce the risk that, when carrying out activities involving the management of its own portfolio and that of its Group companies, the Company may act in a way that does not comply with current legislation. This procedure relates in particular to:
- transactions involving its own shares, shares in the parent company and shares in listed subsidiaries;
- transactions involving specific financial instruments;
- counterparties with whom the Company operates.

Appointment of Directors

During the 2005 financial year, there continued to be no need for a committee to be set up within the Board of Directors to make proposals for appointments to the post of director, given that the ownership of the Company is sufficiently concentrated and shareholders have never encountered any difficulty in making such appointment proposals, preceded by the shortlisting of candidates.
When directors are appointed, shareholders who intend to put forward names are recommended to present their proposal at the registered office before the shareholders’ meeting is held, together with the curriculum vitae of each candidate.
There is no provision for list voting in the by-laws with regard to the appointment of directors. Within the terms established by current legislation, the by-law amendments that are required in order to implement the rule introduced by the “Savings Law” will be submitted for examination and approval by the general meeting of shareholders. As is well known, this rule provides for the compulsory introduction of a list voting mechanism for the appointment of the Board of Directors of listed companies, so as to guarantee that at least one Director can be elected by the minority, although the actual methods by which appointment are made may be freely established by the by-laws.

Remuneration of Directors and top management

In the 2005 financial year, the Board of Directors once again did not set up a specific committee within the Board to establish the remuneration of directors holding specific posts. The remuneration of directors was established in accordance with article 2389 of the Italian Civil Code, with the favourable opinion of the Board of Auditors and the abstention of the person in question.
The Board has normally determined the remuneration of directors to whom specific posts are assigned at the time of appointment. This remuneration has been determined as a fixed amount, without an incentive component, because it refers to an ordinary activity associated with the post. Where the Board has then resolved to assign these same directors, or other directors, the responsibility for overseeing and/or carrying out specific operations, the Board has assessed the results achieved, normally afterwards, and if necessary determined a special remuneration, in agreement with the Board of Auditors, of a fixed amount commensurate with the importance of the operation or of the results achieved.
The remuneration thus allocated to directors during 2005 is shown in the appropriate table of the notes to the accounts.
In the 2005 financial year, the Company did not again set up a specific independent committee to determine the criteria for remunerating the top managers of the Company, given that no particular remuneration procedures had been established for this purpose, and that no stock option plans had been adopted with regard to shares in the Company or in the subsidiary Milano Assicurazioni.
The Board of Directors will submit for examination and approval by the shareholders' meeting convened for the coming 27/28 April 2006 the stock option plans intended for the executive directors and management of the Company, its subsidiaries and associated companies.
The Board decided in fact that it was appropriate to propose for approval by the shareholders' meeting an adequate structure for the overall remuneration of executive directors, as a suitable instrument for allowing the interests of the directors themselves to be aligned with pursuit of the priority aim of creating value for shareholders over the medium to long term, by achieving the objectives of the 2006-2008 Business Plan of the FONDIARIA-SAI Group presented to the financial community in April 2006.
The use of this instrument to benefit managers will also contribute to incentivising and creating loyalty among them, furthermore contributing to create appropriate conditions for achieving the objectives of the Plan.
The appropriateness of setting up a specific Remunerations Committee with the task of making proposals to the Board regarding the realisation of stock option plans and assessing the stages of implementation of these plans will be considered in the course of time.

Internal control

Current legislation requires insurance companies to adopt appropriate internal control procedures. Since 1999, by means of circular no. 366, ISVAP has in turn defined the internal control system of insurance companies and the respective operational procedures.

Taking developments in the European regulatory framework into account, by means of circular no. 577/D of 30 December 2005, ISVAP provided additional instructions to the ones given in the previous circular mentioned above, which, while respecting corporate independence, aim to promote the creation of the adequate internal control and risk management systems which all companies will need to develop in accordance with their dimensional and operational characteristics and their risk profile.

The internal control system consists of a set of rules, procedures and organisational structures intended to ensure the correct operation and proper running of the company, and to ensure the following with a reasonable margin of certainty:

- the efficiency and effectiveness of company processes;
- adequate risk control;
- reliability and honesty of the accounting and management information;
- protection of the company's assets;
- compliance of the company's activities with current legislation, directives and company procedures.

Under the terms of the aforesaid circular no. 577/D, companies are required to have an adequate risk management system which is commensurate with the size and complexity of the activities carried out, and which allows the identification, assessment and control of the most significant risks, meaning risks that have consequences which may undermine the solvency of the company and constitute a serious obstacle to achievement of the company's objectives. The ultimate objective of the risks management system is to maintain the risks that have been identified and assessed at an acceptable level, which is consistent with the company's assets.
Where necessary, a process of organisational adaptation is currently under way to bring operations into line with circular no. 577/D within the time allowed by the circular itself.
Within the FONDIARIA-SAI GROUP, company activities and the respective procedures are now subject to controls implemented by the individual operating units (so-called "line control") and by the managers of these same units.
Verification of the appropriateness, effectiveness and efficiency of the procedures adopted and, generally speaking, of the internal control system, is entrusted to the Internal Group Audit function, which comes within the responsibilities of the Managing Director's staff, and whose activities are also aimed at ensuring the correct identification and management of company risks. The Internal Audit activity therefore covers all the company processes of FONDIARIA-SAI and its Group companies, and specifies the corrective actions that are considered necessary, as well as being responsible for carrying out follow-up activities to check whether the corrective action has been taken and whether the changes made have been effective.
The Board of Directors is responsible for the Company's internal control system and periodically checks its adequacy and operation, with the assistance of the Internal Control Committee. The Managing Director has the task of establishing the general direction of the internal control system, identifying company risks and overseeing the planning, management and monitoring of the internal control system, appointing the people responsible for implementing it.
The Board of Directors approves the annual work plan of the Group's Internal Audit Function. This function has the means required to implement the system and carries out its activities independently and autonomously. Its manager is not answerable to any person in charge of operational areas. This function also coordinates with the Board of Auditors and the Company's auditing company.
The managers of the company's operational areas are required to ensure that the Internal Audit function has free access to all the documentation relating to the company's activities that are subject to control. The Internal Audit function has

organisational links with all the Company's departments and the Group companies, and its manager has the authority required to ensure its independence.
In particular, following the assignment to a specific Internal Control Committee of the functions assigned to it by the Code and specified later on, and considering that these functions include assessment of the work plans drawn up by the Group's Internal Audit function and receipt of the respective periodic reports, the Audit Functions has drawn up these reports and submitted them for examination by the Internal Control Committee. The latter has in turn submitted its opinion on the Internal Audit Function's work plan and on the appropriateness of the internal control system to the Board of Directors.

The Group's Internal Audit Function manager has also reported to the Managing Director on completion of each individual activity carried out.

Internal Control Committee

The Board of Directors has set up a specific Internal Control Committee within it which supports the Board of Directors itself and is entrusted with the task of examining major issues relating to the control of company activities. It has specific functions which involve giving advice and making proposals, while the authority to make all decisions lies exclusively with the Board of Directors.
The Internal Control Committee currently consists of three non-executive, independent directors, specifically Mr Enzo Mei, Mr Cosimo Rucellai and Mr Salvatore Spiniello. The Board has decided to allocate a specific remuneration to these directors for the work they carry out.
All auditors are invited to take part in the meetings of the Internal Control Committee.
The Internal Control Committee is specifically entrusted with the following tasks:

- assisting the Board of Directors in periodically checking the appropriateness and actual operation of the internal control system;
- assessing the work plan drawn up by the persons assigned to implement internal control and receiving the periodic reports they prepare;
- assessing, together with the Company's administration managers and auditors, the appropriateness of the accounting principles used and their uniformity for the purposes of the consolidated accounts;
- assessing the bids made by the auditing company for the respective work to be assigned to them, as well as the work plan drawn up for the audit and the results set out in the report and in any letter of suggestions;
- reporting to the Board, at least once every six months, on the occasion of the approval of the half-yearly accounts and report, on the activities carried out and the appropriateness of the internal control system;
- supervising compliance and periodic updating of the corporate governance rules adopted by the Company and its subsidiaries.

The Committee has an active role to play in assessing the work plan of the Internal Audit function, and the periodic reports it draws up, and making proposals.
During 2005, the Committee met to perform the functions in question on four occasions.
In particular, on the occasion of the meeting held prior to the Board of Directors' meeting called to approve the draft accounts as at 31 December 2004, the Committee expressed a favourable opinion on the Internal Audit function's plan and considered the Company's internal control system suitable in its present state. The Committee also expressed the following opinions:

- that the accounting principles used, having heard the opinion of the Company's administrative managers and of the auditing company Deloitte & Touche S.p.A., based on the checks carried out by the latter, should be considered appropriate and standardised for the purposes of the consolidated accounts;
- that to the best of the Committee's knowledge, the governance rules adopted by the Company should be considered as having been observed, and that the updating report drawn up in accordance with current regulatory legislation had

been drawn up in accordance with the relevant recommendations of Assonime and Emittenti Titoli S.p.A., taking into account the legislative innovations introduced and giving specific reasons for the choices made if they differed from those recommended by the Code.

During a subsequent meeting held prior to the Board of Directors' meeting called to approved the half-yearly accounts as at 30 June 2005, the Internal Control Committee confirmed its assessment on the appropriateness of the internal control system.

Social Report

During the month of December 2005, the Social Report on the activities of the FONDIARIA-SAI Group during the 2004 financial year was presented.
The document is a new development for the Group and examines the impact of the Group's activities, from a qualitative and quantitative point of view, on the various stakeholders, including shareholders, who have varying degrees of interest in the Company and the Group.
The Company worked with the Faculty of Economics of the University of Turin to produce the Social Report.
The Social Report is available on the Company's website.

Organisation, management and control model pursuant to Legislative Decree no. 231 of 8 June 2001

The Board of Directors of the Company has decided to equip itself with an Organisation, Management and Control Model suited to preventing the offences described in Legislative Decree no. 231 of 8 June 2001, which – as is well known – contains the rules on the administrative responsibility of legal persons, companies and associations, with or without legal status, under the terms of article 11 of Law no. 300 of 29 September 2000", which introduced the criminal responsibility of companies into Italian law for the first time, this being additional to the responsibility of the natural person who physically perpetrated the offence.
The Board believes that, even though it is not compulsory, adoption of the Organisation, Management and Control Model provided for by Legislative Decree no. 231/2001 may be an effective way of building awareness among all the employees of FONDIARIA-SAI, and everyone who has an interest in the company, of the need to perform their activities in a proper and straightforward manner, so as to avoid the risk of committing the offences defined in the decree.
Pursuant to the provisions of the Decree, the Model approved by the Board of Directors on 16 February 2005 respects the following principles:

- the verifiability and recordability of all operations that are relevant to Legislative Decree no. 231/2001;
- respect for the principle of functional separation;
- establishing authorisational powers that consistent with the responsibilities assigned;
- assigning the task of promoting proper and effective implementation of the Model to a Supervisory Body, monitoring the company's conduct and establishing a right to be constantly informed about activities that are relevant for the purposes of Legislative Decree no. 231/2001;
- providing the Supervisory Body with relevant information;
- establishing of specific preventive "garrisons" for each macro-category of activity and the associated risks, aimed at preventing the various types of offences envisaged by the Decree (ex-ante control);
- providing the Supervisory Body with adequate resources to support it in performing the tasks entrusted to it and achieving the results that can reasonably be achieved;

- verifying the operation of the Model with consequent periodic updating (ex-post control);
- implementing awareness-building and dissemination measures at all levels of the company in respect of the rules established.

The Board has decided to establish the Supervisory Body, which is in general terms entrusted with the task of supervising compliance with the requirements of the Model by the respective recipients, verifying the actual effectiveness and capacity of the Model, in relation to the company's structure, to prevent the offences defined in Legislative Decree no. 231/2001, and updating the Model where changes in company conditions require it to be adapted. As regards the membership of the Supervisory Body, it was considered appropriate to have a mixed membership that includes two external professionals, who know the Company and the Group, assisted by a person from inside the company.
Finally, the Board of Directors has approved the Code of Ethics of the Company, as a further confirmation of the fact that in performing its activities FONDIARIA_SAI is inspired by criteria of transparency and fairness, complying with the law and respecting the interests of the community.

Significant transactions with related parties

The Board of Directors has approved specific principles of conduct for the performance significant transactions with related parties.

Significant transactions
In assigning the Chairman and the Managing Director the specific powers listed above, identifying the limits on the amounts involved, the Board of Directors of FONDIARIA-SAI established the criteria to be followed for the purpose of identifying significant transactions which are subject to examination and authorisation by the Board of Directors or the Executive Committee.

Transactions with related parties
As regards transactions with related parties we would like to point out the following:
- transactions with related parties, including any that are carried out through subsidiaries, are the exclusive responsibility of, and subject to prior approval by, the Board of Directors, if their purpose, value, methods or implementation time are such as to influence the task of safeguarding the company's assets or the completeness and accuracy of the information, including accounting data, relating to the issuer, who is also required, under the terms of article 71(ii) of Consob Regulation 11971/1999 to provide the public with an appropriate information document;
- also subject to examination and approval by the Board of Directors or the Executive Committee, normally in advance, even if their value falls within the limits assigned to the Chairman and Managing Director, is a series of transactions with related parties which are specifically identified in terms of type and value (other than the inter-group transactions referred to in the following paragraph), whether considered individually or together with other associated transactions taking place over the course of the previous twelve months;
- and finally, inter-group transactions generally come within the powers granted by the Board of Directors to the Managing Director and are not therefore reserved for the Board of Directors and/or the Executive Committee unless their value exceeds the limits imposed on the exercise of these delegated powers. We should point out in this respect that:

- according to the rules for insurance companies under specific legislation applicable to the industry, inter-group transactions in which at least one of the parties is an insurance company – where these transactions are significant based on the quantitative parameters established by legislation applicable to the sector – are in any case subject to prior authorisation by ISVAP and only carried out after authorisation has been given by the Supervisory Body;

- inter-group transactions between two subsidiaries that are not insurance companies are subject to the duty to inform the parent company, if the prerequisites are fulfilled, and require specific resolutions to be passed by the Board of Directors or the Executive Committee in accordance with the rules of conduct referred to in the last paragraph of the first section above.

For the purpose of ensuring actual implementation of the aforesaid rules of conduct, each director and auditor has been asked to provide a list of his/her related parties. The Managing Director has therefore issued a directive aimed at regulating the operational procedures to be followed by the Company and its subsidiaries if relevant transactions are carried out regarding the parties that appear in the said lists.
Generally speaking, all transactions carried out with related parties have to comply with substantive and procedural straightforwardness criteria.
Where required by the nature, value and characteristics of the transaction, the Board of Directors will ensure that the transaction is carried out with the assistance of independent experts who can value the assets and give financial, legal or technical advice by providing fair valuations and/or legal opinions.
Directors who have an interest in the transaction must promptly and exhaustively inform the Board of Directors about their interest and the respective circumstances, assessing, on a case by case basis, whether it would be appropriate to leave the Board meeting when the resolution is passed or to abstain from the voting. If the director in question is the Managing Director, he will abstain from carrying out the transaction.
In the cases referred to in the previous paragraph, the resolutions of the Board of Directors will appropriately justify the reasons and appropriateness of the transaction for the Company.
The Board of Directors will determine whether asking the directors to leave the meeting when the resolution is passed may be prejudicial to maintaining the quorum required to hold the meeting.

Relations with institutional investors and other shareholders

The Company has always attached due importance to establishing an ongoing dialogue with all shareholders and institutional investors in particular, based on an understanding of reciprocal roles and complying with the internal procedure for external dissemination of documents and information relating to the Company. The Chairman and the Managing Director both endeavour to achieve this aim.
The Company has identified the Group's Investor Relations Departments as the structure in charge of liaising with institutional investors, assisted in this work by the various departments of the Group and company involved. The Group's Investor Relations Department is also in charge of liaising with shareholders in general, with the support of the Shareholders' Office.
The Investor Relations Department is charge of providing online information via the Company's website, disseminating provisional information, liaising with rating agencies and with institutional investors in general. Together with the Press Office, it is also in charge of disseminating press releases and comments relating to market rumours.

The Investor Relations Department can be contacted on telephone number 011/6657.642 and/or at the following email address: investorrelations@fondiaria-sai.it.

In order to further promote dialogue with shareholders, a Group website containing constantly updated information has been created and made operational.

Shareholders' Meetings

The Board of Directors believes that, despite the existence of a wide variety of different forms of communication with its shareholders, Shareholders' Meetings are important events for fruitful dialogue between directors and shareholders, while complying with the rules on so-called price-sensitive information. All the directors normally attend shareholders' meetings.
The Board of Directors reports to the Shareholders' Meeting regarding the Company's activities and endeavours to provide Shareholders with enough information for them to take the decisions assigned to the Shareholders' Meeting with full knowledge of the facts.
No specific regulation for shareholders' meetings is believed to be necessary, considering that the provisions currently contained in the articles of association – which grant the Chairman the power to direct the Shareholders' Meeting and also contain some specific provisions aimed at defining certain operational procedures – are considered suitable for ensuring the ordered and functional running of the Shareholders' Meeting itself.
Exercising the power to direct and coordinate Shareholders' Meetings granted to him by the articles of association, the Chairman therefore informs Shareholders at the beginning of the Meeting of the principles he intends to abide by in exercising his statutory functions, establishing the rules for the running of the Meeting in advance.

Common representative of savings shareholders

The Special Savings Shareholders' Meeting of 27 April 2004 appointed Mr Sandro Quagliotti as the Common Representative of Savings Shareholders for the 2004, 2005 and 2006 financial years, and therefore until the approval of the accounts as at 31 December 2006.

Auditors

Following the amendments made to the articles of association as a result of the Finance Consolidation Act regarding the procedure for appointing auditors, the transparency of this procedure is now guaranteed by ensuring that one regular member of the Board of Auditors can be elected by the minority.
Within the period of time allowed by current legislation, the changes to the articles of associated resulting from the provisions of the newly issued Consob regulation on the procedures for electing auditors, as required by the *Legge Risparmio* (Law on Savings) will be examined and approved by the shareholders' meeting.
The current Board of Auditors consists of three regular auditors and three alternate auditors, the names of whom are shown elsewhere in this booklet. They were appointed by the Shareholders' Meeting of 29 April 2003, when two lists were presented by shareholders.
As regards the current composition of the Board of Auditors, we should point out that the regular auditor Mr Marco Spadacini and the alternate auditor Mr Sergio Castellini were elected from the list that came second by number of votes in the said Shareholders' Meeting.

The Code also states that the minimum share of capital required for the presentation of lists for the appointment of auditors is considered to be appropriate by the directors.
Shareholders who intend to present a list for the appointment of auditors in accordance with the articles of association are recommended to provide adequate information in advance on the characteristics of the candidates by submitting each candidate's curriculum vitae, as well a statement confirming that they fulfil the necessary requirements.

Auditing Company

The ordinary meeting of shareholders of 29 April 2003 entrusted the auditing company Deloitte & Touche S.p.A. with the task of auditing the statutory accounts and consolidated accounts for the financial years 2003, 2004 and 2005 and to carry out a limited audit of the half-year accounts as at 30 June 2003, 2004 and 2005. This assignment will be completed at the time of the Shareholders' Meeting held to approve the accounts as at 31 December 2005.
Within the Group, the task of auditing the accounts has been entrusted by some subsidiaries, including Milano Assicurazioni, to the auditing company Reconta Ernst & Young S.p.A..

We attach three tables summarising the procedures for adopting the main recommendations of the Code:

- the first table summarises the structure of the Board of Directors and of the Internal Committees;
- the second table summarises the features of the Board of Auditors;
- the third and last table summarises the degree to which the company has adapted to the other provisions of the Code regarding the system of delegations, transactions with related parties, appointment procedures, shareholders' meetings, internal control and investor relations.

Table 1: Board of Directors							Internal Control Committee		Remuneration Committee (a)		Appointments Committee (if any) (b)		Executive Committee	
Post	Members	executive	non-executive	independent	***	Number of other posts *	**	***	**	***	**	***	**	***
Chairman	Jonella LIGRESTI	X			100%	10							X	100%
Vice Chairman	Giulia Maria LIGRESTI		X		78%	12							X	80%
Vice Chairman	Massimo PINI		X	X	67%	5							X	100%
Vice Chairman	Antonio TALARICO	X			100%	8							X	100%
Managing Director	Fausto MARCHIONNI	X			100%	14							X	100%
Director	Andrea BROGGINI		X	X	56%	6								
Director	Carmelo CARUSO		X	X	22%	0								
Director	Mariella CERUTTI		X	X	56%	1								
Director	Carlo d'URSO		X		33%	11								
Director	Vincenzo LA RUSSA		X		67%	3							X	100%
Director	Giocchino Paolo LIGRESTI	X			44%	13							X	100%
Director	Siro LOMBARDINI		X	X	44%	0								
Director	Lia LO VECCHIO		X		78%	4								
Director	Enzo MEI		X	X	67%	4	X	100%						
Director	Giuseppe MORBIDELLI		X	X	89%	1								
Director	Cosimo RUCELLAI		X	X	100%	2	X	100%						
Director	Oreste SEVERGNINI		X	X	67%	10								
Director	Salvatore SPINIELLO		X	X	89%	13	X	75%						
Director	Oscar ZANNONI		X	X	56%	8								

a) Summary of reasons for the absence of the Committee:

During the 2005 financial year, the Board of Directors did not establish a specific Committee for the remuneration of directors who hold specific posts. This remuneration was set by the Board of Directors or by directors to whom the relevant authority had been granted by the Board of Directors, always with the favourable opinion of the Board of Auditors.

b) Summary of the reasons for the absence of the Committee:

The ownership of the Company is sufficiently concentrated and shareholders found no difficulty in making the proposals for appointment.

Number of meetings held during the financial year in question: **Board of Directors: 9** **Internal Control Committee: 5** **Executive Committee: 5**

Table 2 : Board of Auditors Post	Members	Percentage of attendance at meetings of the Board of Auditors	Number of other posts**
Chairman	Giovanni Benito MARINO	100%	-
Regular auditor	Giancarlo MANTOVANI	100%	-
Regular auditor	Marco SPADACINI *	100%	5
Alternate auditor	Giorgio DI GIULIOMARIA		
Alternate auditor	Maria Luisa MOSCONI		
Alternate auditor	Sergio CASTELLINI *		
Number of meetings held during the financial year in question: 17			
Specify the quorum required for the presentation of lists by minority shareholders for the election of one or more regular members (pursuant to article 148 Finance Consolidation Act): 3%			

NOTES:

* **The asterisk indicates whether the auditor was appointed by means of lists presented by minority shareholders.**

** **This column indicates the number of director or auditor posts held by the person in question in other companies listed on Italian regulated markets. The corporate governance report describes the posts in detail.**

Table 3 : Other Provisions of the Code of Self-discpline

	YES	NO	Summary of the reasons for any divergence from the recommendations of the Code
System of powers of attorney and transactions with related parties			
Has the Board of Directors assigned powers of attorney establishing:			
a) their limits	X		
b) the method for exercising them	X		
c) and the frequency with which information reports must be presented?	X		
Has the Board of Directors reserved the examination and approval of operations that are of particular significance for economic, asset-related or financial reasons (including transactions with related parties) for itself?	X		
Has the Board of Directors established guidelines and criteria for identifying "significant" transactions?	X		
Are the aforesaid guidelines and criteria described in the report?	X		
Has the Board of Directors established appropriate procedures for examining and approving transactions with related parties?	X		
Are the procedures for approving transactions with related parties described in the report?	X		
Procedures of the most recent appointment of directors and auditors			
Were the names of the candidates for the post of director submitted at least ten days in advance?		X	Only one proposal was submitted by shareholders on the day of the general meeting, accompanied by the curriculum vitae of the candidates, distributed to participants.

(Cont. from previous page)

Were the candidatures for the post of director accompanied by exhaustive information?	X		
Were the candidatures for the post of director accompanied by details of the suitability of the candidate to define himself/herself as independenti?		X	The Board jointly assessed the independence of its non-executive members based on appropriate statements made by them and, in some cases, examining the situation of the people involved on a case by case basis.
Were the candidatures for the post of auditor submitted at least ten days in advance?	X		
Were the candidatues for the post of auditor accompanied by exhaustive information?	X		
General Meetings			
Has the company approved a set of rules for General Meetings?		X	The provisions of the by-laws - which grant the Chairman the authority to lead the discussion and established a number of operational procedures for the general meeting - are considered to be suited to allowing the general meeting to function efficiently and in an orderly fashion.
Internal control			
Has the company appointed the people responsible for internal control?	X		
Are these people responsible for internal control hierarchically independent of operational areas?	X		
Organisational unit assigned to internal control (pursuant to article 9.3 of the Code)			Internal Group Audit Function
Investor relations			
Has the company appointed an investor relations manager?	X		
Organisational unit and contact details (address/telephone/fax/e-mail) of the investor relations manager			**Investor Relations Office** - Corso G. Galilei, 12 TORINO Tel. 011/6657.642 *e-mail: investorrelations@fondiaria-sai.it*

Management Report as at 31 December 2005

Macroeconomic scenario and insurance market in 2005

International macroeconomic scenario

2005 turned out to be a positive year for international economic trends, marking the beginning of economic recovery in the Euro zone, which is expected to gather pace in 2006, when growth is predicted to be 2.1% compared to an estimated 1.4% for 2005. Initial estimates show that in the fourth quarter the GDP of the Euro zone grew by 1.7% on an annual basis, with an acceleration of internal demand, particularly in terms of investments. At the end of 2005, the main European forecast indicators were at their highest point since 2000, in particular recording economic growth in the Euro zone of around 1.4% (1.8% in 2004).

One particularly favourable aspect that has allowed such results to be achieved (which is to be considered a success in view of the forecasts of a recession we were facing in 2005) is the excellent reaction there has been around the world to the upswing in the price of raw materials in general and oil in particular. Faced by a rise which in two years has amounted to a two-fold increase (from 30 dollars a barrel on average in 2003 to around 55 dollars a barrel in 2005), the rate of growth of world GDP fell by just 7 tenths of a percentage, from 4.7% to 4.% (USA: +3.5%; Japan: +2%; developed OECD countries: +2.8%; developing countries: +6.3%)

Furthermore, the non-aggressive attitude of central banks in response to the rise in oil prices and to the increase in inflation allowed the inflationary burst to be resisted well, sustaining growth that was well above the expectations of economists.

The Italian market

Signs of recovery, albeit weak and confused compared to other European countries, can also be seen in the Italian economy. Nationally, the country’s GDP remained unchanged in 2005, marking a slowdown compared to the 1.1% increase in 2004, but with expectations of a recovery in demand from 2006, particularly thanks to a monetary policy of moderate intervention on benchmark rates. The first nine months of the year also witnessed a worsening or our deficit/GDP ratio (which rose to 4.1%, compared to 3.4% in 2004), well above the level of debt forecast by the stability programme (2.7%).
Car registrations grew in January 2006 by almost 11% on an annual basis, compared to 5% on average in the autumn months: retail sales in November increased by 1.7% on an annual basis, the strongest increase of the last 18 months. There was also a net increase in exports, which grew in the same month by over 11%.

Italian scenario of the main macroeconomic variables					
% variation	2004	2005	2006	2007	2008
Household expenditure	1.0	0.9	0.9	.	1.4
Public spending	0.7	0.9	1.1	0,9	1.2
Available income	2.2	2.2	1.5	1.8	1.4
Propensity to consume	85.6	84.9	84.5	84.4	84.5
Unemployment rate	8.0	7.8	7.6	7.6	7.4
Exports	3.0	0.8	3.8	3.0	3.4
Imports	3.2	1.2	4.1	4.0	3.9
Investments	5.2	2.9	4.9	3.7	4.2
3-month Euribor rate	2.1	2.2	2.4	2.8	3.3
Assets	5.5	7.1	6.0	5.5	5.0
short term	*-5.7*	*0.4*	*1.3*	*2.0*	*2.1*
medium to long term	*14.5*	*11.5*	*8.7*	*7.3*	*6.5*
in non-financial companies	*4.6*	*6.6*	*5.0*	*4.7*	*4.5*

Source: Prometeia

The insurance sector

In the insurance market as well, compared to the international situation, Italy still appears to a country in which little recourse is made to insurance cover. The ratio between non-life insurance premiums and GDP has remains substantially unchanged for the past three years at 2.6%, about one percent lower than in the main European countries. The ratio between mathematical reserves and GDP is around 20% in Italy and as an indicator it continues to be lower than in the European context (Germany: around 29%, France: around 50%, United Kingdom: around 87%).

Considering, therefore, that there is still room to grow in the European market, the Italian insurance sector achieved positive results overall in 2005, mainly as a result of an improvement in technical results in the non-life sector and of a favourable development in the life sector.

In the life sector in particular, despite the presence of a number of recurrent risks, such as the persistent scenario of low interest rates, the misalignment between assets and liabilities that characterises some companies, as well as potential pressure on margins that might develop in the long term owing to stricter supervisory regulations, Standard & Poor's believes that the principal reasons for the success of the Italian insurance market are to be found in the life sector: strong growth prospects, the high margins on new products, more efficient risk management instruments and the prudential policy adopted by companies for their investments are the main reasons for the success of the Italian insurance market.

Generally speaking, the Italian insurance sector will be characterised by stability in the near future. Standard & Poor's main indications in this respect show that ratings will remain unchanged for companies in the sector, thanks to key factors such as: high profitability of the non-life segment with opportunities for growth to be found in the "non-motor" sector (which is particularly under-developed in Italy compared to the European market), rigid underwriting discipline supported by a prudent investment policy, positive growth prospects (particularly in the life segment), as well as strong capitalisation, again sustained by prudential investment policies. Negative factors could however include potential downward pressure on Motor TPL premiums and external factors (e.g. political intervention) which would change the scenario in the sector.

Legislative developments and the private insurance code

The intense legislative activity there has been recently is radically changing the context in which Italian insurance companies operate. The objective of creating a single, integrated, competitive, and efficient single market, characterised by low costs, high stability and protection for consumers, presents a highly complex scenario, given that the new rules are still being defined at national, European and international level.

The insurance sector has recently undergone major legislative changes (as many as 42 legislative measures in 5 years) which will presumably have an impact on the performance of companies and will continue throughout 2006, representing a turning point for the sector. Despite the high costs incurred to adapt to the new regulations, ANIA has found that 83% of insurance companies believe that the legislative reforms are an opportunity to introduce internal innovations.

On 7 September 2005, the Private Insurance Code was also approved (Decree Law no. 209). It came into force on 1 January 2006 and is intended to simplify and reorganise insurance legislation, in particular by governing access to the insurance business and its operation, contracts, the transparency of transactions and the supervision of companies, compensation systems and penalties, provisions regarding the accounts (statutory and consolidated), accounting books and ledgers of insurance companies. In this context (see article 149 of the Insurance Consolidation Act) extending direct compensation to a considerable amount of road accident claims would introduce a physiological cost containment mechanism for companies in the sector, establishing the basis for gradual containment of the premiums paid by consumers.

By increasing the level of transparency and discouraging the more futile cases of litigation, the duty to pay direct compensation for claims should in fact improve relations with users, promoting forms of comprehensive insurance (which currently represents less than 5% of policies) – however hybrid they may be – and in particular making it possible to exert strong and structural downward pressure on insurance premiums, encouraging a simultaneous reduction in litigation. At the moment this accounts for approximately 10% of the annual cost of total compensation, amounting to 1.5 billion euros a year.

On 24 November 2005, a draft legislative decree was issued for the purpose of transposing Directive 2003/20, which provides for rules regarding the use of safety belts to be extended to new categories of four-wheeled vehicles, i.e. buses with more than eight seats and goods transport vehicles weighing more than 3.5 tonnes, removing the exemptions for passengers carried on the rear seats.

From 1 December 2005, the appearance of the life policy market changed with the full implementation of ISVAP circular 551/D. The new rules govern the form and content of information to be supplied before the contract is signed and during the contract period. It is therefore compulsory to supply the customer with an information brochure about the policy, which includes a summary data sheet, an information sheet and the contractual conditions of the insurance. All of this will also be published on the website. The policy transparency standards will therefore be brought into line with the ones already in force in other financial sectors, protecting the contracting parties by ensuring both that the contract matches their risk profile and that they are given about variations in the return on the investment they have taken out.

On 30 December 2005, ISVAP issued a measure which revolutionised the internal control and risk control systems of companies. As of 2006, the companies involved will in fact be required to equip themselves with specific technology, which is integrated with the other company processes and able to provide ISVAP with statements about balance sheet risks. We will be moving from a determinist management to a stochastic determination of the values of multiannual investments to ensure correct estimation of the company's assets absorbed by the theoretical future distribution of balance sheet commitments.

Finally, it is also worth pointing out that, as we write, ISVAP has launched the Check Box project together with the Ministry for Production Activities, which aims to monitor road accident rates, reduce fraud and contain Motor TPL premiums by promoting the spread of satellite devices which record the position and speed of vehicles in real time. During the initial phase of the project, car drivers living in the five cities considered to be at greatest risk of insurance fraud will be involved (Turin, Milan, Rome, Naples and Palermo). People who decide to join in the experiment will be benefit from a 10% discount on their premium offered by the companies taking part in the initiative.

BUSINESS TRENDS

The 2005 financial year confirmed the technical excellence and profitability objectives of the Fondiaria-SAI Group already set in the previous financial year, despite the persistent cooling-down of price dynamics in the Motor sector.
It is nonetheless important to point out that the appreciable results achieved derive from the increasing attention paid to development of the Group's customer portfolio, to the containment of operating costs, and to a targeted and balanced investment policy.

Premiums

Consolidated premium income was € 9,505.2m. Compared to € 9,817.6m for 2004, there was therefore a 3.18% decrease.
A comparison with the data reported as at 31/12/2004 for the life segment is not meaningful because the data as at 31/12/2005 is fully in line with the IFRS 4 standard, which means that the premium entry excludes all elements of premium income for which there is no significant insurance risk, which are recorded only under financial liabilities.

(€m)	**31/12/2005**	**31/12/2004**	**Variazione**
DIRECT BUSINESS			
Non-Life Classes	7,133.7	6,990.2	2.05
Life Classes	2,350.7	2,797.2	(15.96)
Total direct business	9,484.4	9,787.4	(3.10)
INDIRECT BUSINESS			
Non-Life Classes	10.6	19.8	(46.46)
Life Classes	10.2	10.4	(1.92)
Total indirect business	20.8	30.2	(31.13)
GRAND TOTAL	9,505.2	9,817.6	(3.18)
of which:			
Non-Life Classes	7,144.3	7,010.0	1.92
Life Classes	2,360.9	2,807.6	(15.91)

Premium income in the Non-Life business grew by 1.92%, with a premium volume of € 7,144.3m.
The Life sector recorded a decrease of 15.91% with premium income of € 2,360.9m.
In uniform terms, purging the 2004 data of Life business contracts of a purely financial nature, there would have been an increase of 19.9%.

The Consolidated Profit and Loss Account

The excellent operating result reported in the parent company's balance sheet is confirmed at consolidated level as well. In fact the positive results recorded by the parent company in the technical Life and Non-Life sectors are confirmed in the contributions to these results from the Group's various insurance companies. Unlike in recent years, the technical context characterised by good margins or profitability, despite the macroeconomic picture being made difficult by the persistently low rate of economic growth, is set against a substantial stability of the financial sector, which has allowed the recording of capital losses on the value of financial instruments in the profit and loss account to be limited. We would remind you however that, as a result of the transition to IAS/IFRS accounting principles, the valuation losses on financial instruments are only recorded in the profit and loss account if they are attributable to financial instruments whose fair value is posted to the profit and loss account or, in the case of financial instruments available for sale, if they represent actual long-term losses in value (so-called impairment).

The business trends during the financial year can be summarised as follows:

(€K)	31/12/2005	31/12/2004	Variation
Net premiums	9,096,307	9,442,459	(346,152)
Net charges relating to claims	7,480,620	7,954,120	(473,500)
Net commissions	22,616	3,159	19,457
Net income from investments	888,315	841,910	46,405
Net income from financial instruments at fair value through profit or loss	126,561	294,124	(167,563)
Operating expenses	1,528,127	1,501,860	26,267
Operating expenses on investments and interest payable	124,600	86,094	38,506
Other net income and charges	(169,323)	(280,164)	110,841
Profit (loss) in the financial year before tax	**831,128**	**759,414**	**71,714**
Income tax	244,778	314,388	(69,610)
Profit (loss) in the financial year net of tax	**586,350**	**445,026**	**141,324**
Profit (loss) on operating activities ceased	**-**	**-**	**-**
Consolidated profit (loss)	**586,350**	**445,026**	**141,324**
Third party profit (loss) in the financial year	**121,067**	**104,336**	**16,731**
Group profit (loss) in the financial year	**465,283**	**340,690**	**124,593**

The essential elements of the consolidated result are the following:

- the consolidated profit was € 586m, of which € 465m consisted of the Group profit and € 121m represented the third party share.
- the overall technical performance of the insurance sectors was characterised by an increase in the volume of premium income in the Non-Life sector (+1.92%) and by a fall in premiums in the Life sector (-15.9%) because of the well-known application of the new investment contract accounting rules. In uniform terms

(purging the premium income for 2004 of purely financial Life contracts) the increase in life premiums of an insurance nature would have been 19%.

- activity in the Non-Life insurance sector has confirmed the good results recorded in previous financial years, thanks to the good performance of current claims, the good result of the dismantling of claims reserves from previous financial years, and a substantial achievement of balance in sectors such as General Civil Liability, in which significant losses were recorded in previous financial years.
  The technical balance for the sector, which has been measured using the traditional rendering of account techniques and applying the new international accounting principles, shows a positive balance of € 530m, compared to the € 502m recorded in the last financial year.
- The Life sector recorded a slight fall at technical level compared to the figure for the previous financial year, as a result of the conclusion of the dispute between Consap and the subsidiary Milano, and of the gradual reduction in profit margins on the existing portfolio.
- The gross technical reserves, net of intersectorial adjustments, amount to € 25,630m (€ 26,634m in 2004) and are affected, in the Life sector, by the reclassification among financial liabilities of the deposit on financial contracts component.
  The ratio between total technical reserves and total premiums written is 266.8% (271.3% in 2004). This ratio is equal to 160.3% in the Non-Life sector (163.9% in 2004).
- Total operating costs amount to € 1,528m (€ 1,502m in 2004). In the Non-Life sector, these costs amount to € 1,329m and account for 18.6% of premiums written (19.2% in 2004 according to Italian accounting criteria), while in the Life sector the total amount of costs is € 148m and accounts for 6.3% of premiums issued (6.3% in 2004).
- Net commissions for financial services rendered and receives are positive in the amount of approximately € 23m. The figure cannot be compared to the previous year because it complies with the new method for recording financial contracts which previously belonged to the Life sector.
- The contribution of net income from financial instruments at fair value through profit or loss is positive by approximately € 127m. This item includes both the net income from financial activities in which the risk is borne by the insured and from the management of pension funds (positive in the amount of € 78m with regard to class D Life contracts still classifiable as insurance contracts), as well as a significant amount of dividends on shares classified to be traded in the Non-Life sector.
- Excluding the contribution of the net income from financial instruments at fair value through profit or loss, the total net income from investments, including proceeds from shareholdings in subsidiaries, associated companies and joint ventures, which amounts to € 44m, rose to € 888m (€ 842m in 2004). Interest receivable of € 613m, other net proceeds of € 139m, net income on the sale of assets of € 155m, and valuation losses, net of the respective value adjustments of approximately € 63m, all contributed to this figure.
- Investment management costs and interest payable amounted to € 125m, € 50m of which relate to interest payable on the Group's financial debts.
- The balance of other income and costs is negative in the amount of € 172m (€ -280m in 2004). This item is affected by depreciation of tangible and intangible assets amounting to € 43m.

- The income tax burden stood at approximately € 245m and was positively affected by the benefits associated with adoption of the national tax consolidation, as well as by the greater incidence of a number of profit components which, following the reform of IRES, have become irrelevant for tax purposes, such as those associated with capital gains and capital losses on the valuations and realisation of exempt shareholdings (so-called “PEX”).

To this we should add that, as a result of the abolition of the transitional system instituted by article 4, paragraph 1, of Legislative Decree 344/2003, the Group released funds for deferred taxes payable, in view of the write-downs of shareholdings which fulfil the requirements for partial exemption from tax under article 87 of the Income Tax Consolidation Act, deducted in the 2003 financial year. The effect of this operation on the profit and loss account is positive by approximately € 51m.

However, both because of the extraordinary nature of the aforesaid drawings, and because the legislative framework will be different in future years, owing to the adoption of the IRES corrective provisions contained in Legislative Decree 247/05, the reduction in the tax burden achieved in this financial year might not be repeated in future years.

- The net equity amounts to € 4,509m (€ 3,275m in 2004) and the parent company's share amounts to € 3,460m (€ 2,633m in 2004).
  -
- The Group ROE, calculated on the basis of its average net equity, minus dividends payable and third party shares, amounts to 16.02% (13.6% in 2004). The total ROE, thus including third party profits and equity, amounts to 15.9%.

The next 2 pages show the business trends in the financial year by sector of business.

Balance sheet by sector of business

(Value in thousands of Euros)

		Sector 1 (1)		Sector 2 (1)		Sector 50 (1)		Sector 51 (1)		Sector 90 (1)		Total	
		Total 2005	Total 2004	Total 2005	Total 2004	Total 2005	Total 2004	Total 2005	Total 2004	Total 2005	Total 2004	Total 2005	Total 2004
1	**INTANGIBLE ASSETS**	**663,501**	**696,458**	**229,032**	**233,656**	**12,486**	**1,473**	**21,506**	**5,262**	**0**	**0**	**926,525**	**936,849**
2	**TANGIBLE ASSETS**	**257,810**	**271,903**	**8,431**	**6,573**	**752,268**	**111,404**	**67,626**	**65,503**	**0**	**0**	**1,086,135**	**455,383**
3	**TECHNICAL RESERVES BORNE BY REINSURERS**	**698,736**	**822,375**	**198,212**	**246,664**	**0**	**0**	**0**	**0**	**0**	**0**	**896,948**	**1,069,039**
4	**INVESTMENTS**	**9,786,105**	**8,937,552**	**17,803,065**	**15,465,997**	**1,018,404**	**1,043,171**	**1,804,106**	**1,199,232**	**-346,660**	**-348,367**	**30,065,020**	**26,297,585**
4.1	Property investments	1,096,308	1,093,023	10,281	10,983	909,223	890,479	25,909	22,515	0	0	2,041,721	2,017,000
4.2	Shareholdings in subsidiaries, associated companies and joint ventures	33,063	41,932	-417	0	7,719	5,504	31,310	14,551	0	0	71,675	61,987
4.3	Investments held until maturity	0	0	0	0	0	0	0	0	0	0	0	0
4.4	Loans and receivables	482,263	450,501	231,980	270,610	13,474	49,068	1,016,789	474,348	-335,849	-348,367	1,408,657	896,160
4.5	Financial assets available for sale	7,823,564	7,104,526	12,434,584	10,591,162	87,988	98,120	626,132	633,646	-156	0	20,972,112	18,427,454
4.6	Financial assets at fair value through profit or loss	350,907	247,570	5,126,637	4,593,242	0	0	103,966	54,172	-10,655	0	5,570,855	4,894,984
5	**SUNDRY RECEIVABLES**	**2,366,449**	**1,947,554**	**247,146**	**314,202**	**136,159**	**47,958**	**144,111**	**86,426**	**-82,822**	**-6,426**	**2,811,043**	**2,389,714**
6	**OTHER ASSET ELEMENTS**	**1,162,495**	**1,072,334**	**736,772**	**520,555**	**14,861**	**36,055**	**34,014**	**28,701**	**-280,166**	**-28,275**	**1,667,976**	**1,629,370**
6.1	Deferred acquisition costs	284,521	260,783	22,433	33,471	0	0	0	0	0	0	306,954	294,254
6.2	Other assets	877,974	811,551	714,339	487,084	14,861	36,055	34,014	28,701	-280,166	-28,275	1,361,022	1,335,116
7	**CASH AND EQUIVALENTS**	**371,966**	**338,474**	**142,345**	**92,462**	**111,943**	**67,436**	**141,870**	**257,425**	**-241,619**	**0**	**526,505**	**755,797**
	TOTAL ASSETS	**15,307,062**	**14,086,650**	**19,365,003**	**16,880,109**	**2,046,121**	**1,307,497**	**2,213,233**	**1,642,549**	**-951,267**	**-383,068**	**37,980,152**	**33,533,737**
1	**NET EQUITY**												
2	**APPROPRIATIONS**	**198,151**	**131,678**	**13,106**	**34,472**	**14,858**	**0**	**2,960**	**5,144**	**0**	**0**	**229,075**	**171,294**
3	**TECHNICAL RESERVES**	**11,451,467**	**11,492,908**	**13,918,791**	**15,141,387**	**0**	**0**	**0**	**0**	**-10,655**	**-6,274**	**25,359,603**	**26,628,021**
4	**FINANCIAL LIABILITIES**	**667,564**	**553,685**	**3,626,713**	**473,702**	**401,166**	**45,908**	**1,051,193**	**640,052**	**-574,258**	**-342,093**	**5,172,378**	**1,371,254**
4.1	Financial liabilities at fair value through profit or loss	27,857	2,275	3,114,059	321	0	0	89,942	28,847	0	0	3,231,858	31,443
4.2	Other financial liabilities	639,707	551,410	512,654	473,381	401,166	45,908	961,251	611,205	-574,258	-342,093	1,940,520	1,339,811
5	**DEBTS**	**785,775**	**495,807**	**159,943**	**128,688**	**81,047**	**49,456**	**164,137**	**53,311**	**-90,322**	**-6,426**	**1,100,580**	**720,836**
6	**OTHER LIABILITY ELEMENTS**	**1,274,995**	**1,067,082**	**499,864**	**265,097**	**44,937**	**37,433**	**65,863**	**26,227**	**-276,032**	**-28,275**	**1,609,627**	**1,367,564**
	TOTAL NET EQUITY AND LIABILITIES											**37,980,152**	**33,533,737**

Profit and loss account by sector of business

(Value in thousands of Euros)

		Sector 1 (1)		Sector 2 (1)		Sector 50 (1)		Sector 51 (1)		Sector 90 (1)		Total	
		Total 2005	Total 2004	Total 2005	Total 2004	Total 2005	Total 2004	Total 2005	Total 2004	Total 2005	Total 2004	Total 2005	Total 2004
1.1	Net premiums	6,749,227	6,661,078	2,347,079	2,781,381	0	0	0	0	0	0	9,096,306	9,442,459
1.1.1	*Gross premiums for the period*	6,980,859	6,952,397	2,360,942	2,807,567	0	0	0	0	0	0	9,341,801	9,759,964
1.1.2	*Premiums ceded to reinsurers for the period*	-231,632	-291,319	-13,863	-26,186	0	0	0	0	0	0	-245,495	-317,505
1.2	Commissions receivable	-1,085	0	34,481	239	0	0	20,479	15,740	-422	0	53,453	15,979
1.3	Income and charges resulting from financial instruments at fair value through profit or loss	43,922	3,007	78,930	285,184	0	0	3,709	5,933	0	0	126,561	294,124
1.4	Proceeds from shareholdings in subsidiaries, associated companies and *joint ventures*	23,719	-3,571	14,342	352	-134	855	8,911	4,815	0	0	46,838	2,451
1.5	Proceeds from other financial instruments and property investments	360,891	456,233	548,363	594,957	42,557	26,905	61,734	47,326	-20,449	-9,732	993,096	1,115,689
1.6	Other income	180,369	230,452	68,056	48,101	38,269	16,033	263,686	121,685	-156,786	-57,241	393,594	359,030
1	**TOTAL INCOME AND PROCEEDS**	**7,357,043**	**7,347,199**	**3,091,251**	**3,710,214**	**80,692**	**43,793**	**358,519**	**195,499**	**-177,657**	**-66,973**	**10,709,848**	**11,229,732**
2.1	Net charges relating to claims	4,780,392	4,711,009	2,700,228	3,243,110	0	0	0	0	0	0	7,480,620	7,954,119
2.1.2	*Amounts paid and variation in technical reserves*	4,950,850	4,869,319	2,712,629	3,261,564	0	0	0	0	0	0	7,663,479	8,130,883
2.1.3	*Shares borne by reinsurers*	-170,458	-158,310	-12,401	-18,454	0	0	0	0	0	0	-182,859	-176,764
2.2	Commissions payable	0	0	21,096	0	0	0	9,815	12,820	-74	0	30,837	12,820
2.3	Charges resulting from shareholdings in subsidiaries, associated companies and joint ventures	3	0	0	2	2,970	0	3	10	0	0	2,976	12
2.4	Charges resulting from other financial instruments and property investments	85,089	175,515	49,538	94,145	23,447	9,035	61,026	59,504	-20,380	-9,732	198,720	328,467
2.5	Management costs	1,351,687	1,291,851	151,380	173,612	48,871	28,068	54,758	43,347	-4,047	-1,173	1,602,649	1,535,705
2.6	Other costs	410,280	520,304	41,321	43,098	13,658	12,940	250,815	118,920	-153,156	-56,068	562,918	639,194
2	**TOTAL COSTS AND CHARGES**	**6,627,451**	**6,698,679**	**2,963,563**	**3,553,966**	**88,946**	**50,043**	**376,417**	**234,601**	**-177,657**	**-66,973**	**9,878,720**	**10,470,317**
	PROFIT (LOSS) FOR THE FINANCIAL YEAR BEFORE TAX	**729,592**	**648,519**	**127,688**	**156,248**	**-8,254**	**-6,250**	**-17,898**	**-39,102**	**0**	**0**	**831,128**	**759,415**

(1) Sector code in above 2 tables:

Non-life business:	code = 01
Life business:	code = 02
Other sectors:	code determined by the company: each sector must be distinguished by a progressive, unequivocal code of between 50 inclusive and 90 exclusive
Intersectorial elisions:	code = 90
Total:	code = 99

Non-Life Insurance Sector

In a year during which the Italian economy has shown albeit timid signs of recovery, the domestic insurance business has experienced a significant growth in the profits of companies in the sector. In terms of income, there has therefore been a consolidation of the positions achieved, while the risks covered, commensurate with the premium income, remain stagnant. These positive results are essentially the fruit of restructuring in the Motor TPL division, in which companies have learnt to assess and select risks better, with a resulting reduction in the tolerance of insurance companies for “concentrated” risks.

Furthermore, the Italian insurance sector, which has traditionally been absent from the US market, did not suffer the significant reinsurance effects in the context of the catastrophic disasters which occurred during the year on the American continent. In the Non-Life sector, compared to their foreign competitors, Italian insurers can in fact count on a market structure which is more retail-oriented, with a limited exposure to major risks: suffice to say that 2005 was the most expensive year of all time for reinsurers throughout the world, who were called upon to pay 75 billion dollars in compensation for the damage caused by natural catastrophes. These insurance losses were even higher (about one and a half times) than those stemming from the terrorist attacks of September 2001. The exceptional scale of the damage suffered during the year, and the prospects of an increase in the frequency and severity of natural catastrophes, will oblige companies to review their forecasting and pricing models, with predictions of a gradual stiffening of the market.

The ANIA’s development forecasts estimated a growth in premiums in 2005 of 5.4% and a slight increase in premium income in the Non-Life sector of 3.6% (and limited growth in the Motor TPL sector of 2.2%).

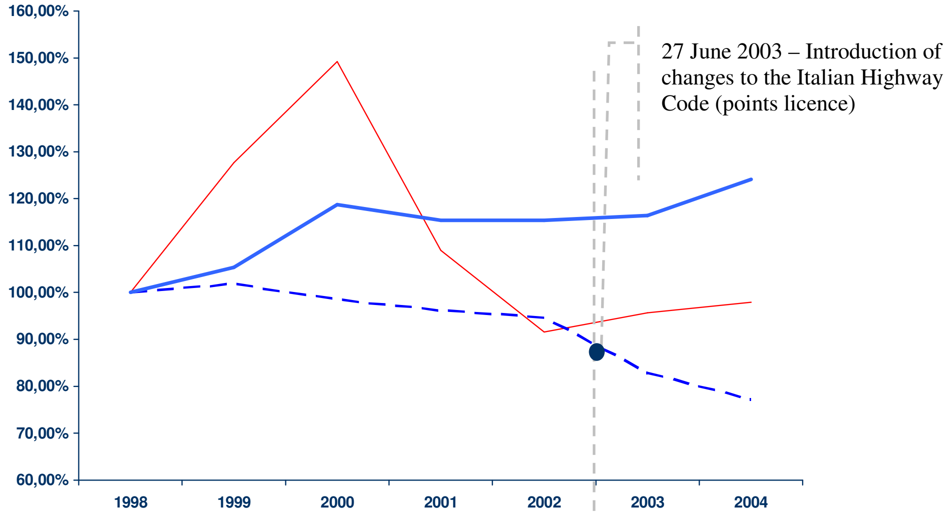
As at September 2005, the Non-Life portfolio amounted to a total of € 25.4bn, an increase of 1.9%, in line with expectations and substantially stable compared to the same period of 2004. The growth is determined almost exclusively by the “non-motor” sector, in the most important classes of which there was a recovery in Health income (+7.7%), with fairly good results in the Accidents (+5.3%) and General TPL (+5.8%) segments as well. Growth in the Motor segment was instead stable (Motor TPL: +0.61%; Land Vehicle Hulls: +0.07%).

The analysis by distribution channel carried out by ISVAP continues to show the prevalence of income through authorised agencies, which brokered 85.2% of all the Non-Life portfolio (85.9% in the same period of 2004) and 91.5% of the Motor TPL class alone (92.1% in 2004).

The following diagram analyses the trend in fuel prices compared to claims and fatal accidents.
There is a clear correlation between the price of fuel and the number of claims/registered cars: the higher the price of fuel, the lower the number of claims. It is also worth pointing out that the reduction in the number of claims has been a delayed effect of the increase in the price of fuel. This is because there is delay between price variations and the time when consumer behaviour changes.

In assessing this relationship, it is also worth considering external factors that may influence the trend in claims. Changes to the Italian highway code, or innovations introduced to the car market, are just some examples of these factors.

Comparison: Fuel price vs Number of claims and Number of fatal accidents based on 100



Key:

Trend in fuel prices in Italy based on 100
Trend in the number of claims/number of cars registered in Italy based on 100
Trend in the number of fatal road accidents/number of cars registered in Italy based on 100

Despite the poor growth recorded in the turnover for the sector, the most characteristic insurance business has become more profitable, while maintaining substantially stable premiums (ISVAP has noted that premiums written presented a nominal increase of 0.6% during the first six months of the year). Despite the effect of the economic crisis and the smaller number of registrations, as well as the ever increasing competition in a sector that has become particularly attractive in recent years, the compulsory insurance sector has been confirmed as one of the most profitable of the entire insurance market, with a consistent combined ratio of less than 100%. In particular, the combined ratio of listed companies at the end of the first six months stood at an average of 96%.
It is highly probable that this positive trend will continue through 2006, thanks among other things to the increase in the price of fuel, which has put a brake on the use of cars and therefore, indirectly, reduced the number of accidents, thus allowing companies in the sector to make money while maintaining their premiums unchanged, despite an environment characterised by the increasing price of replacement parts, repair times and labour costs.

As part of the Fondiaria-SAI Group organisational restructuring programme, action has continued to rationalise management of the insurance business, creating a Group Transport Hub which concentrates all "transport risk" activities in the subsidiary SIAT Società Italiana Assicurazioni e Riassicurazioni S.p.A. The main objective of the new Hub, as of the 2006 financial year, is gradually to bring together all the Group's activities that relate to transport, as well as to centralise and optimise the management of reinsurance contracts in the above sector within the same company.

Premiums for the Fondiaria-SAI Group as a whole amounted to € 7,144.3m compared to € 7,010.0m in 2004, an increase of 1.92%.

Premium income from direct business amounted to € 7,133.7m, compared to € 6,990.2m in 2004, an increase of 2.05%.

Gross technical reserves reached € 11,451m (€ 11,493m in 2004) and the ratio to premiums written was 160.3% (163.9% in 2004).

In the Non-Life business premiums reserve, the "reserve for current risks" component was maintained prudentially unchanged from the previous financial year, in sectors in which the claim ratio presented improvements during the year.
In case this ratio should worsen, the data as at 31/12/2005 has been used for the calculation in ISVAP circular no. 360/D. Prudential appropriations have in any case been made based on claim forecasts.

The following table contains a breakdown of the gross premiums recorded by section of the accounts:

(€m)	**2005**	**2004**	**Variation**
Accident and Health	663.4	639.0	3.82
Land vehicle TPL	4,210.5	4,187.4	0.55
Motor insurance – other business	720.6	711.7	1.25
Marine, aircraft and goods in transit	218.1	194.4	12.19
Fire and other damage to property	703.4	671.3	4.78
General TPL	481.3	468.6	2.71
Credit and Bonds	70.4	67.5	4.30
Sundry pecuniary losses	28.5	27.5	3.64
Legal protection	15.8	14.7	7.48
Assistance	32.3	27.9	15.77
TOTAL	**7,144.3**	**7,010.0**	**1.92**

For Motor in particular (Motor TPL and Land Vehicle Hulls) the volume of premiums reached € 4,931.1m, representing an increase of 0.65%.

Premiums ceded amounted to € 262m (€ 299m in 2004).

Gross claims settled amounted to € 5,146m compared to € 4,752m in the previous financial year (+8.29%).

The breakdown per class of business of claims reported and settled for Italian direct business, including costs, is shown in the table below:

	Claims reported (Number)			Claims paid (€m)		
	2005	**2004**	**% variation**	**2005**	**2004**	**% variation**
Accident and Health	277,690	286,165	(2.96)	369.5	377.9	(2.22)
Land vehicle TPL	982,010	992,595	(1.07)	3,312.7	3,148.9	5.20
Motor insurance – other business	242,048	225,023	7.57	325.8	303.9	7.21
Marine, aircraft and goods in transit	5,514	16,606	(66.80)	69.0	120.6	(42.79)
Fire and other damage to property	203,400	192,298	5.77	381.4	375.3	1.63
General TPL	102,328	111,545	(8.26)	327.4	281.5	16.31
Credit and Bonds	1,080	2,078	(48.03)	43.7	39.8	9.79
Sundry pecuniary losses	10,883	13,045	(16.57)	7.1	6.7	5.97
Legal protection	3,030	2,593	16.85	1.5	1.4	7.14
Assistance	75,609	58,246	29.81	11.8	10.5	12.38
TOTAL	1,903,592	1,900,194	0.18	4,850.0	4,666.4	3.93

The ratio of claims to earned premiums for the period was 70.8% (70.6% as at 31 December 2004): this ratio continuing to be substantially in line with the figure for the previous year. The substantial stability in the ratio during 2005 was a result of the favourable trend in losses incurred during the year, but this in turn was partly offset by the fact that the average cost of the payout exceeded the rate of inflation and the impact of claims for personal injury continued to be negative.

The combined ratio was 92.2%: this too remaining substantially unchanged compared to that recorded in the previous financial year (92.4%). This ratio was certainly a sign that insurance operations and claim settlement operations were managed very efficiently.
This is even more marked when viewed in the light of the limited growth in premium income in the Motor business, which was lower than in previous years.

As regards the Motor TPL business, the fall in claims reported is confirmed at Group level as well (-0.7% compared to 2004). There was also a reduction in the frequency of claims compared to 2004.
It is also worth pointing out that at Group level the average cost of claims for the year in question and previous years is growing significantly.

As regards the work of integrating SAI and Fondiaria, we should point out that during 2005 a single new Motor product was made available to the entire sales network, created on the basis of the joint experience gained by the two companies before the merger, which establishes the same Motor TPL premiums and the same Motor Vehicle Hulls underwriting conditions for both divisions.

The new NUOVA 1[a] GLOBAL product is available in two versions: vehicles and boats. The strengths are: more complete and up-to-date coverage, flexibility and modularity of content and price, clarity of the policy texts and compliance with the most recent regulatory developments, such as the ANIA – Government – Consumer Association Memorandum of Understanding and the points licence.
As regards Motor TPL, the no-claims bonus has been introduced for all types of vehicles.
Also planned are an extension of the family no-claims bonus scheme to companies and the option to choose the “exclusive driver” price formula.

Work continued on keeping operating costs down, the fall in which, including the reinsurers’ share, was 0.37%, less than the rise in premium income. The result was a lower incidence on premium income, which fell from 19.2% in 2004 to 18.6% in the year in question.

Work continued in 2005 to standardise the insurance products of companies in the Fondiaria-SAI Group. In the retail sector, the work of reviewing and refining the offer with a view to achieving standardisation throughout the Group continued, while work was completed for the launch of unified products in the Home and Family sector during 2006.

This segment includes Casa Base and Famiglia Base, two new products characterised by a combination of benefits and a pre-set premium. Casa Base offers Clients, both owners and tenants, initial protection of their home from the risks of fire and theft. Famiglia Base is instead a product aimed at insuring the head of the family against liability arising from his/her property and his/her relationships.

A new Group product has also been launched aimed at providing financial protection for the insured in the event of an occupational and non-occupational accident, known as La Mia Assicurazione Infortuni. This product, which was released in January 2006, replaces and improves the previous Accident Protection.

For further information on the Group’s new products, see the introductory section entitled “Main events in 2005”.

The following table shows the consolidated technical balances of Italian direct business in the main classes:

(€K)	**2005**	**2004**	**Variation**
Motor TPL	149,882	135,253	14,629
Land vehicle hulls	219,361	260,396	(41,035)
Other non-life classes	207,868	72,827	39,441
TOTAL	577,111	468,476	13,035

The substantial stability of the technical balance of the Motor TPL class, the technical fundamentals of which remain substantially unchanged is set against a significant fall in income from the Land Vehicle Hulls class. This fall is due to customers gradually pulling out of this kind of insurance, in a context which is in any case characterised by a low claim rate and containment of general costs. Conversely, the improvement in the non-marine classes is due to the cyclical nature of particular branches, such as General TPL, which is particularly exposed to the phenomenon of delayed claims and co-insurance with others.

The following table summarises the main technical indexes of the last four years:

TECHNICAL INDEXES (%)	**2002**	**2003**	**2004**	**2005 IAS**
Combined ratio(*)	91.6	91.5	92.4	92.2
Claims/premiums in the year	70.6	70.7	70.6	70.8
Reserve ratio (**)	271	269	271	267

(*) The combined ratio can be subdivided into its 3 elementary components: claims ratio 70.83%; expense ratio 19.69%; other items ratio 1.63%.
(**) gross technical reserves/premiums

The main technical indexes, calculated on the basis of international accounting principles, do not differ significantly from the same indexes calculated using local criteria. Therefore, a comparison between the values for 2004 and those of the 2005 IAS can be considered reliable, even though it may not be perfectly homogenous.

The trend recorded in 2005 for the subsidiary companies is summarised in the following table:

(€K)	GROSS PREMIUMS	% VAR. %	RESULT	NET EQUITY excluding net profit for the year
DIALOGO ASSICURAZIONI S.p.A.	17,596	(17.18)	761	6,921
EUROPA TUTELA GIUDIZIARIA S.p.A.	2,057	(83.46)	190	6,274
MILANO ASSICURAZIONI S.p.A.*	2,739,974	2.20	283,702	1,437,470
PRONTO ASSISTANCE S.p.A.	28,636	18.29	874	4,897
SASA S.p.A.	364,127	3.37	10,319	59,446
SIAT S.p.A.	170,516	20.16	1,013	42,427
THE LAWRENCE RE LTD	141,916	1.23	9,776	52,689

* consolidated data according to IAS/IFRS criteria

Below we report on some of the main features of 2005 for the major companies in the Group.

DIALOGO ASSICURAZIONI S.p.A.

Share capital € 8,831,774
(Indirect shareholding 60.23%)

This is the Fondiaria-SAI Group company dedicated to selling motor, asset protection and personal protection insurance products by telephone.
Since the last financial year, the Company has reviewed its market positioning and moved from the female target that had characterised its business at the beginning to a more generalist target market that is more typical of companies in the sector.
During the 2005 financial year there was a 17.18% fall in premium income, equal to € 17,596K, compared to the previous financial year. This fall is attributable to a significant reduction in premium income in the motor sector, where there was a 17.40% drop.
The charges relating to claims borne during the financial year increased by € 1,233K, particularly because of the increase cost of claims during the current financial year.
The technical account result shows a decisive improvement, going from a negative balance of € 3,181K to a positive balance of € 542K. The factors that have led to this reversal of the trend are the accidents and Land Vehicle TPL classes. In the latter class, the technical improvement is due not only to a fall in the claims reported in 2005 but also to an absence of the multiannual charges paid in 2004, which in the Motor TPL class amounted to € 2,133K.
Operating expenses as at 31 December 2005 amounted to € 2,467K, compared to € 5,228K as at 31 December 2004, and consist primarily of underwriting costs amounting to € 1,988K, with an incidence on premiums of 11.29% (compared to 22.16% in the previous financial year).
At the end of the financial year, the Company had 14 back-office employees in addition to 7 external workers. The total cost of labour, net of recoveries, was € 1,035K.

Compared to the previous financial year, there was a considerable increase in investments of 15%. These investments are particularly directed at debt securities.
The net profit on extraordinary activities is instead influenced by the capital gain of € 280m resulting from the sale of the shareholding in Banca della Campania already recorded among fixed assets.
The accounts as at 31 December 2005 close with a positive result of € 761K, compared to a loss of € 3,150K the previous year. We should remind you that the result for the 2004 financial year was affected to the tune of € 2,475K by the posting to the profit and loss account of the residual shares of costs relating to the advertising campaigns.

A development of the company's activity is expected in the coming financial years in view of the launch of Internet sales, which did not have any significant effects in 2005.
In view of the above, we believe that, barring any extraordinary events, the Company will be able to achieve results in the coming financial year that are commensurate with the ones achieved in the current financial year.

MILANO ASSICURAZIONI S.p.A.

Share capital € 238,575,023
(Direct shareholding 58.27%, Group interest 60.32%)

Based on the figures reported in the consolidated accounts, the 2005 financial year closed with a net profit of € 283,522K compared to € 264,432K in the previous financial year (+7.2%). In order to allow a correct interpretation of the comparison, we should point out that the profit for the 2004 financial year has been redetermined applying the IAS/IFRS principles, excluding IAS 32 and 39, relating to financial instruments, and IFRS 4, relating to insurance contracts, which were only applied as of 1 January 2005.

The main aspects that characterised the result achieved in the 2005 financial year can be summarised as follows:

- The Non-Life sector closed with a profit before tax of € 332,260K, compared to a profit before tax of € 352,474K recorded at the end of the previous financial year. Technical performance in the Motor TPL class of this segment improved slightly compared to the previous financial year, as a result, among other factors, of an increase in the speed of settlement of claims, which allowed benefits to be achieved in terms of the average cost of claims followed up, offsetting the greater costs resulting from the increase in the number of claims reported. The land vehicle hulls class continues to produce considerably satisfactory results, with a combined ratio of around 68%.
  Also very satisfactory was the overall technical result achieved in non-life classes other than the motor classes, although it was slightly lower than in the previous financial year, mainly as a result of the lower amount of profit recorded in the accidents and fire classes, which had benefited in the previous financial year from the favourable evolution of claims posted to reserve. The performance of the General TPL class significantly improved, with the branch returning to profit after the heavy loss suffered in the previous financial year.

- The Life sector shows a profit before tax of € 63,214K, compared to € 81,578K in the previous financial year. The fall was the result, among other things, of the lower income from financial instruments, essentially due to the fall in bond prices that occurred during the last few months of the financial year following the rise in interest rates triggered by the monetary policy interventions of the US Federal Reserve, and recently the Central European Bank. For the reasons already mentioned, which are that IAS 32 and 39 and IFRS 4 were not applied to the profit and loss account for 2004, any comparison with the previous financial year is not based on entirely uniform data.

- Asset and financial management allowed income to be achieved on financial instruments and property investments of € 337,125K. This results was achieved by implementing a policy aimed at ensuring an accurate balance in the investment portfolio, so as to guarantee high profitability and consistency with the strategic objectives of the Fondiaria-SAI Group, and in particular to maintain interest rate risks and counterparty risks to a minimum, while still benefiting from the opportunities offered by the financial market. Note that the data relating to the income achieved in 2005 cannot be compared to the data for the previous financial year because the IAS 32 and 39 accounting principles, which have a significant impact, among other things, on the valuation of investments, were only applied as of the beginning of the 2005 financial year.

- Taxes relating to the current financial year amount to € 119,361K and their incidence on the gross profit is significantly lower than in the previous financial year. The tax burden for the 2005 financial year is in fact affected by the higher dividends received, which are not fully taxable, and by the withdrawal from the deferred tax fund of € 31,507K, equal to the tax burden on the portion which is no longer taxable, based on current tax legislation, of the value adjustment made during the 2004 financial year by the parent company Milano Assicurazioni on the General shares in the portfolio.

Based on the accounts of the parent company, which were drawn up according to Italian accounting principles, the 2005 financial year closed with a net profit of € 233,106K compared to € 306,226K in the previous financial year. In making the comparison it is important to bear in mind that the net profit for 2004 benefited from the effects of the fiscal purging carried out after the reform of company law, which had a positive impact on the profit and loss account for 2004 of € 76,155K, following the elimination of the value adjustment carried out exclusively for tax purposes in the 2003 financial year on the Generali shares in the portfolio, amounting to € 113.664K, and the associated tax effect of € 37,509K.

The main aspects that characterised the result achieved in the 2005 financial year can be summarised as follows:

- the Life sector technical account result shows a profit of € 24,755K compared to € 52,575K in the previous financial year. The decrease is mainly the result of a lesser share of profits from investments being assigned to the technical account and to the loss resulting from settlement of the dispute with Consap relating to the abolished system of legal cessions.
- the Non-Life sector technical account result shows a profit of € 275,867K compared to € 283,763K in the previous financial year. The fall is mainly attributable to the Land Vehicle Hulls class which, despite continuing to perform excellently, with a claim to premium ratio of 43.7%, recorded a profit of € 86,492K compared to € 103,729K in the 2004 financial year.
- asset and financial management allowed profits from investments of € 287,850K to be achieved, corresponding a strong increase compared to the profits achieved in the previous financial year of € 243,951K. The increase is mainly due to alignments relating to the bond portfolio, resulting from increases in interest rates.

The technical reserves amount to € 7,985,530K and are € 315,052 (+4.11%) higher than they were in 2004. The most significant increase was recorded, in the Non-Life classes, in the claims reserve, which was up by € 77,213K, which the contribution from the Life sector comes from the mathematical reserves and amounts to € 210,771K.

Investments as at 31/12/2005 consist primarily of bonds and other fixed income securities, which represent 71.50% of all investments. The greatest increases in 2005 were recorded on bonds and other fixed income securities (+2.04%), shares and units in Group companies (+56.60%) and shares in mutual investment funds (+44.26%).

In November 2005, the company sold its entire shareholding in Società Finitalia S.p.A., equal to 60% of the share capital, to the subsidiary Saifin-Saifinanziaria S.p.A.. Finitalia operates in the field of personal loans and of individual loans intended for the payment of insurance premiums.
During December 2004, the merger by incorporation of First Life S.p.A. into Milano Assicurazioni S.p.A. took place with effect from 1 January 2005. The operation did not bring about any changes in the share capital of Milano Assicurazioni, since the latter had previously purchased the entire share capital of First Life from SAI Holding Italia S.p.A. (100% Fondiaria-SAI).

SASA ASSICURAZIONI E RIASSICURAZIONI S.p.A.

Share capital € 52,000,000
(Direct shareholding 99.99%)

In the 2005 financial year, the Company achieved a profit of € 10,319K, a net increase on the profit of € 6,420K achieved in the previous financial year.
In 2005, the Company's premium income was € 364.1m compared to € 352.3m in 2004 (+3.4%). The greatest contribution came from the Motor TPL branch, while premium income in the other branches was in line with income in the previous financial year.
The interesting results achieved are undoubtedly influenced by the attractiveness of the Company, which continues to present itself on the market as the multiagent brand of one of the leading national groups, and which benefits from considerable Group synergies, from information systems to the claim settlement network.
There was an overall improvement in the technical results in 2005, attributable above all to the performance of the non-marine classes: in the Marine and Aviation classes, SASA maintained the traditional recourse to optional reinsurance protection on high and very high risk concentration insurance cover.
The various motor insurance classes recorded a fall in the number of reported claims for losses occurring during the year (net of claims not followed up) of 2.8%. In the Motor TPL class, there was instead an increase in the number claims, albeit smaller than the increase in the number of policies.
A fall in the total claim rate of around one percent was recorded, to which both the non-marine and the Marine and Aviation classes contributed. The almost static premium situation, and more generally the fierce competition encountered in the market, led to a deterioration in the claim to premium ratio in the Motor TPL sector, despite the further improvement in frequency achieved during the financial year.
The speed of settlement, calculated on the basis of the number of claims reported, net of claims not followed up, was substantially up across all classes and particularly in the Motor TPL sector.
The net result thus recorded of € 10,319K is attributable to a positive technical account result of € 13.9m, despite strengthening of the reserves in the Motor TPL and General TPL class, which amounted in total to € 4.4m, gross of reinsurance.

As at 31 December 2005, the investments made by the Company amounted in total to € 367m (€ 322m as at 31/12/2004), an increase of 14% on the previous financial year. Particularly worthy of note is the increase recorded in respect of bonds and other fixed income securities (+20.51%), which constitute 89.01% of the investment posting.
Work continued during the financial year to develop the sales network. Despite this, 18 agency contracts and 18 broker contracts were terminated in order to achieve the selective development which is the basis of the Company relaunch and development plan.
Based on the profit for the financial year, the net equity stands at € 69,765K and is well above the obligatory minimum share capital resulting from a calculation of the solvency margin, the constituent elements of which, including the usable share of the subordinate loan, amount to € 79,594K, compared to a minimum of € 43,231K.

SIAT SOCIETA' ITALIANA ASSICURAZIONI E RIASSICURAZIONI S.p.A.

Share capital € 38,000,000
(Indirect shareholding 88.13%)

During 2005, the company confirmed its position as a leading played in the "Transport" insurance sector, in which it has continued to be a constant benchmark provider.
The company ended the 2005 financial year with a profit before tax of € 2,085K, down by 9.78% on the same figure for 2004, which had benefited from significant extraordinary income. The net profit stands at € 1,013K, compared to € 1,402K for the previous financial year,
The technical result improved further, benefiting from the reduction in overheads compared to the previous year. In general terms, overall production for the 2005 financial year, which amounted to € 170,516K, shows a constant increase in direct business (+21%) compared to the previous year. The increase is primarily attributable to the significant development recorded in the marine, lake and river vehicles class. In particular, an increased share of the risks of a primary international shipping company (with container ships and cruise ships) was taken on, with a mandate being granted for about half the fleet.
In the Italian direct business sector, a breakdown of production among the various sectors shows that there was further growth in the "Transport" class, which represented 76% of the net profit in 2005, compared to 73% in 2004.
As regards claims settled in 2005, there was a significant increase in direct business, which went from € 93,620K in 2004 to € 118,715K in 2005.
There was an increase in the balance of income from investments, which stood at € 4,683K (+10% on 2004), generated primarily by the value adjustments in the equity sector.
As at 31/12/2005, the overall amount of investments stood at € 102,155K (as at 31/12/2004 it was € 106,130K), The 3.7% decrease compared to the previous year is essentially due to repayment of the subordinate loan issued by the subsidiary Saifin – Saifinanziaria S.p.A., which expired in October 2005, in the nominal amount of € 5,423K. Bonds and other fixed income securities, together with fixed assets, continue to represent the overwhelming majority of investments, accounting for 88.8% of investments (89.3% as at 31/12/2004).

Technical reserves as at 31/12/2005 amounted to € 254,129K (€ 268,680K as at 31/12/2004) and consisted of the claims reserve of € 191,152K, the premium reserve of € 61,994K and the equalisation reserve for the rest. The 5.42% fall came as the result of a 34.55% increase in the premium reserve, the effect of which was lessened by the 13.78% reduction in the claims reserve. In fact the former increased as a result of the greater production, while the latter decreases mainly as a result of the settlement of a major loss in the goods in transit class. This loss, in respect of which there was a significant amount of reinsurance cover, had been reported in previous financial years and was settled in December 2005.

THE LAWRENCE RE LTD.

Share capital € 635,000
(Indirect shareholding 100%)

In the 2005 financial year, the company again acted exclusively as the captive reinsurer of the Fondiaria-SAI Group, undertaking to place specific portfolios on the international market.
Activities involved analysing the individual portfolios of the Group Companies and consequently aggregating them.
The company then determined the best form of protection for each specific need, arranging further forms of retention where it was deemed appropriate, and ceded back to the reinsurance market using the greater contracting power resulting from this concentration.
The profit for the financial year amounted to € 9,710K, net of tax, and was mainly determined by the good technical performance of the portfolio.
Premiums accepted for 2005 amounted to € 141.9m (13.1 related to the Life sector), while premiums ceded to the market amounted to € 116.2m (0.3 of which related to the Life sector).
The Company also continues also to carry out run-off activities for an on behalf of all the Group Companies who accepted active reinsurance in the past. This delicate objective is pursued by trying to come to settlement agreements, where possible, which allow the administrative charges to be reduced without ignoring the need for financial gain. The company itself is a retrocessionaire of part of this business which shows a substantially balanced result.
The net equity as at 31/12/2005 amounts to € 62,579K.

Novara Assicura S.p.A.

Share capital € 54,000,000
(Indirect shareholding 100%)

On 09/11/2005, the subsidiary Novara Assicura S.p.A. (100% Milano Assicurazioni S.p.A.) was authorised by ISVAP to carry out business in a number of non-life classes, including the Motor TPL class. Subsequently, on 22/12/2005, ISVAP authorised the transfer by Milano Assicurazioni S.p.A. of 50% of the capital of Novara Assicura S.p.A. to Banco Popolare di Verona e Novara.
As a result of these authorisations, it will not be possible to launch a partnership with the banking group in the non-life bank insurance sector, involving the placement of non-life insurance products created by Novara Assicura S.p.A. through branches of Banca Popolare di Novara, a subsidiary of Banco Popolare di Verona e Novara.
The transfer of the shareholding is expected to take place in April 2006.

Life Insurance Sector

In the Life insurance market, defensive products (Class I) are the ones that are most attractive to savers, despite the positive performance of the equity market. After 2004, which saw premiums in this segment increase by over 8% (with premium income of over € 30bn), experts believe that premium income in 2005 will continue to grow by more than 10%, abundantly offsetting the fall in premiums relating to "linked" type product.
In particular, segregated accounts (which can be obtained through traditional Class I and V policies) are the product preferred by the retail market, because they are instruments that guarantee the return of invested capital and a minimum annual return.
The corporate market contributes to driving the underwriting of Life policies. The number of companies which, in view of the significant fall in interest rates, have decided to invest in traditional Life instruments, in order to stabilise their profit and loss account in the face of particularly volatile financial markets, is in fact on the increase.

Between January and September 2005, direct premiums from Italian business increased by 17.1% compared to the same period of 2004, totalling € 53.8bn, well above predictions at the beginning of the year.
Life business premium income accounts for over two thirds (67.9) of premium income across all classes of the insurance sector (64.8% in the same period of 2004), with significant results in Class I (insurance on human life) equal to approximately € 24.2bn (+11.8% compared to the third quarter of 2004; 44.9% of the Life total), in Class III (linked) with premium income of approximately € 19.4bn (+20.5% compared to last year; 36.1% of the Life total), in Class V (pure capitalisation policies with guaranteed interest rate) with premium income in the third quarter of 2005 of approximately € 9.7bn (+21.2% compared to 2004; 18% of the Life total).
Premium income in Class IV (Health) and Class VI (Pension Funds), added to the premiums on complementary insurance, accounts for less than 1% of total premium income across the Life segment.

The bank and post office channel recorded the best result over the first nine months of 2005, brokering 63.8% of premiums and increasing the market share by 4.2%, despite the performance of the financial promoters channel (-2 market share points) and the agents channel (-1.4 points), while subsidiary agencies and agencies run by company staff contained their loss to –0.4 points.

New business remains concentrated primarily on single premium contracts, which grew by 14.2% compared to the whole of 2004, while annual premiums and recurring premiums fell respectively by 17.5% and 1.4%.

The decisive boost for the Life sector, which was expected during the financial year as a result of the coming into force of the enabling law to reform the national social security system (Law 243 of 23/8/2004) was instead "frozen" for a further two years by the postponement until 2008 of the tacit approval for severance pay to be transferred to other forms of social security.

Premiums for the Fondiaria-SAI Group as a whole amounted to € 2,361m compared to € 2,808m in 2004, an increase of 15.91 %.
Premiums from direct business amounted to € 2,351m, down by 15.96%.
Life premium income accounted for 24.84% of the total premium portfolio, compared to 28.6% approximately in 2004. This decrease is due to the fact that the comparison with the data as at 31/12/2004 is not meaningful, given that the 2005 data has been calculated by fully applying IFRS 4, which means that all premium income for which there is no significant insurance risk has been deducted from the premium posting.

Gross technical reserves reached € 13,908m (€ 15,141m in 2004) and the ratio of technical reserves to premiums written was 589.1% (539.3% in 2004).

As regards an assessment of the adequacy and sufficiency of the reserves posted to the accounts, see the analysis contained in the chapter "Verification of the fairness of liabilities" contained in Part G, to which the reader is referred.

The following table shows the breakdown of total premium income according to class of business:

(€m)	**31/12/2005**	**31/12/2004**	**Variation**
I - Whole of life insurance	1,341,9	1,147.3	16.9
III - Insurance referred to under I and II linked to investment funds	88.2	922.2	(90.4)
IV – Health insurance	0.1	0.1	-
V – Capital redemption operations	930.7	716.3	29.9
VI – Pension funds	-	21.7	(100.0)
	2,360.9	**2,807.6**	**(15.91)**

A comparison between the technical entries of the Life sector relating to premiums, claims, variations in reserves and operating costs is not meaningful because the figures as at 31/12/2005 have been determined by fully applying IFRS 4, which means that all the components for which there is no significant insurance risk have been deducted. These have in fact been added to the "Financial Liabilities" posting, if valued at fair value, and to the "Other Financial Liabilities" posting if valued at depreciated cost.
The reader is referred to the explanatory notes of the accounts for an analysis and details of the content of both the above postings.

Premium income through bank branches amounted to € 338m and represented 14% of the total income from direct business.
Premiums ceded amounted to € 14m (€ 26m in 2004).

Gross amounts paid, including the respective charges, amounted to € 1,468m (€ 1,763m in 2004), down by 17%.

Operating costs amounted to € 148m, with a substantially unchanged incidence on premiums of 6.3% (same incidence in 2004).

The yields of the main segregated accounts managed by Group companies are shown in the following table:

	2005	2004
Press 2000	4.23	4.05
Nuova Press 2000	4.29	4.34
Fondivita	4.23	4.04
Fondicol	4.15	4.43
Fondoviva e GEPRE	4.45	4.35
3A	4.29	4.24
Geprecoll	5.14	4.83
Pres Novara Euro 1	4.02	4.04
Gestione Po Vita	4.03	4.00

Purely for information, the following table shows premium income on new products, determined according to the requirements of the supervisory authority:

	Class I	**Class III**	**Class IV**	**Class V**	**Total**	**2004**	**% var.**
BIM VITA S.p.A.	14,983	5,066	-	2,671	22,720	10,441	117.60
FONDIARIA-SAI S.p.A.	342,677	39,867	5	383,667	766,216	614,786	24.63
MILANO ASSICURAZIONI S.p.A	125,247	24,386	-	219,408	369,041	241,682	52.70
NOVARA VITA S.p.A.	145,133	508,046	-	23,416	676,595	621,164	8.92
PO VITA S.p.A.*	98,825	336,382	-	181,533	616,740	528,272	16.75
SASA VITA S.p.A.	34,867	20,245	-	2,700	57,812	47,960	20.54
TOTAL	761,732	933,992	5	813,395	2,509,214	2,053,864	22.17

* 100% figures: Note that new products do not include renewals, replacements, existing agreements and reactivations.

During the financial year, the companies in the Group introduced new Life products via the sales network, continuing with the review and updating process that began in 2004. This activity was made possible by the “product factory” work carried out by the Life Department, together with work on analysing and developing the Life portfolio in order to achieve even greater customer satisfaction.

In particular, the distribution networks of the Parent Company and of the subsidiary Milano oriented production towards the strategic segment of single premiums, by launching two new products (Open Unico and Open Risparmio) associated with segregated accounts and aimed at satisfying the specific saving and investment requirements of customers, and of annual premiums, pursuing the aim of increasing the distribution of annual premium and high value products for the Companies by marketing the OPEN PROTETTO product

Two instalments of Index Linked products were launched during the financial year, the first one characterised by the presence of annual coupons for pre-set and variable amounts, and the second by a mechanism associated with the growth of an innovative European share index.

Since both insurance products have death risk cover depending on the age of the insured on the effective date of the policy, they are included among technical reserves rather than among financial liabilities.

Finally, with the aim of increasing the level of penetration in the sector of collective insurance risk cover, further restyling of the product list was carried out, launching the new PLURAL VITA product line for Groups and executives. This initiative allowed interesting results to be achieved in terms of protecting the Client portfolio by taking targeted action aimed at maintaining portfolios affected by expiring policies.

For further information on the Group's new products, see the introductory section entitled "Main events in 2005".

Consap settlement agreements

During 2005, an agreement was reached with Consap to settle the dispute regarding the legal cessions associated with the Life Portfolio of Milano Assicurazioni. The amount of the settlement in favour of the company was € 83,500K, received on 16/05/2005, with a financial charge of € 20,447K, which is counterbalanced by specific appropriations made in previous financial years.
There are no further disputes between Consap and companies in the Group.

Some of the principal elements for 2004 are shown for the major companies in the Group but you are referred to the previous paragraph for remarks on operations in Life business carried out by the subsidiary company Milano Assicurazioni S.p.A..

The trend recorded in 2005 for the subsidiary companies is summarised in the following table:

(€K)	GROSS PREMIUMS IAS/IFRS	% VAR.	RESULT	NET EQUITY excluding net profit for the year
BIM VITA S.p.A.	18,038	39.44	512	14,154
EFFE VITA S.p.A.	5,926	(9.90)	1,039	9,727
LAWRENCE LIFE ASSURANCE		(99.74)		
CO Ltd	282		(850)	7,660
MILANO ASSICURAZIONI S.p.A.*	586,426	12.07	283,702	1,437,470
NOVARA VITA S.p.A.	174,310	(72.57)	13,963	76,519
PO VITA S.p.A.	134,066	(71.46)	14,262	110,482
SASA VITA S.p.A.	73,571	22.05	1,184	12,120

* consolidated data according to IAS/IFRS criteria

BIM VITA S.p.A

Share capital € 7,500,000
(Direct shareholding 50%)

The balance sheet as at 31/12/2005 closed with a positive result of € 512K (€ positive in the amount of 1,282K as at 31/12/2004). For comparative purposes we should point that the result for the 2004 financial year is significantly influenced by the value adjustment of Banca Intesa, recorded among extraordinary charges in the amount of € 977K and carried out in order to eliminate the fiscal interferences.
Premiums written as at 31/12/2005 amounted to € 25,154K (€ 12,936K at the end of the previous financial year), thanks to the contribution of a fairly marked growth in whole of life policies, in respect of which premium income in 2005 was almost 3 times higher. The policies are sold almost exclusively through the Banca Intermobiliare banking network of Cassa di Risparmio di Fermo and Cassa di Risparmio di Bra.
Gross technical reserves amount to € 56,037K: € 25,769K in class C and € 30,268K in class D (€ 33,293K in total as at 31/12/2004). The greatest differences were recorded in the mathematical reserve and in reserves relating to contracts the benefits of which are associated with investment funds and market indexes, the trend of which was similar to that of premium income.
As regards the reinsurance programme, it consisted of a pure risk policies treaty with The Lawrence Re Ireland Limited of the Fondiaria-SAI Group. The balance in favour of the reinsurer shows balanced entries.
The amounts paid and the charges relating to the financial year amount in total to € 4,626K (€ 2,062K at the end of the previous financial year) and particularly concerned whole of life insurance policies (+186.17%). The most frequent form of payment is redemption.
The volume of class C investments as at 31/12/2005 was € 40,276K compared to € 24,012K as at 31/12/2004. The delta of € 16,264K is due mainly to new investments made in listed fixed income securities, as well as to new deposits with credit institutions. The short-term securities portfolio (equal to € 33,196K) was written down by € 247K based on market value, € 42K on the equities part and € 205K on the bonds part.
The volume of class D investments as at 31/12/2005 rose to € 30,268K, compared to € 23,392K as at 31/12/2004.

NOVARA VITA S.p.A

Share capital € 54,000,000
(Indirect shareholding 50%)

The accounts as at 31/12/2005 show a profit for the year of € 13,963K, which is almost equal to the profit for the previous year of € 13,248K.
An analysis of premium income shows a recovery of products relating to whole of life insurance (+19.55%) and of index-linked operations (+1.62%). There was however a slowdown in premiums relating to unit-linked operations, which fell to almost half the level reached in 2004.

Gross reserves amount to € 2,767,203K, with the greatest increase being recorded in the reserves relating to index-linked and unit-linked contracts (+7.89%) and in mathematical reserves (+6.58%). The increase in technical reserves net of portfolio movements amounted to € 235,814K.

As at 31/12/2005, the total volume of investments amounted to € 2,840m, compared to € 2,658m the previous year: performance was positive at 6.85%. Fixed rate securities continue to account for most of the investments, representing 95.28% of their total value. As regards long-term investments, potential capital gains of € 22,850K were recorded.

The net profit for the year is also significantly influenced by the fact that, after having joined the fiscal transparency scheme, the company stopped setting aside IRES tax for the year, transferring this charge to shareholders. The effect of this is equal to approximately € 5,128K. Joining this scheme also led to the credit entry for prepaid taxes recorded as at 31/12/2005 being reversed in the amount of € 48K.
As of the 2004 financial year, a risk premium excess treaty has been in force for T.C.M. policies with The Lawrence Re Ireland Limited, the Group's reinsurance company, which replaces the previous similar treaty that existed with the parent company.
The proportional treaty with Fondiaria-SAI, to which premiums relating to new policies stopped being ceded on 01/01/2004, remains in force.
Reinsurance business in 2005 closed with a positive result for the company of € 433K.

PO VITA COMPAGNIA DI ASSICURAZIONI S.p.A.

Share capital € 108,200,000
(Indirect shareholding 50%)

The accounts as at 31/12/2005 show a profit for the year of € 14.3m, compared to € 16.1m in 2004. The greatest increase was recorded in premium income, which amounted to € 665.6m, up 15.8% on the figure for 2004 and 33% of the budget assigned. The net profit achieved in 2005 is significant when compared to the 13% growth recorded in this sector at national level.

An analysis of the new product mix again shows that a constant feature of the sales activity has been the substantial balance achieved between the more heavily financial and the traditional products. This balance is confirmed by the amount of mathematical reserves and class D reserves.

In view of the amount of reserves, now close to € 3bn, and to the approximately 200,000 policies in the portfolio, by the end of 2005 the company had essentially achieved the dimensional objectives established by the three-year plan for the end of the next financial year.

This early achievement of the objectives is extremely important and is the fruit of a string of excellent sales results supported by continuous improvement of the technical and organisational structure.

In the light of the above, we believe that the company is entering a phase of concrete consolidation, following a rapid but balanced phase of development which has achieved a penetration of almost 23% among customers in the Cariparma distribution network.

An analysis of the composition of premium income shows a 25.36% recovery among unit-linked products compared to 2004, along with a 1.37% recovery in capital increase operations. Gross premium income on whole of life insurance was however down by 14.95% on the figure for the previous year.

Gross reserves amount to € 2,922,979K (€ 2,399,951 as at 31/12/2004), with the greatest increase being recorded in the reserves relating to index-linked and unit-linked contracts (+24.73%) and in mathematical reserves (+19.64%).

The amounts paid and charges relating to the financial year amounted to € 212,371K in total and relate mostly to capital increase operations and to whole of life insurance policies.

The Company's sales organisation as at 31/12/2005 consisted of the 307 branches of Cassa di Risparmio di Parma e Piacenza.

As at 31/12/2005, the overall volume of investments had reached € 3,033m, compared to € 2,484m as at 31 December 2004. The considerable increase is due to the growth in the size of the company and to the increase in shareholders' equity.

As of the 2004 financial year, a risk premium excess treaty has been in force for T.C.M. policies with The Lawrence Re Ireland Limited, the Group's reinsurance company, which replaces the previous similar treaty that existed with the parent company. Reinsurance business in 2005 closed with a result in favour of the reinsurer of € 433,000.

The net profit for the financial year is influenced by value adjustments of securities in the financial component amounting to € 5.2m, compared to net value adjustments of € 1.4m recorded in 2004.

Tax for the financial year relates exclusively to IRAP for the year, given that the company has transferred any IRES payable to shareholders as a result of having joined the fiscal transparency scheme. For 2005, the amount transferred was € 11.4m, corresponding to current taxes of € 3.8m (€ 16.2m and € 5.3m in 2004 respectively); advance taxes transferred to shareholders amounted to € 0.3m (€ 1.5m in 2004).

The company's share capital increased from € 90.2m to € 108.2m during the past financial year as a result of the capital increase of € 18m approved by the extraordinary general meetings of December 2004 and April 2005.

As regards expectations for 2006, the specific features of Po Vita's products, which are appreciated by customers because of their low risk/low return profile, could continue to attract customers in a market characterised by an uncertain economic scenario. Business during the first few months of 2006 seems to confirm this favourable trend.

SASA VITA S.p.A

Share capital € 10,000,000
(Direct shareholding 50%, Group interest 100%)

In the 2005 financial year, the Company achieved a profit of € 1,184K, which was down on the profit achieved in the previous financial year by 9.82%. A combination of factors contributed to this result, the most significant being:

- the growth in premiums recorded (+22.05% compared to 2004) which peaked at € 73,571K at the end of 2005: the greatest contribution came from personal policy premiums, which were up by 24.36%; this general increase in premiums is characterised by an increase in premium income on risk products. It is also worth mentioning the success achieved in sales of the three index-linked products marketed during the year;
- the increased variation in mathematical reserves, which rose from € 46,500K in 2004 to € 56,088K in 2005 (+20.62%); the greater costs are the result of the increasing benefits offered to policy holders, which the Company will have to bear in future in view of the cover offered by the portfolio;
- income tax on the year, which was not payable in previous years owing to the losses recorded in 2000 and 2001, but which amount to € 705K this year.

Gross technical reserves amount to € 146,982K, up by 38.70% on the 2004 financial year. The greatest increase was recorded in mathematical reserves, which were up by 37.90%.
The Company's investments increased during 2005 by 40.08%, and consist primarily of bonds and other fixed income securities, together with investments whose risk is borne by insurers; the variation is due to a substantial growth in fixed rate securities of 35.91%.
Income from investments amounted to € 6,891K and mainly came from fixed income securities, which generated € 4,074K. The net return achieved during the financial year on capital invested was 3.9%.

THE LAWRENCE LIFE ASSURANCE CO. LTD

Share capital € 802,886
(Indirect shareholding 100%)

During the 2005 financial year, the company recorded a net loss for the year of € 860K (compared to a profit of € 309K in 2004). The worsening is essentially due to the setting-up of a liquidation reserve related to the associated company Lawrence Life Vaduz, which is due to be liquidated in 2006. Technical management was instead confirmed as being substantially balanced.
As regards the insurance business, it is worth pointing out the technical reserves which, at the end of the financial year, amounted to € 298,435, compared to € 245,043 in 2004, an increase of € 53,392K (+21.79%).

REINSURANCE

Introduction

The Group's reinsurance structure is almost entirely identical to the protection system established for the parent company.
The proportional programme allows each Company to retain an adequate share of the premium relating to the volume of each individual portfolio, and to protect policies that may compromise the final result by means of reinsurance.

The Group's captive reinsurer, The Lawrence Re, provides adequate reinsurance protection to each individual Company, and subsequently integrates the various portfolios in order to obtain specific retrocession protection from the international market.
Despite the fact that the international reinsurance market has not had a particularly brilliant financial year, and that the trend towards a reduction in the number of operators has continued, with a resulting reduction in the available capacity, premiums paid by the Group for its protection remain virtually identical, although overall exposure in some classes increased.

In strictly contractual terms, it is worth pointing out that greater clarity was introduced in the rules by reviewing some of specific clauses of the treaties, which are increasingly becoming forms of global protection for the Group.
Further impetus was given to this contractual review process during the financial year, with the specific aim of ensuring that clear contracts can be entered into which leave increasingly less room for alternative interpretations, thus reducing to a minimum any disagreements between the parties in the event of a claim for compensation.

Finally, we are not aware of any facts or situations that may have a relevant impact on the aforesaid structure. The natural catastrophes that took place during the last financial year (mainly the flooding in central Europe and the hurricanes in the United States) did not diminish the high degree of solidity of the reinsurers chosen by our Group.

Non-Life Reinsurance

In the Non-Life sector, proportional programmes are adopted for the Transport, Credit, Guarantees, Aviation and Technological Risks classes, while the remaining portfolios are protected by non-proportional programmes per individual risk and event.
In some cases, according to requests made by the direct underwriting market, the total capacity has been increased: the main cases relate to the Fire and Technological Risks class, which has been provided with a risk assessment system based only on the sum insured.

As regards the requirements of paragraph 39 c) of IFRS 4, we should point out that specific attention has been paid, with regard to reinsurance instruments, to the risk concentration of some classes, using appropriate calculation methods depending on the specific characteristics.
The Fire class is the one that, in view of the higher volumes involved, requires particular and differentiated attention, particularly in respect of earthquake and flooding risks. For this purpose, concentration assessments are carried out on a geographical and seismic basis, as well as in a less detailed way on a hydrogeological basis.

Exposure concentrations by seismic area are updated during the financial year and subsequently modelled using the two products universally adopted by the international market: RMS RiskLink DLM and EQECAT WorldCAT.

The results obtained are then analysed with the assistance of international operators to arrive at a level of protection which is appropriately placed between the two stated benchmarks. To be specific, protection has been obtained that provides cover for a catastrophic loss occurring with a time interval of 250 years.
The risk of flooding is determined by referring mostly to the existing portfolio, given that at the present time there are no adequate models that can provide objective data. As is well known, the insurance and reinsurance sectors are equipping themselves with a specific tool, known as SIGRA (Sistema Integrato Gestione Rischio Alluvionale – Integrated Flood Risk Management System), which will be available as of 2007 and will allow assessment of both the insurance risk (by assessing the exposure to one or more risks) and the reinsurance risk (by calculating the accumulations and the maximum probably damage for an entire portfolio). The Land Vehicle Hulls class presents many similarities with the Fire class, and therefore benefits from the same reinsurance cover per event.
The Technological Risks class, thanks to the specific proportional schemes adopted, does not raise any specific concerns, given that the risks are protected on the basis of the underwriting year.
The potential concentration of risk resulting from the bankruptcy of a single insured party and/or grantee in the Guarantees class is protected by an excess loss programme which covers all the acceptances given in the all the past underwriting years.

Life Reinsurance

The general notes remaining valid, the main structural change relates to the Life sector where, in view of the gradual concentration of functions, leading to greater control of the underwriting of direct business, and of the constant support of positive results, a move has been made from the proportional type of cover to an excess loss type of cover with limited reinstatement, with additional stop loss cover for the Group's net retention.

Property Sector

In recent years, the low level of interest rates and the loss of faith among households in alternative investments have led to house price increases, thanks also to significant recourse to loans by private citizens and to a gradual rise in the mortgages granted by credit institutions. In Europe, the Central European Bank has estimated that house prices increased on average by 6.6% a year between 2001 and 2004, compared to the 3.8% growth recorded between 1997 and 2000, reaching increases of 7.7% during the first half of 2005, with particularly steady growth in France, Spain, Ireland and Italy.

During the first half of 2005, in the largest Italian cities, the price of property confirmed the upward trend of the last few years, but with more contained rates of growth than in the past: from a minimum of 3% estimated by the *Agenzia del Territorio* on residential property, to a maximum of two percentage points more in the largest urban centres, well below the 10% of 2003 and the 8% of 2004, with predictions of a gradual slowdown in the overall growth rate.

Having grown at such a fast rate, it was inevitable that the market would show signs of fatigue. This should be viewed as the reason for the longer time needed to sell property, the increase in the discount on selling prices, and the particularly small increases in leasing prices, particularly in metropolitan areas.
The reason for the slowdown in the growth of house prices can be found mainly in the tightening of household income caused by a long period of weak economic growth. It is however improbable that the national property market will enter a period of stagnation, given that the demand for housing remains sustained in terms of volume and is now favoured by easy access to inexpensive credit and by the system of property mortgages which has traditionally been less sophisticated than in other European countries.

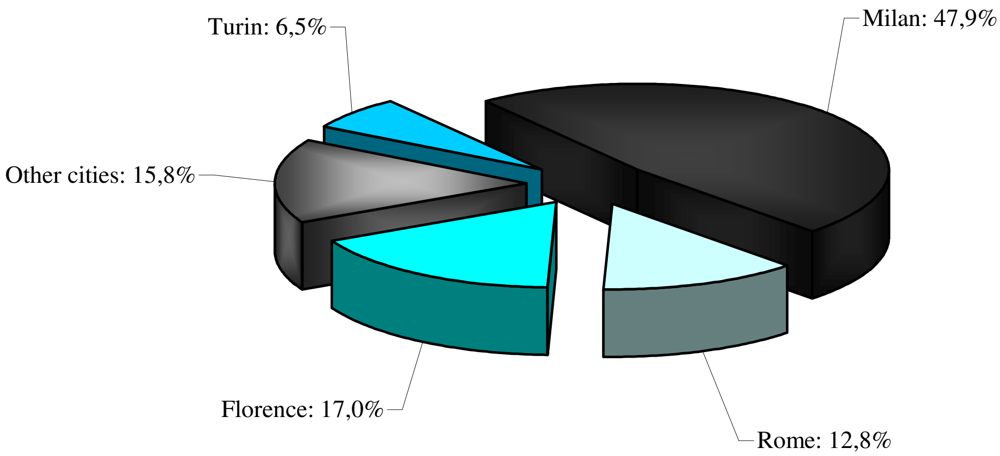
In the commercial and service sector, which is suffering the effects of the current economic phase, demand is generally very weak however. There are signs of a reversal of the trend in the interest shown by the market in the major urban restructuring projects taking place a number of large Italian cities.

The property activities of the Fondiaria-SAI group companies in 2005 was aimed at improving the profitability and value of property assets by means of maintenance and marketing activities.

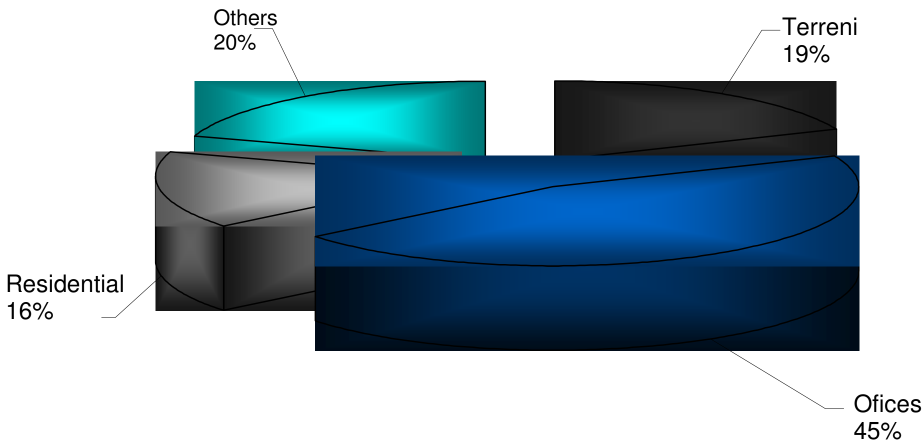
Property investments, both direct and indirect, are a considerably large and strategically important asset class for the Group. During this latest phase of economic stagnation, the property sector has in fact performed better than most of the other areas, providing a valuable source of diversification for the Group's investments.
In the medium to long term, the real estate sector may also offer the Group protection against inflation, a factor which was considered of secondary importance in the past but which has been growing in significance recently.

For information purposes, the following chart shows the percentage breakdown of the Group's property assets, subdivided by geographical area.

Percentage breakdown of the Group's properties by geographical region



As regards the purposes for which the Group's property assets are used, the following chart shows the breakdown by macro-categories.



Merger by incorporation of the subsidiary Progestim S.p.A. into Immobiliare Lombarda S.p.A.

On 28/11/2005, a merger agreement was signed to incorporate the subsidiary Progestim into Immobiliare Lombarda. The merger legally came into force on 01/12/2005.
The share swap ratio approved by the shareholders' meetings of the two companies in September 2005, was determined on the basis of the asset merger statements consisting of the balance sheets as at 31/12/2004, bearing in mind the capital increase needed to service the merger in the amount of 32 newly issued ordinary shares in Immobiliare Lombarda, each with a nominal value of € 0.17, for every 5 Progestim shares, each with a nominal value of € 1. This ratio – which corresponding to 6.4 shares in Immobiliare Lombarda for every Progestim share – was determined by the Boards of Directors of Progestim and Immobiliare Lombarda with the assistance and advice of Lazard & Co. Real Estate S.r.l. and Mediobanca - Banca di Credito Finanziario S.p.A respectively, and was considered to be fair by Reconta Ernst & Young, the auditing company instructed, as the expert for both companies, pursuant to article 2501-vi of the Italian Civil Code, by the Presiding Judge of the Court of Milan to draw up the report on the fairness of the swap ratio in accordance with the law.
Based on this swap ratio, the Fondiaria-SAI Group took over control of Immobiliare Lombarda after the merger. As at 31/12/2005, Fondiaria-SAI held, directly and through Milano Assicurazioni, a total shareholding in the capital of Immobiliare Lombarda of 59.53%.
The two companies, Immobiliare Lombarda and Progestim, presented different but complementary features, since both of them operated in the property sector, offering different services, including facility management, property management and property consultancy. There have been considerable changes in this sector recently, both on the demand and the supply side, particularly as regards the development of property finance, which has led to a strong increase in demand for the companies and property funds.

Integration of the property assets and property services of the two companies involved allows their value to be enhanced more than it would be if the individual companies were carrying out separate activities, and it will lead to the creation of a major listed property operator, a market leader in property services, strengthening the mission of the incorporated company Progestim as the Fondiaria-SAI company dedicated to providing property services. The company resulting from the merger is also the owner of major property projects that will be carried out over the coming years.

The merger allows the new company to become a listed operator on the Italian market, operating in all areas of the property business, with an emphasis on the field of services.

Immobiliare Lombarda will continue to be a primary supplier of services to the insurance group, but its presence on the market as a listed operator will create major opportunities that will allow its services, which are now primarily directed at serving the Fondiaria-SAI Group, to be targeted at third party companies more extensively.

The merger plan was drawn up on the premise that the following operations would be approved by Immobiliare Lombarda and Progestim before signing the merger agreement:

- € 128m increase in the capital of Immobiliare Lombarda, entirely destined to repay part of the residual consolidated financial debt owed by Immobiliare Lombarda to the creditor shareholding banks that signed up to the capital increase itself;
- increase in the capital of Progestim of a nominal € 65m.

These capital increases were completed before the merger agreement was signed.

The merger plan was based on the following premises as well:

- maintenance, until 31/12/2005, of the property assets of Immobiliare Lombarda existing on 31/12/2004, subject to any sale agreements already signed by the company before the date of the merger plan;
- maintenance for at least five years from the date of signing of the merger agreement, by Fondiaria-SAI and/or other companies in the same Group, of the service agreements with Progestim existing on the date of the merger plan.

The Antitrust Authority, for its part, decided that the premises for an investigation did not exist and therefore gave the green light for the merger to take place.

The financial institutions that were creditors of Immobiliare Lombarda agreed to the rescheduling of the residual consolidated financial debt of Immobiliare Lombarda.

Agreements had also been reached between Progestim and Immobiliare Lombarda on the corporate governance guidelines for the company resulting from the merger, which were made public in accordance with article 122 of Legislative Decree no. 58/98. Furthermore, as part of the agreements reached regarding the merger, Fondiaria-SAI undertook not to transfer the shares in Immobiliare Lombarda it owned (either directly or through companies belonging to the same Group) on the date of signing of the merger agreement.

This lock-up undertaking, which was also made public in accordance with the above law, was given for a period of 12 months counting from the date of signing of the merger agreement, and is conditional on the main shareholders of Immobiliare

Lombarda taking the steps required within the established period of time, if required by law or regulation or requested by Borsa Italiana, to ensure that the minimum floating capital of Immobiliare Lombarda exceeds the thresholds established for it to remain in the electronic share market (Mercato Telematico Azionario) managed by Borsa Italiana.

Before the merger agreement was signed and subsequent to authorisation by ISVAP as required by law, on 21/09/2005 Fondiaria-SAI had sold a 12% in the capital of Progestim to Milano Assicurazioni for €43,416,000, determined on the basis of a valuation of the capital of Progestim carried out by KPMG Corporate Finance.

In view of the activities carried out by Progestim, now Immobiliare Lombarda, to manage the property portfolio of Fondiaria-SAI Group companies, and given the size of the property portfolio of Milano Assicurazioni, the opportunity had in fact arisen for the latter to purchase a minority shareholding in Progestim and therefore benefit from this company's revenue prospects.

As a result of the merger between Progestim and Immobiliare Lombarda, Milano now owns 7% of the capital of Immobiliare Lombarda.

The performance of the main Group companies operating in the property sector in 2005 can be summarised in the following table:

(€K)	REVENUE and INCOME FROM SALES	% VAR.	RESULT	NET EQUITY excluding net profit for the year
IMMOBILIARE LOMBARDA S.p.A. (*)	23,828	52.24	(4,477)	645,211
NUOVE INIZIATIVE TOSCANE S.r.l.	7,709	175.42	(759)	66,521
TIKAL RE FUND	29,925	(63.01)	18,285	473,282

(*) consolidated data according to IAS/IFRS criteria

IMMOBILIARE LOMBARDA S.p.A.

Share Capital of the Parent Company € 667,672,133
(Direct shareholding 50.12%, Group interest 54.24%)

When analysing the variations in balance sheet figures that took place during 2005, it is important to bear in mind that as of 01/12/2005 the merger by incorporation of Progestim S.p.A. into Immobiliare Lombarda S.p.A. came into force. Considering that, in accordance with international accounting principles, this corporate operation is a reverse acquisition, the consolidated profit and loss account for 2005 consists of the results of twelve months of activity by the Progestim Group and of one month of activity (December) by the Immobiliare Lombarda S.p.A. Group. The comparative data relating to the previous financial year relate to the Progestim Group.

During 2005, the Group achieved a negative consolidated result of € 4,477K, which was considerably down on the previous financial year, for which the figure was € 514K.
Income from sales amounted to € 23,828 and relates to the sale of properties by the subsidiaries Meridiano Secondo S.r.l. for € 4,600K and Progetto Bicocca La Piazza S.r.l. for € 1,554K.

Purchase costs increased substantially compared to 2005, given that they account for almost all of the costs incurred to purchase the buildable area in Milan of approximately 15,000 square metres through the subsidiary Meridiano Secondo S.r.l.. As at December 2005 they amounted to € 11,400K.
The loss of value of asset items amounted to € 3,691K and consist primarily of write-downs of shareholdings in associated companies amounting to € 2,970K.
The other operating costs amount to € 22,434K, marking a strong recovery compared to the previous financial year (+87,89%). There was also an increase in service costs, which consist of technical and administrative consultancy (approximately € 6,216K), maintenance work on the property assets (€ 5,456K), construction costs of the property initiative managed by the subsidiary Progetto Bicocca La Piazza S.r.l. (€ 1,550K), remuneration for directors and auditors (€ 1,136K), bank charges and commissions on guarantees (€ 1,062K), remuneration for property management (€ 828K), with the rest relating to IT maintenance and centralised Group service costs.

Tangible assets amount to € 6,037K and have fallen by 95.54% compared to December 2004. The main item is land and buildings, which has been reduced as a result of the change in their use, following the merger operation that took place during the financial year, which reclassified them under *Left-over stock* in the amount of € 130,950K. At the same time, as can be seen, the latter item increased by € 656,024K, since it now includes not only the aforesaid land and buildings but also the contribution made following the merger of € 469,211 in total, € 373,731K of which consists of the purchase cost of the left-over stock of the incorporated company and € 95,480K of which consists of the purchase cost of the left-over stock of this same company's subsidiaries. The 2005 accounts also contain the item *work in progress on order* amounting to € 34,979K, which represents the state of progress

of the building work at the marina in Loano (Savona) owned by the subsidiary Portobello S.p.A.
Share capital during the financial year was increased by € 367,672K, with € 279,277 constituting the purchase cost paid by the shareholders of Progestim S.p.A. to buy Immobiliare Lombarda S.p.A.
The Group's financial debt arose entirely in the 2005 financial year, following the company merger operation: in particular, € 204,000K was the result of the renegotiation of the bank debt owed by the acquired company Immobiliare Lombarda S.p.A., carried out in accordance with the merger plan, and € 17,776K related to the debts of the subsidiary Progetto Bicocca La Piazza S.r.l., which was added to the scope of consolidation during the financial year. This debt consists of property loans granted to support the property development and a loan from third parties who own shares of the capital. Both these loans are guaranteed by mortgages on the Group's properties.
As regards liabilities, at the end of the year they amounted to € 61,396K and resulting primarily from the maintenance work carried out on the properties.

The balance sheet of the parent company as at 31/12/2005, drawn up according to Italian accounting principles, closed with a negative result of € 43,467, reversing the trend of the previous financial year, which was positive by € 1,826K.

As explained above, the result for the financial year is strongly influenced by the events associated with the series of operations aimed at achieving the merger. The main factors that contributed to considerably reducing the result were the following:
- losses on receivables from the Grassetto Gruppo, which were a cost on the profit and loss account amounting to approximately € 18m; the receivables were entirely written-off because the debtor went into liquidation;
- the costs of advice and support received for property management, auditing of the accounts, assistance with fiscal issues, legal and notarial advice, costs of ordinary and extraordinary maintenance carried out on the property assets, which amounted to € 6,400K.

The main changes among the asset items compared to 2004 were as follows:
- the left-over stock item, which includes properties under construction and completed, amounted to € 496,875K, compared to € 343,710K in the previous year; the 44.56% increase is attributable almost entirely to the contribution brought by the merger;
- at the end of the financial year, the value of shareholdings amounted to € 143,370, representing a strong increase on 2004, given that new shareholdings were acquired in associated companies resulting from the incorporation of Progestim S.p.A..

NUOVE INIZIATIVE TOSCANE SRL

Share capital € 26,000,000
(Direct shareholding 96.88%, Group interest 98.76%)

The financial year to 31/12/2005 closed with a loss of € 759K, compared to a loss of € 198K in the previous financial year.

Revenue for the financial year amounted to € 7,709K and consisted primarily of increases in fixed assets due to internal work carried out on the land both inside and outside the Executive Urban Plan (Piano Urbanistico Esecutivo – PUE).
The costs amounted to € 8,468K, of which € 4,835K were the price paid to purchase a plot of land within the Executive Urban Plan, € 1,846K were the enhancement costs incurred on the properties and charged by the Consorzio Castello, € 713K were for professional services, € 383K were the ICI tax payable and the rest were property maintenance and management charges.

As regards the Castello Project, the new Consorzio Castello Agreement (which includes NIT and Sun Chemical) was signed in April 2005 with the Municipality of Florence. In January 2006, the Region of Tuscany and the Province and Municipality of Florence signed an agreement to transfer the regional and provincial government offices, and an educational complex for 3000-4000 secondary school students, to the new Castello site.

As regards construction activity, a declaration of start of works (Dichiarazione di Inizio Attività) was presented to the Municipality of Florence in July 2005 for the structural consolidation and preservation work on the building at Via delle Sciabbie no. 1. The work will be carried out in 2006. A competitive tender process was launched for this work which ended in December 2005 and was won by Prothec S.r.l.. The estimated cost of the work is € 350K.

On 31/12/2005, the Municipality of Florence announced the adoption of an urban variation plan for construction of a road and underpass between Viale XI Agosto and Via dell'Olmatello. For further details on the signing of the agreement with the municipality of Florence relating to the Castello area owned by the company, see the relevant chapter of this report.

TIKAL RE

Total net value of the fund € 491,566,678
(Direct shareholding 50.68% Indirect shareholding 40.14%)

As regards the Tikal RE closed-end private contribution mutual investment fund set up in 2004 by the savings management company Sai Investimenti SGR, which operates within the insurance Group, the unit value as at 31/12/05 was € 307,011.008, compared to € 298,090.866 in the previous year. The recorded performance of 3.86% was achieved by reducing the value of the share as at 31/12/04 of the income distributed during the year of € 2,500. In the light of this result, the Board of Directors of Sai Investimenti SGR resolved to distribute income in the total amount of € 8,005,684.90, equal to € 5,000 per unit owned and corresponding to an annual dividend yield of 2% on the nominal value of the unit.

During the last financial year, the Fund carried out a series of acquisitions, which increased the number of properties managed from 12 to 14, and signed 2 future purchase contracts for assets in the Milan area. These investments increased the total annual revenue, in terms of lease payments, to approximately € 33m. The property portfolio management activity concentrated on monitoring the intrinsic features of the properties, so as to enhance them by carrying out ordinary and extraordinary maintenance work.

The following are the main urban area regeneration and property projects in which the Group is involved:

Garibaldi Repubblica property project

During 2005, negotiations were completed with the US real estate group Hines for the purpose of establishing a joint venture with the Fondiaria-SAI Group, and specifically with Milano Assicurazioni, to carry out a property development project in an area of Milan known as "Garibaldi Repubblica".
The "Garibaldi Repubblica" project is expected to develop approximately 110 square metres of buildable area, with approximately 50,000 square metres for offices, approximately 10,000 square metres for commercial premises, approximately 15,000 square metres for residential premises, approximately 20,000 square metres for exhibition areas and approximately 15,000 square metres for hotels.
On 15 July, the implementation agreement (Convenzione Attuativa) was signed with the Municipality of Milan and, on the same day, purchase and sale agreements were signed with the private organisations and the private building rights were exchanged with the Municipality of Milan. Based on the latest estimates, the total cost of the project will be approximately € 650m and the project is expected to take around five years to complete, counting from 2005.
On 18 April 2005, Milano Assicurazioni acquired from the Hines Group a share in the capital of a Luxembourg company called Garibaldi S.c.s. for € 15.34m by acquiring part of a shareholder loan which amounted to almost the total value of the transaction. Through another Luxembourg holding company, this company will control a number of Italian vehicle companies that will develop the buildable areas.

The total financial commitment of Milano Assicurazioni is estimated to be € 100m for the period between 2005 and 2010, against expected revenue in the same period of € 130-140m. The Company's investment will primarily take the form of interest-bearing loans made to the investee company Garibaldi S.c.s., with a minor share consisting of capital payments.

Purchase of a property for hotel use in Parma by the subsidiary Progestim (now Immobiliare Lombarda) – obtaining of fairness and legal opinions

During 2005, the fully-owned subsidiary Progestim S.p.A. signed an agreement with the company Im.Co S.p.A. for the purchase by Progestim of a property complex in the future. The operation relates to the purchase of a complex for hotel use to be built by Im.Co. on land owned by this company in Parma. Im.Co. also obtained a commitment from Atahotels S.p.A. to ensure the profitability of the investment by taking on the management of the hotel complex and associated facilities. The price is € 28,160,000, based on the valuation carried out by the independent advisor Scenari Immobiliari S.r.l..

Im.Co. and Atahotels are companies controlled by Sinergia Holding di Partecipazioni S.p.A., a company that owns a share in Premafin Finanziaria S.p.A. and in which a number of the Company's directors have interests and shareholdings by other means.

Careful studies and research have ascertained the suitability of the area, in terms of both its location and its transport connections, for the building of a complex consisting of a hotel with adjacent conference centre, health centre and sports and recreational facilities.
This is a wide-ranging project which has been planned in anticipation, among other things, of the economic and cultural relaunch of the city of Parma and associated areas resulting from the establishment in the city of the European Food Safety Authority (EFSA), which can reasonably be expected to lead to an increase in the number of visitors from countries of the European Union.
The corporate structure of Im.Co. and Atahotels means that the two companies are related parts of the Company. During its preliminary examination of the operation, the Board therefore decided to obtain appropriate fairness and legal opinions, as required by the Company's corporate governance system, because, in view of the above, the operation consisted of a transaction by Fondiaria-SAI with related parties through a subsidiary.
The fairness opinion on the transaction was requested by Progestim from KPMG Corporate Finance and the legal opinion was requested from the Ashurst legal firm.
KPMG Corporate Finance found the selling price of the property at a future date to be fair and as shown in the expert valuation referred to above.

Grand Hotel Fiera Milano

On 28/06/2005, the Company purchased, through its fully-owned subsidiary Meridiano Risparmio S.r.l., a property for tourist-hotel use called Grand Hotel Fiera Milano, for € 20,000,000, as a result of the competition launched by Sistema Sviluppo Fiera, as the representative of Fondazione Fiera Milano.
In this respect, the Company provided its subsidiary with the assets and financial means required.

Property operation relating to land owned by the Company in Milan

In December 2005, a property operation was carried out consisting of the sale of land for cash by the subsidiary Milano Assicurazioni and the purchase at a future date, by the same company, of a property to be built on the said land.
In particular, the operation is split into two separate but functionally associated parts, which are the following:

- sale by Milano to the company Im.Co. S.p.A. of a plot of land located at Via Confalonieri-Via de Castillia (Lunetta dell'Isola), Milan, for which building permits and the results of the signing of an urban planning agreement with the Municipality of Milan on 24 June 2005, which established the buildable areas for office, retail, warehouse and parking use, are currently awaited;
- purchase from Im.Co. by Milano, once the building permits have been issued, of a property to be built on the land in question by Im.Co. itself. This will be a property assigned to the provision of services, to be built in the area constituting Unit A2 of De Castillia development area "A", consisting of a tower building with twelve floors above ground, a ground floor and two floors below ground.

The land was sold for the value resulting from the expert valuation survey carried out by Scenari Immobiliari S.r.l., which was € 28.8m (compared to a book value of approximately € 13.2m), while the completed property was purchased for a pre-established non-reviewable price of € 93,700,000, which was also determined on the basis of the valuation carried out by Scenari Immobiliari, with deferred payment based on the stages of progress of the works.
Given that the company structure of Im.Co. makes it a related party of both Milano Assicurazioni and Fondiaria-SAI, appropriate fairness and legal opinions were obtained, as required by the corporate governance system adopted by the Company, drawn up respectively by KPMG Advisory S.p.A. Corporate Finance and the Ashurst legal firm.
The fairness opinion confirmed the fairness of the aforesaid selling prices of the land and purchase price of the property, while the contracts signed took account of the suggestions contained in the legal opinion.
In approving the operation, the Boards of Directors of Fondiaria-SAI and Milano noted:

- the strategic and industrial value of the operation and the interest of Milano Assicurazioni and the Group in the operation itself;
- the nature of the relationship and the methods for determining the financial conditions of the operation, as well as the legal and tax aspects;
- the absence of atypical and/or unusual features.

By means of the operation in question, Milano transferred all entrepreneurial risks to the construction company, with the latter assuming all commitments of an organisational and site control nature, which means that Milano Assicurazioni retains the role of an investor exclusively. Furthermore, the fixed purchase price protects the Company against any price reviews affecting the materials and labour. As a result of the operation, therefore, the Company will become the owner of a major property asset at market value, without taking on any of the entrepreneurial charges (and associated risks) which are typical of construction activity, thus limiting its involvement to that of an institutional investor.

Competition launched by Fintecna for reutilisation of the former tobacco manufacturing plant in Florence

On 14/05/2005, Fintecna informed the subsidiary Progestim (now Immobiliare Lombarda) that it had accepted the binding bid for a partnership to recover, transform and utilise the former tobacco manufacturing plant (Manifattura Tabacchi) owned by Fintecna in Florence. The bid had been submitted by Progestim as part of the group of companies (so-called "Cordata Metropolis") which consists of Progestim, Baldassini-Tognozzi and Consorzio Etruria, each with a share of 29.73%, in addition to various minor members. The value of the bid submitted by Cordata Metropolis is € 70m.
The procedure launched by Fintecna was aimed at identifying a 50% partner for a new company in which Fintecna will own the remaining 50% and which will purchase the ownership of the properties for the purpose of restoring and transforming them.
At the end of July, Cordata Metropolis became a joint-stock company (the Newco) in which Immobiliare Lombarda continues to hold a 29.73% stake. The Newco is called "Metropolis" and is a joint-stock company with share capital, currently € 1,120,000, which will be owned together with Fintecna (50% each), the company that owns the property.

In order to acquire 50% of Fintecna's position in the vehicle company (a position that consists of the share in the capital and of non-interest-bearing loans), Metropolis disbursed approximately € 11m. This amount was made available to the company by the shareholders, on a pro-quota basis, partly in the form of a capital increase of € 1,000,000 in total and partly in the form of a non-interest-bearing loan covering the residual part.
Primary Italian banks will disburse a loan in favour of Metropolis for the project to be carried out.

Project to regenerate and reutilise the property complex known as "Torri dell'EUR" in Rome

As a result of the competition launched by Fintecna relating to the project to regenerate and reutilise the property complex owned by Fintecna itself at Viale Europa 242, Rome ("Alfiere Project"), known as "Torri dell'EUR", the offer submitted by the subsidiary Progestim (now Immobiliare Lombarda) with other leading operators in the industry was successful.
The said procedure was aimed at identifying a 50% partner for a vehicle company, Alfiere S.p.A., owned by Fintecna, which retains the remaining 50% and has transferred the ownership of the property complex to the same company.
Immobiliare Lombarda has a 19% share in the Group, equal to the share of the other members. All the participants in the group have set up a Newco, Progetto Alfiere S.p.A., the share capital of which, equal to € 120,000, was subscribed according to their respective shares.
Progetto Alfiere S.p.A. has purchased a 50% share in the capital of the vehicle company mentioned above. The plan is to implement a reutilisation programme for the property complex transferred to the vehicle company.

In the bid it presented, the group indicate that the value of the transfer of the property company was € 160,000,000. For the purpose of purchasing this complex, the vehicle company used capital and loans paid by the shareholders as well as bank loans granted to it.

The architectural plan for regeneration of the area has been entrusted to the architect Renzo Piano, who has planned a residential complex with services in keeping with the environment. A large garden open to the public will be created with a botanical greenhouse. The work is expected to begin in the second half of 2006.

Property operation relating to land owned by the subsidiary Immobiliare Lombarda (through the incorporated company Progestim) in San Donato Milanese – obtaining of fairness and legal opinions.

Agreements were signed during the year for transfer by the subsidiary Meridiano Secondo S.r.l. (100% owned by Progestim, in turn 100% owned by Fondiaria-SAI) to the company I.C.E.IN. S.p.A. of a plot of land and the purchase by Progestime, at a future date, from I.C.E.IN, of a property complex to be built on this land.

In particular, the operation is split into two separate parts which will however be carried out simultaneously:

- sale by Meridiano Secondo of a buildable site in San Donato Milanese, to I.C.E.IN., a company controlled by Sinergia Holding di Partecipazioni S.p.A., a company that owns a share in Premafin Finanziaria S.p.A. and in which, a number of the Company's directors have interests and shareholdings by other means.
- purchase from I.C.E.IN, by Progestim, of a future property complex for hotel use, to be built on the same buildable area mentioned above, with deferred payments based on the stages of progress of the works, consequently assuming the duty to build to property complex according to the approved project specifications. The subsequent leasing of the property to Atahotels is planned in return for an annual fee from Atahotels with is proportional to the value of the property.

The selling price of the land was € 4,600,000, corresponding to the value resulting from the expert valuation survey carried out by the independent advisor Scenari Immobiliari, while the purchase price of the completed property complex was fixed at a non-reviewable amount of € 18,000,000, which was also determined on the basis of the valuation carried out by the independent advisor Scenari Immobiliari, with deferred payment based on the stages of progress of the works.
By means of the operation in question, Progestim would transfer all entrepreneurial risks to the construction company, with the latter assuming all commitments of an organisational and site control nature, which means that Progestim would retain the role of an investor exclusively. Furthermore, the fixed purchase provides protection against any price reviews affecting the materials and labour. As a result of the operation, therefore, Progestim will become the owner of a property asset at market value, without taking on any of the entrepreneurial charges (and associated risks) which are typical of construction activity, thus limiting its involvement to that of an institutional investor, with the guarantee of an income resulting from the lease to Atahotels.

The corporate structure of I.C.E.IN. and Atahotels means that the two companies are related parts of the Company. During its preliminary examination of the operation, the Board therefore decided to obtain appropriate fairness and legal opinions, as required by the Company's corporate governance system, because, in view of the above, the operation consisted of a transaction by Fondiaria-SAI with related parties through a subsidiary.

Purchase by the subsidiary Immobiliare Lombarda of buildable land with the respective volumetric rights in Milan.

In September 2005, the subsidiary Progestim (now Immobiliare Lombarda) signed an agreement with the company Im.Co. S.p.A. for the purpose of purchasing an area of buildable land in Milan measuring 3,489 square metres and the respective building rights relating to the construction of a five-star hotel type complex covering a total area of 15,000 square metres of gross floor area.
The project is part of a wider urban regeneration and development plan relating to a complex of areas with building rights for various uses situated in Milan, in the district known as "Garibaldi-Repubblica". The project is governed by an integrated intervention plan (Piano Integrato di Intervento) as a variation of the general urban planning scheme (Piano Regolatore Generale) already approved by the Region of Lombardy and the Municipality of Milan with a programme agreement (Accordo di Programma).

Immobiliare Lombarda has taken over the contractual position of Im.Co. relating to the area and to the respective volumetric building rights needed to build a property for hotel use.
The overall purchase price has been established on the basis of the value resulting from an expert valuation survey carried out by the independent expert Scenari Immobiliari S.r.l., which estimated the market value as at 31/03/2005 of the volumetric building rights of the area intended for hotel use to be € 36,800,000.
Given than Im.Co. is a related party of the Company, during the preliminary examination of the operation, the Board resolved to obtain appropriate fairness and legal opinions, as required by the corporate governance system adopted by the Company.
The fairness opinion on the transaction was requested by Progestim from KPMG Corporate Finance and the legal opinion was requested from the Ashurst legal firm.
KPMG Corporate Finance found the selling price of the area and the respective building rights to be fair and as shown in the expert valuation referred to above.

The legal opinion obtained acknowledged the appropriateness of the draft contract but made suggestions, which were taken into account, regarding the content of the contract.
In expressing its favourable opinion on the operation, the Board of Directors of Fondiaria-SAI agreed on the strategic value of the operation and on the method for determining the financial conditions, noting that the operation itself did not present any atypical or unusual features.

Signing of the agreement with the municipality of Florence relating to the area owned by the subsidiary NIT in Castello.

At the end of April 2005, an agreement was signed with the Municipality of Florence relating to the area owned by the subsidiary NIT in Castello, where an urban project is under way to regenerate the area itself by building a new part of the city of Florence, with public and private areas.

This is a fundamental stage of the development which, together with the existing initiative in Milan in conjunction with Citylife relating to the former Fiera area, is one of the largest property projects in Italy, in terms of both size and significance for urban planning.

The signing of the new agreement follows the definitive approval, on 17/01/2005, by Florence City Council, of the variation to the executive urban plan (Piano Urbanistico Esecutivo) for the Castello area.

The approval allowed the launch of the executive stage of the plan, which had until then been limited to the design work.
At the beginning of January 2006, with the support of the Municipality of Florence, the Region of Tuscany and the Province of Florence signed a document in which they announced their intention to transfer their offices to the properties that will be built in the said area for public office use. This intention was subsequently confirmed by the signing of a memorandum of understanding in this respect by the Province, the Region and the Municipality of Florence. As a result of this, the variation to the executive urban plan will need to be amended again to take into account the requirements of the said public administration authorities.

Development project for the "Spina 3" area known as "Cinque Cerchi" in Turin

CimiMontubi S.p.A., a company controlled by Fintecna which owns the "Spina 3" area of Turin, launched a competition aimed at establishing a partnership for developing and regenerating three plots of land within the said area, amounting to a gross floor area of 114,000 square metres, primarily for residential use. In November 2005, the group consisting of Progestim (now Immobiliare Lombarda) and leading Turin construction companies (Zoppoli & Pulcher, Impresa Rosso & Figli, Maire Engineering, Codelfa) won the competition.
The procedure was aimed at identifying a partner who will own 49% for the first three years and 50% thereafter of a vehicle company called "Cinque Cerchi S.p.A.", owned by CimiMontubi, which will retain the remaining 50% and which will transfer ownership of the buildable area to the same vehicle company.
All the members of the group have an equal share of 20%. For this purpose, a NewCo will be set up in the form of a joint-stock company.
The total cost of the operation is expected to be € 235m, 64% of which will be funded by bank loans.

Further operations involving the Group's property companies are detailed below:

Sale of 100% of the capital of International Strategy S.r.l.

On 28/12/2005, after the required authorisation had been issued by ISVAP, Fondiaria-SAI sold 100% of the share capital of International Strategy S.r.l. to the parent company Premafin Finanziaria.
International Strategy S.r.l. is a property company whose principal asset is a property located at Corso Buenos Aires, Milan, which the company had already decided to sell in separate sections. Various offers of purchase had therefore already been made for the property, including the one from the parent company

Premafin, which was willing to purchase the entire share capital of International Strategy from Fondiaria-SAI.

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In order to identify the selling price of the shareholding, Fondiaria-SAI asked for the assistance of KPMG Advisory S.p.A. Corporate Finance (hereinafter: KPMG) both for the comparative valuation of the various options and, together with Premafin, for a valuation of International Strategy.

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In view of the above, the valuation of International Strategy was mostly based on the valuation of the property in question, so KPMG initially proceeded, on the exclusive instructions of the Company, with an analysis of which of the possible valuations of the property stemming from the various possible purchase options would best realise the overall value of International Strategy.

Based on the above, KPMG found that, once the expected revenue, the associated sale costs, the temporary nature of the revenue and the respective risk profile had been taken into account, the option which best realised the value of the company was the sale of the property in sections, which was preferable to selling it as a whole.

Therefore, for the purposes of valuing International Strategy, KPMG referred exclusively to a realisation of the value of the property achieved by selling it in sections, considering the respective associated sale costs, temporary nature of the income and application of a risk coefficient of 10%. This led to the financial value of International Strategy being established as € 74.9m, which the price at which the shareholding was transferred.

Having compared the price resulting from the KPMG estimate with the one that would be realised by selling the property constituting the company's main assets in separate sections, the Board of Directors of Fondiaria-SAI was of the opinion that the transfer of 100% of International Strategy to Premafin was advantageous for the Company because it would eliminate the risk of being left with unsold portions, which always exists when a property is sold in sections, as well as allowing the price to be received immediately.

Purchase of the entire share capital of Campo Carlo Magno S.p.A. and Campo Carlo Magno Sport S.r.l.

In December 2005, contracts for the purchase by Milano Assicurazioni of 100% of Campo Carlo Magno S.p.A. and Campo Carlo Magno Sport S.r.l. and company leasing contracts between these companies and Atahotels S.p.A. were signed. Campo Carlo Magno is the owner of a hotel property complex in Madonna di Campiglio called Golf Hotel, while Campo Carlo Magno Sport is involved in the management of ski lifts, ski slopes and golf courses.

Atahotels was therefore identified as a hotel operator to whom the hotel property complex could be leased and could therefore take over the management.

The price paid to purchase the entire share capital of the two companies, as well as of the receivables represented by the various loans made to Campo Carlo Sport, amounted to € 22,500,000 in total, lower than the value shown in the total financial value report on the two companies drawn up by an expert appointed for this purpose – who in turn used an expert report produced by Scenari Immobiliari S.r.l. for the property component – taking into account the balance sheets of the last four years for the two companies, the accounting situations as at 31/10/2005, the business plan and other accounting and management information made available.
Once the sale of the two companies had been completed, as explained above, a company leasing contract was signed between Campo Carlo Magno and Campo Carlo Magno Sport on the one hand and Atahotels on the other.
Given that the company structure of Atahotels makes it a related party of both Milano Assicurazioni and Fondiaria-SAI, appropriate fairness and legal opinions were obtained, as required by the corporate governance system adopted by the Company, drawn up respectively by KPMG Advisory S.p.A. Corporate Finance and the Ashurst legal firm.
The fairness option found that the lease payments – as contractually established between the parties at 20% of the net annual revenue of the lines of business leased, subject to a guaranteed minimum payment – represented a fair return on the lines of business and was in line with other similar operations on the market.

The contracts that were signed took into account the suggestions contained in the legal opinion.
In approving the operation, the Boards of Directors of Fondiaria-SAI and Milano noted:

- the strategic and commercial validity of the operation as a whole and, in this respect, the interest of the subsidiary and the Group in signing a company leasing contract;
- the nature of the relationship and the methods for determining the financial conditions of the offer, bearing in mind the legal and tax aspects as well, had been highlighted;
- the company leasing contract did not present any atypical and/or unusual features.

Other Activities Sector

The managed savings industry closed 2005 with gross assets of approximately € 1.050bn (around € 915bn as at 31/12/2004). The main players as regards deposits were investment funds and open-end investment companies with approximately € 585bn (€ 523bn as at 31/12/2004), followed by the insurance product management with € 190bn (€ 161bn at the end of 2004), and in third place again was retail fund asset management with € 114bn (approximately € 97bn as at 31/12/2004). This was followed by retail monetary asset management (31/12/2005: € 78bn, 31/12/2004: € 58bn), other types of management (31/12/2005: approximately € 68bn, 31/12/2004: approximately € 64bn) and welfare asset management (31/12/2005: € 15bn, 31/12/2004: € 12bn).

Since the beginning of 2005, households have shown a degree of renewed interest in savings and investment, despite the substantial weakness in the amount of communication from suppliers. In the absence of strong guidance in this respect, households are taking well-known routes (such as managed savings and investment in individual stocks and shares) which are not necessarily the best routes to ensure correct financial planning for the households themselves. At the same time as these “spontaneous” investments are being made, there appears to be a recovery of relations with financial advisors, with a 37.8% growth in the gross amount invested through intermediaries (€ 164bn in 2005 for the financial advisors network compared to € 119 billion in 2004).

Specific trends emerged during 2005: the clients of financial advisors focused on three categories of financial products in particular, i.e. balanced, bond-related and equity-related products, with an 81% increase in net deposits (equal to € 14.3bn compared to € 7.9bn the previous year), while the banking channel focused resources primarily on flexible and bond-related financial products.

2005 continued to be a positive time for the world’s leading stock exchanges. By the end of December they had reached their highest levels in four years. The best performing markets were Tokyo (+40.2%), Frankfurt (+27.1%), Amsterdam (+25.8%) and Paris (+23.2%) In general, the good performance of share markets can be explained by the improvement in the fundamental indexes of companies, by the increase in dividends paid out and by the large mass of liquidity in circulation in a general context of very low interest rates. In terms of investment sectors, the situation in Europe at the end of 2005 was fairly diverse: some sectors performed very well (particularly banking, insurance, energy, chemical, construction and industrial) while others performed less brilliantly (technology, automotive, pharmaceutical, media). Only the telecommunications sector recorded a negative result, penalised by fears of a compression of margins on traditional activities, by competition from Internet access providers and by the costly acquisitions made in recent years.
It is worth pointing out that, as regards the performance of the European share market, over the past 25 years the yield on shares in the insurance sector has been better than that of the share market as a whole. Until 2001, the return on shares in insurance companies operating in the Life sector was greater than that of insurance companies operating in the Non-Life sector. From 2003 onwards, thanks among

other things to the improvement in technical results, the share index in the Non-Life sector has overtaken that of the Life sector.

The Italian share market closed up 13.4% (Mibtel), driven above all by energy securities and, secondarily, by financial securities. Bond markets were affected by restrictive monetary policies but the yield on ten-year securities nonetheless remained stable (such as in Europe) or fell (such as in the United States). 2005, which was forecast as a year of crisis for bond operators, turned out to be better than expected.

Purchase of the residual shareholding in BANCASAI

In July 2005, Société Générale exercised its right to sell its 19.53% shareholding in the capital of BancaSAI S.p.A., the other 80.47% of which was owned by Fondiaria-SAI.
This right of sale – with the consequent duty on Fondiaria-SAI to purchase – was part of the original agreements reached with the French company when the partnership relating to the Bank which began to operate in 2001 was launched.
The purchase price of the shares was fixed on the basis of the existing agreements at € 13m.
The transaction was completed in September 2005.

The performance of the main Group companies operating in the banking sector in 2005 can be summarised in the following table:

(€K)	REVENUE	% VAR.	RESULT	NET EQUITY excluding net profit for the year
BANCASAI Sp.A.	19,521	37.60	(8,538)	64,549
EFFE GESTIONI SGR S.p.A.	6,315	11.81	(267)	6,045
SAINVESTIMENTI SGR S.p.A.	3,530	118.04	527	4,158
SAI MERCATI MOBILIARI SIM S.p.A.	7,597	(35.32)	(2,595)	20,000

BANCASAI S.p.A.

Share capital € 56,677,161
(Direct shareholding 100%)

The financial year ended with a loss of € 8,538K compared to € 9,321K the previous year, showing a good improvement of +8.40%. A substantial growth in the interest margin (+40%) and intermediation margin (+28%) contributed to this significant improvement.
During the 2005 financial year, completion of the services offered by the Bank to customers in the current accounts, payment services, electronic banking, home banking and credit disbursement continued. In December 2005, the number of current accounts was 12.736 (11,470 at the end of 2004), 972 of which were opened on the new range of products.

The 2005 financial year was characterised by gradual completion of the banking services offered in credit disbursement, generally assisted by collateral security (mortgage loans, loans with a pledge on life policies and securities, transfer of the one fifth of the salary, mainly to the employees and companies of the Group) and by a growth of customer investments which, net of the respective doubtful outcomes, amounted to € 55,327K, compared to € 4,940K in the previous financial year.

The placement of financial services continued (mutual investment funds, open-end investment companies, asset management of securities and funds) and recorded an increase on the previous year in terms of gross deposits (€ 252,123K compared to € 164,900K in 2004) and of net deposits (€ 83,348K compared to € 35,814K in 2004). A major contribution to the achievement of the overall net deposits result in managed savings was the activity carried out by the new Florence branch (equal to € 48,500K), while the contribution of the insurance sales network was € 51,200K compared to € 20,200K in 2004.
The portfolio value of managed savings products (mutual investment funds, open-end investment companies and asset management) held by customers of the Bank increased from € 522,390K at the end of 2004 to € 653,575K, an increase of € 131,185K during the year, an improvement of over 25%.
The number of financial promoters fell during the financial year from 1,473 to 1,448, down by 25. In terms of flow, 110 new arrivals and 135 departures (50 due to retirement) were recorded. Financial promotion activity continues to be focus around on a fairly small number of promoters.

The Bank's employees increased from 126 at the end of 2004 (including resources seconded from Group companies and temporary workers) to 135 units at the end of 2005, with an increase in the Business Area (particularly Branches and Credit Office) and in the Operations Area (particularly Call Centre and Back Office).
Investments in securities and the interbank market amounted to € 595,278K (compared to € 470,100K in 2004). The increase is attributable mainly to the development of e-MID activities and to the investments made in typically bond-related financial instruments and capitalisation bonds.
The company's financial situation benefited from an increase in available cash from € 485,743K in 2004 to € 662,046 in 2005. The main positive variations were recorded among treasury bonds and similar securities, receivables from credit institutions, receivables from clients, while the negative variations occurred in payables to clients and other liabilities.

During 2005, the process of innovation and enrichment of the services offered by BancaSai which began in 2003 continued following the merger with Effe Investimenti SIM. The main innovations introduced in 2005 related to:

- the introduction of the new line of current accounts for retail customers. The new line, known as Easy, includes three different accounts with totally different features, intended to satisfy specific needs. In particular:

    - Easy[1] is a basic account that offers a range of operations and services free of charge. It is aimed at customers who make a limited use of banking services and therefore prefer simple management of their funds, while not renouncing the opportunity to access numerous products and payment and investment services offered by BancaSai.

- Easy[2] is an account aimed at customers who are likely to operate in securities and who mainly require a deposit facility. In fact it offers an attractive interest rate (up to 2.50%) and access to a wide range of forms of payment at considerably low costs.
- Easy[3] is the ideal account for customers who make a lot of use of banking services but require the transparency and clarity of a fixed cost for an unlimited number of transactions included in the fee. In fact this includes all banking operations, account management costs, payment cards and principal banking services, and offers a rate of 1.50% on all funds deposited. The aforesaid fee can also be reduced to as low as zero if the account holder has and uses BancaSai products and services that contribute to accruing specific bonuses which can be used to reduce the monthly fee of € 6.95.

- Rationalisation of the whole range of debit and credit cards. The range on offer now provides:

- as regards Bancomat and PagoBancomat, two plastic cards that can be used, as the customer chooses, only in Italy or both in Italy and abroad, with spending limits unified and adapted to the system standards. A series of different pricing policies have in fact been adopted that depend on the current account agreement (in practice there is now a close connection between the customer's current account, his reference target and the conditions under which the debit card is offered);
- as regards credit cards, the range of CartaSì cards has been expanded to include Classic, Gold, Platinum, Business, Business Gold and Freedom (rechargeable) cards. The new product policy now combines two international circuits: Visa and Mastercard, and establishes spending limits associated with the type of current accounts and client profile.
- finally the Amex offer has been revised with the adoption of the Personal version to replace the previous Essential version.

- Restructuring of the entire Internet banking system, involving the graphics, which are now clearer, and the functions of the system itself. In particular, the process of moving around the site has been improved by reducing and simplifying the number of steps required for each operation. The homepage accessed by the customer is personalised with a summary of his asset situation (which can be broken down to obtain a detailed view of the situation) and provides an automatic link to the customer's contact (financial promoter/agent). A particular enhancement has been made to the loans area which, in addition to providing detailed basic information, now allows the person interested in taking out a loan to draw up a detailed repayment plan. Finally, new functions have been added which allow:
  - mobile phones to be recharged
  - online statements to be obtained (thus avoiding the monthly cost of sending out paper documents)
  - ICI (local property tax) to be paid online and other taxes to be paid by F24.

- Finally, during 2005, BancaSAI opened its first branch (in Florence) for customers (apart from the branch operating in the head office in Turin, the bank's branches had previously all been located in the offices of the Group's insurance companies and dedicated to employees). The new branch supports and supplements the financial negotiation activity, which includes various financial promoters and a group of private bankers.

EFFE GESTIONI S.G.R. S.p.A.

Share capital € 5,000,000
(Direct shareholding 100%)

A loss of € 267K was recorded for the financial year that ended on 31/12/2005, compared to a loss of € 1,275K as at 31/12/2004, net of taxes of € 186K.

The result for the financial year that ended on 31/12/2005 shows the improvement in the broking margin (which increased from € 5,648K to € 6,315K) as a result of the greater amounts administered and the good performance achieved. The reduction in administration costs and elimination of net extraordinary items, compared to the negative value of € 113K recorded in 2004, also contributed to reducing the loss for this financial year.

The total amount of assets managed at the end of 2005 stood at € 1,065,964K, compared to € 901,555K the previous year. The mutual investment funds amount to € 740,291K and managed assets amount to € 325,673K.
Total gross deposits were € 412,704, compared to € 399,629K the previous year. The performances of the funds and managed assets were very satisfactory overall considering their respective markets.
In 2005, the asset allocation of funds shifted to the benefit of equities, which accounted for 50.7% of fund assets as at 31/12/2005, compared to 45.6% as at 3/12/2004. The bond funds sector accounts for 23.3% compared 24.5% and that of cash funds 20.4% compared to 24.2% as at 31/12/2004. The incidence of Multifunds on fund assets remained unchanged at 5.5%.

SAINVESTIMENTI S.G.R. S.p.A.

Share capital € 3,913,588
(Direct shareholding 40% Indirect shareholding 40%)

The financial result for year was positive in the amount of € 527K.
Income for the period amounted to € 3,530K and consisted of commissions receivable for management of the mutual property fund of € 3,321K, and sundry income of € 209K. The costs for the financial year amounted to € 3,003K and consisted primarily of management costs of € 1,447K – of which € 816K were incurred in respect of the parent company Fondiaria-SAI and € 152K were incurred in respect of the subsidiary Uniservizi -, commissions of € 993K payable to the subsidiary Immobiliare Lombarda S.p.A., sundry charges of € 128K and income tax for the financial year of € 415K.
The assets of the company as at 31/12/2005 amounted to € 37,443K and consisted of government securities of € 6,327K, other assets of € 30,821K (primarily receivables from the Treasury of € 15,304K and receivables from the parent company of € 14,239K), cash of € 209K and various assets of € 86K.

On the same date, the liabilities consisted of the net equity of € 4,685K, other liabilities of € 32,683K – of which € 29,469K are debts owed to the mutual property fund – and the tax fund of € 75K.

During the financial year, the savings management company concentrated on managing the closed-end mutual property investment fund reserved for qualified investors and known as "Tikal RE Fund".
On 29/09/2005, the aforesaid Fund signed a financing agreement with Banca Intesa S.p.A., as agent, for an amount of € 280,000K, € 172,000K of which were used to purchase two new properties in Milan, as well as two property developments currently under construction.
As at 31/12/2005, the property assets owned by the company amounted to € 584,000K, up by € 120,000K compared to 31/12/2004, while the net asset value of the Fund amounted to € 492,000K, a growth of € 14,000K compared to 31/12/2004.

The recorded performance of the Fund in 2005 was 3.86%. In the light of this result, the Board of Directors of Sai Investimenti resolved to distribute income in the total amount of € 8,006, equal to € 5,000 per unit owned and corresponding to an annual dividend yield of 2% on the nominal value of the unit.

SAI MERCATI MOBILIARI SIM S.p.A.

Share capital € 20,000,000
(Direct shareholding 100%)

The result for the financial year that ended on 31/12/2005 was a loss of € 2,595K. The data relating to financial assets held show that investments slowed down, essentially as a result of the stagnation in economic activity and uncertainty among savers in view of the considerable instability of the financial markets.
During the financial year, the company displayed a good capacity to absorb the negative effects of the current economic cycle by seeking to achieve greater efficiency through intensive organisational restructuring plans.
As regards cost control, a further reduction was recorded during the year thanks to the centralisation of the structure within the Group's premises and to the attention paid to all the expenditure items. However, the incidence of operating costs on the broking margin remains high.
As regards the main items of the profit and loss account, the profits from financial transactions amounted to € 3,578K, a considerable increase of 54% compared to the previous financial year. This result was one of the positive effects of the restructuring operation that took place in 2004, aimed at maximising the operational synergies in the managed savings sector.
Net interest as at 31/12/2005 were positive by € 640K, compared to € 1,599K the previous year. The fall is justified by a combination of events, such as the reduction in the market spread among government securities, which made the arbitrage less profitable.
The balance of administration costs was € 6,997K, compared to € 8,101K for the same period of the previous year (-14%). The savings were achieved thanks to the reorganisation of the company's internal policies.

The performance of the main Group companies operating in the financial sector can be summarised in the following table:

(€K)	REVENUE	% VAR. %	RESULT	NET EQUITY excluding net profit for the year
FINITALIA S.p.A.	28,566	14.60	3,657	20,679
FINSAI INTERNATIONAL S.A.	2,464	21.14	1,766	64,993
FONDIARIA NEDERLAND B.V.	1,433	(68.04)	(33,912)	380,264
SAI HOLDING ITALIA S.p.A.	15,524	49.14	9,873	197,994
SAIFIN - SAIFINANZIARIA S.p.A.	9,721	196.64	6,768	128,553
SAILUX S.A.	796	67.93	495	38,702
SAINTERNATIONAL S.A.	21,746	(28.04)	2,514	166,688

FINITALIA S.p.A.

Share capital € 15,376,285
(Indirect shareholding 100%)

A profit of € 3,657K was recorded for the financial year ending on 31/12/2005 compared to a profit of 1,598K as at 31/12/2004. The profit was heavily influenced by the effect of the merger by incorporation of the subsidiary MyFin, previously controlled by Saifin-Saifinanziaria, which came into effect on 01/01/2005 for accounting and statutory accounts purposes.
In a general context in which demand for credit has increased, due to the consumer behaviour of households evolving towards average European models and to low interest rates, the product range and degree of product personalisation have been expanded and the company has strengthened its role as a key provider of financial services in the development of consumer credit within the Fondiaria-SAI Group, focusing in particular on the financing of premiums.
The interest margin for the financial year amounted to € 15,252K, a recovery of 13.9% on the margin for the previous financial year. The same positive performance was recorded in the broking margin, which increased from € 11,542K to € 13,314K.
Apart from the extraordinary items and the interest and broking margins, the result reported was negatively influenced by the greater costs incurred to adapt the structure and the greater amount of customer credit write-offs (as a consequence of the greater amount of credit at the end of the financial year).
During the financial year, loans and financing were disbursed amounting to € 144,817K, substantially in line with the previous financial year.
At the end of the financial year, net indebtedness amounted to € 121,020K in total, of which € 92,700K was medium-term debt. The average rate paid on debts was 3.2% (2.9% in the previous financial year).
The most noteworthy strategic initiatives taken include those aimed at selling insurance contract financing products through the Group's agencies and at selling personal loans among the best insured customers: this is made possible by taking

out a revolving credit card on the Fondiaria-SAI Group's private network, which makes the disbursement of credit through the agency considerably easier.

FINSAI INTERNATIONAL S.A.

Share capital € 22,801,140
(Direct shareholding 38.53% Indirect shareholding 61.47%)

A positive result of € 1,766K was recorded for the financial year, resulting from revenue of € 2,464K, consisting essentially of financial income from the management of the company's own liquidity, dividends received from the subsidiary Mediobanca and interest on the loan granted to the parent company. The costs, which amounted to € 698K, primarily consist of the general and administrative costs. The company's assets as at 31/12/2005 amounted to € 67,600K and consisted of the shareholding in Mediobanca (0.35%), with a book value of € 10,100K, tied to the agreement relating to the share in the capital, investments in foreign funds of € 20,000K, the loan granted to the parent company of € 27,000K, cash and sundry assets of € 10,500K.
The company's liabilities on the same date consisted primarily of the net equity of € 66,800K and tax funds of € 800K.

FONDIARIA NEDERLAND B.V.

Share capital € 19,070
(Direct shareholding 100%)

The financial result for year was negative in the amount of € 33,912K.
The positive income items amounted to € 1,433K and consisted of the value adjustment on Milano Assicurazioni warrants in the portfolio of € 1,124K, the capital gain achieved on the sale of shares in Banca della Campania of € 273K and sundry financial income of € 36K.
The costs for the financial year amounted to € 35,345K and consisted of value adjustments on the shareholding in Swiss Life Holding of € 27,138K and on the subsidiary The Lawrence Life Assurance Co. Ltd of € 7,895K (as a result of the accumulated losses incurred). Also included are operating costs of € 312K.
The company's assets as at 31/12/2005 amounted to € 346,479K and consisted of shareholdings in Group companies of € 33,514K, the shareholding in Swiss Life Holding of € 303,135K, other financial investments of € 3,134K identified as 20,892,168 Milano Assicurazioni warrants and cash and sundry assets of € 6,696K.
The company's net equity on the closing date of the financial year was € 346,352K.
At the same time as the company's balance sheet was approved, in February 2006, capital reserves of € 250,333 were distributed by partial use of the liquidity resulting from the sale of the shareholding in Swiss Life Holding.

SAI HOLDING ITALIA S.p.A.

Share capital € 143,100,000
(Direct shareholding 100%)

The balance sheet as at 31/12/2005 closed with a positive result of € 9,873K.
Revenue amounted to € 15,524K and consisted of dividends of € 13,972K, interest on securities recorded under working capital of € 47K, interest receivable on loans of € 274K, income from the management of cash assets of € 420K and extraordinary income of € 811K, mainly resulting from the sale of financial investments.
Costs amounted to € 5,649K and consisted of administration costs of € 602K, extraordinary charges of € 138K, current tax of € 42K and deferred tax of € 4,867K.
The company's assets as at 31/12/2005 amounted to € 213,000K and consisted of financial investments of € 189,000K, receivables of € 17,000K, including the loan granted to the parent company of € 8,000K, and other assets of € 7,000K.
The liabilities consisted primarily of the net equity of € 208,000K, and debts of € 4,000K regarding subsidiaries subject to transparent taxation (specific taxation of shareholders' dividends in Italian tax system).
During 2005, the company bought 1,200,000 shares in the parent company Fondiaria-SAI for an average price of € 23.59.

SAIFIN SAIFINANZIARIA S.p.A.

Share capital € 102,258,000
(Direct shareholding 100%)

The financial result as at 31/12/2005 was positive in the amount of € 6,768K.
The income for the financial year amounted to € 9,721K, consisting primarily of the interest receivable on loans to customers, bond securities and bank deposits of € 1,015K, dividends received of € 1,362K, profits on financial transactions of € 5,833K – mainly attributable to the sale of Fondiaria-SAI shares, value adjustments on financial investments of € 650K, of which € 638K were carried out in relation to the investee company RCS Mediagroup, and extraordinary income of € 861K. Costs for the period, which amounted to € 2,953K, consisted primarily of administration costs of € 521K, commissions and interest payable of € 32K and tax for the period of € 2,395K.

The assets of the company as at 31/12/2005 amounted to € 135,877K and consisted of shareholdings in Group companies of € 101,351K, other shareholdings of € 5,170K, fixed rate securities of € 8,997K, financial credits of € 11,327K, cash primarily invested in term deposits of € 8,175K and sundry assets of € 857K. The company's net equity on the same date amounted to € 135,321K.

SAILUX S.A.

Share capital € 30,000,000
(Indirect shareholding 100%)

The financial result for the year was positive by € 0.5m and was determined by revenue of € 0.8m, derived mainly from financial income resulting from the management of the company's own liquidity and from dividends received from the subsidiary Finsai International. Costs amounted to € 0.3m and referred to general and administration costs.
The company's assets as at 31/12/2005 stood at € 39.4m and consisted of the controlling share in Finsai International (61.47%), with a book value of € 26.99m, shareholdings in unlisted companies of € 0.65m, and cash and sundry assets of € 11.8m. The company's liabilities on the same date consisted primarily of the net equity of € 39.2m and tax funds of € 0.2m.

SAINTERNATIONAL S.A.

Share capital € 154,000,000
(Direct shareholding 100%)

The financial result for year was positive in the amount of € 2,514K. Income amounted to € 21.746K and consisted of income from loans granted to the parent company Fondiaria-SAI of € 18,488K, dividends of € 943K, value adjustments on short-term investments of € 1,203K and other financial income of € 1,112K. Costs amounted to € 19,232K, consisting of general and administration costs of € 647K, interest payable and charges on bond loans of € 16,347K, other charges of a financial nature of € 1,471K, and other charges and taxes of € 767K.

The company's assets as at 31/12/2005 amounted to € 360,594K and consisted of the loans granted to the parent company Fondiaria-SAI of € 236,811, shareholdings in unlisted companies and loans to these companies of € 18,974K, listed securities of € 43,159K, other short-term investments of € 38,963K, and cash and sundry assets of € 22,687K.
The company's net equity amounted to € 169,202K. Liability items included the debt owed to bondholders of € 180,400K, the fund for risks and charges of € 1,648K and the other liabilities of € 9,344K.
The listed securities consisted of 10,100,000 shares in RCS Mediagroup, tied to the latter company's shareholders' agreement, and 960,000 shares in the subsidiary Milano Assicurazioni purchased during the financial year for an average price of € 5.72.

The performance of the main Group companies operating in the agricultural sector can be summarised in the following table:

(€K)	REVENUE	% VAR. %	RESULT	NET EQUITY excluding net profit for the year
SAIAGRICOLA S.p.A.	9,330	(1.97)	(2,000)	59,611

SAIAGRICOLA S.p.A.

Share capital € 50,000,000
(Direct shareholding 92%, Group interest 97.30%)

The balance sheet as at 31/12/2005 shows a negative result for the financial year of € 2,000K (negative result of € 2,196K as at 31/12/2004), after setting aside depreciation on intangible fixed assets of € 421K (€ 378K in 2004) and on tangible assets of € 1,537 (€ 1,475 in 2004), having written-off credits of € 281K (€ 182K in 2004), paid interest on loans of € 118K (€ 17K in 2004) and set aside tax of € 48K (47 2004).
The vineyard harvest was 20% lower in 2005, despite the increase in the surface area planted with vines: in fact the climate in 2005 was characterised by heavy rainfall during the summer and autumn which affected the quantity rather than the quality of the product. By their nature, olive groves tend to alternate production, which means that the harvest in 2005 was much smaller than in the previous year.
Rice production fell as a result of the hail storms.
Sales of unrefined rice amounted to 25,348 quintals, with a value of € 441K. There was a 32% drop in sales and a 13% drop in quantity compared to 2004.
As regards sales of the main packaged products, sales of rice increased by approximately € 50K, sales of bottled wine improved by € 203K on 2004.
Foreign sales of bottled wine, oil and grappa once again accounted for 40% of turnover. They were 10% higher than in the previous financial year and amounted to € 2,200K. Of the balance, 40% related to sales made in Italy through agents, which remained unchanged, while the remaining 20% related to commercial channels of the group's clients.
The turnover earned from wine, rice and soya accounted for 90% of the company's total turnover.
Remaining stocks of finished products, raw materials and products in progress increased in value by € 583K to € 7,729K. They consist mainly of greater stocks of wine resulting from the planting of new vineyards in Montefalco.
European Community incentives owed to the company in 2005 amounted to € 929K (slightly less than in 2004) and were received to support production of rice seeds and supplement income under EEC Regulation 2078-2080/92.
Investments made during the financial year, net of European Community contributions, amounted to € 2,435K (€ 4,176K in 2004) and related essentially to the restructuring of buildings due to the purchase of new plant and equipment.

Asset and financial management

INVESTMENTS AND AVAILABLE CASH

As at 31/12/2005, the volume of investments was € 30m, compared to € 26.3m in the previous financial year (+14.4%).
The following table shows the investments as at 31/12/2005, compared to the corresponding amounts as at 31/12/2004 and 01/01/2005 (the latter being the date on which accounting principle IAS 39 came into force).

The table also shows tangible assets, given the substantial size of the real estate component used directly and/or for warehousing, as well as the available cash, given the importance of these assets in ensuring correct representation of the assets of an insurance group.

(€K)	31/12/2005	Comp. %	31/12/2004	Comp. %	% var.	01/01/2005
INVESTMENTS						
Property investments	2,041,721	6.45	2,017,000	7.33	1.23	2,017,000
Shareholdings in subsidiaries, associated companies and joint ventures	71,675	0.23	61,987	0.23	15.63	61,987
Loans and receivables	1,408,658	4.45	896,160	3.26	57.19	862,364
Investments owned to maturity	-	-	-	-	-	-
Financial assets available for sale	20,972,111	66.20	18,427,454	66.99	13.81	18,948,398
Financial assets at fair value through profit or loss	5,570,855	17.59	4,894,984	17.79	13.81	4,929,548
Total investments	**30,065,020**	**94.91**	**26,297,585**	**95.60**	**14.33**	**26,819,297**
Tangible assets: property and other tangible assets	1,086,135	3.43	455,383	1.66	138.51	455,383
Total non-current assets	**31,151,155**	**98.34**	**26,752,968**	**97.25**	**16.44**	**27,274,680**
Net available cash and equivalents	526,505	1.66	755,797	2.75	(30.34	755,797
Total non-current assets and available cash	**31,677,660**	**100.00**	**27,508,765**	**100.00**	**15.15**	**28,030,477**

Financial assets available for sale and financial assets at fair value through profit or loss consist of the following:

(€K)	31/12/2005	31/12/2004	% var. %
Financial assets available for sale	**20,972,111**	**18,427,454**	13.81
Capital securities and collective savings investment	3,767,474	2,871,651	31.20

undertakings			
Debt securities	17,200,376	15,553,793	10.59
Other financial investments	4,261	2,010	111.99
Financial assets at fair value through profit or loss	**5,570,855**	**4,894,984**	13.81
Capital securities and collective savings investment undertakings	739,663	398,014	85.84
Debt securities	4,661,888	4,369,348	6.70
Other financial investments	169,304	127,622	32.66

The Group has focused on bonds in its investments and has done a considerable amount of work aimed at ensuring a slow but steady increase in the duration of Life and Non-Life portfolios. In overall terms, bonds account for 70% of the total investments made by the Group.
The financial assets at fair value through profit or loss include € 4,065m of investments with risks borne by the insured and resulting from the management of pension funds, while the balance refers to shares held for trading in the Non-Life sector and to hybrid bond instruments with a significant derivative component.
The policy of enhancing the property portfolio continues. In particular, as of the 2005 financial year, the property investments include the assets of the Tikal RE closed – end fund. This fund has been consolidated and the respective properties are valued at cost. Their contribution amounts to € 600m. A contra entry has been made for the units owned by the Tikal Fund

The tangible assets also include € 469m of property stocks originating from the merger with the property company Lombarda S.p.A.

The following table shows the results of financial and property activities over the last two years:

(€K)	31/12/2005	31/12/2004	Variation
Net income from financial instruments at fair value through profit or loss account	126,561	294,124	(167,563)
Income from shareholdings in subsidiaries, associated companies and joint ventures	46,861	2,439	44,422
Income from other financial instruments and property investments:			
Interest receivable	613,165	612,388	777
Other income	172,411	161,130	11,281
Profit earned	205,392	307,954	(102,562)
Valuation profits	2,128	34,217	(32,089)
Total income	**1,166,518**	**1,412,252**	**(245,734)**
Charges from other financial instruments and property investments:			
Interest payable	50,078	52,249	(2,171)
Other charges	30,300	38,476	(8,176)
Losses incurred	50,814	94,599	(43,785)
Valuation losses	65,057	143,143	(78,086)
Total charges and interest payable	**196,249**	**328,467**	**(132,218)**
TOTAL NET INCOME	**967,269**	**1,083,785**	**(116,516)**

DEBTS OF THE FONDIARIA-SAI GROUP

As a result of the application of international accounting principles, significant changes have had to be made to the presentation of the Group's financial liabilities. In particular, both the widening of the scope of consolidation and the different classification of a number of insurance contracts as investment contracts increase the volume of the items in question, in a way which differs from the presentation of balance sheets according to Italian principles.
It is important to point out, however, that the greater volume of financial debts does not have an impact in terms of the burden of provisions on the Group's accounts, since it is an accounting representation that complies with the new international standards which does not have a significant effect on the Group's financial leverage.

Consequently, for the purpose of ensuring correct representation of the items in question, it is considered important to show separately the items relating to the financial debt, which is understood to be the total amount of financial liabilities for which no specific correlation with asset entries can be established.

The situation is summarised in the following table:

(€m)	**31/12/2005**	**31/12/2004**	**01/01/2005**
Subordinate loans	483.9	400.0	393.4
Mandatory SAInternational	176.8	180.4	176.1
Debts owed to banks and other loans	518.0	149.5	150.2
Total debts	**1,178.7**	**729.9**	**719.7**

The subordinate loan item includes the loan contracted with Mediobanca in July 2003 with the simultaneous early repayment of the loan previously taken out on 12/12/2002.
The loan of an amount equal to a nominal € 400m had been taken out to increase the constituent elements of the solvency margin.

As regards the existing subordinate loan of € 400m with Mediobanca, the Company agreed with the latter, subject to authorisation from ISVAP:

- to make a number of amendments to the loan agreement itself relating, among other things, to reducing the interest rate, which changed from the six month Euribor + 265 basis points to the six month Euribor + 180 basis points;

- to enter into a new twenty-year (fixed expiry) subordinate loan contract for a total of € 100m at an interest rate equal to the 6 month Euribor + 180 basis points, with the same subordination features as the previous one. This loan contributes, within the limits established by current legal provisions, to further improving the available solvency margin by 25% of the available margin and the solvency margin required, whichever is the smallest.

In the context of the aforesaid agreement, the Company also agreed with Mediobanca to enter into a preliminary contract that provides for the future signing between Mediobanca and Fondiaria-SAI of a further subordinate financing contract for a total of € 300m (to which Milano Assicurazioni may be a party), with similar features to those mentioned above. The use of this financing will be at the discretion of Fondiaria-SAI and/or Milano (if the latter company should decided to become a party to the contract), which will be able to access the financing, at their discretion, by 31/07/2007. This financing will be usable in a maximum of six drawings, at the discretion of the Companies, each amounting to a minimum of € 50m (or multiples thereof).

On 27/09/2004, the Luxembourg subsidiary Sainternational SA launched a convertible bonded loan repayable exclusively with ordinary shares in Banca Intesa, owned by Fondiaria-SAI, maturing on 29/09/2010.
The bonds, with a total nominal value of € 180,400K, will be repayable on maturity by delivering 44,000,000 ordinary shares in Banca Intesa, currently owned by Fondiaria-SAI, at the exchange price of € 4.10 per share, and therefore with a premium of 35.13% on the quotation of ordinary shares in Banca Intesa at the time the offer price was established.
The annual coupon for the bonds and the yield on maturity are equal to 6.10%.
On 21/10/2004, the bonds were admitted for quotation on the Luxembourg Stock Exchange.
As regards the undertaking by Sainternational to deliver to noteholders the shares in Banca Intesa that are the subject of conversion, Fondiaria-SAI has assumed the undertaking to deliver the shares to the noteholders.
This operation has allowed the Fondiaria-SAI group to rebalance the mix of investments, further reducing the equity component of the portfolio.
The difference between the amount as at 31/12/2004 and the amount as at 31/12/2005 is due to the difference in the valuation method. The debt as at 31/12/2004 is shown at its nominal value, according to Italian principles, whereas the debt as at 31/12/2005 was valued, as required by IAS 39, at the amortised cost, minus the commissions already recorded in the balance sheets according to Italian principles, using the actual interest criterion.

As regards debts owed to banks and other finance providers, which amount to € 518m, the most significant amounts are shown below:

- € 228m refer entirely to the consolidated debt of the subsidiary Immobiliare Lombarda. In particular, this debt arose entirely in the financial year following the company merger operation. In particular, € 204m are a consequence of the renegotiation of the debt owed by the acquired company Immobiliare Lombarda, which was carried out in accordance with the merger plan for which the renegotiation was one of the pre-requisites. The interest rate on the loan is Euribor + 0.9%. The maturity dates are variable until 2012;

- € 170m refer to the loan taken out by the Tikal RE closed-end property fund with Banca Intesa, the latter acting as the Organising Bank, Agent and Finance Provider. The purpose of the loan is to improve the return on the fund's own capital and therefore on the capital invested by participants. The amount disbursed, which does not exhaust the line of credit granted, equal in total to a nominal € 280m, will be used for both investments in new initiatives, and to carry out improvement work with a view to achieve future income from sales or increases in revenue. The cost of the provision is equal to Euribor plus a variable credit spread of 70 to 100 b.p.;

- € 116m relate to the debt taken out with credit institutions by the subsidiary Finitalia;

- the balance relates to other debts of small unitary value.

Own shares and shares in the parent company and its subsidiaries

As at 31/12/2005 and 31/12/2004, the parent company held own shares and shares in the parent company Premafin Finanziaria according to the following table:

(€K)	31/12/2005		31/12/2004	
	Number	**Book value**	**Number**	**Book value**
Own shares in the name of:				
Fondiaria-SAI	**8,075,212**	**138,079**	**5,829,212**	86,179
Milano Assicurazioni	**5,362,557**	**103,672**	**3,611,557**	64,436
Sai Holding	**1,200,000**	**28,285**	**-**	-
Saifin – Saifinanziaria	**-**	**-**	**1,060,000**	19,120
Grand total	**14,637,769**	**270,036**	**10,500,769**	**169,735**
Shares in the parent company in the name of:				
Fondiaria-SAI	**18,340,027**	**36,203**	**17,512,527**	21,575
Milano Assicurazioni	**9,157,710**	**18,077**	**5,569,700**	5,948
Saifin - Saifinanziaria	**66,588**	**132**	**66,588**	73
Grand total	**27,564,325**	**54,412**	**23,148,815**	**27,596**

* The book value of the Premafin shares as at 31/12/2004 is shown at the book value according to national principles and therefore without the fair value valuation.

Own shares:
During the 2005 financial year, a total of 2,246,000 ordinary own shares were purchased with a disbursement of € 51,900K.
Therefore, at the end of the 2005 financial year, there were 8,075,212 ordinary shares in the portfolio, equal to 6.154% of the ordinary share capital.
After the end of the financial year, 515,000 ordinary shares were purchased with a disbursement of € 16,943K. As at 27/03/2006, there were 8,590,212 ordinary shares in the portfolio, equal to 6.527% of the ordinary share capital, while the subsidiary Sai Holding S.p.A. owns a further 1,200,000 ordinary shares, equal to 0.9117% of the ordinary share capital and the subsidiary Milano Assicurazioni S.p.A. holds a further 5,362,557 shares, equal to 4.0745% of the ordinary share capital.

Shares in the parent company:
During the 2005 financial year, a total of 827,500 ordinary shares in the parent company Premafin Finanziaria S.p.A. were purchased with a disbursement of € 1,269K.
As at 31/12/2005, the parent company owned 18,340,027 shares in the parent company, equal to 4.469% of the share capital.
No more purchase and sale operations were carried out after the end of the financial year. Therefore, as at 27/03/2006, the parent company owned 18,340,027 shares equal to 4.469% of the share capital, while the subsidiary Saifin-Saifinanziaria S.p.A. owned a further 66,588 ordinary shares, equal to 0.016% of the share capital and the subsidiary Milano Assicurazioni owned a further 9,157,710 ordinary shares, equal to 2.232% of the share capital.

PERFORMANCE OF THE GROUP'S LISTED SHARES

At the end of the financial year, the share capital of the parent company Fondiaria-SAI S.p.A. amounted to € 173,114,113, subdivided into an equivalent number of shares with a nominal value of € 1 (131,219,902 ordinary shares and 41,894,211 savings shares).

During 2005, the price of the shares fluctuated between a minimum of € 18.86 (as at 03/05/05) and a maximum of € 27.94 (as at 29/12/05) per ordinary share, and between a minimum of € 13.41 (as at 11/01/05) and a maximum of € 21.25 (as at 29/12/05) per savings share.

At the end of the financial year, the stock exchange quotations were as follows:

(Euro Units)	**30/12/2005**	**30/12/2004**	**% Variation**
Fondiaria SAI ordinary shares	27.71	19.81	39.88
Fondiaria SAI savings shares	21.14	13.87	52.42

The corresponding stock exchange capitalisation at the end of the financial year was € 4,522m (€ 3.131m as at 31/12/2004).

The stock exchange quotations for the other listed subsidiaries were as follows:

(Euro Units)	**30/12/2005**	**30/12/2004**	**% Variation**
Milano Assicurazioni S.p.A. ordinary shares	5.72	4.13	38.50
Milano Assicurazioni S.p.A. savings shares	5.69	4.26	33.57
Immobiliare Lombarda S.p.A. ordinary shares	0.19	0.15	26.67

As at 31/12/2005, the subsidiary Milano had a stock exchange capitalisation of € 2,623m (€ 1,896m as at 31/12/2004), while the subsidiary Immobiliare Lombarda had a capitalisation of € 745.8m (€ 106.5m as at 31/12/2004).

RATINGS AND DEALINGS WITH THE MARKET AND INSTITUTIONAL INVESTORS

Contacts with analysts, shareholders and investors continued and became more frequent in 2005. Particularly significant is the increasing amount of overseas contacts, which demonstrates the growing visibility of the Group in the main international financial markets.

Fourteen roadshows were held abroad throughout the year, both in Europe (11) and in North America (3). The reaction was particularly positive and the number of managers and analysts met by the company (126) shows that many operators are pleased to meet the Fondiaria-SAI Group periodically to receive updates on the constructive evolution of the merger and operational strategies, as well as on future scenarios in the Italian insurance market.

As regards activities in Italy, the annual "Analyst Meeting" was held in Milan in April and was attended by Italian and foreign analysts and managers. Subsequently, at the time of the approval of the interim accounts, three conference calls were held, which demonstrated the active involvement of the financial community, while individual meetings with investors continued to be held at our offices (40 meetings during the course of the year).

An important indicator of the interest shown in the Group by Italian and foreign institutional investors is the number of brokers who have begun to cover the parent company's securities over the past year.
Deutsche Bank, JPMorgan, Lehman Brothers, Citigroup e WestLB are leading brokers who issued reports on Fondiaria-SAI for the first time in 2005. Other London-based brokers actively monitor the Group's securities, periodically asking for detailed information, publishing studies and short notes, proposing roadshows and organising meetings with investors, they are Fox-Pitt & Kelton, Goldmans Sachs, KBW and Merrill Lynch. It is worth pointing out, furthermore, that CSFB and Cazenove will shortly begin to cover Fondiaria-SAI securities.

The Group's visibility is therefore increasing steadily abroad as well, just as the percentage of foreign institutional investors in the total shareholding of the parent company is growing. The market's response to the increasing interest shown by investors has undoubtedly been satisfactory, as demonstrated by the performance of the securities throughout 2005: note that the total daily volume of trade in the Group's securities has increased considerably. Fondiaria-SAI ordinary shares went from 381,488 units in 2004 to 621,489 in 2005; Milano Assicurazioni ordinary shares went from 840,773 units in 2004 to 1,124,905 in 2005.

During August 2005, the rating company S&P increased the rating of Fondiaria-SAI and of the main subsidiary Milano Assicurazioni from BBB- to BBB, confirming the stable outlook.
This decision is supported by the leadership of the Fondiaria-SAI Group in the Non-Life sector, and by the excellent results achieved, as well as by a more conservative

financial management and improved asset situation, which however remains limited considering the current rating.
The judgement is also conditioned by the concentration of share investments in a small number of shareholdings: this concentration is however actively managed by managers with the aim of making further reductions.

Finally, we should point out that as of last July, Fondiaria-SAI securities were admitted to the S&P Mib index, which consists of the 40 Italian securities with the highest capitalisation.

PROJECTS AND INNOVATIONS

1.1 "INTRINSIC GROUP VALUE" PROJECT

The "Intrinsic Group Value" project was launched in 2005 for the purpose of establishing the Embedded Value by 2007. This is the indicator used by most investors and analysts to value insurance companies.
The initial results of the project, obtained with reference to the 2005 financial year, have led to the establishment of intermediate indicators useful for interpreting the Intrinsic Value.
With specific reference to the Value of New Group Production, this result will be announced officially to investors and analysts during the annual meeting planned for next April.

1.2 CURRENT I.T. PROJECTS

2005 was a pivotal year straddling the strategic I.T. plan for 2003-2006 and the new I.T. plan for 2006-2008, defined and approved in September 2005.

The new strategic I.T. plan is the ideal way of completing and developing the previous one based on two fundamental assets:

- Integration of the head office I.T. systems
- Implementation of the Group's new online claims system (IES)

The first objective of the 2006-2008 plan is to complete the above activities and then to define the activities needed to support the Group's new business requirements:

- Integration of the peripheral I.T. systems
- I.T. tools for developing the bancassurance channels
- development of the new online information system

Within this scenario, important objectives contained in the previous strategic I.T. plan were achieved during 2005, and the foundations were laid for achieving the results defined in the new strategic plan.

Project to integrate the head office I.T. systems

The purpose of the project to integrate the head office I.T. systems is to achieve a merger of the Fondiaria and SAI I.T. head office systems.
The plan guarantees greater efficiency and effectiveness of I.T. procedures by rationalising tools, processes and structures. Investments made in the plan in 2005 will allow the other Group's networks to be unified by the first half of 2007.

Project to consolidated the online claims procedure

Major investments were made in 2005 to consolidate the IES online claims management procedure. This activity allowed the efficiency of the tool to be increased, which immediately had a positive impact on the operations of agents. Investments also began in 2005 which, once completed in 2006, will allow the IES procedure to be extended to all the Group's networks by the end of 2007.

Project to integrate the peripheral I.T. systems

The project to integrate the peripheral I.T. systems has laid the foundations and achieved the initial preparatory results for achievement of the objectives of the new strategic I.T. plan.
Investments have begun for the purpose of unifying the peripheral non-life I.T. procedures and implementation of the online system for life policies has almost been completed. In addition to achieving benefits in terms of management efficiency and rationalisation, by allowing the same procedure to be used by the whole Group, integration of the peripheral systems will bring about an improvement in the reaction time of the I.T. system for the creation of new products, the calculation of prices and the establishment of procedures in general, thus speeding up the Company's time-to-market.

Bancassurance and New Channels Project

Tools were developed in 2005 to seize opportunities in the field of bancassurance, allowing the Group to have completely internal solutions as well as the capacity to integrate with third party systems.

New Group Online System Project

I.T. investments increased in 2005 for the development of a new online I.T. system, the benefits and results of which will begin to be seen in 2006 and 2007, when a number of functions to support Agency management and sales activities will become available. The development will be completed and consolidated as of 2008.

Social responsibility

The Fondiaria-SAI Group has a long tradition of attentiveness to Social Responsibility, having always been aware of the fact that all companies operate in a community in which they have to play an active part.
IAS 1.10 requires social, environmental and stakeholder-related information to be separated from an IAS/IFRS balance sheet but we nonetheless feel it is appropriate to present this information, both in order to begin implementing a rendering of account policy on the intangible aspects of our business and in order to provide further decision-making tools to the readers of these accounts.

HUMAN RESOURCES

Human capital is of the highest importance for large companies, and particularly for insurance groups, given that within their specific roles people are the real driving force behind spreading a culture aimed at maximising customer satisfaction.

Only in the past few years, however, have the pivotal role of value creation processes and their use been the centre of a debate about corporate social responsibility, which is understood as an awareness on the part of the company itself of the fact that it has to be active in the community in which it operates and has to include among its priorities the needs and interests of citizens, institutions, the natural environment and the quality of life of people involved in the company's activities, such as employees, clients, consultants, suppliers. In recent years this has been the subject of awareness-building and promotional activities at European Community and national level.

In this respect, the Fondiaria-SAI Group confirms its undertaking to reconcile business needs with ethical values in all company processes, in order to give ever greater importance to the role of social responsibility as a "strategic value" shared within the company.
As regards employees in particular, the model of industrial relations set up by the parent company from the very first stages of the post-merger reorganisation process, the agreements between parties that emerged from these to safeguard the balance of employment between the various centres, compatible with the need to optimise resources and without prejudice to the rights of employees, leading to complete implementation, within the period of validity of the new integration contract, of the process of standardisation of salaries and contributions, are significant demonstrations of the Company's sensitivity to translating the principles of social responsibility into concrete action. For Milano Assicurazioni too, both its participation in the reorganisation model and the agreements signed with trade unions are important and significant expressions of the Group's sensitivity to social responsibility.

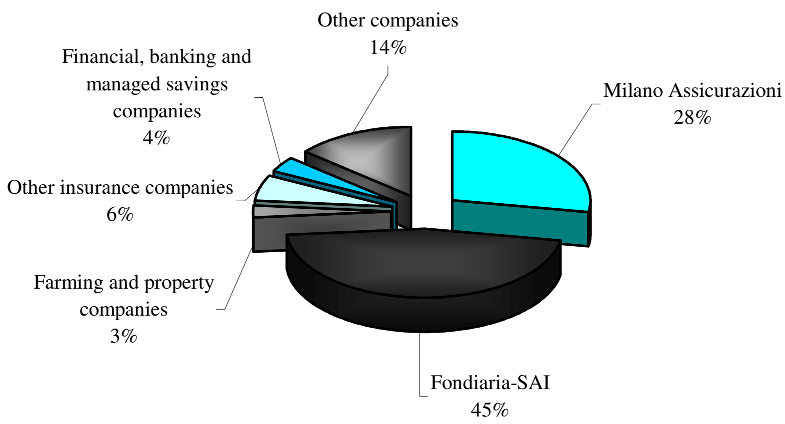
In the light of this, both the parent company and Milano Assicurazioni declare their willingness, on the one hand, to confirm and give further impetus to proven expressions of social sensitivity, such as the Equal Opportunities Commission or the measures taken to support disabled employees, as well as the schemes aimed at guaranteeing social benefits to employees, and, on the other hand, to develop specific forums for discussion between parties aimed at studying aspects which, in view of the innovative nature of the issues involved (e.g. establishment of crèches in the main offices, agreements for summer holiday camps and stays) require detailed examination and compatibility assessments to be carried out not only at company level, but in the wider context of the industry and the legislative framework as well.

General data

In 2005, the Fondiaria-SAI Group employed 5,852 people (5,904 as at 31/12/2004), of which 2,673 were employed by the parent company (2,749 in 2004) and 3,179 were employed by subsidiaries (3,155 in 2004).

The integration process between the various companies that involved the Fondiaria-SAI Group has had repercussions on the organisation of human resources, in terms of both management culture and system uniformity, particularly as regards the necessary dissemination of consistent and uniform values and principles.

Breakdoiwn of Group personnel as at 31/12/2005



Human resource management activities

In recent years, the purpose of the Personnel Management department has been to contribute to the process of organisational integration and consolidation, based on the strategic choices made by top management to retain the three hubs in Turin, Milan and Florence, with the specific intention of safeguarding and enhancing the skills developed in the three locations over time.
For this purpose, the personnel office has contributed:

1. to identifying and making the most of collective centres of excellence in the original companies;
2. to establishing uniform management and pay policies in order to ensure that fair and consistent operational tools are adopted;
3. to the process of mapping skills and potential in order to facilitate internal mobility and consolidated the Group integration process;
4. to managing the numerous internal mobility processes which are essential for implementing vertical and horizontal reorganisation and integration processes that make the most of centres of excellence;
5. to managing staff dismissal policies in a gradual way, ensuring a balanced sequence of generations in order to safeguard the values and skills that are a valuable asset for the Group.

STAFF DYNAMICS

Recruitment policies

The wide-ranging process of business and corporate integration which has been a feature of the Fondiaria-SAI Group since 2002 has necessarily given priority to the reallocation of existing resources within the new organisational model. Consequently, at least during the first few years after the merger, only a small number of people were hired from outside, primarily to fill positions that could not be filled internally.
The effectiveness of the results achieved in redistributing staff, coupled with the result of implementing voluntary resignation policies, allowed a systematic recruitment policy to be relaunched in 2005, as shown by the following data (relating to staff on open-ended contracts):

Number of staff recruited	**2005**	**2004**
Fondiaria-SAI S.p.A.	43	32
Milano Assicurazioni S.p.A.	12	8
Total	**55**	**40**

This trend has also been confirmed by the significant increase in 2006, with 24 new employees being recruited in the first few months (compared to 16 in the same period of 2005).

The employees recruited were for the most part young people (80% of the total) who showed good potential, mainly graduates (around 60%) as opposed to holders of diplomas.

A number of experienced staff were also recruited (around 20% of the total).

In this context it is worth pointing out that recourse to flexible working schemes (fixed term contracts, temporary contracts) is falling and accounts for fewer contracts than the number of open-ended contracts. In 2005, 10 fixed term and 25 temporary workers were employed to fulfil exceptional and temporary requirements.

It is worth pointing out that generally, once the need to fulfil a requirement on an ongoing basis has been identified, the trend is to convert the fixed term contract into an open-ended contract. It is also not infrequent for temporary workers to become employees of the Group.

Staff projects and development

In addition to the normal cycle of recruitment, a "New High Potential Graduates Project" is being devised which provides for:

- new graduates with excellent CVs, strong professional motivation and willingness to travel throughout the country, to be identified;
- selection of graduates from the most prestigious Italian university faculties (in the areas of law and economics, banking and insurance studies, statistical and actuarial studies, etc.) by means of a detailed process consisting of individual interviews and assessment centres.

The chosen people will follow interfunctional development paths, in different geographical locations, in order to acquire detailed knowledge and skills in a relatively short space of time.
The Job Rotation will be associated with a specific financial and career development path which, depending on the results achieved and the checks carried out on a half-yearly/annual basis, will lead the employees to achieve the post of *Funzionario*.

The purpose of the Project is to build up a pool of young managers who will be able to full middle-management positions in the medium term.

Between 2004 and 2005, the Group devised and adopted a new Performance Management and Manager Performance Assessment model based on organisational skills/forms of behaviours which are considered to be strategic for the Group's resources.
The model has an impact on the selection process, which will therefore have to assess the existence of these skills when short-listing candidates.
Finally, we should point out the increasing attention now paid by the Group to traineeships.

This traineeship system is aimed above all at providing the academic world with an innovative company culture that is open and significant in terms of tradition and breadth of business, thus allowing major synergies to be achieved.

The opportunity given to young university students to experience work in a skilled environment which is of great value to their training can clearly become a further effective selection tool.

Training at Fondiaria-SAI

As regards training activities, 2005 saw the consolidation and development of activities started in 2004 to support integration by means of significant activities such as:

- the involvement of all managers and executives in devising and disseminating a uniform culture relating to the performance of professionals and resource managers. The benchmark operational tool is the “manager performance” manual which supplements the “performance management” manual released in 2004. The manuals are now operational and the training phase associated with the development of skills will begin in 2006

- completion of the “technical skills” project, which was a decisive step towards achieving the cultural integration associated with insurance know-how. All operators (salesmen, agents, technicians) now have a wealth of courses available to them which are taught with great attention to detail and the contents of which are certified. During 2006, further options dedicated to niche insurance matters will be made available;

- the launch of new distance learning initiatives on subjects such as privacy, the fight against money laundering, Legislative Decree 231, allowing the involvement of a large number of employees as well as agents; A broadening of the course catalogue is planned for 2006;

- the launch of an intense programme of interviews involving all hierarchical levels (around 2000 people), initially planned as an activity to support the introduction of online services but which has subsequently turned into a real climate analysis. Further interviews and various initiatives for sharing the results will be carried out in 2006.

- the involvement of all executives in analysing the results of the interviews and in training for change;

- the planning in 2005, in partnership with the consultancy company Ambrosetti, of a seminar relating to general management and to gaining knowledge of the company system and aimed at young executives and high potential employees within the Group. The first of these seminars will take place in March 2006.

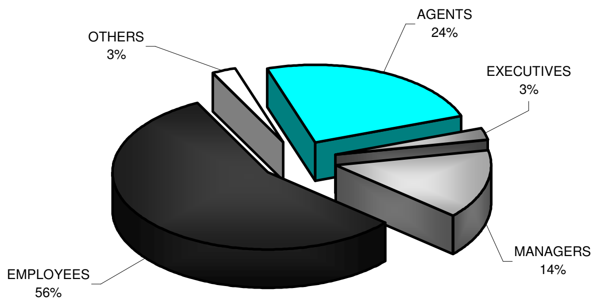
The strategic role of training

The Group's company structure and processes are constantly changing. This means that the professional knowledge and skills required by people assigned to new jobs, and required to use different working methods, must be provided. Training in fact accompanies each individual resource through each significant stage of their professional career.

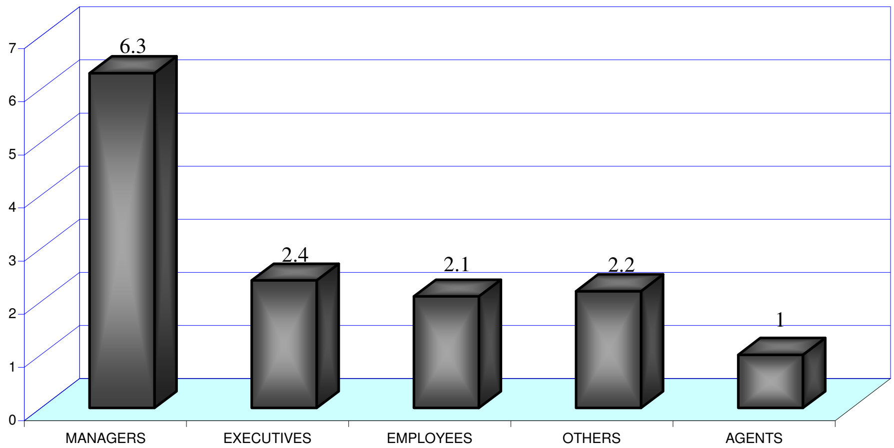
Within the Fondiaria-SAI Group, there is consolidated experience in establishing the structure and content of training activities, which are considered to be of vital importance both for developing the know-how of each individual employee and because of the obvious benefit they bring to the company.

During 2005, around 3,500 people were involved in training activities (1,350 people more than the previous year), thanks among other things to the recourse made to distance learning, which was not available in any significant way in 2004. In addition to these, a further 2000 people were involved in climate interviews. The average number of days of training for the people involved also increased from 2 to 3.

Categories involved within the total number of participants as at 31.12.2005

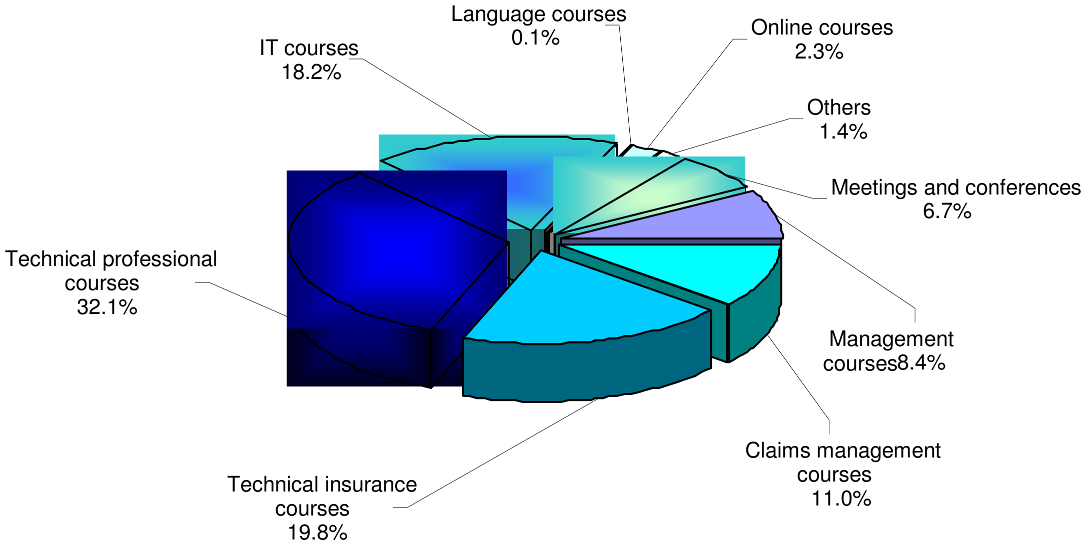


Per capita days by employee category as at 31.12.2005



The traditional indicators used to measure Training performance are the concepts of *attendance* and *trainee day*.
Attendance means the number of participants attending each training initiative, i.e. if an employee takes part in 2 different initiatives, 2 attendances will be recorded.
Trainee day means the product of the attendances per day of duration of the initiatives.
In 2005, 6,965 trainee days were held (6235.5 in 2004) with 6749 attendances (4711 in 2004).
The following table shows how the interventions were focused on the integration of insurance cultures (technical skills), on the dissemination of "compulsory" knowledge (FAD for Legislative Decree 231, privacy and anti-money laundering) and on technological change (IT courses).
The table also shows how most of the activities took place within the company with a marginal recourse to inter-company courses.

Personnel involved by type of initiative as at 31.12.2005



The training activities listed above, and the number of employees involved, show that human capital is an asset for the Fondiaria-SAI Group which is a factor of competitive differentiation for the company.

Industrial relations policies

The industrial relations system created in the Fondiaria-SAI Group is inspired by principles of clear information and constant dialogue. This model of trade union relations was set up at the beginning of the dialogue on the Fondiaria-SAI merger, and has been a model for all the subsequent stages of the Group's reorganisation.

The numerous agreements signed with trade unions relating to the implementation of reorganisations within the Group, the achievement of the results planned in the Business Plan and the absence of conflict confirm the validity of this model.

Between 30/7/2002, the day on which the Memorandum of Understanding relating to the merger by incorporation of La Fondiaria S.p.A. into SAI S.p.A. was signed, and 31/12/2005, 37 agreements were signed with the trade unions, 12 of which were signed in 2005. These agreements relate to the companies operating in the insurance sector as well as those operating in other sectors in which the Group is involved (financial, banking, property and services).

These agreements were signed with reference to the reorganisational procedure for the Group's main insurance companies resulting from the merger by incorporation of La Fondiaria S.p.A. into SAI S.p.A. and of Nuova Maa Assicurazioni/MAA Vita Assicurazioni S.p.A. and SIS Assicurazioni S.p.A. into Milano Assicurazioni S.p.A., as well as from the rationalisation of the respective subsidiaries.
As part of the ordinary activities carried out during 2005, the annual meeting required by the national collective labour agreement for the insurance sector

(Contratto Nazionale di Lavoro Assicurativo) to inform trade unions about the performance of the Company.

A distinctive feature of 2005 was the negotiation held for renewal of the supplementary company contracts (Contratti Integrativi Aziendali) of the Group's two main companies: Fondiaria-SAI S.p.A. and Milano Assicurazioni S.p.A.

This negotiation began in June, following presentation of the platforms by the trade unions, and was completed on 20/12/2005 with the signing of the new supplementary company contract with Fondiaria-SAI S.p.A. and on 25/1/2006 with the signing of the new supplementary company contract with Milano Assicurazioni.

During 2005, around 50 meetings took place with trade union organisations relating to renewal of the supplementary contracts and other agreements.

The most important aspect of the Fondiaria–SAI S.p.A. and Milano Assicurazioni S.p.A. contracts is the standardisation of employment rules and salaries between the employees of the former Fondiaria company and the employees of the former SAI company, as well as between the employees of Milano Assicurazioni S.p.A. and those of the former Nuova Maa Assicurazioni/Maa Vita Assicurazioni S.p.A. and those of the former SIS Assicurazioni S.p.A.. This standardisation of the rules will take place during and at the end of the contract period, fixed for 31 December 2008 in both cases, given the need to distribute the increased costs over a number of different financial years.

The negotiations also touched on the subject of Corporate Social Responsibility, in respect of which the Company sent the trade unions the letters attached hereto and to the supplementary company contracts of Fondiaria-SAI S.p.A. and Milano Assicurazioni S.p.A.
As regards SIAT S.p.A. and SASA Assicurazioni e Riassicurazioni S.p.A., negotiations were restarted in February 2006 for renewal of the respective supplementary contracts that expired on 31/12/2004.

Although there were a few critical moments arising from the difficulty of reconciling the different sets of rules, the demands made by the unions and the compatibility of costs and company budgets, the negotiations between the companies and the unions took place in a constructive climate, without any strikes being called by the unions in accordance with the industrial relations system which the Group has decided to establish.

Health and safety at work

In the Fondiaria-SAI Group, provisions relating to application of current legislation on health and safety and work are effectively monitored.

The Prevention and Protection Department relies on the technical skills of internal departments such as, in the case of health monitoring, those of the Health Care Management department. This department is a centralised structure set up to monitor any health-related process within all the Group companies, suggesting the use of appropriate resources, structures and methods.

This project, which is innovative and unique in Italy, allows the management to gain a better strategic view and act in a consistent way in the area of health within the various Group companies, thanks to the four units which make up the department: management medical advice, Group health services, health network, audit. This means that regular health checks (required by Legislative Decree 626/94) are now carried out by eight doctors specialised in occupational health, each of whom has been assigned to a specific geographical area.

It is important to point out that the attention paid by the Company to employee health protection and prevention is manifested not only by its compliance with legal and contractual duties but also by initiatives taken and Company and Group level.
Various medical/health care services are in fact provided, such as eye tests, hearing tests and other preventive medicine activities aimed at both male and female staff, such as check-ups, ECGs, orthopaedic visits, flu vaccinations, etc..

As regards the formalities that must be complied with under the terms of Legislative Decree 626/94, all the documentation has been drawn up and the employee safety representatives have been appointed and trained. As regards the management of emergencies, the staff assigned to fire and first aid teams have been appointed.
The above staff training/updating programme, which was launched in 2005 and will be completed during the first half of this year, will involve over 400 employees.

The efficiency of these teams is tested periodically by means of specific drills involving whole buildings and hundreds of employees.
Inspections of the working environments are carried out periodically by the appointed doctors together with the prevention and protection department.
During these inspections, specific attention is paid to fire-fighting and first-aid systems, the layout of working environments and ergonomic aspects. Appropriate instruments are used to carry out checks if necessary, such as in the case of noise or air quality.
In some offices, like Turin, Milan, Genoa and Trieste, considerable amounts of unscheduled maintenance work has been carried out to make further improvements to safety and environmental comfort.

Another important aspect associated with prevention is the ongoing worker training and information activity that takes place in the context of the “guidelines for the use of video terminals” (Ministerial Decree of 2/10/2000), involving classroom training days as well as self-learning programmes made available on the intranet networks.
Also with a view to providing information, a practical booklet is being produced, which will be available at all Group offices, on the standards of behaviour expected in the event of an emergency.

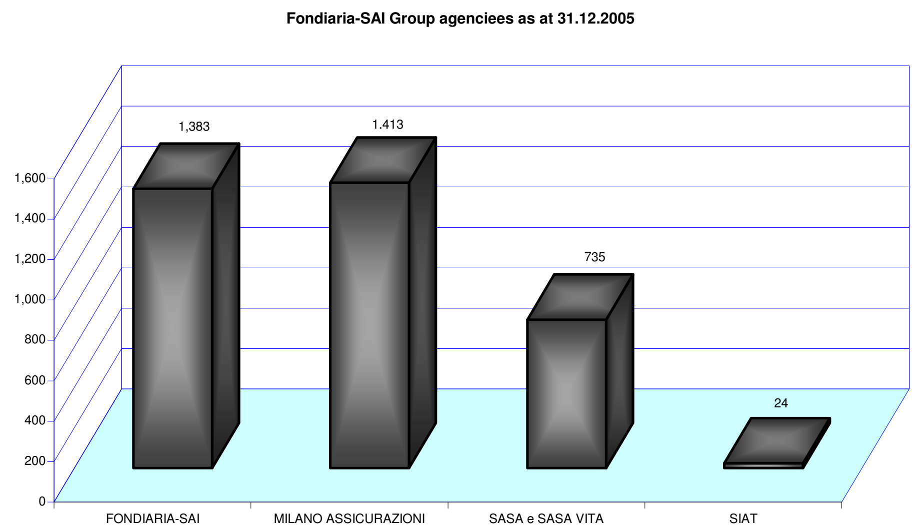
In the main offices of the Fondiaria-SAI Group, efforts have been made to allow access to disabled people, removing architectural obstacles or installing appropriate devices.
Disabled toilets are generally available or disabled access to toilets is guaranteed.

The adaptation process normally proceeds in line with the restructuring activities that take place in the different offices.

AGENTS

The sales network, which focuses around the figure of the insurance agent, is to all intents and purposes the Fondiaria-SAI Group’s point of sale. Even though many different distribution channels are not available, the network of agencies continues to play a major role in selling the Group’s products to both the retail and corporate markets.
The Group’s agents are responsible for assisting and advising customers, offering the best insurance product to meet their needs, and more and more often making customers aware of the potential risks they may not know about. All of this emerged from the interviews held with a sample of agents identified for the Group’s various brands.

Premium income in 2005 came mainly from the 3,555 agencies operating through 2,858 points of sale and representing the traditional sales channel. The distribution structure includes 1,383 tied agents and other parent company offices, as well as 2,172 tied and independent agents who work with the other Group companies.
681 of the aforesaid agencies operate under a mandate from BancaSai, which includes the mandates from the incorporated company Effe Investimenti Sim, and sell the mutual investment funds of Effe Gestioni SGR, working with the Banca SAI network which amounts in total to 1,448 financial advisors.



Sales training

The Fondiaria-SAI Group acts as a consultancy in respect of its network of agents, providing courses free of charge and carrying out training initiatives, periodically organising activities relating to marketing and agency sales organisation.

The Group also provides training to sub-agents and agency collaborators working in the field of insurance, who are provided with a sales training programme (newly recruited agency salesmen). There is also a series of activities (catalogue) of a technical and commercial nature for sub-agents, salesmen, agency employees.

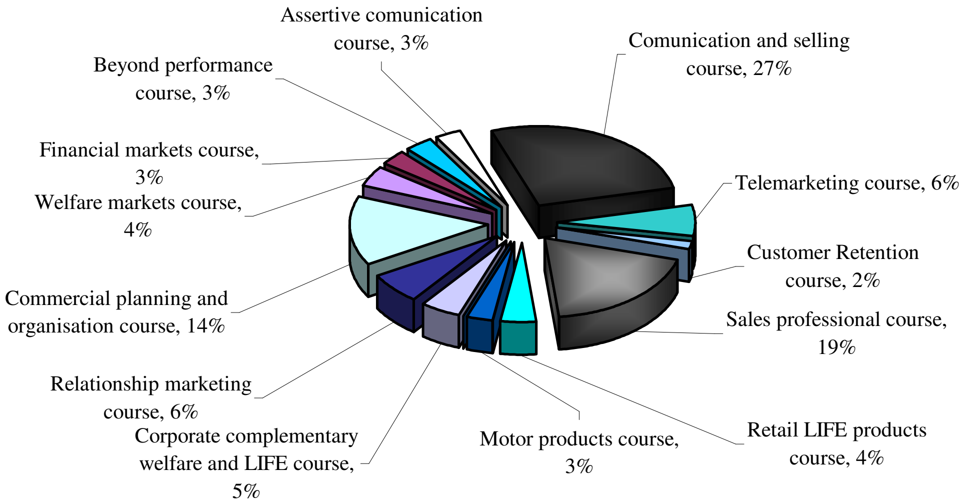
The training project includes three different types of training:

- conferences, where external people (Chairman of ANIA, Under Secretaries of the Ministry of Industry, Research Centre Directors) and internal people (Chief Executives and Business Unit Managers) illustrate the most recent changes (e.g.

development of the welfare system and impacts on the world of insurance and finance);

- management training programmes for agents;
- technical and sales training programmes for agents and employees.

Situation by type of initiative as at 31.12.2005



SUPPLIERS

General data

The suppliers of an insurance company (excluding network suppliers who are a category of stakeholders in their own right) tend to be smaller in number than those of companies in other sectors, but the attention paid to this category of stakeholders is nonetheless considerable. They are primarily lawyers, doctors and loss adjusters.
Stability, reliability, shared values and quality of service are the characteristics that the Fondiaria-SAI Group looks for in third party suppliers, given than service providers are an active and essential part of the claim settlement procedure, and therefore of the actual quality provided to the customer.

For its insurance activities, and particularly for the purpose of assessing the damage reported, the Group relies on a network of fiduciaries who are the first interface with customers or third parties. The Group has always been careful in its choice and selection of collaborators, of who it expects professionalism, care and sensitivity in respect of customers. In the conviction that they are joining one of the most prestigious and important insurance groups in the market. Once the best and most appropriate suppliers have been identified, the stability of the relationship is pursued to the advantage of the supplier and of the other stakeholders, particularly customers and agents.

In order to guarantee all of this, a single register of suppliers has been created and an Internet site has been launched for all collaborators and fiduciaries on whom the company normally relies for the management of claims.
This instrument allows the allocation, return and parcelling of claims to be streamlined and speeded-up, thus improving the service to end customer, thanks to the use of shared and standardised IT procedures.

Customer satisfaction is also achieved by ensuring the presence of a wide network of fiduciaries in all regions characterised by a greater degree of litigation.

COMMUNITY

Corporate Social Responsibility

The Fondiaria-SAI Group is aware of the fact that running a company involves great social responsibility in respect of the community: the authoritativeness of a company is measured not only by its capacity to produce wealth but also by its desire to promote a model of development that is based on ethical, cultural and environmental values in the widest sense.

The Fondiaria-SAI Group has made the quality of life of the people directly involved in the daily life of the company, and of the social context in which the company operates, one of its main objectives.

This view of social responsibility has led the Fondiaria-SAI Group to take action in the field of social solidarity, because the success, renown and credibility of a company and its brand do not depend solely on the competitiveness/profitability equation.

The term “sponsorship”, which is still used nowadays for initiatives in the field of culture and social care, undoubtedly has a significance and a scope that are entirely different from its traditional ones.

Now that its connotation is no longer strictly financial, which was vital for small and medium initiatives, sponsorship should be viewed as a form of "ethical support", as a true expression of espousal and solidarity, without there being necessarily any direct and measurable service rendered in return.
The measure is in fact the improvement in the image of the company, which is seen to be present in the environment in which it operates, outside the confines of its business activities.
Sponsorship is not therefore limited to providing financial support for a project, it means sharing its objectives, taking part in its implementation and celebrating the final result and benefits achieved for the community; at least this is the intention displayed by the activities of the Fondiaria-SAI Group.

The following actions were in line with the above intentions.

Action taken to enhance the Group's image

During 2005, the first stage of the plan aimed at disseminating the identifying symbols of the Group, so as to guide consumers in terms of awareness and recognition of the various areas of our business, and to attach connotations of trust and desirability to the brand, was completed.
2005 was therefore a year in which the individual identifying components developed in 2004 (trademarks, visual identity, brand identity) were put together in appropriate combinations to create a complete set of institutional tools.
Attention and resources were also focused on improving the communication performance of points of sale, by developing initiatives and tools aimed at making the best possible use of the new architecture offered in them by the Group.

Fondiaria-SAI Foundation

In a letter dated 28 October 2005, the Prefecture of Milan confirmed that the Fondiaria-SAI Foundation had been inscribed on the same day in the register of legal persons of the Prefecture of Milan under order no. 645, page 1024, of volume 3.
The Fondiaria-SAI Foundation is the natural outcome of a series of initiatives previously or currently implemented by the Fondiaria-SAI Group relating to the promotion of art and culture, to supporting initiatives for young people and disadvantaged categories and funding medical and scientific research. The aim of the Foundation, at least initially, has been to channel all these initiatives.
The Foundation currently has an available fund of approximately € 190K, as well as further resources of € 1,000,000.
These funds were set up during 2005 by the founders of Fondiaria-SAI and Milano Assicurazioni, each of whom will be supporting the initiatives of the Foundation as of 2006 with annual contributions of € 300,000.

Action in the fields of culture and society

The planning of sponsorships and donations in 2005 included targeted action in the fields of society, culture, art and sport, both at institutional level and, more specifically, aimed a reinforcing the presence of the Group in the operational hubs of Florence, Milan and Turin.
As regards institutional sponsorships, we should point out the renewed support offered by the Group, which has always been careful to fulfil its corporate social responsibilities, to the holding of the twenty-third edition of the "Rimini Meeting". The guiding theme of the meeting was freedom, described not only as a civil right, but also as a human being's capacity to recognise the truth and foster it. Fondiaria-SAI in particular associated its logo with the conference that provided the title for this event: "Freedom is the greatest good that heaven has given to man". The event was attended by over 800,000 people and many members of the media. This had many positive effects on the Group's image.
Action in the social sphere continues to be considerable, reflecting the traditional sensitivity of Fondiaria-SAI to the values of solidarity, with donations being made to, amongst others, AIMAC-Associazione Malati di Cancro [association for people affected by cancer], ANDOS-Associazione Donne Operate al Seno [association for women who have undergone breast surgery], A.T.L.Ha.-Associazione Tempo Libero Handicappati [association organising leisure activities for disabled people], which inaugurated the Cascina Bellaria centre in Milan, restructured thanks to contributions from the Group amongs others.

Also worth pointing out is the support provided to the Gulliver centre, which helps young drug addicts and their families, AGESOL – Agenzia di Solidarietà per il Lavoro, which helps prisoners and former prisoners to rejoin the world of work, and the Cascina Cantalupo restructuring project, which is intended to provide a shelter for immigrant children and mothers in difficulty.
The Company's support for the Telefono Azzurro project was confirmed, particularly for the purpose of reinforcing the child telephone emergency "114" service and of organising conferences in Milan marking the 18th anniversary of the association. The subjects dealt with were: "Children in prison", "Children and the Media", "Emergency, 114 and service network", and "Foreign children and nomads".
Also renewed was the support given to ANDOS, the volunteer organisation that provides psychological, therapeutic and material support to women who have undergone mastectomies, and to AIMAC, the non-profit organisation that provides psychological support to cancer patients and their families, as well as information on the illness and the available therapies using a multimedia system.

In the field of culture, the Group supported the activities of two prestigious Milanese institutions, the Philharmonic Orchestra of La Scala and the Philharmonic Orchestra of the Giuseppe Verdi Conservatory, sponsoring the respective concert seasons
A well-deserving member of the Pierlombardo Foundation, Fondiaria-SAI also contributed to the project aimed at transforming the Franco Parenti Theatre into an entertainment citadel (Cittadella dello Spettacolo), Milan's first multi-theatre centre, which intends to offer entertainment and cultural events for all ages and throughout the day. In the field of art, the Group took part in sponsoring three exhibitions: Mark

Wallinger, Playground&Toys and Marina Abramovich at the Bicocca Hangar, an international centre for culture and contemporary art.

One of the main initiatives in the world of sport was the sponsorship provided for +39, the Italian vessel sponsored by the Ministry of Welfare and taking part in the qualification races for the 32nd America's Cup, sporting the Fondiaria-SAI logo on its sails.

In line with the company's principles of social responsibility, the decision to sponsor Team +39 was also taken because the company shares is "ethical team" qualities: in fact the team has espoused the guidelines of the CSR-project, the ethical, social and environmental basis for which has been outlined by the Ministry of Welfare, and is based on a "Charter of Values" which commits all the people involved – athletes, managers, partners, sponsors, stakeholders – to behaving ethically and responsibly in all their activities, not only those related to sport.
The importance of the event and the good performance of the team provided good exposure for the Company's image in both the trade and general media. In particular, the television coverage in Italy totalled 114 hours, with an audience that reached 112 million.

Activities aimed at reinforcing the Group's presence in the area of Milan continued with the setting up of multiannual co-operation programmes with Fiera di Milano, which has opened its new Rho-Pero centre under the imposing signs of Fondiaria-SAI, and in the cultural field with the Philharmonic Orchestra of the Giuseppe Verdi Conservatory, a highly professional organisation, unique in Italy, attracting the best graduates of the Conservatory and other Italian and European institutions.

A demonstration of the Group's willingness to promote a high quality artistic and cultural scenario, and of its willingness to establish a solid relationship with the city of Turin, was the holding of the inaugural evening of Turin's Teatro Regio (Royal Theatre), of whose Foundation Fondiaria-SAI is a founding member, on 11 October 2005 with Giuseppe Verdi's "Aida".

Internal Group communication

In order to consolidate the creation of a company culture shared by the whole Group, numerous Internal Communication activities were planned and studied during 2005 which have involved and will involve the Group over the coming months, either by providing employees with printed matter/online material or by organising internal events.

The most significant activities were the following:

- distribution and sharing of information by means of the NEWS newsletter and the TEAM internal bulletin, addressed to all the Group's employees and all distribution networks;
- designing of newsletters and internal bulletins entirely dedicated to specific themes and to the Group's various companies;

- development of loyalty among the best clients (Insured Clubs) by publishing the four-monthly magazine LINEA DIRETTA CLUB;
- publication of the 2005/2006 Gifts Catalogue, intended for all employees and all distribution networks, for the management of the Group's promotional giftware;
- continuation of the intranet integration work;
- the holding of a number of corporate events and conferences intended for internal audiences and sales networks.

Current disputes

Antitrust Dispute

During 2005, the so-called “Antitrust” dispute, consisting of the well-known civil action brought by our insured clients (as of April 2001) claiming reimbursement of part of the Motor TPL premium they paid, continued to be fuelled beyond expectations, despite the favourable judgement of the Unified Sections of the Court of Cassation of 4 February 2005, which declared that the Justices of the Peace did not have the jurisdiction required to judge the cases in question, confirming that this jurisdiction lay with the Court of Appeal. Following the aforesaid judgement of the Court of Cassation, the number of new actions brought before Justices of the Peace fell to almost zero, but numerous actions were taken or re-taken before the Court of Appeal.

As at 31 December 2005, the total number of actions lodged as of April 2001 was 21,456. The actions still pending on that date were 5,916 for Fondiaria-SAI and 2,769 for Milano Assicurazioni.

Writs of summons from shareholders

During the month of June 2005, the Court of Milan issued a judgement in the first degree action taken by Promofinan S.p.A., as a shareholder of the incorporated company Fondiaria, against the Parent Company and Mediobanca – and subordinately against Premafin – maintaining that the incorporating companies SAI and Mediobanca were obliged to make a public purchase offer following the purchase of Fondiaria-SAI shares previously owned by Montedison.
In this judgement, the Court of Milan recognised that SAI and Mediobanca did have a duty to make a public purchase offer and that, even though Premafin and Mediobanca had fulfilled their duty to re-sell the part of the shares in Fondiaria-SAI that exceeded the 30% imposed by Consob in its decision of 18 December 2002, their action was “too late and insufficient to protect the rights of minority shareholders”.
The Court therefore partially granted the principal claim made by Promofinan, ordering Fondiaria-SAI and Mediobanca jointly to pay compensation for damages in the amount of approximately € 3.7m.
In fact the Court only accepted the plaintiff’s compensation claim relating to the loss of profit, i.e. the loss of earnings due to the failure to sell the shareholding at the public purchase offer price. The Court did not instead accept the compensation claims relating to *damnum emergens*, given the rise in the value of the securities in the period that followed the failure to make the public purchase offer.

The Parent Company lodged an appeal against the above judgement. The first hearing of the appeal process for entries of appearance was held on 10 January 2006. At that hearing, the Company and Mediobanca waived a suspension of the provisional enforcement of the first degree judgement, thus avoiding the judges the task of examining the petition, which would have been an undeniably laborious task given the complexity of the case.
In exchange for this, the Company petitioned for and obtained a shortening of the discussion on the appeal in question.
Following the Company's waiver of the suspension order, the plaintiff petitioned for enforcement of the first degree judgement. Based on the agreements made with the plaintiff, on 8 February 2006 the Parent Company paid the full amount due (€ 3.7m) under the terms of the first degree judgement.
The payment was made in full by Fondiaria-SAI, under the terms of the joint and several liability obligation placed on it, reserving the right to make a claim against the jointly liable party Mediobanca, solely for the purpose of avoiding the executory action and expressly reserving the right to pursue the case through the court of appeal, to have the aforesaid judgement overthrown and to have the aforesaid amount repaid to it, plus interest, once the appeal has been granted.
The first degree result of two of the other disputes of a similar nature to the one described above is expected by the end of 2006.

The provision for risks and charges of the Company and the other Group companies is in any case sufficient to cover the charges arising from any exacerbation of the existing disputes.

SIGNIFICANT EVENTS OCCURRING AFTER THE END OF THE 2005 FINANCIAL YEAR

Sale of the shareholding in Swiss Life Holding

On 11 January 2006, the subsidiaries Fondiaria Nederland B.V. and Milano Assicurazioni S.p.A. sold their entire shareholding in Swiss Life Holding to an institutional investor (UBS).
Fondiaria Nederland and Milano Assicurazioni respectively sold 2,000,107 and 828,709 Swiss Life Holding shares amounting to a total of 2,828,816 shares, representing 8.3753% of the share capital, for CHF 234.75 per share. The price was determined by applying a discount of 0.53% on the closing price of CHF 236 on 11 January 2006.
The income from the transaction amounted to approximately CHF 664.1m, compared to a total book value of approximately CHF 702.8m.
As regards the valuation of the shareholding in the 2005 accounts, Milano Assicurazioni carried out no alignment or adjustment, given that the sale of the shares in Swiss Life Holding – considering the CHF/€ book value exchange rate and the CHF/€ rate used to convert the proceeds from the sale – gave rise to a small capital gain of approximately € 336K.
Fondiaria Nederland for its part wrote-down the value of the shareholding in Swiss Life Holding with reference to the price and exchange rate of the shareholding, with a negative impact on the profit and loss account for 2005 of approximately € 27.1m. This decrease in the accounting net equity of Fondiaria Nederland did not however cause a permanent loss of value of the shareholding in Fondiaria Nederland, given that the latter benefited from unrecorded capital gains from its ownership of the controlling shareholdings (The Lawrence Re and Effe Finanziaria).
In 2004, the Fondiaria-SAI had determined together with the Swiss Life Group that the premises for the planned joint venture in the Italy Life sector did not exist.

In view of the opportunity presented by the stock exchange performance of the Swiss Life Holding shares, it was deemed to be of interest to the Fondiaria-SAI Group and the said subsidiaries to sell the shareholding in the shortest possible space of time, contacting a number of institutional investors for this purpose and inviting the interested ones to take part in a competition, submitting their final bids by 11 January 2006, so as to seize the moment that was considered most appropriate for the divestment in the context of the market at that time.
The transaction allows diversification of the asset allocation to be achieved and greater flexibility to be gained in the strategic investment sector in future.

Purchase of over 99% of Liguria Assicurazioni S.p.A.

As a result of the procedure launched by the vendor to select the best offer for the purpose of a controlling stake in the capital of Liguria Assicurazioni S.p.A., which ended with an acceptance of the offer made by Fondiaria-SAI, a preliminary contract was signed on 24 January 2006 between Gaula Consultadoria e Investimentos LDA, owned by the De Longhi family, and Fondiaria-SAI for the sale and purchase of the entire shareholding in Liguria Assicurazioni owned by the vendor, equal to 99.97% of the share capital, for a price of € 144,500,000, paid in the following way:

- € 7,000,000 as a deposit, at the same time as the same contract was signed;
- the difference, on the date of transfer of the shares on the subsequent one of the following two dates: (i) 30 April 2006 and (ii) the last working day of the month in which all the conditions precedent are satisfied, consisting of the authorisation from ISVAP, as required by law, and of approval of the 2005 accounts by the vendor and Liguria Assicurazioni, which must be property certified and delivered to Fondiaria-SAI by 30 April 2006.

The vendors are also required to set up a suitable guarantee to ensure fulfilment of their duties in respect of the buyer.

Liguria Assicurazioni is a company that operates in the Non-Life sector and in turn owns 100% of Liguria Vita S.p.A.

The said price of € 144,500,000 may be increased or decreased by an amount corresponding to the net profit or net loss of Liguria Assicurazioni and Liguria Vita in the period between 1 July 2005 and 31 December 2005, as recorded in the balance sheets of the said companies as at 31 December 2005, subject to a maximum of € 5,000,000 as regards the net profit.

The price of € 144,500,000, increase or decreases as necessary by the net profit or loss as specified above, is in any case to be considered as a provisional price and will be subject to subsequent review to take into account the losses occurring and claims reported after the date of transfer of the shares and technical reserves of Liguria Assicurazioni and Liguria Vita, which will be carried out with reference to the balance sheets of these two companies as at 31 December 2010.

The activity of the non-life classes accounts for approximately 99% of all the activities carried out by the Liguria Group. Premium income is concentrated in small municipalities of the central and northern regions (67% of premiums). The company operates through a network of 219 agencies and 118 employees. 60% of the agencies are based in municipalities with fewer than 50,000 inhabitants.

Over the last three years, premiums have increased at an average annual rate of 16%.

During the 2004 financial year, Liguria Assicurazioni wrote premiums for € 146.9m (of which € 108.2m related to motor classes), an increased on previous financial years. The technical result is positive by € 10.5m, with a profit for the financial year of € 11.2m. The net equity of the company amounted to € 40.5m as at 31 December 2004. The combined ratio on the same date was 91.5%.

Also in the 2004 financial year, Liguria Vita wrote premiums for € 14.6m, exclusively referring to class I, closing the financial year with a technical result that was equal to its result for the period. As at 31 December 2004, the net equity amounted to € 5.7m.

Estimates for the end of the current financial year predict a growth in premiums for Liguria Assicurazioni alone to € 166m, with a profit for the financial year of € 14.6m, following a first half-year that closed with premium income of € 67m and a profit of € 8.5m.

The strategic rationale for buying the Liguria Group can be summarised as follows:

- increase in the volume of business for the Fondiaria-SAI Group;

- development of the commercial penetration of Fondiaria-SAI by expanding its distribution network as a result of acquiring the network of agents of the Liguria Group, characterised by a focused presence in medium and small urban centres;
- creation of value for Liguria Assicurazioni and Liguria Vita by applying the skills developed by Fondiaria-SAI in the context of claims management, settlement procedures and underwriting policies, as well as improving financial management in general.

Completion of the transaction is subject to authorisation from the relevant authorities.

Leasing contract with Atahotels for the building known as "Principi di Piemonte"

On 31/01/2006, Fondiaria-SAI entered into a leasing contract with Atahotels relating to the property complex for hotel and conference use known as "Principi di Piemonte" in Turin. Completion and finishing work is still under way in the said complex, which is expected to be finished by the end of the current year.
The lease period has been established by law at nine years, counting from 1 January 2007, the date set for the definite completion of all the finishing work on the complex, and the date from which the lease payments will be made. After the first nine years, the contract will be automatically renewed under the same conditions for a further nine years.
The contract provides for Atahotels to cover the full cost of the furniture and fittings and everything else that may be required to provide the hotel and catering services.
However, considering the opening of the Winter Olympics and the need to seize the opportunities arising from this event, the parties stated their mutual interest in bringing forward the delivery date of the property compared to the completion date of the works and the start date of the lease period.
On 1 February 2006, Fondiaria-SAI therefore delivered the complex to Atahotels, so as to allow activities to start in time for the Olympics and important guests, including institutional personalities, to be accommodated for the opening ceremony of the games and beyond.
The annual lease payment has been agreed between the Parties to be 18% of the total amount of revenue (net of VAT at the legal rate), excluding the income from additional services provided to customers. It is in any case understood that the lease payment that Atahotels will make to Fondiaria-SAI for running the complex throughout the contract period will be no less than an annual amount of 5% of the book value of the property, which is to be understood as being the guaranteed annual minimum fee.

The Parties have however agreed that for the first five years of the lease, considering the costs associated with the start-up phase of the leasing of the complex by Atahotels, and the investments made by the latter in this respect, the lease payment and the guaranteed annual minimum will be lower and will be increased gradually up to the levels stated above as of the fifth year and for the residual duration of the lease.
Given that Atahotels is a related party of the Company, appropriate fairness and legal opinions were obtained from KPMG Corporate Finance and the Ashurst legal firm respectively.
KPMG Corporate Finance found that, based on the estimates made, the lease payment was a fair return, considering among other things the value of the complex determined by Scenari Immobiliari S.r.l., as referred to in the fairness opinion itself.
The Ashurst legal firm made suggestions with regard to the text of the contract that were taken into account in the final version.

In approving the operation, the Board of Directors of Fondiaria-SAI took note of the following:

- the strategic and industrial validity of the operation as a whole and, in this respect, the interest of the Company in signing a leasing contract;
- the nature of the relationship and the methods used to determine the financial terms of the offer, with attention also paid to the legal and fiscal aspects
- the fact that there were no atypical and/or usual characteristics in the leasing contract
- appropriateness of the early delivery of the complex to allow it to be opened to the public at the time of the Olympic event.

Capitalia Shareholders' Agreement

The possibility has arisen for interested shareholders to alter their share in the Agreement, which was reduced by the accession to the Agreement of a number of MCC shareholders, following the demerger of the latter (to the benefit of the same company) and by the contribution to the Agreement of further Capitalia shares by a number of members who were previously shareholders of MCC and/or Fineco, considering the further extraordinary merger by incorporation of Fineco into Capitalia.
The purchase of new shares to be contributed to the Agreement by interested shareholders has in fact been made possible, on the one hand, by the fact that Toro manifested its intention to sell its shareholding (amounting to 0.83%) and, on the other hand, by the fact that, since the shareholding currently owned by the parties to the Agreement exceeds 30% (30.54%) the shareholding itself can now be consolidated, with exemption from the duty to make a public purchase offer, subject to a maximum of 3% per year in accordance with article 46 of the Consob regulations for issuers.

In particular, Fondiaria-SAI and Milano Assicurazioni have purchased part of the shareholding made available for sale by Toro, in an amount of just over 0.5% of the share capital of Capitalia and, furthermore, they are proceeding with the gradual purchase on the share market of further shares in Capitalia so as to obtain a 3.50% stake in this company. The transaction will require a total disbursement of approximately € 128m.

Property project known as "Ex Varesine"

During the first few months of 2006, negotiations were completed with the American Hines property group aimed at setting up a further joint venture with the Fondiaria-SAI Group to carry out a property development project in the area of Milano known as "Ex Varesine", adjacent to the "Garibaldi Repubblica" area which had been the subject of a similar agreement signed last year by the subsidiary Milano Assicurazioni and the same leading US group.
The area consists of a plot measuring 32,000 square metres adjacent to Piazza della Repubblica and Garibaldi railway station. The project is intended to develop a gross surface area of 82,000 square metres for office, retail and residential use. This will take place at the same time as the development of the "Garibaldi Repubblica"

site is being developed, for the purpose of ensuring the continuity that will allow direct communication between the two areas.
The intended use of the site provides for 42,000 square metres of offices, 7,000 square metres of retail space, 33,000 square metres for residential use and the option to develop a further 15,000 square metres for car parks and/or activities of general interest.
In particular, the agreement provides for the purchase by Fondiaria-SAI, directly and through the subsidiary Immobiliare Lombarda, of a 28% share of the capital of a Luxembourg vehicle company that will be partly owned (51,9%) by a company whose capital will in turn be split between the Hines Group, the Galotti Group (property group based in Bologna) and Monte dei Paschi di Siena. Through a Luxembourg sub-holding, this Italian vehicle company will develop the buildable areas.
The remaining 0.1% of the partnership will be owned by a party (the “General Partner”) which will in turn be owned by the Hines Group with 51% and the Galotti Group with 49%. The Hines Group and the Galotti Group will operate as developers, while Fondiaria-SAI will act as the financial investor for the operation.

The total financial commitment of Fondiaria-SAI and its subsidiary Immobiliare Lombarda is estimated to be € 47m for the period between 2006 and 2011, against expected profit in the same period of € 33m. The Company’s investment will primarily take the form of interest-bearing loans made to the vehicle company, and to a minimum extent, capital payments.

Alliance and co-operation project with Banca Popolare di Milano in the bancassurance sector

On 21/12/2005, Fondiaria-SAI signed an agreement with the Banca Popolare di Milano Group which provides for the implementation of a wide-ranging alliance and co-operation plan with Banca Popolare di Milano (BPM) in the bancassurance sector, to be implemented essentially by means of agreements in the life classes – with the purchase of a controlling or non-controlling share in the capital of Bipiemme Vita S.p.A. – as well as in the non-life sector and in banking and financial services.
On 29/11/2005, the Board of Directors of BPM resolved to approve the offer to develop the bancassurance business in the life sector jointly and exclusively with the Fondiaria-SAI Group, and more generally to sign a Framework Agreement containing the guidelines for the wider project described above.
Subsequently, on 07/02/2006, Fondiaria-SAI, in agreement with the subsidiary Milano Assicurazioni, appointed the latter to purchase the aforesaid shareholding in the capital of Bipiemme Vita.
Under the terms of the aforesaid Framework Agreement, and subject to obtaining the authorisations from the relevant supervisory bodies, Milano will initially purchase from BPM, and the subsidiary Banca di Legnano, a 46% share of the capital of Bipiemme Vita S.p.A., with the option to transfer control of the latter from the BPM Group to Milano itself by the purchase and sale of a further two shareholdings of 4% and 1% respectively, at two different times in the future, respectively by 31/12/2006 and by 30/06/2007.
BPM and Milano will sign a shareholders’ agreement containing the corporate governance rules of Bipiemme Vita, as well as the industrial aspects of the

partnership, providing for Bipiemme Vita itself to continue to have access the distribution networks of the BPM Group for a period of 5 years from the closing date, with the option to renew this for a further 5 years on expiry by mutual agreement between the parties.

The price of 46% of Bipiemme Vita was agreed to be € 94.3m, corresponding to a overall valuation of the company of € 205m. Bipiemme Vita is the insurance company of the BPM Group that operates through the approximately 700 branches of the Group itself, with a premium income in 2004 of € 518m. The company ended the 2004 financial year with a net profit of € 11.8m. As at 30 June 2005, the net equity was € 53.9m, while total technical reserves amounted to € 2,904m.
Bipiemme Vita's business plan, on the basis of which the assessments were made in order to determine the price, forecasts a rise in new premium income from € 481m at the end of 2004 to over € 750m by 2010, and an increase in the net profit from € 11m in 2004 to €25m by 2010.
The price stated above is to be understood as a provisional price, determined by means of an appraisal value approach, while the definitive price on the closing date expected by the first half of 2006 will be the provisional price redetermined between the signing date and the closing date at a reference rate to be agreed, net of 2005 dividends and increased by any capital increases paid (both pro-quota).

The purchase price of the subsequent shares of 4% and 1% of the capital of Bipiemme Vita is agreed to be the definitive price paid for the 46% redetermined at the reference rate up to the date on which the payment is made for exercising the options, net of any dividends distributed and increased by any capital increases paid – both pro-quota – from the closing date to the respective dates on which the prices for exercising the aforesaid options are paid.
The put and call options on the 4% of Bipiemme Vita will be exercisable between September and December 2006. The Milano call option is conditional on the agreement relating to banking and financial services being signed. Following the exercise of these options, joint control and equal governance would be achieved.
The put and call options on the remaining 1% of Bipiemme Vita, with the resulting acquisition of a controlling stake and complete consolidation by Milano, would be exercisable between March and June 2007. This put option will only be exercisable by BPM if it has previously exercised the put option on the 4%. Exercising of Milano's call option will be subject to the approval of a joint committee consisting of four members (two for each party) called to assess the execution and results of the agreement at each stage.
In the current market, which is characterised by renewed focus among customers on traditional insurance products, the partnership will allow Bipiemme Vita di benefit from the technical and commercial know-how of a leading insurance operator, promoting the development of new products and improving penetration among BPM customers, while allowing Milano Assicurazioni to benefit from the expertise of the BPM Group in commercial banking.

The agreement will allow the BPM Group to benefit from greater technical and managerial support in insurance services, which is needed in order to pursue significant objectives for growth in production volumes through a range of products that respond to customer requirements more effectively. This support will also be

needed in view of the role that banks and insurance companies may be called to perform in respect of households and small and medium sized companies with the future development of complementary welfare.
The agreement is a further opportunity for the Company and the Fondiaria-SAI Group to develop the Life sector. From an industrial point of view, the operation is perfectly in line with current the current bancassurance agreements of the Company and the Fondiaria-SAI Group, which will continue to be strategic elements of the growth policy adopted by the Company and the Group themselves.
The operation is subject to authorisation being obtained from the relevant authorities.

BUSINESS OUTLOOK

Following a long stage characterised by a difficult context (low premiums, increase in compensation for damages, losses on capital investments and low interest rates), the insurance sector has experience a recovery over the last three years. Better risk management, combined with rationalisation and reorganisation activities, an increase in premium levels and the reorientation of investment policies, have restored the profits of the companies to a satisfactory level overall.

The main trend forecast for the insurance sector over the next two years will consist of focusing on the core business, with gradual improvements being achieved in technical results in the non-life and life sectors, the use of increasingly efficient risk management tools and the adoption of prudent investment policies.

In 2006, the insurance sector expects to achieve a growth in premiums, driven by demand but sustained at the same time by higher rates, and well as an improvement in profits resulting from substantially better technical data. Recovery is expected not only in the non-life sector and reinsurance (these two hope to balance the losses incurred during 2005 as a result of multiple natural catastrophes) but also in life insurance, where growth will not longer be associated only with unit-linked products. As a result of the drop in the mortality rate, it is estimated that by 2050 one Italian in three will be elderly (over the age of 65), while four out of ten Italians will be over eighty years old. In the coming years, therefore, our country will be faced with an increasing need for assistance by people who are not self-sufficient, with a risk of 25% compared to a general European average of 2.1%.

In view of this situation, Italian insurance companies can be expected to play an increasing role in the welfare system overall. Their development policy will not be able to ignore the social role they play. With total investments of € 500bn, the role of insurance companies is confirmed as that of long-term institutional investors, contributing to the development of the country and to the stability of markets, even though insurance is still not very widespread in Italy compared to other European countries, as a result of a fairly undeveloped risk culture, among other reasons.

During 2006, the Group plans to proceed with the profitable development of bancassurance and customer services, reorganisation of non-strategic shareholdings and action aimed at achieving internal and external growth objectives.

In the motor classes in particular, the objective will be to maintain the current market share and excellent profitability, while action in the non-motor classes will be aimed at increasing market share, albeit with a highly selective approach, maintaining and improving current profitability.
In this context, an important role could be played in the development of complementary sales channels, including non-life bancassurance, as has already happened in other countries.

In the life sector, the operational objective is focus increasing attention on traditional products and on a targeted approach to the new market for complementary pensions. Action will also be taken to satisfy new social requirements relating to the protection of customer savings and fulfilling the need for assistance, in a context in which the public sector is gradually becoming less involved than in the past.

Asset and financial management will continue with its action aimed at rebalancing the Group's asset mix, further decreasing the equity component of the total assets management and reducing the volatility of the portfolio by hedging and other operations.
Activities in the property sector will continue, particularly through subsidiaries, and will be aimed at consolidating initiatives taken to improve the profitability and make the best possible use of the existing assets, aiming to seize the opportunities offered by the property market.

Milan, 28 March 2006

For the Board of Directors
The Chairman

JONELLA LIGRESTI

CONSOLIDATED ACCOUNTS AS AT 31 DECEMBER 2005.

Fondiaria-SAI S.p.A. is a limited company set up in Italy: the addresses of the Registered Office and the locations where the main activities are carried out are indicated in the introduction to the set of accounts. The main activities of the Company and its subsidiaries are described in the part on Sector Information.

These consolidated accounts consist of the Balance Sheet, Profit and Loss Account, Statement of variations in Net Equity, Financial Statement, Explanatory Notes and Annexes as laid down by Isvap Instruction no. 2404 of 2005.
The consolidated accounts of Fondiaria-SAI S.p.A. presented below aim to follow a model which meets the requirements of presentation and information laid down by the International Financial Reporting Standards (IFRS), and also take into account the charts and instructions issued by the supervisory body in Instruction no. 2404 of 22 December 2005.
They also contain some additional information which illustrates some examples in several IAS which are considered to be best practice.
In preparing these accounts it is assumed that Fondiaria-SAI has drawn up the consolidated accounts according to the IAS which continue to apply. The Group qualifies as a “First time adopter” on 31/12/2005, as it is the first set of accounts drawn up following the IAS/IFRS criteria.
The additional information required by IFRS 1 for entities which qualify as “First time adopters” is shown in the set of accounts by means of the presentation of the reconciliation tables, respectively, of profit and net equity, drawn up according to the national accounting principles on the date of transition, and profit and net equity drawn up according to the international accounting principles.

BALANCE SHEET - ASSETS

(Values in thousands of Euro)

		2005	2004
1	**INTANGIBLE ASSETS**	**926,525**	**936,849**
1.1	Goodwill	872,393	865,263
1.2	Other intangible assets	54,132	71,586
2	**TANGIBLE ASSETS**	**1,086,135**	**455,383**
2.1	Property	959,414	332,448
2.2	Other tangible assets	126,721	122,935
3	**REINSURERS' SHARE OF TECHNICAL RESERVES**	*896,948*	*1,069,039*
4	**INVESTMENTS**	**30,065,020**	**26,297,585**
4.1	Investment property	2,041,721	2,017,000
4.2	Holdings in subsdiaries, associates and joint ventures	71,675	61,987
4.3	Investments held to maturity	0	0
4.4	Loans and receivables	1,408,658	896,160
4.5	Financial assets available for sale	20,972,111	18,427,454
4.6	Financial assets at fair value through profit and loss	5,570,855	4,894,984
5	**SUNDRY RECEIVABLES**	***2,811,043***	***2,389,714***
5.1	Receivables deriving from direct insurance	2,034,610	1,926,451
5.2	Receivables deriving from reinsurance	160,642	248,075
5.3	Other receivables	615,791	215,188
6	**OTHER ASSETS**	**1,667,976**	**1,629,370**
6.1	Non-current assets or those belonging to an HFS disposal group	6,450	0
6.2	Deferred acquisition costs	306,954	294,254
6.3	Deferred tax assets	673,490	477,318
6.4	Current tax assets	449,841	624,124
6.5	Other assets	231,241	233,674
7	**CASH IN HAND AND AT BANK AND EQUIVALENTS**	**526,505**	**755,797**
	TOTAL ASSETS	**37,980,152**	**33,533,737**

BALANCE SHEET - NET EQUITY AND LIABILITIES

(Values in thousands of Euro)

		2005	2004
1	**NET EQUITY**	**4,508,889**	**3,274,768**
1.1	**pertaining to the group**	3,459,660	2,633,399
1.1.1	Capital	173,114	170,554
1.1.2	Other equity instruments	0	0
1.1.3	Capital reserves	193,729	190,532
1.1.4	Profit and other equity reserves	2,378,368	2,108,421
1.1.5	(Own shares)	-270,057	-171,371
1.1.6	Reserve for net exchange differences	-441	-394
1.1.7	Profits or losses on financial assets available for sale	535,891	0
1.1.8	Other profits or losses recorded direct in equity	-16,227	-5,034
1.1.9	Profit (loss) for the year pertaining to the group	465,283	340,691
1.2	**minority interest**	1,049,229	641,369
1.2.1	Minorities' capital and reserves	892,353	536,978
1.2.2	Profits or losses recorded direct in equity	35,809	55
1.2.3	Profit (loss) for the year pertaining to minorities	121,067	104,336
2	**PROVISIONS**	**229,075**	**171,294**
3	**TECHNICAL RESERVES**	**25,359,603**	**26,628,021**
4	**FINANCIAL LIABILITIES**	**5,172,378**	**1,371,254**
4.1	Financial liabilities at fair value through profit and loss	**3,231,858**	**31,443**
4.2	Other financial liabilities	1,940,520	1,339,811
5	**PAYABLES**	**1,100,580**	**720,836**
5.1	Payables deriving from direct insurance	210,047	189,936
5.2	Payables deriving from reinsurance	113,541	111,166
5.3	Other payables	776,992	419,734
6	**OTHER LIABILITIES**	**1,609,627**	**1,367,564**
6.1	HFS disposal group liabilities	0	0
6.2	Deferred tax liabilities	724,243	413,588
6.3	Current tax liabilities	272,838	289,844
6.4	Other liabilities	612,546	664,132
	TOTAL NET EQUITY AND LIABILITIES	**37,980,152**	**33,533,737**

PROFIT AND LOSS ACCOUNT

(Values in thousands of Euro)

		2005	2004
1.1	Net premiums	9,096,306	9,442,459
1.1.1	*Gross premiums earned*	9,341,801	9,759,964
1.1.2	*Premiums earned ceded in reinsurance*	-245,495	-317,505
1.2	Commissions receivable	53,453	15,979
1.3	Income and expenditure deriving from financial instruments at fair value through profit and loss	126,561	294,124
1.4	Income deriving from holdings in subsidiaries, associates and joint ventures	46,838	2,451
1.5	Income deriving from other financial instruments and investment property	993,096	1,115,689
1.5.1	*Interest income*	613,165	612,388
1.5.2	*Other income*	172,411	161,130
1.5.3	*Profits realised*	205,392	307,954
1.5.4	*Valuation gains*	2,128	34,217
1.6	Other revenue	393,594	359,030
1	**TOTAL REVENUE AND INCOME**	**10,709,848**	**11,229,732**
2.1	Net charges relating to claims	7,480,620	7,954,119
2.1.2	*Amounts paid and change in technical reserves*	*7,663,479*	*8,130,883*
2.1.3	*Reinsurers' share*	*-182,859*	*-176,764*
2.2	Commissions payable	30,837	12,820
2.3	Expenses deriving from holdings in subsidiaries, associates and joint ventures	2,976	12
2.4	Expenses deriving from other financial instruments and investment property	198,720	328,467
2.4.1	*Interest expenses*	50,078	52,249
2.4.2	*Other expenses*	32,771	38,476
2.4.3	*Losses realised*	50,814	94,599
2.4.4	*Valuation losses*	65,057	143,143
2.5	Management costs	1,602,649	1,535,705

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2.5.1	*Commissions and other acquisition costs*	1,219,864	1,208,281
2.5.2	*Investment management expenses*	74,522	33,845
2.5.3	*Other administration costs*	308,263	293,579
2.6	Other costs	562,918	639,194
2	**TOTAL COSTS AND EXPENSES**	**9,878,720**	**10,470,317**
	PRE-TAX PROFIT (LOSS) FOR THE YEAR	**831,128**	**759,415**
3	Taxes	**244,778**	**314,388**
	PROFIT (LOSS) FOR THE YEAR NET OF TAXES	**586,350**	**445,027**
4	**PROFIT (LOSS) FROM DISCONTINUED OPERATIONS**	**0**	**0**
	CONSOLIDATED PROFIT (LOSS)	**586,350**	**445,027**
	pertaining to the group	465,283	340,691
	pertaining to minorities	121,067	104,336

STATEMENT OF VARIATIONS IN NET EQUITY

(Values in thousands of Euro)

			Balance as at 31-12-2003	Change in closing balances	Allocations	Transfers to Profit and Loss account	Other transfers	Balance as at 31-12-2004	Change in closing balances	Allocations	Transfers to Profit and Loss account	Other transfers	Balance as at 31-12-2005
Net equity pertaining to the group	Capital		170,520	0	34		0	170,554	0	2,560		0	173,114
	Other equity instruments		0	0	0		0	0	0	0		0	0
	Capital reserves		190,285	0	247		0	190,532	0	3,197		0	193,729
	Profit and other equity reserves		2,036,104	-78,031	150,349		0	2,108,422	14,780	255,166		0	2,378,368
	(Own shares)			-115,254	0		-56,117	-171,371	0	0		-98,686	-270,057
	Reseve for net exchange differences		-436	0	42	0		-394	0	-47	0		-441
	Profits or losses on financial assets available for sale		0	0	0	0	0	0	150,174	493,831	-108,114	0	535,891
	Other profits or losses recorded direct to equity	Profits or losses on hedge instruments for a financial flow	0	0	0	0	0	0	0	0	0	0	0
		Profits or losses on hedge instruments for a net investment in foreign management	0	0	0	0		0	0	0	0		0
		Reserve deriving from changes in participating interests' net equity	-29,360	28,493	1,594	0		727	0	-1,434	0		-707
		Revaluation reserve for intangible assets	0	0	0			0	0	0			0
		Revaluation reserve for tangible assets	0	0	0			0	0	0			0
		Income and expenditure relating to non-current assets or to an HFS disposal group	0	0	0	0	0	0	0	0	0	0	0
		Other reserves	0	0	-5,762	0	0	-5,762	0	-9,758	0	0	-15,520
	Profit (loss) for the year		217,281		192,019		-68,609	340,691	0	249,651		-125,059	465,283
	Total pertaining to the group		**2,584,395**	**-52,948**	**341,933**	**0**	**-124,726**	**2,633,399**	**164,954**	**993,166**	**-108,114**	**-223,745**	**3,459,660**
Net equity pertaining to minorities	Minority interest in capital and reserves		394,143	18,598	124,238		0	536,979	2,298	353,076		0	892,353
	Profits or losses recorded direct to equity		0	50	5	0	0	55	1,592	51,504	-17,342	0	35,809
	Profit (loss) for the year		104,136		37,546		-37,346	104,336	0	69,126		-52,395	121,067
	Total pertaining to minorities		**498,279**	**18,648**	**161,789**	**0**	**-37,346**	**641,370**	**3,890**	**473,706**	**-17,342**	**-52,395**	**1,049,229**
Total			**3,082,674**	**-146,144**	**500,312**	**0**	**-162,072**	**3,274,769**	**168,844**	**1,466,872**	**-125,456**	**-276,140**	**4,508,889**

FINANCIAL STATEMENT (indirect method)

(In thousands of Euro)

	2005	2004
Pre-tax profit (loss) for the financial year	**831,128**	**759,415**
Change in non-monetary items	**-1,384,670**	**1,570,253**
Change in non-life premium reserve	18,996	68,695
Change in claims reserve and other non-life technical reserves	63,203	301,839
Change in mathematical reserves and other life technical reserves	-1,178,526	1,515,527
Change in deferred acquisition costs	-110,130	-39,751
Change in provisions	100,011	-3,912
Non-monetary income and expenditure deriving from financial instruments, investment property and holdings	-212,607	-353,266
Other changes	-65,618	81,121
Change in receivables and payables generated by operating activities	**-48,080**	**-198,723**
Change in receivables and payables deriving from direct insurance and reinsurance	1,759	-179,684
Change in sundry receivables and payables	-49,839	-19,040
Tax paid	**-241,381**	**-301,201**
Net liquidity generated/absorbed by monetary items appertaining to investments and financial activities	**2,768,332**	**-860,351**
Liabilities from financial contracts written by insurance companies	3,114,057	0
Payables to bank and interbank clients	117,227	51,447
Loans and receivables to/from bank and interbank clients	0	538
Other financial instruments at fair value through profit and loss	-462,952	-912,336
TOTAL NET LIQUIDITY DERIVING FROM OPERATING ACTIVITIES	**1,925,328**	**969,393**
Net liquidity generated/absorbed by investment property	-234,430	453,019
Net liquidity generated/absorbed by holdings in subsidiaries, associates and joint ventures	21,217	-1,204
Net liquidity generated/absorbed by loans and receivables	-632,371	-628,966
Net liquidity generated/absorbed by investments held to maturity	0	0
Net liquidity generated/absorbed by financial assets available for sale	-1,900,927	-512,572
Net liquidity generated/absorbed by tangible and intangible assets	-30,451	-44,519
Other net cash flows generated/absorbed by investment activities	0	22,311
TOTAL NET LIQUIDITY DERIVING FROM INVESTMENT ACTIVITIES	**-2,776,962**	**-711,930**

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Net liquidity generated/absorbed by capital instruments pertaining to the group	9,672	34
Net liquidity generated/absorbed by own shares	-98,686	-56,117
Distribution of dividends pertaining to the group	-125,059	-68,609
Net liquidity generated/absorbed by minority interrest in capital and reserves	286,793	-19,187
Net liquidity gnerated/absorbed by subordinated liabilities and equity financial instruments	83,888	0
Net liquidity generated/absorbed by sundry financial liabilities	465,734	-279,788
TOTAL NET LIQUIDITY DERIVING FROM FINANCING ACTIVITIES	**622,342**	**-423,667**

Effect of exchange differences on cash in hand and at bank and equivalents	**0**	**0**

CASH IN HAND AND AT BANK AND EQUIVALENTS AT THE START OF THE YEAR	755,797	922,002
INCREASE (DECREASE) IN CASH IN HAND AND AT BANK AND EQUIVALENTS	-229,292	-166,205
CASH IN HAND AND AT BANK AND EQUIVALENTS AT THE END OF THE YEAR	**526,505**	**755,797**

Statement of variations in consolidated Net Equity for the year ended 31 December 2005

Regarding the statement of variations in net equity, the annex to Instruction 2404/05 is given below, which complies with the provisions of IAS 1, providing for a free form table with a series of minimum requirements. In particular, we show that the first column contains the data of the consolidated accounts as at 31/12/2005 drawn up in accordance with the national accounting principles, while in the second column the closing balances are altered by the introduction of the IAS/IFRS on the first time date of 01/01/2004. In the same way, in the column "Change in the closing balances 01/01/05" the effects on the net equity arising from the application of IAS 39 and IFRS 4 are shown.

In the item profits or losses on financial assets available for sale we show the effects of the valuation of the related financial instruments net of the amount to be assigned to policyholders and allocated to the deferred liabilities to policyholders.

The allocations column contains the allocation of the profit for the year, the allocation of the profit for the previous year to the equity reserves, the increases in capital and other reserves, and the variations in the profits or losses shown directly in the equity; in the column entitled transfers to the profit and loss account we show the profits or losses previously shown directly in the net equity according to the international accounting principles; in the other transfers we show the ordinary distribution of dividends and decreases in capital and other reserves, including the acquisition of own shares.

Consolidated financial statement for the year ended 31 December 2005

Regarding the Financial Statement, the annex is provided as laid down by Instruction 2404/05 which fulfils the requirements of IAS 7; this principle provides for a table in free form with a series of minimum requirements, and as regards the representation of financial flows arising from the operating activity, it provides for the use, alternatively, of the direct method, by which the main categories of gross receipts and payments are shown, or the indirect method, by which the result for the year is adjusted by the effects of operations of a non-monetary nature, by any deferment or setting aside of previous or future operating receipts or payments, and by items of revenue or costs connected to the financial flows arising from investment or financing.

The indirect form of the financial statement, given below, shows separately the net cash arising from the operating activity and that arising from investment and financing. We should recall that, following the application of IAS 39 and IFRS 4 as from 01/01/2005, the comparison of the flows affected by the principles mentioned may not be immediately significant; in particular we show how the increase in the financial instruments also includes the effect of fair value, the change in the life technical provisions is influenced by the reversal of the investment contracts not falling within the scope of application of IFRS 4, and consequently, in the change through liabilities from financial contracts issued by insurance companies, the balance of Deposit Accounting as at 31/12/2005 is shown.

Explanatory Notes

PART A - Accounting Policies

Section 1 – Declaration of conformity with the international accounting principles

Following the entry into force of European Regulation no. 1606 of July 2002, European companies whose shares are traded on a regulated market must adopt the IAS/IFRS accounting standards for drawing up the consolidated accounts for 2005, with the aim of increasing their comparability and transparency at European level.

The application at Community level of the international accounting principles, which are known as the IAS for those issued up to 2001 and the IFRS for those issued subsequently, as well as the interpretations, known as the SIC (Standing Interpretations Committee) and IFRIC (International Financial Reporting Interpretations Committee) takes place subject to a process of ratification, to guarantee that the international accounting principles are compatible with the Community Directives on such matters and concludes with the publication of the adopted documents in the European Union Official Journal.

Community legislation

The ratification of the principles by the European Union has taken place gradually, by separate regulatory measures, in particular:

- EC Regulation no. 1725 of 29 September 2003, in accordance with Regulation 1606/2002, adopted all the international accounting principles and interpretation documents drawn up on 14 September 2002, with the exception of the principles concerning financial instruments (IAS 32 and 39) and the related interpretations (SIC 5, 16 and 17).
- EC Regulation no. 707 of 6 April 2004 amended regulation 1725/03, substituting document SIC-8 (First time application of the IAS as a reference accounting system) with IFRS 1(First time adoption of the IFRS).
- Under EC Regulation no. 2086 of 19 November 2004, IAS 39 was adopted (Financial instruments – Recognition and Measurement) excluding some provisions on the unlimited fair value option and the accounting of cover operations, which had raised concerns on the part of the supervisory authorities regarding the possibility that inadequate use could be made of these standards.
- Under Regulations 2236, 2237 and 2238 of 29 December 2004, the following new principles were adopted: IFRS 3 (Business Combinations), IFRS 4 (Insurance Contracts) and IFRS 5 (Non current Assets Held for Sale and Discontinued Operations, IAS 32 (Financial Instruments – Disclosure and Presentation) and those principles were re-approved which were already adopted

by regulations 1725/03 and 707/04, but subsequently were subject to revision by the IASB.

- Regulation no. 211 of 4 February 2005 adopted the new IFRS 2, relating to Share-based payments
- Finally, on 16 November 2005, Regulation no. 1864 of 15 November 2005 was published in the EUOJ amending IFRS 1 as well as IAS principles 32 and 39, following the new wording of the fair value option published by the IASB on 16 June 2005 after much debate, in particular with the European Central Bank and the supervisory authorities represented by the Basel Committee.

The complexity of evaluating insurance contracts has been shown by the IASB which decided to divide the project into two phases: the first ended on 31/03/2004 with the publication of IFRS 4, while for the second phase currently there are no *exposure drafts* available. The peculiarity of the insurance sector was also emphasised by the Council of Ministers which laid down in the Legislative Decree approved on 25 February last ("the IAS Decree") the so-called "compulsory dual track accounting", on the basis of which companies which draw up consolidated accounts must prepare them in accordance with the international accounting principles, while the related accounts for the year must be prepared in accordance with Legislative Decree 173/1997.

On 30 December 2003 the CESR (Committee of European Securities Regulators) had published a recommendation on the information to be provided during the transition to the IAS/IFRS.
In particular, we recall how the CESR had asked the companies to distribute information on the transition only when they had sufficient reliable data to avoid distributing misleading accounting information. With reference to this recommendation, Consob *[National Commission for Companies and the Stock Exchange]* published an amendment to the Issuers Regulation on 15 April 2005 which provided for a gradual transition for the regular 2005 financial reporting.

For the above reasons Fondiaria-SAI has prepared the consolidated half-yearly accounts for 2005 using the same accounting principles as those adopted in the accounts closed on 31/12/2004 and 30/06/2004 in order to have a historical series for the comparison of data allowing adequate understanding of the progress of the group, while the third quarter as at 30/09/2005 was drawn up with the application of the international accounting principles in accordance with the information required in art. 82 of the Issuers Regulation.

In accordance with art. 9 paragraph 2 of the IAS decree, Isvap began the consultation process last June concerning the instructions for completing the consolidated accounts forms in accordance with the IAS/IFRS principles. Instruction no. 2404 was published on 22/12/2005; the accounts tables comply with the instructions given therein.

In accordance with IFRS 1 and to facilitate the interpretation and quantification of the impact of the conversion to the IAS/IFRS principles on the consolidated financial position and consolidated economic performance, the following documents are available in the report and the appendix.

a) Reconciliation tables between the consolidated net equity recognised according to the previous accounting principles and the Net Equity recognised in accordance with the IAS/IFRS on the following dates:

- date of change to the IAS/IFRS (01/01/2004);
- date of closure of last financial year for which the accounts were drawn up in accordance with the previous accounting principles (31/12/2004); evidence is also given separately of the effects of the application of IAS 32 and 39 and IFRS 4 which take effect from 01/01/2005;

b) Reconciliation tables for the result determined according to the previous accounting principles and that recognised in accordance with the IAS/IFRS on the following dates:

- closure date of last financial year for which the accounts were drawn up in accordance with the previous accounting principles (31/12/2004);

In order to give a correct interpretation of the accounting data, comments have been added concerning the most significant adjustments to the net equity and the result for the period, shown in the reconciliation tables.

The evaluation and measurement of the accounting amounts contained in the reconciliation tables and the explanatory notes are based on the IAS/IFRS principles which have been ratified by the European Commission to date and on their current interpretation by the official bodies.
The process of ratification by the European Commission and the interpretation and adaptation by the official bodies set up for this purpose is still in progress.

Regarding the tables required by IFRS 1 already published at the half year stage, we show that meanwhile the new versions of IAS 19 and IAS 39 have been incorporated. The effects are shown below and in the tables necessarily referred to.

First of all, it should be stated that the Fondiaria-SAI Group has decided to apply the following accounting principles as from 01/01/2005:

- IAS 32 – Financial instruments: disclosure and presentation
- IAS 39 – Financial instruments: recognition and measurement
- IFRS 4 – Insurance contracts

The aforementioned principles contain new elements which are particularly significant as regards the accounting principles used to prepare the accounts up to the present time.
International accounting principle IFRS 1 shows the technical rules for the change to the international accounting principles and among other things, provides for some facilities to ease the first time application. The transition to the IAS/IFRS therefore requires the selection of accounting principles and the identification of the first time application choices.

The choices relating to the application of IFRS 1 concern:

- the criteria for transition to the IAS with the possibility of adopting some optional valuation criteria or making use of some exemptions in the retroactive application of the new principles;
- the options stated in some specific international accounting principles.

The choices made by Fondiaria-SAI can be summarised as follows:
a) Business combinations occurring before the date of transition to the IAS/IFRS (01/01/2004) – Fondiaria-SAI has decided to adopt the prospective method of IFRS 1 which allows not re-opening business combinations completed before 01/01/2004. Therefore the goodwill on acquisitions made prior to 01/01/2004 (date of transition to the IFRS) which was entered in the consolidated accounts drawn up according to Italian principles has been maintained at its previous value, following a test on the adequacy of the value and showing any losses of value.
b) Property and other tangible assets. In the first time application, entry is allowed based on the fair value rather than the cost. This optional provision allows the business quoted to be entered at fair value and to use this value as replacing the cost. Fondiaria-SAI has not made use of this option, except for some property which is identified specifically, and has chosen to enter the tangible assets at the amortised cost, recognising any losses of value.
c) Staff leaving indemnity. There is no equivalent to the staff leaving indemnity in other countries and the most appropriate accounting methodology to be applied to this item is therefore disputed. While awaiting precise guidelines from legal opinion it was considered adequate to enter the staff leaving indemnity under IAS 19 "Employee benefits". According to this principle the staff leaving indemnity is considered to be an obligation with defined benefits which must be recalculated by actuarial methods, applying the criterion of the "unit protection of the credit". Fondiaria-SAI decided to apply IAS 19 amended by EC regulation no. 1910 of 8/11/2005 recognising the actuarial gains and losses in the year in which they occur, allocating the effects of these directly to the net equity. The principle is applied as from 2004: the effects are shown in the reconciliation tables as laid down in IFRS 1.

It is clear that the comparison with the 2004 data for items affected by the aforementioned principles may not be fully significant. To this end for the data on equity as at 31 December 2004, we have reclassified the financial investments in the categories stated in IAS 32 and 39, without prejudice to the application of the valuation criteria as from 1 January 2005. The comparison is not significant for the items in the profit and loss account affected by these principles either; therefore we have carried out a similar reclassification for comparability with this financial year.

Section 2 – General principles for drawing up the accounts

The accounts were drawn up in the expectation that the business would continue. There were no uncertainties over events or conditions which may lead to doubts arising on the ability to continue operating as a working entity.
As regards the reclassifications, please refer to Section 4, "Other Aspects".

The consolidated accounts tables have been drawn up in accordance with the instructions provided by Isvap in Instruction no. 2404 of 22/12/2005.

Section 3 – Consolidation methods

CONSOLIDATION PRINCIPLES

ACCOUNTS USED FOR THE CONSOLIDATION

In order to draw up the consolidated accounts, the accounts approved by the Shareholders' Meetings of the respective companies were used. Where the accounts had not yet been approved, the draft accounts examined by the respective Boards of Directors were consolidated. The aforementioned accounts were adjusted and reclassified to reflect the application of the International Accounting Principles.

CONSOLIDATION TECHNIQUES

- Consolidation on a line-by-line basis

The consolidated accounts include the accounts of the Parent Company in which Fondiaria-SAI holds, directly or indirectly, a majority quota (more than 50% of the share capital with voting rights) or exercises effective control. Under the line-by-line method the accounting value of the holdings is eliminated against the related net equity, taking on all of the assets and liabilities of the company participated in. The quotas of net equity and of the consolidated profit and loss account relating to minority shareholders are entered under the appropriate items in the net equity and the profit and loss account.
The negative differences between the book value of the accounts of the Parent Company and the quota of net equity acquired in the company participated in are allocated directly to the consolidated net equity in the item profit reserve and other equity reserves, which also includes profits accrued and not distributed. The positive differences have been allocated to the item Investment Property where the higher cost reflects an actual higher value of these assets or to the item goodwill in cases where the higher cost, in respect of the net equity amounts at the time of purchase, reflects the prospective value of future economic results.

- Consolidation using the proportional method

The consolidated accounts also include the entities over which an entity included in the consolidation has joint control with other shareholders and on the basis of agreements with them, as laid down in IAS 31. In this case the inclusion in the consolidated accounts follows the criterion of proportion with the shareholding owned.

- Consolidation using the net equity method

The associated companies have been valued using the net equity method according to IAS 28: an associated company is an entity in which the Parent Company holds a considerable influence without being a subsidiary, or a shareholding subject to joint control.
According to this procedure, the consolidated accounts include only the applicable quota of the accounting net equity of the total holding in the result for the year, but not the values of the individual accounting items.

Other consolidation operations (principal operations given below):

- Elimination of dividends for payment or passed by consolidated companies;
- Elimination of significant inter-company relations, asset and economic;
- Elimination of profits and losses arising from sale and purchase operations carried out between companies in the Group and relating to values included in the assets, even if they are consolidated using the Net Equity method;
- Necessary adjustments to make the accounting principles the same within the Group;
- Recognition, where applicable, of the fiscal effect due to any adjustments to make the valuation criteria for the accounting items uniform, or due to other consolidation adjustments.

DATE OF THE CONSOLIDATED ACCOUNTS

The Consolidated Accounts closed on 31 December 2005, which coincides with the date of the accounts of the Companies consolidated on a line-by-line basis.

CURRENCY OF ACCOUNT

These accounts are expressed in Euro (€) as this is the currency in which the majority of the Group's operations are carried out. An exact indication is given of all the amounts in the accounts in thousand or million euro. The conversion of the accounts expressed in currency other than that of the Euro area has been made by applying the exchange rates in force at the end of the financial year.

Section 4

Accounting Principles and valuation criteria

The accounting principles adopted are the same as those used for the previous year, with the sole exception of IFRS 4, IAS 32 and 39 which, as allowed by IFRS 1, have been applied as from 01/01/2005.
We summarise below the valuation criteria for the principal accounting items:

1. INTANGIBLE ASSETS

Goodwill

Based on IAS 38 "Intangible assets" and IFRS 3, Goodwill, as an item with an undefined useful life, is no longer amortised systematically, but is subject to an impairment test carried out annually or more frequently if there are events or circumstances which may lead to a permanent loss of value.

To that end, the Group:
- has identified the units generating cash flows which relate to the goodwill entered;
- has determined the recoverable value of the units generating financial flows as the greater between its fair value and its use value;

- for goodwill for which the use value is used, the Group has identified the future financial flows of these units generating cash flows;
- has taken the opportunity to update these financial flows to determine the "recoverable value" of the goodwill and enter any loss of value.

We should also point out that, based on the optional exemption provided for in IFRS 1, the data relating to business combinations already recognised in the accounts before the date of transition to the IAS (01/01/2004) was not subject to re-exposure according to the rules of IFRS 3. For business combinations carried out after that date, the criteria laid down by IFRS 3 were followed; in particular, for business combinations completed in 2005, please refer to part G.

Other intangible assets

In accordance with IAS 38 an intangible asset is recognised in the accounts only if it is identifiable, controllable, the cost can be measured and it is able to generate future economic benefits.
It follows that both set-up and enlargement costs and research and advertising costs are allocated to the profit and loss account at the time they are sustained.
The amount entered for this in the accounts drawn up according to the Italian principles on the date of transition to the IAS/IFRS was therefore allocated to reducing the net equity. The intangible assets which have the requirements for being capitalised are amortised on a linear basis with reference to their relative useful lives, following a check that there are no indicators of permanent losses of value. It should be noted that there are no intangible assets which are generated internally.
The explanatory notes give information relating to the useful lives of the various categories of assets (IAS 38.118 a,b).

2. TANGIBLE ASSETS

This item includes property intended for use by the entity and other tangible assets.
IAS 16 "Property, plant and equipment" provides that, in the initial entry, property for use by the entity is entered at cost; subsequent entries can be based on the cost model (paragraph 30) or based on the revaluation model (paragraph 31).
In line with what was done for investment property, the Group decided to use the principle of cost for the valuation of property both for its own use and for use as an investment.
Property classified as stock in the accounts of companies in the property sector also fall in this category. It is valued, in accordance with IAS 2, at the lower amount between the cost (including the costs of acquisition, transformation and other costs sustained) and the net realisation value. Therefore, please refer to what has already been stated in the paragraph on investment property.
Regarding agricultural assets, for cultivation advances a valuation has been made of the work carried out on the date the accounts closed, while for finished products the fair value has been determined by means of a comparison between production values and market-list values.

3. REINSURERS' TECHNICAL PROVISIONS

The reinsurers' provisions include predetermined amounts applicable to them, in accordance with the reinsurance contractual agreements, based on the gross amounts of the technical provisions. In particular, the Provision for Unearned Premiums is calculated on the basis of art. 32 of Legislative Decree 173/97 for the gross Provision for Unearned Premiums.

4. INVESTMENTS

Investment property

Investment property is represented by property owned for renting out and/or for capital appreciation.
IAS 40 "Investment Property" which regulates property held by the company for investment purposes, provides that at the time of acquisition the property must be entered at cost, while in the subsequent valuations the entity can choose between the valuation at cost or at fair value.
The fair value is the price at which ownership of the property may be exchanged between knowledgeable and willing parties in a free transaction, that is what is commonly defined as the market price.
Except as indicated below, the Group has chosen to use the cost as the valuation principle for all property, both for use by the entity and owned for investment purposes, and as such, intended for use by third parties.

In the first time application, as allowed by IFRS 1 (First time adoption of the International Financial Reporting Standards), the value which was redetermined on the basis of the preceding accounting principles as replacing the cost was used.

On the basis of IAS 16, referred to in IAS 40, action was also taken to:

- separate, from the value of the property owned in full, the value of the land on which it exists, as it is not subject to amortisation, having an unlimited duration;
- apply the appropriate depreciation process to the net value thus obtained, based on the estimate of its useful life;
- consequently, redetermine the value of the buildings on the date of transition to the IAS, allocating to the Net Equity the difference in respect of the value present in the accounts drawn up according to Italian principles.

Investment property is also subject to impairment tests by comparing the accounting value with the estimate of the fair value, determined by appropriate surveys by independent valuation experts.
The revaluations of the property carried out in previous years have not been removed in the process of redetermining the cost, as it is considered that they contribute to the determination of the depreciated cost, reflecting the change in the price index or they have been made to approximate the fair value of the property on the date of revaluation.
For property assigned to the Tikal RE closed-end investment fund, however, the fair value was used to replace the cost, as this property, under the aforementioned

assignment, is subject to systematic upgrading work, to maximise its profitability, even in a short period.
Any profit or loss deriving from the elimination of a property investment is recognised in the Profit and Loss Account for the year in which the elimination takes place.

Shareholdings in subsidiaries, associated companies and joint ventures

Shareholdings in associated companies valued using the net equity method, and some shareholdings in subsidiaries which the Group considered not to be of material size and which were therefore maintained at cost fall under the item “Shareholdings in subsidiaries, associated companies and joint ventures”.

Financial instruments

IAS 39 “Financial instruments: recognition and measurement” as amended by EC Regulation no. 1864/2005 of 15/11/2005 (Fair Value Option), applied by the Group as from 01/01/2005, provides that financial instruments are classified not according to their nature, but on the basis of their functional intended use within the management of the entity. In particular, IAS 39 provides for the following categories, for financial assets:

- “financial instruments valued at fair value through profit or loss” – includes securities owned to be traded in the short term and securities which, on the initial recognition, present the characteristics to be designated by the entity in this category, also in relation to the amendments made to IAS 39 by EC Regulation no. 1864/2005;
- “loans and receivables” which, apart from receivables and loans in the strict sense, as defined by the Italian principles, also includes unlisted debt securities, provided that they are not intended for sale and whose recovery depends exclusively on the credit worth of the issuer;
- “held-to-maturity financial instruments” – includes debt securities with fixed maturity and fixed or determinable payments that the entity intends and is able to hold to maturity;
- “financial instruments available for sale” – remaining category which includes securities which cannot be classified in the preceding categories.

In the first recognition the financial assets are entered at fair value which generally corresponds to the price paid for their acquisition. Subsequently, differentiated valuation criteria apply to the individual categories, still according to IAS 39. In particular:

- financial instruments at fair value through profit or loss, as explained by the name of the category, are valued at fair value, allocating the difference between fair value and initial value to the profit and loss account;
- financial instruments held to maturity and loans and receivables are valued at the amortised cost, calculated using the effective interest method;

- financial instruments available for sale are valued at fair value, with the allocation of the difference in respect of the initial value to net equity, in the appropriate reserve. This reserve is reversed in a counter-entry in the profit and loss account when the financial instrument is realised or in cases of impairment.

For financial assets entered in the category "fair value through profit or loss", in the recognition of fair value on the date of transition (01/01/2005) the difference between the fair value and the book value determined according to Italian principles must be allocated to an appropriate net equity reserve, called the First Time Application Reserve.

As noted previously, according to the IAS principles the fair value is the amount at which an asset (or liability) could be exchanged between knowledgeable and expert parties not subject to any constraints. In particular, the fair value of financial instruments is determined on the basis of the following:

- for financial instruments listed on active markets: normally the stock exchange value of the last day of 2005 is used (so-called mark to market) in any case it is checked that the value used is representative of the fair value of the financial instrument;
- for financial instruments which are not listed it is the price determined on the basis of adequate valuations, with the valuation being made by independent parties (so-called mark to model).

It is also shown that ordinary sales and purchases of financial assets are entered in the accounts on the date of settlement of the transaction, that is the date the Group receives or delivers the assets materially.

Loans and receivables

The item includes loans as defined in IAS 39.9, excluding accounts receivable.
In particular it includes deposits of reinsurers with ceding companies, some debt securities held which are not listed in an active market, loans and asset financing, as well as loans on life policies and repurchase agreements.
For the latter in particular the exchange value of the securities acquired "spot" is entered, while the exchange value of securities sold "spot" is shown in the Financial Liabilities under the item Other Financial Liabilities.
The interest and differences between "spot" and "forward" exchange values are entered under Income deriving from other financial instruments.

Financial assets available for sale

This item includes all the non-derivative financial assets, designated as available for sale. It contains the majority of the Group's Financial Assets, represented by capital securities mainly listed, quotas in unit trusts, and debt securities (listed and unlisted) which the Group has designated as belonging to this category.
As illustrated above, the profits and losses arising from the change in fair value of these assets are recognised directly in the net equity as long as they are not assigned or have undergone a permanent loss in value. At that point the profits or

losses, already recognised in the net equity, are allocated to the profit and loss account for the period.

Financial assets at fair value recognised in the profit and loss account

The item includes the financial instruments held with the purpose of being traded in the short term, as well as the assets which the Group has designated to this category in accordance with the conditions laid down by IAS 39, amended by EC Regulation no. 1864/2005 which put significant restrictions on the use of the so-called fair value option. The category therefore includes both debt securities, and capital securities, listed and not listed, as well as the positions opened on derivative finance contracts owned both for reasons of efficient management, and to cover fair value or cash flows.

This item also includes the so-called structured securities or hybrid financial instruments for which the component deriving from the host financial instrument has not been removed and recognised separately, as the derivative, by its own features, significantly influences the financial flows of the instrument as a whole.
Finally it includes the financial instruments to cover insurance or investment contracts issued by insurance companies for which the risk of investment is taken by the policyholder, as well as the financial assets deriving from the management of pension funds (so-called class D of investments according to the Italian accounting criteria).

5. RECEIVABLES

This item includes accounts receivable as exemplified in IAS 32 AG4. (a) regulated by IAS 39.
The main receivables entered under this item concern positions with regard to: policyholders for premiums being collected, agents and other intermediaries, and coinsurance and reinsurance companies.
The receivables are valued at the amortised cost calculated using the effective interest method, which is identified by calculating the rate which equalises the current value of the future flows of credit to the amount of credit granted. The depreciated cost method is not used for receivables whose brief duration means that the effect of updating is negligible. These receivables are valued at the historical cost which is the same as the nominal value and are regularly subject to impairment tests. The same criterion is used for unconfirmed receivables or those without a pre-arranged maturity.
An estimate of the receivables which risk being uncollectable is made regularly. These amounts are written down at the time they are identified, taking into account the financial effects relating to the presumed realisation times, where they are significant.

6. OTHER ASSET ITEMS

Deferred acquisition costs

Pre-calculated commission due to intermediaries for the acquisition of multi-year policies is capitalised and amortised on the basis of the average duration of the contracts to which it refers. For the Life sector the amortisation is carried out within the limits of the policy loadings. The future usefulness of the pre-calculated sum still to be amortised is re-examined from time to time. Every other charge sustained for the acquisition of risks relating to multi-year contracts and for their management is shown in the profit and loss account for the year in which it is sustained.

Current and deferred tax assets

The item current tax assets shows the assets of a fiscal nature as defined and regulated by IAS 12.
The Group recognises the effects relating to current and deferred income tax on the basis of the valuation of the tax burden applicable determined on the basis of the current tax legislation. If there are temporary differences between the result for the year and the taxable income, the tax temporarily deferred is calculated taking into account the nominal tax rate, making adequate adjustments if there is a change in the rate in respect of the current year.
Assets for advance taxes are entered only insofar as there is a probability that they will be recovered, related to the ability to continue to generate positive taxable income.
This item also includes the assets arising from the payment of the tax described under art. 1 paragraph 2 of Decree Law 209/02 as converted by art. 1 of law 265/2002 and subsequent amendments. This is in compliance with Isvap instruction no. 2404/05 even if the aforementioned assets do not relate to income tax.

Other assets

This item includes deferred reinsurance accounts payable, deferred debit commission connected to contracts not falling within the scope of application of IFRS 4 and other residual assets which are not included in the preceding items.

Service contracts linked to insurance policies of a financial nature

Index-linked and unit-linked products of a financial nature are considered to be sub-divided into a financial contract component (IAS 32 and 39) and a service contract component (IAS 18) for insurance administrative management.
With reference to the service component of the index and unit linked contracts, IAS 18 requires that:

- the revenue and costs relating to one operation must be recognised simultaneously
- the associated revenue and costs for an operation which includes the provision of services must be recognised with reference to the stage of completion of the operation.

The stage of completion can be recognised with various methods, and in particular, when the services are rendered by means of an indeterminate number of actions over a determined period of time the revenue and costs are recognised in equal instalments unless it is clear that other methods would represent the stage of completion more accurately.

On the basis of these considerations the quota to be amortised of costs sustained on financial contracts is determined, according to the linear method, and conversely, the quota not yet matured of revenue relating to these contracts.
As regards the income components of the other multi-year contracts, in particular for the "unit linked" policies, the compatibility of the criteria already used in drawing up the consolidated accounts with the IAS/IFRS principles has been checked.
Therefore for the financial contract component the liability is valued at Fair Value while for the service contract component, as the flow of revenue (loading) is not aligned to the flow of costs (commission and management costs), the revenue (Deferred Income Revenue) and acquisition commission (Deferred Acquisition Cost) are deferred.
For index linked the estimate both of DIR and DAC amortised for the period from attachment until the valuation date is made directly on the current portfolio taking into consideration the total loading and acquisition commission for each tranche.
For unit linked products of a financial nature it is considered that the flow of revenue, loading and management commission, the latter at random amounts, is always greater than the flow of costs and that there already exists in itself a matching per year of the remaining duration of the contract.

7. CASH AT BANK AND IN HAND AND EQUIVALENTS

This item includes cash, repayable bank current accounts and deposits repayable on demand, as well as other investments with a high liquidity, readily convertible into cash, which do not present risks.
These balances are shown in the accounts at their nominal value.

NET EQUITY AND LIABILITIES

1. NET EQUITY

Relating to the Group

The macroitem includes the instruments which represent capital and the related equity reserves relating to the Group.
The item **Profit reserves and other equity reserves** includes, among other things, the reserve arising from the first-time application of the international accounting principles, the consolidation reserves and the catastrophe and equalisation reserves as described in IFRS 4.14 (a).
The item **Profits or losses on financial assets available for sale** includes the profits or losses arising from the valuation of financial assets available for sale net of the related deferred taxes where applicable, and net of the part which can be assigned to the policyholders and allocated to the insurance liabilities (so-called shadow accounting).
The item **Own shares** includes, as an adjustment to the net equity of the Group, the accounting book value of the instruments representing the capital of the entity which draws up the consolidated accounts, owned by the entity itself and by the consolidated companies.

Relating to Third Parties

The macroitem includes the instruments and components which represent capital and the related equity reserves applicable to third parties.

2. AMOUNTS SET ASIDE

The macroitem includes the liabilities defined and regulated by IAS 37. The amounts are only set aside to provisions for liabilities when the Group has to meet a current obligation (legal or implicit) arising from a past event and for which it is possible to make a reliable estimate of the presumed financial sacrifice. The future financial flows are updated only if this effect is significant; in this case the adjustment of the fund due to the passing of time is recognised as a financial charge on the basis of a discount rate which reflects the current market value of the cost of money, in relation to the passing of time.

3. TECHNICAL PROVISIONS

The macroitem includes the commitments arising from insurance contracts gross of the reinsurance surrenders. In particular, it includes the reserves set aside following the adequacy test on the liabilities and deferred liabilities to policyholders.
The general regulations on the technical provisions, as stated in art. 31 of Legislative Decree 173/97, sanction the principle by which the amount of the reserves must always be sufficient to allow the entities to meet the commitments taken on in the insurance contracts, as far as is reasonably foreseeable; the reserves are therefore calculated according to the criteria of the individual accounts and the technical provisions were not re-determined in accordance with IFRS 4. In particular:

Provision for unearned premiums, Non-Life business

Art. 32 of Legislative Decree 173/97 states the obligation to enter the provision for unearned premiums divided into two components, "provision for premium portions" and "provision for unexpired risks".
The provision for premium portions is calculated in all classes of insurance, by applying the pro rata temporis method, based on the gross premiums entered in the accounts, net of the acquisition costs, as identified by arts. 51 and 52 of the aforementioned Decree and subsequent measures.

Provision for outstanding claims Non-Life business

The provision for outstanding claims represents the total amount of the sums which, according to a prudent valuation based on objective factors, are necessary to meet the payment of claims opened at the end of the financial year, as well as the related handling expenses.
The provision for outstanding claims was valued according to paragraph 2 of art. 33 of Legislative Decree 173/97, taking the final cost as the criterion, to take account of

all future foreseeable charges, on the basis of historical and prospective data. It also includes the estimate relating to the losses which have occurred but have not been notified on the date the financial year closed.
The provision for outstanding claims entered in the accounts represents the result of a complex multi-phase technical valuation, which starts from a first valuation made by means of an analytical examination of individual positions opened, or by looking at the average costs for claims incurred during the year in TPL Motor insurance, which the process assigned to the managerial structures of the company follows, using statistical-actuarial methods, to determine the final cost of the claims.

Other technical provisions

In compliance with art. 25 of Legislative Decree 175 of 17/3/1995, these include the provision for increasing age set up for insurance contracts for long-term illness and for which the company has waived the right of withdrawal; the reserve was calculated according to the provisions of the 3rd paragraph of the aforementioned article.

Catastrophe and equalisation reserves

IFRS 4 “Insurance contracts” defines the insurance liability as a clear contractual obligation of the insurer under the terms of an insurance contract.
Based on this definition no components of the provision for unearned premiums can be maintained in the accounts drawn up according to the IAS/IFRS international principles which, while they are obligatory according to the Italian accounting principles as they are set aside to meet specific legislative measures, concern not only individual insurance contracts but all of the contracts covering certain risks of catastrophe type and are set aside, based on standard rates, in addition to the provision for premium portions of the individual contracts, calculated with the pro rata temporis method, with the aim of reinforcing the reserves intended to cover these catastrophe-type risks.
However, these additional risks are set aside not after claims which have already occurred (which would trigger a contractual obligation of the insurer, to be entered as a provision for outstanding claims) but to meet the possibility that losses of this type may occur in future. According to IFRS 4 such eventualities are met not with a liability, but with a greater net equity endowment.

Technical provisions Life business

The technical provisions for direct insurance relating to Life business are calculated analytically for each contract, based on the pure commitments without deductions for acquisition costs for the policies and referring to the actuarial assumptions (technical interest rates, demographic hypotheses of eliminations for death or incapacity and operating expenses) adopted to calculate the premiums for the contracts in existence. In all cases the mathematical provisions are not less than the surrender value. The premiums brought forward relating to the quotas of annual premiums applicable to the subsequent year are included in the technical provisions.
The technical provisions include, among other things, the additional reserve on contracts with a service provided which can be revalued, as laid down by Isvap

instruction 1801-G of 21/02/2001 and art. 25 paragraph 12 of Legislative Decree 174/95.
These reserves meet the commitments relating to life policies of an insurance nature and those with a discretionary participation in the result.

Shadow Accounting

In order to provide a better representation of the data we have used the option stated in paragraph 30 of IFRS 4 to correlate the value of the mathematical provisions relating to contracts with discretionary participation in profits by the policyholder (which includes the separate management of Life assurance), to the value of the related assets determined in accordance with IAS 39.
The securities included in the separate management of Life assurance fall either in the category “available for sale” or in the category “fair value through profit or loss”, and as such, have been valued at fair value, recognising as an increase in the net equity or in the result for the period the difference between fair value and value determined according to the Italian principles.
However, as is known, the yield from the securities included in separate management determines the yield to be retroceded to the policyholders and therefore influences the amount of the mathematical provisions.
An adjustment was therefore made to the technical provisions of the contracts included in separate management consistent with the valuation of the related assets, allocating the difference to net equity (or the profit and loss account); in this way the technical provisions of these contracts take account of the quota applicable to the policyholders of the latent capital gains on securities in separate management which, based on the contractual clauses and the current legislation, will be paid to the policyholders only if and when the capital gains are realised with the sale of those assets, but which in this context is made clear as the capital gains of those securities, as already stated, were recognised as an increase in the net equity.

It should be noted that the methodology of recognition is adopted within the limits of safeguarding the minimum guaranteed yield paid contractually to each separate management, so as not to prejudice the rights of the policyholders.

The aforementioned accounting entry allows the mismatch in valuation existing between assets and liabilities to be reduced, albeit partially.

Liability adequacy test or L.A.T.

According to IFRS 4, the insurance company must carry out an adequacy test on the technical provisions entered in the accounts. This test must comply with some minimum requirements based on the best current estimate of the flows related to the contracts in the portfolio at the end of the financial year and related flows (such as handling expenses for example), as well as take account of the financial flows deriving from guarantees and implicit options.

Any shortage in the technical provisions entered in the accounts in relation to the estimate of future cash flows must be fully recognised in the profit and loss account.

On this point, it should be noted that Italian legislation does not explicitly provide for specific adequacy tests on the technical-insurance provisions. However, the special Italian provisions on insurance matters provide for some requirements which may be consistent with what is laid down by IFRS 4, while not meeting all of the requirements.
In particular, for the Life sector, the mathematical provisions are determined using demographic and financial hypotheses in order to determine the pure premium (first level technical bases) in turn supplemented by the so-called additional and supplementary technical provisions based on current hypotheses at the time of valuation (second level technical bases). The latter include:

- the reserve on foreseeable yields as stated in Isvap Instruction no. 1801, but which does not extend the examination to the whole duration of the contract
- the supplementary reserve for demographic risk (Isvap Instruction no. 1380)
- the additional reserves for guarantees of result and/or return of capital (ex art. 30 Legislative Decree 174/95)

Therefore the Group has developed a model which measures the adequacy of the insurance liabilities in the Life sector whose methodology and results are shown in section F) relating to the uncertainty of insurance financial flows.

However, with reference to the Non-Life sector it is considered that the component of the provision for unearned premiums which can be allocated to the provision for unexpired risks, which must be set aside whenever the loss ratio expected in non-Life is higher than that used to construct the tariff premium, represents a reasonable approximation of the liability adequacy test. As regards the provision for outstanding claims, Italian legislation provides that it must be determined according to the criterion of the final cost, in the sense of the total sum paid to the beneficiary at the time of indemnification. Even in this case it is considered that determining the provisions for outstanding claims according to the Italian accounting criteria, based on the principle of the final cost, includes the main future cash flows without taking account of any updating factor and that therefore it may be considered to be a higher sum than that which would emerge from the application of the LAT under IFRS 4.

4. FINANCIAL LIABILITIES

The macroitem includes the financial liabilities governed by IAS 39 other than accounts payable as exemplified in IAS 32 AG4 (a).

Financial liabilities at fair value recognised in the profit and loss account

This item includes the financial liabilities at fair value recognised in the profit and loss account, defined and regulated by IAS 39. In particular, it includes the commitments with regard to policyholders to meet investment contracts not falling under the scope of application of IFRS 4, as well as those arising from the management of pension funds.
These categories therefore include the liabilities relating to those products which have the features indicated in art. 30, paragraphs 1 and 2 of Legislative Decree 174/95, unit and index linked type, whose limited significance in terms of the

underlying insurance risk has led to the reclassification of the contract from insurance to financial, as well as the technical provisions arising from the management of open-ended pension funds.
In this case the allocation to the profit and loss account of the changes under fair value allows the correlation with the valuation of the underlying assets and this is consistent with both what is stated by the European Commission on valuation correlated between assets and liabilities in the Explanatory Memo of 19/11/2004 and with the version of IAS 39 updated in November 2005 as well as the instructions given by Isvap in Instruction no. 2404/05.
The item also includes the negative positions on derivative finance contracts in existence at the end of the financial year.

Other financial liabilities

The item includes the financial liabilities defined and governed by IAS 39 not included in the preceding category. In particular, it contains the financial and operating debt of the Group, such as subordinated loans (only for the financial component), deposits received by reinsurers and miscellaneous loans and other financial payables.

It also includes investment contracts not falling within the scope of application of IFRS 4, other than those of the unit and index linked type, such as for example the contracts described in art. 23 paragraph 5 of Legislative Decree 173/97.
These liabilities which in the first time recognition are entered at fair value, are valued subsequently at the amortised cost determined using the effective interest method.

5. PAYABLES

The macroitem includes the accounts payable as exemplified in IAS 32 AG 4(A) regulated by IAS 39. In particular it includes the payables arising from direct and indirect insurance operations as well as amounts set aside to meet payables to staff for the staff leaving indemnity.

Staff leaving indemnity

There is no equivalent to the staff leaving indemnity in other countries. According to prevalent opinion and while we await specific guidelines from legal opinion, it was considered appropriate to include the staff leaving indemnity under IAS 19 “Employee benefits”.
In particular, given that it concerns a complex obligation, as there is the guarantee of a fixed yield of the sums set aside which are not payable on the date of the accounts, the amount to be entered according to the IAS principles must be subject to an actuarial calculation according to the procedure indicated in point 64 of IAS 19 “Defined benefit plan”. In the same way the effect of other deferred benefits to employees has been calculated, which fall in this case under IAS 19 and are due to termination of employment.
Under EU Regulation no. 1910 published in the EUOJ on 24/11/2005, among other things, some changes to IAS 19 “Employee benefits” were made, in particular, it

provides for the possibility of recognising the actuarial gains and losses in the year in which they occur directly in the net equity. In the tables presented at the half-year stage the actuarial gains and losses were not recognised following the application of the "corridor method". The Group has now decided to take the opportunity provided by the new version of IAS 19 and has consequently adjusted the balances as at 31/12/2004 entering in the Net Equity all the actuarial gains and losses accumulated on that date. A similar entry was adopted for the health fund for retired managers.

Long service bonuses under art. 30 CCNL *[National Collective Employment Agreement]*

The fund has been set up for all employees of insurance companies who have completed their 25th and 35th year of active service in the company on the basis of the annual salary matured on the date of disbursement. According to the Italian accounting principles, the matured amount is set aside annually for each employee in service on that date. The fund is used for the bonuses actually paid. This also falls under IAS 19, as it can be described as "other long term employee benefits".

6. OTHER LIABILITY ITEMS

Current and deferred tax liabilities

The items include liabilities of a fiscal nature as defined and regulated by IAS 12. The valuation of the tax burden, current and deferred, relating to income tax is made on the basis of the national tax rates in force on the date of the accounts.
In particular, the recognition of deferred tax liabilities generally occurs in all cases of temporary differences, whether they relate to entries of an asset nature, or are economic, intended to be repaid in future years.

Profit and Loss Account

Insurance contracts

As from the date IFRS 4 came into effect (1 January 2005), all contracts have been classified identifying those which, as they have a risk component of an insignificant insurance type, but are legally insurance contracts, do not fall within the scope of application of IFRS 4. In particular, all the contracts relating to life business (except those with discretionary participation for which IFRS 4 provides that the accounting principles in force on the date of transition to the IAS should be adopted) which do not fall under the preceding definition, must be entered in the same way as financial contracts and therefore according to the rules laid down by IAS 39 (with the "deposit accounting" method). However, contracts which fulfil the definition stated in IFRS 4 are entered according to the current rules laid down by the Italian accounting principles and the related reserves are subject to an adequacy test.

Therefore on the basis of the IAS/IFRS principles the insurance policies have been classified in the following categories:

- insurance contracts and financial instruments with discretionary participation, to which IFRS 4 “Insurance Contracts” applies
- other financial instruments, which fall within the scope of application of IAS 39 “Financial instruments: recognition and measurement” and IAS 18 “Revenue” for any service component.

Based on the analyses carried out on the policies in the portfolio, all contracts in the non-life sector fell within the scope of application of IFRS 4, and all life contracts, with the exception of the prevalence of the index and unit linked contracts, were valued on the basis of the aforementioned principles IAS 39 and IAS 18, or separating the financial liability (valued at fair value through profit or loss) from the component of the premium relating to the service activity in favour of the policyholders, valued according to IAS 18.

Premiums for the year

Gross premiums entered in the accounts include the amounts accrued during the year for the Insurance Contracts, as defined by IFRS 4 (Insurance Contracts). This item does not include the revenue relating to the policies which, while they are legally insurance contracts, present an insignificant insurance risk and therefore fall within the scope of application of IAS 39 (Financial instruments: recognition and valuation) and IAS 18 (Revenue). These contracts are treated with the “deposit accounting” method which, as we shall see later on, provides among other things for the allocation to the profit and loss account only of explicit and implicit loading, entered under the item “credit commission”.
However, contracts which fall under the scope of application of IFRS 4 are treated according to the principles applicable to the accounts under civil law. In particular, according to art. 45 of Legislative Decree 173/1997 and the instructions contained in the Isvap instruction on the accounts plan for insurance companies, the premiums include:

- cancellations due to technical reversals of individual securities issued during the financial year;
- the cancellation of premiums in life business for subsequent annual periods falling due in previous years;
- changes in the contract with or without a change in the premium, operated by means of substitutions or annexes.

While they do not include the following, because they are allocated to the item “other technical charges”:

- write-downs due to the irrecoverability of receivables from policyholders for premiums for the year carried out at the end of that year;
- write-downs of receivables from policyholders for non-life premiums of previous years;
- write-downs of receivables from policyholders for life premiums for the first year or single premiums written in previous years.

Credit commission/Debit commission

The items include the commission relating to investment contracts not falling within the scope of application of IFRS 4. As already stated in the comment to the premiums item this concerns:

- index linked contracts falling under class V "Capitalisation";
- unit linked contracts for which the loading on the contract and the credit management commission is entered under credit commission and the commission granted to intermediaries is entered under debit commission.

Income from investments

Net income deriving from financial instruments at fair value recognised in the profit and loss account
This includes profits and losses, including dividends and net results from trading and positive and negative changes in value of financial assets and liabilities included in the category "fair value through profit or loss". The changes in value are determined on the basis of the difference between the fair value and accounting value of the financial instruments entered in that category.

For the financial instruments listed on the active markets the fair value is the current market price on the reference date while for the unlisted financial instruments it is the price determined on the basis of adequate valuation techniques.

Income/charges deriving from holdings in subsidiaries, associated companies and joint ventures
These include the income originating from holdings in associated companies entered in the corresponding item in the assets. It concerns in particular the quota relating to the result for the period obtained by those companies in which the group has a shareholding.

Income/charges deriving from financial instruments and investment property
These items include

- income and capital gains realised (and, related to these, the charges and capital losses realised) on investments classified in the category "available for sale";
- income and charges of loans and receivables;
- income and charges relating to investment property

Other revenue
The item includes:

- income deriving from the sale of goods, the provision of services other than those of a financial nature and the use by third parties of tangible and intangible assets and other assets belonging to the entity;
- the other technical net income related to insurance contracts;
- exchange differences to be allocated to the profit and loss account as stated in IAS 21;
- profits realised and any readjustments of value relating to the tangible and intangible assets.

Net charges relating to losses

The item includes:
- the amounts paid, net of recoveries;
- the variation in the provisions for outstanding claims, and the other technical provisions in non-life business
- the variation in the mathematical provisions and other technical provisions in life business;
- the variation in the technical provisions relating to contracts for which the risk of investment is taken on by the policyholders in relation to insurance contracts and to financial instruments falling within the scope of application of IFRS 4.

The amounts entered include the claims handling expenses both paid and in reserve, which include all the costs concerning the investigation, assessment, valuation and settlement of the claims and which have been allocated to the individual class of business depending on the amounts of the claims dealt with and the sums paid, taking into account their different incidences.

Investment charges

Charges arising from shareholdings in subsidiaries, associated companies and joint ventures
These include the charges originating from the shareholdings in associated companies, entered in the corresponding item in the assets. It concerns particularly the quota of the result for the period achieved by these companies.

Charges arising from other financial instruments and investment property
The macroitem includes the charges arising from investment property and financial instruments not valued at *fair value* entered in the profit and loss account and in particular:
- the interest payable recognised using the effective interest method;
- other charges and, in particular, the costs relating to the investment property, such as shared expenses of co-owners and maintenance and repair costs not entered as an increase in the value of the investments;
- losses realised following the assignment of financial assets and investment property or following the elimination of financial liabilities;
- losses from valuation, arising mainly from amortisation and value adjustments (impairment).

Operating expenses

Commission and other acquisition costs
The item includes the acquisition costs relating to insurance contracts and the financial instruments described in IFRS 4.2, net of reinsurance surrenders.

Operating costs of investments
These concern the general and staff costs relating to the management of the financial instruments, investment property and shareholdings, as well as the costs of custody and administration.

Other administration costs

The item includes general and staff costs not allocated to the charges relating to claims, acquisition costs of insurance contracts and investment management costs. It includes in particular the general and staff costs of entities which carry out financial activities which differ from insurance companies, not allocated elsewhere, as well as general and staff costs sustained for the acquisition and administration of investment contracts which do not fall within the scope of application of IFRS 4.

Other costs
This item includes:
- the costs relating to the sale of goods other than those of a financial type;
- the other technical net charges inherent to insurance contracts, for which reference should be made to the comment on premiums;
- amounts set aside during the year;
- exchange differences to be allocated to the profit and loss account as stated in IAS 21;
- losses realised, any long-term reductions of value and amortisation relating both to tangible assets, when not allocated to specific items, and to intangible assets.

Taxes

Income taxes entered in the profit and loss account include all the taxes, current and deferred, calculated on the Group's income on the basis of the nominal tax rates in force on the date of the accounts excluding those which can be allocated directly to the net equity, as they relate to adjustments of assets and liabilities in the accounts allocated directly to the equity.
In more detail, the item includes:

- the charges (or income) for current taxes applicable to the financial year and any adjustments made in the year for current surplus taxes relating to previous years;
- the deferred tax charges (or income) relating to the emergence and repayment in the year of the temporary tax differences as well as the deferred tax adjustments set aside in previous years, particularly following changes in the tax rates;
- the amount of deferred or advance taxes drawn or repaid in the year to meet the failure to fulfil the conditions for the cancellation, in the years to come, of the temporary tax differences from which they originated;
- the amount of tax charges (or income) relating to changes in accounting principles, valuation processes, estimates or errors in respect of what has been done in previous financial years.

Use of estimates

The preparation of the accounts in accordance with the IAS/IFRS Accounting Principles includes the need to make estimates and valuations which produce effects on the assets, liabilities, costs and income entered as well as on the identification and quantification of the potential assets and liabilities. The directors regularly check the estimates and valuations made on the basis of historical experience and other factors which are considered reasonable from time to time. The results may differ in respect of the estimates made under different operating conditions.

The use of estimates and valuations mainly concerns the following items:

- Technical provisions
- Employee benefits
- Goodwill

Please refer to the previous references to the accounting principles and valuation criteria for detailed information on the methodologies used to determine the items mentioned above and to carry out the impairment tests on the goodwill entered.

Section 5 – Reconciliation tables ex IFRS 1

Following the changes made to accounting principles IAS 19 and IAS 39 and a different interpretation of the treatment of the credit for the advance payment of tax on the yield from the mathematical provisions as stated in Decree Law 209/02, detailed below, we give the restatement of the reconciliation tables required by paragraphs 39 and 40 of IFRS 1 presented in the 2005 half yearly accounts to which you should refer for complete information. We give below the new tables and the adjustments are noted.
Section 1 shows the changes to the international accounting principles which occurred after the presentation of the 2005 half yearly accounts, and the effects of the variations on the balances at the beginning of the financial year are given below.

RECONCILIATON TABLE AS LAID DOWN BY PARAGRAPHS 39 AND 40				
(€m)	**Notes**	**Net equity (*) as at 01/01/2004**	**Net equity (*) as at 31/12/2004**	**Result as at 31/12/2004**
Total amounts (Group quota and third parties' quota) determined on the basis of the Italian accounting principles		**3,083**	**3,380**	**383**
Less: third parties' quota		**498**	**588**	**109**
Group quota according to the Italian accounting principles		**2,585**	**2,792**	**274**
Effects arising from the application of the IAS/IFRS principles:				
- *IAS 38 "Intangible assets"*				
Goodwill	1		70	70
Other intangible assets	2	(37)	(24)	13
- *IAS 16 and 40 "Property and investment property"*				
Property	3	(3)	(21)	(12)
- *IAS 19 "Employee benefits"*				
Staff leaving indemnity and other employee benefits	A, 4	(36)	(39)	3
- *IAS 1 "Presentation of financial statements"*				
Own shares	5	(115)	(171)	0
- *IAS 27 "Basis of consolidation"*	6			
Change in basis of consolidation		(3)	3	3
- *IAS 37 "Provisions, contingent liabilities and contingent assets"*	7	3	3	
Fiscal effect on items in reconciliation	13	26	20	(10)
Group quota according to the IAS/IFRS international accounting principles		**2,420**	**2,633**	**341**
Third parties' quota according to the IAS/IFRS international accounting principles		**516**	**641**	**105**
Total net equity and result according to the IAS/IFRS international accounting principles		**2,936**	**3,274**	**446**

(*) result included

RECONCILIATION TABLE AS LAID DOWN BY PARAGRAPHS 39 AND 40		
(€m)	**Notes**	**Net equity (*) 01/01/2005**
Total amounts (Group quota and third parties' quota) determined on the basis of the Italian accounting principles		**3,380**
Less: third parties' quota		**588**
Group quota according to the Italian accounting principles		**2,792**
Effects arising from the IAS/IFRS principles applied as from the date of transition 01/01/2004:		
- *IAS 38 "Intangible assets"*		
Goodwill	1	70
Other intangible assets	2	(24)
- *IAS 16 and 40 "Property and investment property"*		0
Property	3	(21)
- *IAS 19 "Employee benefits"*		0
Staff leaving indemnity and other employee benefits	A, 4	(39)
- *IAS 1 "Presentation of financial statements"*		0
Own shares	5	(171)
- *IAS 27 "Basis of consolidation"*		0
Change in basis of consolidation	6	3
- *IAS 37 "Provisions, contingent liabilities and contingent assets"*	7	3
Fiscal effect on items in reconciliation	13	20
Group quota as at 31/12/2004 according to the IAS/IFRS international accounting principles		**2,633**
Effects arising from the IAS/IFRS principles applied as from 01/01/2005:		
- *IAS 39 "Financial instruments"*		
Financial assets:		
Available for sale	B, 8	452
Fair value through profit or loss	B, 8	(2)
Other financial assets	C, 8	(8)
Financial liabilities	9	(3)
- *IFRS 4 "Insurance contracts"*		
Provision for unearned premiums and equalisation reserve	10	65
Mathematical provisions	11	(218)
Service component linked policies (IAS 18)	12	(22)
Fiscal effect on items in reconciliation	13	(99)
Group quota as at 31/12/2004 according to the IAS/IFRS international accounting principles		**2,798**
Third parties' quota according to the IAS/IFRS international accounting principles		**645**

Total net equity and result according to the IAS/IFRS international accounting principles		**3,443**

NOTES ON RESTATEMENT OF RECONCILIATION TABLES IN ACCORDANCE WITH IFRS 1

A. Under EU Regulation no. 1910 published in the EUOJ on 24/11/2005, among other things, some amendments were made to IAS 19 “Employee benefits”; in particular, the possibility was stated of recognising actuarial gains and losses in the year in which they occur directly in the net equity. In the tables presented in the annex to the half-yearly report the actuarial gains and losses were not recognised due to the application of the “corridor method”. It was decided to take the opportunity provided by the new version of IAS 19 and as a result, the balances as at 31/12/2004 were adjusted entering all the actuarial gains and losses accumulated on that date. There was a decrease in the net equity of € 6m in addition to the related fiscal effect of € 2m.
B. Under EU Regulation no. 1864 published in the EUOJ on 16/11/2005, among other things, some amendments were made to IAS 39 “Financial instruments: recognition and measurement”; in particular, the possibility of using the Fair Value Option was limited. Following the amendment the accounts as at 31/12/2004 were reclassified by reversing all the financial assets which under the amended IAS 39 could not be classified in the category Fair Value Through Profit and Loss, and they were consequently entered in the category Available For Sale. As a result the related reserves were reclassified, increasing the FVTPL by € 134m and decreasing the AFS reserve by the same amount.
C. On the basis of a widespread practice in the market, in the tables presented in the 2005 half yearly report it was considered that the credit for the advance payment of tax on the mathematical provisions (art. 1 paragraph 2 Decree Law 209/2002) fell within the scope of application of IAS 39, with IAS 12 applicable only to income tax, and consequently, the credit was updated. Based on the instructions given in Isvap instruction 2404 of 22 December 2005, this credit was included in the scope of application of IAS 12. The tables were therefore adjusted by reversing the effect of the updating and recognising a positive effect of € 3m in addition to the related fiscal effect of € 1m.

The changes mentioned refer to the effects on the equity of the Group. The tables also show the overall effects on the equity of third parties.

COMMENTS ON THE IAS/IFRS RECONCILIATION TABLES

IAS 38 – INTANGIBLE ASSETS

GOODWILL – (NOTE 1)

Based on IAS 38 “Intangible assets” and IFRS 3, Goodwill, as an item with an indefinite useful life, is no longer amortised systematically, but is subject to an impairment test which is carried out annually or more frequently if events or circumstances occur which may lead to the existence of a permanent loss of value. For this purpose, in short the Company:

- has identified the units generating cash flows which refer to the goodwill entered in the accounts;
- has identified the future financial flows of these units generating cash flows;
- these financial flows were updated with the aim of determining the “recoverable value” of the goodwill and entering any loss of value.

The impairment test carried out on the goodwill, including the difference arising from consolidation, confirmed the values entered on the date of transition (01/01/2004) according to Italian principles.
Consequently, the amount of amortisation carried out was reversed from the profit and loss account, based on the Italian accounting principles in 2004 financial year.
It should also be noted that based on the optional exemption laid down by IFRS 1 the data relating to business combinations which had already been recognised in the accounts before the date of transition was not subject to re-exposure according to the rules of IFRS 3.

OTHER INTANGIBLE ASSETS – (NOTE 2)

IAS 38 provides that the set-up and enlargement costs and research and publicity costs cannot be maintained in the accounts and, at the first time application of the IAS, must be cancelled with a reduction of the net equity. The amount entered in the accounts drawn up according to the Italian principles on the various reference dates was therefore deducted from the equity and as a result the amortisation quotas charged in the profit and loss account for 2004 financial year were reversed. In particular, the adjustment concerned the costs defined as set-up and enlargement costs related to the merger through incorporation of La Fondiaria into SAI, already subject to a five year amortisation from 2002.

IAS 16 AND IAS 40 – PROPERTY, PLANT AND EQUIPMENT – INVESTMENT PROPERTY – (NOTE 3)

IAS 16 “Property, plant and equipment” provides that, at the initial entry, property used by the entity is entered at cost; subsequent entries may be made on the basis of the cost model (paragraph 30) or on the basis of the revaluation model (paragraph 31).
IAS 40 “Investment property” which regulates the property held by the entity for investment purposes, provides that, at the time of purchase, the property must be

entered at cost while, in the subsequent valuations, the entity can choose between the valuation at cost or valuation at fair value.
Fair value is the price at which the ownership of the property can be exchanged between knowledgeable and willing parties in a free transaction, that is, what is commonly defined as the market price.
The company chose to use the cost as the valuation principle for all the property, both that intended for use by the entity and that owned for investment and as such, intended for use by third parties.
In the first time application, as allowed by IFRS 1 (First time adoption of the International Financial Reporting Standards) the value redetermined on the basis of the preceding accounting principles as replacing the cost was used.
Based on IAS 16 and IAS 40, the following was also done:

- separate, from the value of the property owned in full, the value of the land on which it is built which, as it has an unlimited duration, is not subject to amortisation;
- subject the net value thus obtained to an amortisation process, using differentiated rates based on the estimated useful life of the buildings;
- consequently redetermine the value of the buildings on the date of transition to the IAS, allocating to the net equity the difference in respect of the value present in the accounts drawn up according to the Italian principles;
- adjust the result for 2004 by the amount equal to the difference between the amortisation calculated according to the Italian principles and that determined according to the IAS principles.

Investment property is subjected to an impairment test by comparing the accounting value with the estimate of fair value, which is determined using appropriate surveys.

As regards the revaluations of property carried out in previous years, these have not been removed in the process of predetermining the cost as it is considered that they contribute to the determination of the amortised cost by showing the change in the price index or have been done to approximate the fair value of the property on the revaluation date.
For property assigned to the TIKAL RE closed-end investment fund, however, the fair value was used to replace the cost as this property, due to the effect of the aforementioned assignment, was subject to a systematic upgrading to maximise profitability, even in the short term.

IAS 19 – EMPLOYEE BENEFITS – (NOTE 4)

Staff Leaving Indemnity (SLI and other deferred benefits)

There is no equivalent to the staff leaving indemnity in other countries. According to prevalent opinion and while we await specific guidelines from legal opinion, it was considered appropriate to include the staff leaving indemnity under IAS 19 “Employee benefits”.
In particular, given that it concerns a complex obligation, as there is the guarantee of a fixed yield of the sums set aside which are not payable on the date of the accounts, the amount to be entered according to the IAS principles must be subject to an actuarial calculation according to the procedure indicated in point 64 of IAS 19 “Defined benefit plan”. In the same way the effect of other deferred benefits to

employees has been calculated, which fall in this case under IAS 19 and are due to termination of employment.

The amounts entered in the reconciliation tables represent the difference between the staff leaving indemnity and the other deferred benefits to employees, resulting from the employment relationship, and determined according to actuarial criteria and those entered, on the reference date, according to Italian principles. A similar entry to the staff leaving indemnity was adopted for the health fund for retired managers.

Long service bonuses under art. 30 CCNL *[National Collective Employment Agreement]*

The fund has been set up for all employees of insurance companies who have completed their 25th and 35th year of active service in the company on the basis of the annual salary matured on the date of disbursement. According to the Italian accounting principles, the matured amount is set aside annually for each employee in service on that date. The fund is used for the bonuses actually paid. This also falls under IAS 19, as it can be described as "other long term employee benefits". The amounts entered in the reconciliation tables therefore represent the difference between the fund for long service bonuses, determined according to actuarial criteria, in line with the provisions of IAS 19, and that entered on the reference dates, according to Italian principles.

IAS 1 AND IAS 32 – OWN SHARES – (NOTE 5)

The interpretation of the content of IAS 1 and the related methods of representation in the Balance Sheet and information to be given in the notes to the accounts led us to consider own shares, already shown in the assets of the accounts under civil law, as adjustment items in the net equity as from 01/01/04.

In addition IAS 32 stated that the nominal value of own shares repurchased is shown as a reduction in the capital issued, while the premium or discount in respect of the nominal value adjust the other components of the net amount.

IAS 27 – BASIS OF CONSOLIDATION – (NOTE 6)

Under the terms of IAS 27 all the subsidiaries must be consolidated on a line-by-line basis; the effects are shown in the individual reconciliation tables.
The change in the basis of consolidation is due mainly to the outgoing subsidiary Mercantile Leasing, sold during the course of 2004, and considered to be an asset intended for disposal, while subsidiaries with dissimilar activities were consolidated on a line-by-line basis, previously valued using the net equity method (in particular Banca SAI and Finitalia). The effect is contained overall as the book value of these shareholdings was substantially written down in the net equity. Under paragraph 19 of IAS 27 the Tikal RE closed-end investment fund was consolidated on a line-by-line basis.

IAS 37 – PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS – (NOTE 7)

Provisions for liabilities and charges

The entry of these liabilities is, according to the IAS/IFRS, subject to the existence of specific conditions. The amounts reversed in the opening statement relate to liability provisions which do not have the requirements of IAS 37 with reference to the conditions for setting sums aside.

IAS 39 – FINANCIAL INSTRUMENTS

FINANCIAL ASSETS – (NOTE 8)

IAS 39 "Financial instruments: recognition and measurement" applied by the Group as from 1 January 2005 provides that financial instruments are classified not according to their nature, but on the basis of their functional intended use within the management of the entity. In particular, IAS 39 provides for the following categories, for financial assets:

- "financial instruments valued at fair value through profit or loss" which includes securities owned to be traded in the short term and securities which, on the initial recognition, are designated by the entity in this category;
- "loans and receivables" which, apart from receivables and loans in the strict sense, as defined by the Italian principles, also include unlisted debt securities, provided that they are not intended for sale and whose recovery depends exclusively on the credit worth of the issuer;
- "held-to-maturity financial instruments" which includes debt securities with fixed maturity and fixed or determinable payments that the entity intends and is able to hold to maturity;
- "financial instruments available for sale" which includes securities which cannot be classified in the preceding categories.

In the first recognition the financial assets are entered at fair value which generally corresponds to the price paid for their acquisition. Subsequently, differentiated valuation criteria apply to the individual categories, still according to IAS 39, in particular:

- financial instruments at fair value through profit or loss, as explained by the name of the category, are valued at fair value, allocating the difference between fair value and initial value to the profit and loss account;
- financial instruments held to maturity and loans and receivables are valued at the amortised cost, calculated using the effective interest method;
- financial instruments available for sale are valued at fair value, with the allocation of the difference in respect of the initial value to net equity, in the appropriate reserve. This reserve is reversed in a counter-entry in the profit and loss account when the financial instrument is realised or in cases of impairment.

For financial assets entered in the category “fair value through profit or loss”, in the recognition of fair value on the date of transition (which as already stated, for IAS 39 and the related IAS 32 “Financial instruments: disclosure and presentation” is 01/01/2005) the difference between the fair value and the book value determined according to Italian principles must be allocated to an appropriate net equity reserve, called the First Time Application Reserve.

The IAS principles define as fair value the amount at which an asset (or liability) could be exchanged between knowledgeable and expert parties not subject to any constraints. The fair value of the financial instruments is determined on the basis of the following:

- for financial instruments listed on active markets: it is the current market price on the reference date;
- for financial instruments which are not listed it is the price determined on the basis of adequate valuation techniques.

In relation to the above, after assigning each security in the portfolio to one of the categories stated in IAS 39, the initial value is determined, or the fair value as at 01/01/2005, the date IAS 32 and 39 came into force, of the securities entered in the category “fair value through profit or loss” and the difference in respect of the book value is allocated to the equity, according to the Italian accounting principles.

As regards some loans with an expiry of more than one year the difference between the amortised cost and the book value determined according to Italian accounting principles is calculated on some long term debts entered in the accounts as at 31/12/2004.

FINANCIAL LIABILITIES – (NOTE 9)

IAS 39 provides that the financial liabilities must be subdivided into two categories:

- financial liabilities valued at fair value through profit or loss, which, in the first recognition, are entered at fair value and subsequently are valued at fair value, with the difference in respect of the initial value being allocated to the profit and loss account. This category includes, among other things, derivative financial instruments. This category also includes all the financial policies of the Life business, such as index and unit linked; the allocation to the profit and loss account of the changes in fair value allows the correlation with the valuation of the underlying assets. This entry is consistent with what is stated by the European Commission on valuation correlated between assets and liabilities, in the Explanatory Memo of 19/11/2004;
- other financial liabilities which, in the first recognition are entered at fair value and subsequently are valued at the amortised cost which is determined using the effective interest method.

Also in this case, in the transition to the IAS, the difference between the fair value and the value entered in the accounts according to the Italian principles is allocated to a specific item in the net equity. With reference to the other financial liabilities the effects on the net equity as at 01/01/2005 were redetermined, both of the subordinated loan issued in 2003 and the mandatory exchangeable in Banca Intesa shares issued in September 2004.

CATASTROPHE RESERVES/EQUALISATION PREMIUMS – (NOTE 10)

IFRS 4 “Insurance contracts” defines an insurance liability as a clear contractual obligation of the insurer under the terms of an insurance contract.
Based on this definition no components of the provision for unearned premiums can be maintained in the accounts drawn up according to the international IAS/IFRS principles, as these components, while they are compulsory according to the Italian accounting principles as they are set aside in line with specific regulatory measures, concern not only individual insurance contracts but all the contracts covering certain risks of a catastrophe type and they are set aside, based on standard rates, in addition to the reserve for premium portions of individual contracts, calculated with the pro rata temporis method, with the aim of strengthening the reserves intended to cover such catastrophe risks. Therefore these additional reserves are set aside not following claims which have already occurred (which would trigger a contractual obligation of the insurer, to be entered as a provision for outstanding claims), but to deal with the possibility that claims of this type may occur in future. According to IFRS 4 these eventualities will be met not with liabilities but with a greater endowment from net equity.

Based on IFRS 4, the following components of the provision for unearned premiums in existence on 1 January 2005, the date of the first time application of IFRS 4, were therefore eliminated, entering them as an increase in the net equity:

- the integration of the provision for unearned premiums for the insurance of losses arising from nuclear energy, as laid down by Ministerial Decree of 21 September 1981
- the integration of the provision for unearned premiums for the insurance of losses caused by hail and other natural disasters, as laid down by Ministerial Decree of 29 October 1981
- the integration of the provision for unearned premiums for the insurance of losses arising from natural disasters consisting of earthquake, seaquake, volcanic eruption and related phenomena (Ministerial Decree 15 June 1984).

As regards the equalisation reserves, these include:
- the equilibrium reserve for risks of natural disasters governed by Ministerial Decree no. 705 of 19 November 1996
- the reserve to offset credit business as laid down by art. 24 of Legislative Decree no. 175 of 17 March 1995.

For these items the considerations concerning the provision for unearned premiums apply; these reserves do not meet the requirements of insurance liability, as defined by IFRS 4 and are therefore eliminated by allocating the amount to net equity.

TECHNICAL PROVISIONS FOR LIFE BUSINESS, SHADOW ACCOUNTING (NOTE 11)

The technical provisions for direct insurance relating to Life business are calculated analytically for each contract, based on the pure commitments without deductions for acquisition costs for the policies and referring to the actuarial assumptions (technical interest rates, demographic hypotheses of eliminations for death or incapacity and operating expenses) adopted to calculate the premiums for the contracts in existence. In all cases the mathematical provisions are not less than the surrender value. The premiums brought forward relating to the quotas of annual premiums applicable to the subsequent year are included in the technical provisions.
The technical provisions include, among other things, the additional reserve on contracts with a service provided which can be revalued, as laid down by Isvap instruction 1801-G of 21/02/2001 and art. 25 paragraph 12 of Legislative Decree 174/95.
These reserves meet the commitments relating to life policies of an insurance nature and those with a discretionary participation in the result.

In order to provide a better representation of the data we have used the option stated in paragraph 30 of IFRS 4 to correlate the value of the mathematical provisions relating to contracts with discretionary participation in profits by the policyholder (which includes the separate management of Life business), with the value of the related assets determined in accordance with IAS 39.
The securities included in the separate management of Life assurance fall either in the category “available for sale” or in the category “fair value through profit or loss”, and as such, have been valued at fair value, recognising the difference between fair value and value determined according to the Italian principles as an increase in the net equity or in the result for the period.

However, as is known, the yield from the securities in separate management determines the yield to be retroceded to the policyholders and therefore influences the amount of the mathematical provisions.
An adjustment was therefore made to the technical provisions of the contracts included in separate management consistent with the valuation of the related assets, allocating the difference to net equity (or the profit and loss account); in this way the technical provisions of these contracts take account of the quota applicable to the policyholders of the latent capital gains on securities in separate management which, based on the contractual clauses and the current legislation, will be paid to the policyholders only if and when the capital gains are realised with the sale of those assets, but which in this context is made clear, as the capital gains of those securities, as already stated, were recognised as an increase in the net equity.
It should be noted that the methodology of recognition is adopted within the limits of safeguarding the minimum guaranteed yield paid contractually to each separate management, so as not to prejudice the rights of the policyholders.
The aforementioned accounting entry allows the mismatch in valuation existing between assets and liabilities to be reduced, albeit partially.

IFRS 4 – INSURANCE CONTRACTS

As from the date IFRS 4 came into effect (01/01/2005), all contracts have been classified identifying those which, as they have an insignificant risk component of an insurance type, but are legally insurance contracts, do not fall within the scope of application of IFRS 4. In particular, all the contracts relating to life business (except those with discretionary participation for which IFRS 4 provides that the accounting principles in force on the date of transition to the IAS should be adopted) which do not fall under the preceding definition, must be entered in the same way as financial contracts and therefore according to the rules laid down by IAS 39 (with the "deposit accounting" method). However, the contracts which fulfil the definition stated in IFRS 4 are entered according to the current rules laid down by the Italian accounting principles and the related reserves are subject to an adequacy test.

Therefore on the basis of the IAS/IFRS principles the insurance policies have been classified in the following categories:

- insurance contracts and financial instruments with discretionary participation, to which IFRS 4 "Insurance Contracts" applies
- other financial instruments, which fall within the scope of application of IAS 39 "Financial instruments: recognition and measurement" and IAS 18 "Revenue" for any service component.

Based on the analyses carried out on the policies in the portfolio, all contracts in the non-life sector fell within the scope of application of IFRS 4, and all life contracts, with the exception of the prevalence of the index and unit linked contracts, were valued on the basis of the aforementioned principles IAS 39 and IAS 18, or separating the financial liability (valued at fair value through profit or loss) from the component of the premium relating to the service activity in favour of the policyholders, valued according to IAS 18.

SERVICE CONTRACTS CONNECTED TO INSURANCE POLICIES OF A FINANCIAL TYPE (IFRS 4 – IAS 18) – (NOTE 12)

With reference to the service component of index and unit linked contracts, IAS 18 requires that:

- the revenue and costs relating to one operation must be recognised simultaneously
- the associated revenue and costs for an operation which includes the provision of services must be recognised with reference to the stage of completion of the operation.

The stage of completion can be recognised with various methods, and in particular, when the services are rendered by means of an indeterminate number of actions over a determined period of time the revenue and costs are recognised in equal instalments unless it is clear that other methods would represent the stage of completion more accurately.

On the basis of these considerations, using the linear method, the quota to be amortised of costs sustained on financial contracts was determined, which increases the net equity, and conversely, the quota not yet matured of revenue relating to these contracts which decreases the net equity.
The adjustment thus calculated particularly concerns the "index linked" type policies in the portfolio.

As regards the income components of the other multi-year contracts, in particular for the "unit linked" policies, the compatibility of the criteria already used in drawing up the consolidated accounts with the IAS/IFRS principles has been checked.

FISCAL EFFECT ON ITEMS IN RECONCILIATION – (NOTE 13)

These items include the fiscal effect relating to the adjustments made to the various items in the accounts so that they comply with the IAS/IFRS principles. The adjustments are not fiscally significant and therefore determine the temporary differences between the values which are fiscally significant and those entered in accordance with the IAS principles.

The entry of the advance and deferred taxes on these temporary differences allows the correlation of the fiscal charge entered in the IAS accounts with the economic result gross of taxes to be maintained, both in the financial year in which these differences arise and in future years when these differences will be cancelled following, for example, the sale of the asset to which they refer, their recovery by amortisation or discharge of liabilities. The rate used is the nominal rate for income tax (Ires *[corporate income tax]* and Irap *[local tax]* where applicable) taking into account exemption profiles.

Section 6 – Basis Of Consolidation

As at 31/12/2005 the Fondiaria-SAI Group consisted of a total of 110 Companies, including the Parent Company, of which 19 operate in the insurance sector; 1 in the banking sector; 42 in the property and agricultural sector; 17 in the financial sector; 3 in SIM and SGR and the remaining companies operate in various services.

80 companies are consolidated on a line-by-line basis, 5 using the net equity method while the rest are valued at book value or consolidated using the proportional method.

There are 90 subsidiaries of which 35 are controlled directly by the Parent Company. 13 companies have their registered office abroad.

Due to the introduction of IAS/IFRS the Group consolidates all the subsidiaries on a line-by-line basis even if they carry out dissimilar activities.
Only subsidiaries which due to limit of size or due to the nature of their activity are totally irrelevant to the purposes of these accounts are excluded.

With reference to the principal variations in the basis of consolidation, the following should be noted:

- the acquisition of control of the listed company Immobiliare Lombarda S.p.A. which took place by the merger through incorporation of the subsidiary Progestim. The operating methods of the merger can be found in the chapter on the property sector, the acquisition of control took place by reverse acquisition. For more detail please see "PART G – Information concerning business combinations."
- consolidation on a line-by-line basis of the Tikal RE closed-end property investment fund, of which the Group has control and determines the management policy trends. This entry is consistent with the instructions in IAS 27 and in particular its Basis for conclusion.

The basis of consolidation of Fondiaria-SAI Group also presented the following further variations:

- acquisition by Immobiliare Lombarda S.p.A. of a shareholding equal to 20% of the property company A7;
- acquisition by Milano Assicurazioni S.p.A. of a shareholding equal to 47.95% in the finance company Garibaldi s.c.s.;
- sale by Fondiaria-SAI of 12,155,459 shares in Milano Assicurazioni S.p.A. The direct shareholding is now 58.27%;
- sale of the holding in the associated company Finart S.p.A.;
- increase in the holding in Banca SAI S.p.A. (from 80.47% to 100%) following the right to sell the shareholding exercised by Société Générale;
- increase in the holding of Sai Holding S.p.A. in Siat S.p.A. (rising from 87.82% to 88.13%);
- assignment of the shareholding in International Strategy from Fondiaria-SAI S.p.A. to Premafin S.p.A.;

• increase in the shareholding of the parent Company in Sasa Assicurazione S.p.A. (from 94.98% to 99.99%).

During 2005 the integration of companies continued, in order to rationalise and concentrate some companies in the Group, to make better use of the synergies of structure and process.
With regard to this aspect the following should be noted:

• merger through incorporation of the consumer credit company My Fin S.p.A. into Finitalia S.p.A. In particular, on 23/11/2005, the document of merger through incorporation of My Fin into Finitalia was drawn up, whose legal effects started as from 01/12/2005. Finitalia operated in the field of granting personal loans and individual loans to pay insurance premiums by clients insured through the agency network of the Companies of the former Fondiaria Group. On this point, the merger allowed the service to be brought back to Finitalia concerning clients also insured through the agency network of the Fondiaria-SAI Division SAI network. My Fin's activity, which was smaller than Finitalia's, mainly dealt with the financing of insurance contracts in the SAI Division network of Fondiaria-SAI with the use of the revolving system for agreements. The merger therefore allowed the rationalisation of the activities and the development of structures, providing the necessary resources to sustain the development of consumer credit for the agency networks of the Companies in the Group and the companies with which it has agreements.

1.1.1 The merger was completed in simplified form, without any exchange, by concentrating the participation in the company resulting from the merger in the subholding Saifin. To this end, the drawing up of the merger document was preceded by the assignment by Milano and Fondiaria-SAI in favour of Saifin of 60% and 40% of Finitalia respectively. The purchase of 100% of Finitalia by Saifin, previously authorised by Isvap in accordance with the law, took place on the basis of the value attributed to the economic capital of Finitalia as at 31/03/2005 by KPMG Corporate Finance, appointed for that purpose, equal to approximately € 31.3m.

The following draft mergers concerning insurance companies were also approved by the competent bodies of the companies concerned:

• merger through incorporation of Effe Servizi S.r.l., Assicapital S.r.l. and Webb@ti S.p.A. into Fondiaria-SAI S.p.A. On 27 December 2005 the document of merger through incorporation into Fondiaria-SAI of the companies Effe Servizi S.r.l., Assicapital S.r.l. and Webb@ti S.p.A was drawn up, all of which were 100% owned by Fondiaria-SAI and substantially inactive.
The legal effects of the merger began as from 31/12/2005, while for accounting and tax purposes, the merger took effect from 01/01/2005;
• merger through incorporation of Iena Presbourg S.A. and Sim Defence S.A. into Sim Etoile S.A.;
• merger through incorporation of Pronto Tutela Giudiziaria S.p.A. into Pronto Assistance S.p.A. On 6/12/2005, the document of merger through incorporation into Pronto Assistance S.p.A. of Pronto Tutela Giudiziaria S.p.A., 100 % controlled by the incorporating company, was drawn up.

Given that Pronto Tutela Giudiziaria was substantially inactive, the merger allows the Group to own a single company dedicated to operating in the area of Legal Protection, specifically, the subsidiary Europa Tutela Giudiziaria S.p.A.
The incorporated company had abandoned carrying out insurance activity before the merger document was drawn up. The legal effects of the merger started as from 31/12/2005, while for accounting and tax purposes, the merger took effect as from 01/01/2005.

- transfer of 20% of the shareholding of Sainvestimenti SGR S.p.A. from the Parent Company Fondiaria-SAI to Premafin Finanziaria HP S.p.A.;
- change of name of the company Azzurrasi to Meridiano Quarto S.r.l. and change of activity from insurance to property, following the expiry of the authorisation to carry out insurance activity;
- consolidation on a line-by-line basis of the Tikal RE closed-end investment fund following the introduction of the IAS/IFRS;
- Change of name of the company Novara Danni S.p.A. to Novara Assicura S.p.A.

We should point out finally that the subsidiary Uniservizi S.c.a.r.l., under the terms of art. 2359, paragraph 1 no. 3 of the Civil Code, controls the service companies Wave Technology S.r.l. and Wave Logistica S.r.l. although it does not have any shareholding in those companies.

	Sector	Percentage control Direct	Indirect	Group holding
SUBSIDIARIES Companies consolidated on a line-by-line basis:				
BANCA SAI S.p.A. Turin Share cap. € 56,677,161	Banking	100.00		100.00
BIM VITA S.p.A. Turin Share cap. € 7,500,000	Life Assurance	50.00		50.00
BRAMANTE SRL Milan Share cap. € 10,000	Property		IMMOBILIARE LOMBARDA SPA 100.00	54.24
CAMPO CARLO MAGNO SPORT SRL Pinzolo (TN) Share cap. € 87,000	Other		MILANO ASSICURAZIONI SPA 100.00	60.32
CAMPO CARLO MAGNO SPA Trento Share cap. € 1,312,500	Property		MILANO ASSICURAZIONI SPA 100.00	60.32
CARPACCIO SRL Milan Share cap. € 10,000	Property		IMMOBILIARE LOMBARDA SPA 100. 00	54.24
CASA DI CURA VILLA DONATELLO S.p.A. Florence Share cap. € 361,200	Services	100.00		100.00
CASA DI CURA VILLANOVA S.r.l. Florence Share cap. € 182,000	Services	100.00		100.00
CASCINE TRENNO S.r.l. Turin Share cap. € 10,000	Property		IMMOBILIARE LOMBARDA SPA 100.00	54.24
COLPETRONE S.r.l. Umbertide (PG) Share cap. € 10,000	Agriculture		SAIAGRICOLA S.p.A.100.00	97.30
CONSORZIO CASTELLO Florence Share cap. € 51,000	Property		NUOVE INIZIATIVE TOSCANE S.r.l. 99.66	98.43
CONSULENZA AZIENDALE PER L'INFORMATICA SCAI S.p.A. Turin Share cap. € 1,040,000	Services	30.07		30.07
COS.ED SPA in liquidation Milan Share cap. € 120,000	Property		IMMOBILIARE LOMBARDA SPA 100.00	54.24

	Sector	Percentage control Direct	Percentage control Indirect	Group holding
CRIVELLI SRL Milan Share cap. € 10,000	Property		IMMOBILIARE LOMBARDA SPA 100.00	54.24
DIALOGO ASSICURAZIONI S.p.A. Milan Share cap. € 8,831,774	Non-Life insurance		MILANO ASSICURAZIONI S.p.A. 99.85	60.23
DOMINION INSURANCE HOLDING Ltd London (GB) Share cap. GBP35,438,268	Financial	100.00		100.00
EFFE FINANZIARIA S.p.A. Florence Share cap. € 516,500	Financial		THE LAWRENCE RE IRELAND Ltd 100.00	100.00
EFFE GESTIONI SGR S.p.A. Milan Share cap. € 5,000,000	Savings management	100.00		100.00
EFFE VITA COMPAGNIA DI ASS.NI SULLA VITA S.p.A. Florence Share cap. € 6,240,000	Life assurance	100.00		100.00
EUROPA TUTELA GIUDIZIARIA S.p.A. Milan Share cap. € 5,160,000	Non-Life insurance	100.00		100.00
EUROSAI FINANZIARIA DI PARTECIPAZIONI S.r.l. Turin Share cap. € 1,305,600	Financial		SAINTERNATIONAL S.A. 99.00 SAIFIN- SAIFINANZIARIA S.p.A. 1.00	100.00
FINITALIA S.p.A. Milan Share cap. € 15,376,285	Financial		SAIFIN SAIFINANZIARIA SPA 100%	100.00
FINSAI INTERNATIONAL S.A. Luxembourg Share cap. € 22,801,140	Financial	38.53	SAILUX S.A. 61.474	100.00
FONDIARIA NEDERLAND B.V. Amsterdam (NL) Share cap. €19,070	Financial	100.00		100.00
FONDIPREV Compagnia di Ass.ni sulla Vita S.p.A. Florence Share cap. € 6,240,000	Life assurance	40.00	MILANO ASSICURAZIONI S.p.A. 60.00	76.19

	Sector	Percentage control Direct	 Indirect	Group holding
IMMOBILIARE LITORELLA SRL Milan Share cap. € 10,329	Property		IMMOBILIARE LOMBARDA SPA 100.00	54.24
IMMOBILIARE LOMBARDA S.p.A. Milan Share cap.€ 667,672,133	Property	50.12	MILANO ASSICURAZIONI S.p.A. 6.83	54.24
INIZIATIVE VALORIZZAZIONI EDILI – IN.V.ED. SRL Rome Share cap. € 10,329	Property		IMMOBILIARE LOMBARDA SPA 100.00	54.24
INSEDIAMENTI AVANZATI NEL TERRITORIO I.A.T. S.p.A. Rome Share cap.€ 2,580,000	Property		IMMOBILIARE LOMBARDA SPA 100.00	54.24
LAWRENCE LIFE A.G. Vaduz (LIE) Share cap. Swiss francs 5,000,000	Life assurance		THE LAWRENCE LIFE ASSURANCE COMPANY Ltd 99.90	99.90
MAA FINANZIARIA S.p.A. Milan Share cap. € 774,000	Financial		MILANO ASSICURAZIONI S.p.A. 100.00	60.32
MANTEGNA SRL Milan Share cap. € 10,000	Property		IMMOBILIARE LOMBARDA SPA 100.00	54.24
MASACCIO SRL Milan Share cap. € 10,000	Property		IMMOBILIARE LOMBARDA SPA 100.00	54.24
MERIDIANO BELLARMINO S.r.l. Turin Share cap. € 10,000	Property		IMMOBILIARE LOMBARDA SPA 100.00	54.24
MERIDIANO BRUZZANO S.r.l. Turin Share cap. € 10,000	Property		IMMOBILIARE LOMBARDA SPA 100.00	54.24
MERIDIANO EUR S.r.l. Milan Share cap. € 10,000	Property		MILANO ASSICURAZIONI S.p.A. 100.00	60.32
MERIDIANO ORIZZONTI S.r.l. Milan Share cap. € 10,000	Property		MILANO S.p.A. 100.00	60.32
MERIDIANO PRIMO S.r.l. Turin Share cap. € 10,000	Property		IMMOBILIARE LOMBARDA SPA 100.00	54.24

	Sector	Percentage control Direct	Indirect	Group holding
MERIDIANO QUARTO S.r.l. Turin Share cap. € 10,329,000	Property		SAI HOLDING ITALIA S.p.A 100.00	100.00
MERIDIANO RISPARMIO S.r.l. Milan Share cap. € 10,000	Property	100.00		100.00
MERIDIANO SECONDO S.r.l. Turin Share cap.€ 10,000	Property		IMMOBILIARE LOMBARDA SPA 100.00	54.24
MERIDIANO TERZO S.r.l. Turin Share cap. € 10,000	Other		SAI HOLDING ITALIA S.p.A. 100.00	100.00
MILANO ASSICURAZIONI S.p.A. Milan Share cap. € 238,575,023	Mixed insurance	58.27	EFFE FINANZIARIA 1.049 NOVARA VITA 0.021 PRONTO ASSISTANCE 0.071 SAI HOLDING 0.664 SAINTERNATIONAL 0.259	60.32
MIZAR SRL Rome Share cap. € 10,329	Property		IMMOBILIARE LOMBARDA SPA 100.00	54.24
NOVARA ASSICURA S.p.A. Novara Share cap. €13,000,000	Non-Life insurance		MILANO ASSICURAZIONI S.p.A. 100.00	60.32
NOVARA VITA S.p.A. Novara Share cap. € 54,000,000	Life assurance		SAI HOLDING ITALIA S.p.A. 50.00	50.00
NUOVA IMPRESA EDIFICATRICE MODERNA SRL Rome Share cap. € 10,329	Property		IMMOBILIARE LOMBARDA SPA 100.00	54.24
NUOVE INIZIATIVE TOSCANE S.r.l. Florence Share cap. € 26,000,000	Property	96.88	MILANO ASSICURAZIONI. S.p.A. 3.12	98.76
PORTOBELLO SPA Milan Share cap. € 5,536,000	Property		IMMOBILIARE LOMBARDA SPA 100.00	54.24
PORTOFINO VETTA S.r.l. Florence Share cap. € 10,400	Property	100.00		100.00

	Sector	Percentage control Direct	Indirect	Group holding
PROGETTO BICOCCA LA PIAZZA SRL Milan	Property		IMMOBILIARE LOMBARDA SPA 74.00	40.14

Share cap. € 3,151,800				
PRONTO ASSISTANCE S.p.A. Turin Share cap. € 2,500,000	Non-Life insurance	100.00		100.00
PRONTO ASSISTANCE SERVIZI S.p.A. Turin Share cap. € 516,000	Services		PRONTO ASSISTANCE S.p.A. 60.00 SAIFIN-SAIFINANZIARIA S.p.A 40.00	100.00
RISTRUTTURAZIONI EDILI MODERNE – R.EDIL.MO SRL Rome Share cap. € 10,329	Property		IMMOBILIARE LOMBARDA SPA 100.00	54.24
SAIAGRICOLA S.p.A. SOCIETA' AGRICOLA Turin Share cap. € 50,000,000	Agricultural	92.00	MILANO ASSICURAZIONI S.p.A. 6.80 PRONTO ASSISTANCE S.p.A. 1.192	97.30
SAIFIN-SAIFINANZIARIA S.p.A. Turin Share cap. € 102,258,000	Financial	100.00		100.00
SAI INVESTIMENTI S.G.R. S.p.A. Turin Share cap. € 3,913,588	Savings management	40.00	MILANO ASSICURAZIONI S.p.A. 40.00	64.13
SAINTERNATIONAL S.A. Luxembourg Share cap. € 154,000,000	Financial	99.99		99.99
SAI HOLDING ITALIA S.p.A. Turin Share cap. € 143,100,000	Financial	100.00		100.00
SAILUX S.A. Luxembourg Share cap. € 30,000,000	Financial		SAIFIN-SAIFINANZIARIA S.p.A. 99.99 FINSAI INT. 0.01	100.00
SAI MERCATI MOBILIARI SIM S.p.A. Milan Share cap. € 20,000,000	Stockbroking	100.00		100.00

	Sector	Percentage control Direct	Indirect	Group holding
SALEVOX S.r.l. Turin Share cap. € 50,000	Services		STARVOX S.p.A. 90.00	90.00
SANTA MARIA DEL FICO S.r.l. Umbertide (PG) Share cap. € 78,000	Agriculture		SAIAGRICOLA S.p.A. 100.00	97.30
SASA ASSICURAZIONI RIASSICURAZIONI . S.p.A. Trieste Share cap. € 52,000,000	Non-Life insurance	99.99		99.99
SASA VITA S.p.A. Trieste Share cap. € 10,000,000	Life assurance	50.00	SASA ASS.NI RIASS.NI S.p.A. 50.00	100.00
S.E.P.I. – SERVIZI PROGETTAZIONI IMMOBILIARI 97 SRL Milan Share cap. € 52,000	Property		IMMOBILIARE LOMBARDA SPA 100.00	54.24
SERVICE GRUPPO FONDIARIA-SAI S.r.l. Florence Share cap. € 104,000	Services	70.00	MILANO ASSICURAZIONI S.p.A. 30.00	88.10
SIAT SOCIETÀ ITALIANA ASSICURAZIONI E RIASSICURAZIONI S.p.A. Genoa Share cap. € 38,000,000	Non-Life		SAI HOLDING ITALIA S.p.A. 88.13	88.13
SIM ETOILE S.A. Paris Share cap. € 3,049,012	Property	100.00		100.00
SOGEINT S.r.l. Milan Share cap. € 10,000	Other		MILANO ASSICURAZIONI S.p.A. 100.00	60.32
SRP Asset Management S.A. Lugano Share cap. Sw.Fr. 1,000,000	Services		SAINTERNATIONAL S.A. 100.00	100.00

	Sector	Percentage control Direct	Indirect	Group holding
STARVOX S.p.A. Turin Share cap. € 258,000	Services	100.00		100.00
STIMMA S.r.l. Florence Share cap. € 10,000	Property	100.00		100.00
SYSTEMA COMPAGNIA DI ASS.NI S.p.A., Milan Share cap. € 5,164,600	Non-Life insurance		MILANO ASSICURAZIONI S.p.A. 100.00	60.32
THE LAWRENCE RE IRELAND LTD. Dublin (IRL) Share cap. € 125,000	Non-Life insurance		FONDIARIA NEDERLAND 100.00	100.00
THE LAWRENCE LIFE ASSURANCE CO. LTD. Dublin (IRL) Share cap. € 802,886	Life assurance		FONDIARIA NEDERLAND 100.00	100.00
TIKAL. RE FUND	Property	50.68	MILANO ASSICURAZIONI SPA 15.31 MERIDIANO RISPARMIO SPA 5.72 MERIDIANO EUR SPA 19.11	77.16
TRENNO OVEST S.r.l. Turin Share cap. € 10,000	Property		IMMOBILIARE LOMBARDA SPA 100.00	54.24
UNISERVIZI S.c.a.r.l. Milan Share cap. € 5,200,000	Services	63.37	MILANO ASSICURAZIONI 28.00 EFFE VITA 0.02 SYSTEMA COMPAGNIA 0.18 DIALOGO ASSICURAZIONI 0.20 EFFE GESTIONI 0.02 EUROPA TUTELA GIUDIZIARIA 0.02 FINITALIA 0.02 THE LAWRENCE RE IRELAND 0.02 THE LAWRENCE LIFE ASSURANCE 0.02 BANCA SAI SPA 0.02 FONDIPREV 0.02 IMMOBILIARE LOMBARDA 0.02 PRONTO ASSISTANCE 0.90 SAIAGRICOLA 0.02 SAINVESTIMENTI 0.02 SAISIM 0.02 SASA 5.85 SASAVITA 0.34 SERVICE GRUPPO FONDIARIA-SAI 0.02 SIAT 0.84 SISTEMI SANITARI 0.02 STARVOX 0.02	88.58

	Sector	Percentage control Direct	Indirect	Group holding
VILLA RAGIONIERI S.r.l. Florence Share cap. € 78,000	Property	100.00		100.00

Companies consolidated using the proportional method:

PO VITA COMPAGNIA DI ASSICURAZIONI S.p.A. Parma Share cap. € 108,200,000	Life assurance		SAI HOLDING ITALIA S.p.A. 50.00	50.00

Companies valued at book value:

AGRISAI S.r.l. Turin Share cap. € 61,000	Services		SAIAGRICOLA S.p.A. 99.00 SAIFIN-SAIFINANZIARIA S.p.A. 1.00	97.33
DELTAPRIME S.r.l. Turin Share cap. € 24,500	Services		SCAI S.p.A. 51.02	15.34
EURO C.S. S.r.l. Venice Share cap. € 400,000	Services		SCAI S.p.A. 51.00	15.34
FONSAI MB&A- SPA MERCANT BANKING & ADVISORY Milan Share cap. € 800,000	Financial	100.00		100.00
ITAL IBERIA PROYECTOS Y PROMOCIONES INMOBILIARIAS S.A. Barcelona Share cap. € 2,030,000	Other	100.00		100.00
LOGISTIQUE, CONSEILS, SERVICES S.A. Paris Share Cap. € 38,200	Services		SIAT S.p.A. 96.92	85.42
MERIDIANO AURORA S.r.l. Milan Share cap. € 10,000	Financial	100.00		100.00

	Sector	Percentage control Direct	Indirect	Group holding
SAI Sistemi Assicurativi S.r.l., Turin Share cap. € 51,000	Services	99.00	SAIFIN-SAIFINANZIARIA S.p.A. 1.00	100.00
TELVOX S.r.l. Turin Share cap. € 150,000	Services		SCAI S.p.A. 100.00	30.07
FINADIN S.p.A. Milan Share cap. € 50,000,000	Financial		SAIFIN-SAIFINANZIARIA S.p.A. 40.00	40.00
ASSOCIATED COMPANIES				
Companies valued using the net equity method:				
BORSETTO S.r.l. Turin Share cap. € 1,032,914	Property		IMMOBILIARE LOMBARDA SPA 31.00	16.81
CITY LIFE S.r.l. (ex Giulio Cesare S.r.l.) Milan Share cap. € 10,000	Property		IMMOBILIARE LOMBARDA SPA 26.64	14.45
SERVIZI IMMOBILIARI MARTINELLI S.p.A. Cinisello Balsamo (MI) Share cap. € 100,000	Property		IMMOBILIARE LOMBARDA S.p.A. 20.00	10.85
SISTEMI SANITARI S.p.A., Milan Share cap. € 1,872,000	Other	22.54	MILANO ASSICURAZIONI S.p.A. 25.71	38.05
SOCIETA' FUNIVIE DEL PICCOLO SAN BERNARDO S.p.A. La Thuile (AO) Share cap. € 9,213,418	Other		IMMOBILIARE LOMBARDA SPA 27.38	14.85
Companies valued at book value:				
A 7 S.r.l. Milan Share cap. € 200,000	Property		IMMOBILIARE LOMBARDA SPA 20.00	10.85
CESTAR CENTRO STUDI AUTO RIPARAZIONI Scarl Pero (MI) Share cap. € 2,040,000	Services	14.66	SASA S.p.A. 0,006 MILANO S.p.A. 11.35	21.52
FINADIN S.p.A. Milan Share cap. € 50,000,000	Financial		SAIFIN-SAIFINANZIARIA S.p.A. 40.00	40.00

	Sector	Percentage control Direct	 Indirect	Group holding
FIN. PRIV. S.r.l. Milan Share cap. € 20,000	Financial	28.57		28.57
GARIBALDI S.C.S. Luxembourg Share cap. € 1,001	Financial		MILANO ASSICURAZIONI SPA 47.95	28.92
INFOMEDIA ITALIA IMI S.r.l. Turin Share cap. € 52,000	Services		SCAI S.p.A. 20.00	6.01
MB VENTURE CAPITAL FUND I PARTECIPATING COMPANY DI N.V. Amsterdam Share cap. € 50,000	Other	30.00		30.00
METROPOLIS S.p.A. Florence Share cap. € 120,000	Property		IMMOBILIARE LOMBARDA SPA 29.73	16.12
PROGETTO ALFIERE S.p.A. Rome Share cap. € 120,000	Property		IMMOBILIARE LOMBARDA SPA 19.00	10.31
RITA S.r.l. Milan Share cap. € 5,720,000	Services	16.25	MILANO S.p.A. 8.56 PRONTO ASSISTANCE S.p.A. 0.02 SASA S.p.A. 0.12 SIAT S.p.A. 0.24 SYSTEMA S.p.A. 0.04	21.79
SOCIETA' FINANZ. PER LE GEST. ASSICURATIVE S.r.l. in liquid. Rome Share cap.€ 47,664,600	Financial	14.91	MILANO S.p.A. 7.50	19.43
SOAIMPIANTI - ORGANISMI DI ATTESTAZIONE S.p.A. Milan Share cap. € 588,892	Other	21.64		21.64
UFFICIO CENTRALE ITALIANO Scarl. Milan Share cap. € 510,000	Other	14.14	SIAT S.p.A. 0.09 MILANO ASSICURAZIONI S.p.A. 10.97 NOVARA ASSICURA SPA 0.00	20.84

PART B – Notes to the Consolidated Balance Sheet

Details and additional explanatory notes relating to the figures given in the consolidated balance sheet are given below. Please note that further details are provided in the annexes issued by the Supervisory Authority with Regulation No. 2404/2005 and given at the end of these notes.

Balance Sheet - Assets

1. INTANGIBLE ASSETS

Comprising:

(€K)	31/12/2005	31/12/2004	Variation	01/01/2005
Goodwill	872,393	865,263	7,130	865,263
Other intangible assets	54,132	71,586	(17,454)	53,226
TOTAL	**926,525**	**936,849**	**(10,324)**	**918,489**

Goodwill

In accordance with what is laid down by IFRS 3.75, a reconciliation of goodwill book value at the beginning and end of the financial year.

(€K)	2005	2004
Value at the start of the financial year	865,263	867,863
Accumulated impairment losses (-)		-
Increases over the period	7,130	6,999
Reductions for disposals and reclassifications		-
Losses in value for the period		(9,599)
Exchange differences		
Other variations		
Value at the end of the financial year	**872,393**	**865,263**

A consolidation difference of € 5,908K can be noted amongst these increases which relates to the participating interest Portobello S.p.A., deriving from the inclusion of Immobiliare Lombarda within the scope of consolidation. The remainder relates to the acquisition of further shares in the subsidiary Sasa Assicurazioni which is now 99.99% owned.

With reference to the losses in value recorded in 2004, provision has been made to allocate residual consolidation differences relating to the Group's non-insurance companies to the profit and loss account, subsequent to verification of the failure to maintain said goodwill, in relation to anticipated cash flows from the corporate groups to which they relate. This treatment had already been incorporated in the consolidated balance sheet for 2004 prepared in accordance with Italian criteria.

A summary is given of the origin of each individual goodwill-related posting:

(€K)	**31/12/2005**	**31/12/2004**	**Variation**
Goodwill deriving from the incorporation of La Fondiaria	504,763	504,763	0
Goodwill posted in Milano Assicurazioni consolidated accounts	164,055	164,568	(513)
Other goodwill	6,718	7,404	(686)
Consolidation differences	196,857	188,528	8,329
TOTAL	**872,393**	**865,263**	**7,130**

The Group verifies the recoverability of goodwill allocated to CGU – *Cash Generating Units* – at least once a year or more frequently if there are indicators of losses in value.
In fact, on the basis of what is laid down by IAS 36 "Impairment of assets", by IAS 38 "Intangible assets" and by IFRS 3 "Business combinations", since goodwill is an asset with an indefinite useful life, it is no longer systematically amortised but is subject to a recoverability check, known as an impairment test, for the purposes of identifying the existence of any loss in value.
Goodwill to be allocated during first time adoption on the date of changeover to IFRS-IAS (1 January 2004) amounted to the total goodwill "inherited" as-is on 31/12/2003, in the absence of preconditions required by IFRS 1 – Appendix B with regard to adjustments.
With reference to the goodwill posted to the Fondiaria-SAI Consolidated accounts, it should be noted that a large part of the latter relate to the major acquisition of the Fondiaria Assicurazioni Group, which took place at the end of 2002.
The remainder relates to the acquisition, in 1995, of Nuova Maa business (now incorporated in Milano) and to other residual entities in amounts that are absolutely immaterial to the structure of the Group's assets.

Details of goodwill are shown by origin:

(€K) **Fondiaria-SAI Group goodwill deriving from aggregation of Gruppo Fondiaria**	
Fondiaria-SAI: incorporation of Fondiaria Assicurazioni in 2002	276,592
Fondiaria-SAI: capital contribution 1990	162,684
Fondiaria-SAI: incorporation of Fondiaria Assicurazioni in 1995	65,488
Milano Ass.ni: acquisition of Card premiums portfolio in 1991	33,053
Milano Ass.ni: incorporation of Lloyd Internazionale in 1991	17,002
Milano Ass.ni: acquisition of Latina Assicurazioni business in 1992	34,522
Milano Ass.ni: contribution of the La Previdente Assicurazioni life portfolio in 1992	16,463
Consolidation difference:	
On Milano Assicurazioni consolidation	179,201
Total Goodwill	**785,005**

(€K) **Other goodwill**	
Goodwill deriving from acquisition of the MAA Ass.ni portfolio by Nuova MAA	65,133
Goodwill relating to the transfer in 2001 of the portfolio of the subsidiary Profilo Life	4,447
Goodwill relating to the acquisition by SIS of the Ticino portfolio in 1995	152
Consolidation differences:	
SASA non-life	8,424
Portobello	5,908
On Milano Assicurazioni for the former Previdente Vita	3,275
On Milano Assicurazioni for Dialogo Assicurazioni	49
Total other goodwill	**87,388**
Total Group goodwill	**872,393**

The amounts appearing above derive from the allocation made on 01/01/2004, the date of transition to international accounting standards, to Cash Generating Units (known as CGU) in order to determine their correct book value, taking into consideration changes occurring in the meantime.
Consequently, the goodwill, irrespective of its origins, was allocated to the CGU that were expected to benefit from the synergies of the business combinations, as laid down by IAS 36 paragraph 80.

CGU book value

In this respect, six Cash Generating Units (CGU) were identified as significant beneficiaries, represented by Life and non-Life business operating under the Sai, Fondiaria and Milano Assicurazioni brand names.
In particular, CGUs were also identified as being deemed to have benefited from the synergies of the combination. Goodwill allocated to remaining CGUs was not significant when considered either individually or cumulatively.
Further, this identification is consistent with the Group's management reporting in which the aforementioned CGUs represent the minimum level at which goodwill is monitored for the purposes of internal management audits. What's more, these CGUs are no greater than the segment definition based on primary segment reporting in accordance with what is laid down by IAS 14.
The Group operates with different sales networks, each characterised by a separate brand name. The existence, therefore, of an active market for branded products has made it reasonable to separate CGUs on the basis not only of the business operated but also on the basis of the aforementioned brands.
CGU book value was calculated in line with the determination of financial flows required to identify their recoverable value i.e. if CGU future financial flows include inflows and outflows relating to specific assets and liabilities, the latter were included in the book value of said CGU.

Goodwill allocated, taking into consideration changes occurring in the meantime, underwent the impairment test on the date of changeover to IFRS (1 January 2004) and on 31 December 2004 without preconditions for a reduction in their value.
And so, on 31 December 2005 goodwill allocated to CGUs was equal to that allocated during first time adoption and, therefore, comprised:

(€K)	Fondiaria-SAI				Milano				
CGU	SAI Non-life	Fondiaria Non-life	SAI Vita	Fondiaria Life	Milano Non-life	Milano Life	SASA	Portobello	TOTAL
	1	2	3	4	5	6	7	8	Σ (1-8)
Goodwill allocated	273,898	138,872	52,852	42,537	296,059	53,843	8,424	5,908	**872,393**

Goodwill allocated contributes to calculation of the book value of the respective CGUs which, for the purposes of the impairment test, is compared with the related fair value.
Since the fair value for each CGU proved to be greater than the related book value, there were no preconditions for a reduction in the value of the goodwill allocated and the CGUs' value in use was then determined.

CGU recoverable amount

The recoverable amount of CGUs is defined as the greater between the fair value, less sale costs and the value in use. The fair value of the CGU represents the amount obtainable from its sale in a bargained transaction between knowledgeable, willing parties, less disposal costs. Since the CGUs identified were deemed to belong to listed entities (Fondiaria-SAI and Milano Assicurazioni), for which there is an active retail market, the Group considered it opportune, in this phase, to identify this value on a preliminary basis.
In particular, the CGUs' book value, on which the goodwill was allocated, was compared with the market value of same, calculated using the stock market capitalisation of the Parent company and of the Milano Assicurazioni and Immobiliare Lombarda listed subsidiaries as a reference parameter, and by making appropriate technical adjustments to same so as to render them uniform with respective book values.
Overall fair values calculated in this way were then allocated to CGUs in line with respective net book equity.

With reference then to goodwill posted subsequent to the acquisition, in past years and in 2005, of some minority holdings in the subsidiary SASA Assicurazioni, the Group identified the acquired company as the CGU and made provision to calculate the recoverable value of the goodwill by estimating its value in use, using Discounted Cash Flow-type methodologies. In this case the tests performed also confirmed what was posted to the balance sheet.

Finally, with reference to goodwill chargeable to the subsidiary Portobello S.p.A., the posting of same is justified by anticipated margins on the construction of the Port of Loano (SV). In this respect, a valuation was made by an independent expert which showed, using the method of cash flow discounted at the rate of borrowing, a value for the initiative in excess of the book value of the holding. Once again the acquired company was identified as the CGU.

Other Intangible Assets

Other intangible assets amount to € 54,132K (€ 71,586K as at 31/12/2004) and are made up, by type, of the following:

(€K)	Gross book value	Accumulated amortisation and impairment	Net value
Research and development expenditure	164,449	(123,567)	40,882
User rights	33,700	(24,909)	8,791
Other intangible assets	9,320	(4,861)	4,459
TOTAL	**207,469**	**(153,337)**	**54,132**

It should be noted that none of the intangible assets appearing above proved to have been generated internally.

The intangible assets referred to above have a definite useful life and are, consequently, amortised over said life. Research and development expenditure is constituted by the capitalisation, in 2005 and in previous financial years, of costs incurred for the preparation of technological and applied infrastructures with a multi-year duration.
In particular, these include liabilities for preparation and operation of the Group's claims system, for the functional and IT integration of various legal entities involved in corporate merger processes, as well as costs incurred throughout 2005 for the development of an on-line platform.
Their amortisation period is three or five years depending on their characteristics and useful life.

User rights mainly relate to the purchase of user licenses for software used by the Group. They have a three year amortisation period.

A reconciliation of the book value of the other intangible assets at the start and end of the financial year appears below:

(€K)	**R&D Expenditure**		**User rights**		**Other intangible assets**		**Total**	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Book value at the start of the period	47,935	54,480	3,697	2,815	19,954	14,958	71,586	72,253
Increases:								
• Acquired and generated internally	19,979	22,983	3,427	3,183	1,560	9,970	24,966	36,136
• deriving from business combination operations			4,853		252		5,105	
Decreases for disposal or reclassifications	(1,271)				(15,680)		(16,951)	
Impairment losses recorded over the period								
Write-ups recorded over the period					125		125	
Amortisation over the period	(25,761)	(29,528)	(3,185)	(2,301)	(1,753)	(4,974)	(30,699)	(36,803)
Variations due to exchange differences								
Other variations								
Book value at the end of the period	**40,882**	**47,935**	**8,792**	**3,697**	**4,458**	**19,954**	**54,132**	**71,586**

It should be noted that, subsequent to the tests carried out, no impairment loss was recorded over the financial year. Decreases due to reclassifications include reversals of commissions capitalised using the amortised cost method.

2. TANGIBLE ASSETS

These amount in total to € 1,086,135K (€ 455,383 as at 31/12/2004) with an increase of € 630,752m.

Tangible investments can be broken down as follows:

(€K)	Premises		Land		Other Tangible Assets		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
Gross book value	949,223	309,827	72,115	78,517	373,690	344,323	1,395,029	732,667
Accumulated amortisation and impairment	(61,924)	(55,896)			(246,969)	(221,388)	(308,893)	(277,284)
Net value	**887,299**	**253,931**	**72,115**	**78,517**	**126,721**	**122,935**	**1,086,135**	**455,383**

Movement over the period is shown below:

(€K)	Premises		Land		Other Tangible Assets		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
Book value at the start of the period	253,931	366,347	78,517	78,769	122,935	97,921	455,383	543,037
Increases	36,772	9,270	63	-	35,201	39,864	72,036	49,134
Disposals or reclassifications	100,264	(114,100)	(5,826)	-	(20,184)	(1,088)	74,254	(115,188)
Premises deriving from business combinations	504,190	-	-	-	93	-	504,283	-
Impairment losses recorded over the period	-	-	-	-	-	-	-	-
Write-ups recorded over the period	-	-	-	-	-	-	-	-
Amortisation over the period	(5,601)	(6,815)	-	-	(11,836)	(13,394)	(17,437)	(20,209)
Variations due to exchange differences	-	-	-	-	-	-	-	-
Other variations	(2,257)	(771)	(639)	(252)	512	(368)	(2,384)	(1,391)
Book value at the end of the period	**887,299**	**253,931**	**72,115**	**78,517**	**126,721**	**122,935**	**1,086,135**	**455,383**

The item relating to land is a component with an indefinite useful life unbundled from buildings for direct use owned outright. The unbundling was done on the basis of appropriate expert reports written by independent experts with reference to the transition date (01/01/2004).

Premises appearing as tangible assets include premises intended for company use (premises for direct use). These premises are recorded at cost and are systematically amortised on the basis of useful life solely for components with a defined useful life.

The significant increase in the value of premises due to business combination operations, follows the acquisition of Immobiliare Lombarda S.p.A. Premises relating to said company are considered to be inventories and valued in accordance with IAS 2 i.e. the component with an indefinite useful life is not unbundled nor is any amortisation recorded. Consequently, all the property assets of the incorporated Progestim S.p.A. were reclassified from investment property to warehouse.
In particular, the contribution from the aggregation of Immobiliare Lombarda amounted to over € 469m. To this will be added € 35m of work to order in progress which represents the state of advancement of constructions works on the tourist port of Loano.

No Group property appearing under the microitem is subject to restrictions of title or ownership, nor has significant redress obtained for drop in value, losses or disposals and damages been posted to the profit and loss account. At year end there were no existing contractual obligations for the acquisition of tangible assets represented by premises.

The Group instructs accredited independent experts to calculate the fair value of its own land and buildings on an annual basis. In particular, this practice responds, for the Group's insurance companies, to specific Supervisory Authority provisions.
With reference to premises intended for company use, it should be noted that the book value, at year end, was € 271m less than the valuation determined on the basis of market values.

Other tangible assets mainly comprise the allocation of the Group's capital goods for the performance of its business, such as hardware, furnishings, plant and office equipment, as well as final stocks and inventories of companies performing agricultural activities valued in accordance with IAS 2.

3. TECHNICAL RESERVES BORNE BY REINSURERS

These amount, in total, to € 896,948K (€ 1,069,039K as at 31/12/2004) with a negative variation of € 172,091K. They are made up as follows:

(€K)	31/12/2005	31/12/2004	Variation
Non-life premium reserve borne by reinsurers	129,163	114,000	15,163
Non-life claims reserve borne by reinsurers	569,573	708,375	(138,802)
Other non-life business reserves borne by reinsurers	-	-	-
Mathematical reserves borne by reinsurers	196,305	242,826	(46,521)
Reserve for amounts payable borne by reinsurers	1,905	3,836	(1,931)
Class D provisions borne by reinsurers	-	-	-
Other life provisions borne by reinsurers	2	2	-
TOTAL	**896,948**	**1,069,039**	**(172,091)**

The drop in mathematical life reserves can be traced back to the settlement of the dispute with Consap relating to the abolition of compulsory cessions. We should, in fact, remember that in March 2005 an out-of-court settlement for the dispute with Consap concerning the Milano Assicurazioni portfolio was signed (a similar out-of-court settlement had already been signed in November 2004 for the portfolio of the incorporated company Maa Vita). The out-of-court settlement resulted in the Group receiving € 83,500K, against receivables from Consap of € 71,110K and reserves chargeable to it of € 32,837K.

The cost of the out-of-court settlement amounted, therefore, to € 20,447K. Foreseeable charges relating to the settlement had, in any event been allocated to the risk fund during the course of previous financial years. In the financial year in question, provision was, therefore, made to withdraw the entire amount set aside, amounting to € 20,.700K, posting said amount to "other proceeds" in the non-technical account, thereby neutralising the impact of the out-of-court settlement on the profit and loss account for the year.

4. INVESTMENTS

These are made up as follows:

(€K)	31/12/2005	31/12/2004	Variation	01/01/2005
Investment property	2,041,721	2,017,000	24,721	2,017,000
Holdings in subsidiaries, associates and joint ventures	71,675	61,987	9,688	61,987
Investments held until maturity			-	
Loans and receivables	1,408,658	896,160	512,498	862,364
Financial assets available for sale	20,972,111	18,427,454	2,544,657	18,948,398

Financial assets recorded at fair value in the Profit and Loss account	5,570,855	4,894,984	675,871	4,929,548
TOTAL	30,065,020	26,297,585	3,767,435	26,819,297

Investment property

This item includes all Group-owned premises intended for rental to third parties or held as an investment with the aim of increasing the value of said premises over time.

Investment properties are shown at purchase cost in accordance with what is laid down by IAS 16 (to which IAS 40 refers in the event of adoption of the cost model). It follows that, for accounting purposes, the Group has made provision to unbundle the value of the land from the value of the premises owned as a whole, since this component, having an indefinite useful life, has been deemed not to be subject to amortisation.

The land component was unbundled from the building component on the basis of an expert evaluation updated on the date of transition to international accounting standards (01/01/2004).

The part of the property relating to the building is systematically amortised in line with the useful life of the components characterising said building. In particular, it should be noted that the amortisation rate used is, on average, between 2% and 3% inclusive.

The Group makes provision, on an annual basis, to calculate the fair value of investment properties, determined on the basis of expert valuations carried out by independent third party experts offering specialist valuation services for these types of investment. Market value was determined by valuing each source of income separately, applying equity-type methodologies, supplemented by factors that take into consideration the profitability of the property, in line with Supervisory Authority requirements.

In total, the book value of investment property as at 31/12/2005 proved to be over € 638m lower than the expert valuation carried out by the above.

The composition of investment property and related movements is shown below.

(€K)	**31/12/2005**	**31/12/2004**
Gross book value	2,232,308	2,180,070
Accumulated amortisation and impairment	(190,587)	(163,070)
Net value	**2,041,721**	**2,017,000**

Movement in the book value of investment property appears below:

(€K)	2005	2004
Book value at the start of the period	2,017,000	1,897,266
Purchases and incremental expenditure	251,684	575,570
Premises deriving from business combinations	-	-
Decreases due to disposal or reclassification	(36,584)	(388,719)
Amortisation over the period	(37,526)	(71,067)
Impairment losses/Write-ups recorded over the period	-	-
Variations due to exchange differences	-	-
Transfers to other categories (IAS 2 or IAS 16)	(91,307)	-
Other variations	(61,547)	3,950
Book value at the end of the period	**2,041,720**	**2,017,000**

It should be noted that, during the course of the financial year, income from investment property rentals amounted to over € 90K.
The "transfers to other categories" item is mainly due to the reclassification of premises already described in the section relating to tangible assets.
The "Other variations" item essentially includes departure from the scope of consolidation of premises owned by International Strategy sold to Premafin Finanziaria on 28/12/2005 as indicated in the Management Report.
There are no significant limits on the realisability of investment property due to legal or contractual restrictions or obligations of any other nature.

With reference to the existence of any contractual obligations in respect of the acquisition or development of investment property please refer to the section on property segment notes.

Holdings in subsidiaries, associates and joint ventures

Fondiaria-SAI fully consolidates all the Group companies, including those that perform dissimilar activities. The item in question does, therefore, include the book value of some subsidiary holdings which, given their irrelevance in terms of the extent or nature of the activity performed, have no effect on the reliability of these accounts.
Please refer to the annex for details of holdings in non-consolidated subsidiaries. The remainder relate to holdings in associate companies valued using the net equity method. The most significant holdings are those held by the Parent company in the associate Fin.Priv. S.r.l. for € 29.2m and by the subsidiary Saifin-Saifinanziaria in the associate Finadin S.p.A., the book value of which amounts to € 19.9m.

The Group consolidates Po Vita Assicurazioni using the proportional method and the figures given below correspond to those included in the consolidated balance sheet.

(€m)	31/12/2005	31/12/2004
Investments	1,480.4	1,234.0
Other assets	89.7	53.0
Technical reserves	784.2	666.6
Other liabilities	785.9	620.4
Income	206.8	344.5
Expenditure	(198.8)	(336.4)

Loans and receivables

These amount to € 1,408,658K (€ 896,160K as at 31/12/2004) and are made up as follows:

(€K)	31/12/2005	31/12/2004	Variation
Receivables from banks for interbank deposits	411,992	195,078	216,914
Debt securities	111,963	116,253	(4,290)
Repurchase agreements and carrying amounts	109,630	35,144	74,486
Loans on life policies	71,291	64,559	6,732
Deposits with reinsurers	36,835	52,751	(15,916)
Receivables from successor agents for recoupment of claims paid to agents who have ceased trading	192,701	171,741	20,960
Other loans and receivables	474,246	260,634	213,612
TOTAL	**1,408,658**	**896,160**	**512,498**

The “receivables from banks for interbank deposits” item includes the amount receivable from the consolidated Bancasai by other credit institutions for asset deposits.
The “debt securities” item includes the book value of some issues (in particular, securities from Ania special issues) for which a valuation at amortised cost rather than at fair value was deemed appropriate, in the absence of an active reference market. These are financial assets appearing in the consolidated accounts for which it is believed that the related fair value cannot be accurately calculated.
Repurchase agreements refers to operations instituted close to year end.
Receivables from successor agents for recoupment of claims paid to agents who have ceased trading are placed in this item both due to express provision of Isvap with Instruction No. 2404/05, and in consideration of their interest-bearing nature in respect of the Group.

Other loans and receivables comprise, amongst others, the receivable for € 154m posted for the forward sale of Banca Intesa shares owned by the Parent company via mandatory exchangeable guaranteed notes, exclusively convertible into Banca Intesa shares, issued by the subsidiary SAINTERNATIONAL in September 2004. This receivable has been discounted, in consideration of the timescale of the forward sale underlying the mandatory's issue.

The item also includes € 70m for the loan secured by a lien on mezzanine property granted to Ganimede S.r.l. following the property spin-off which took place in 2003. This loan was accommodated by a 2nd mortgage on the property sold to Ganimede. Repayment of the capital and related interest is subject to satisfaction of the debtor's payment obligations in accordance with the senior Loan acquired by the latter in relation to the operation described. The loan is for seven years from the disbursement date, expiring in December 2010. In addition, partial early repayments by the debtor in line with the disposal schedule, for the premises to which the transaction relates and, what's more, the debtor is entitled to make early repayment of the loan, at any time, in whole or in part. The interest rate is 8%.
Also included are receivables from banking clients for current account assets worth € 32m and deposits with credit institutions worth € 15m, for which more than fifteen days notice of withdrawal must be given.

Financial assets available for sale

Financial assets available for sale comprise bonds and shares, as well as unit trusts, not classified separately. Although this is a residual category, it represents the category with most financial instruments, in line with the characteristics and aims of the insurance business.
The financial assets under consideration can be broken down as follows:

(€K)	**31/12/2005**	**31/12/2004**	**Variation**
Capital securities and unit trusts	3.767,474	2,871,651	895,823
Debt securities	17,200,376	15,553,793	1,646,583
Other financial investments	4,261	2,010	2,251
TOTAL	20,972,111	18,427,454	2,544,657

Capital securities include listed securities amounting to € 3,154m, whilst listed debt securities amounted to € 16,.990.
This shows that, in the main, debt securities and capital securities, included in the category, are valued at fair value. Amongst the capital securities we note the 2% interest held by the Group in Banca d'Italia. This holding is valued at cost in the absence of an active reference market and in view of the enormous variability in possible estimates of the value of this investment.

In particular, capital securities listed at fair value included in the section "Financial assets available for sale" include the following holdings:

(€K)	**% holding (1)**	**Book value**
Assicurazioni Generali S.p.A.	2.40	902,533
Capitalia S.p.A.	2.57	325,620
Italmobiliare S.p.A.	3.66	38,562
Mediobanca S.p.A.	3.72	477,397
Monte dei Paschi S.p.A.	1.29	152,670
RCS S.p.A.	5.15	151,757
Pirelli & C. S.A. p.a.	4.37	174,638
Swiss Life Holding	8.38	432,390
Total		**2,655,567**
Other holdings		497,999
Sum total		**3,153,566**

(1) Percentage calculated on total shares constituting the Share Capital.

The book value is aligned with stock market listings on the last day of the financial year.
This shows the overall effect of the fair value valuation which has a positive impact of € 580.7m for capital securities and unit trusts and € 357.8m for debt securities.

Financial Assets recorded at Fair Value in the Profit and Loss Account

These can be broken down as follows:

(€K)	**31/12/2005**	**31/12/2004**	**Variation**
Capital securities and unit trusts	739,663	398,014	341,649
Debt securities	4,661,888	4,369,348	292,540
Other financial investments	169,304	127,622	41,682
TOTAL	5,570,855	4,894,984	675,871

It should be noted that the component relating to financial assets described at fair value recorded in the profit and loss account amounts to € 4,195,956K and that included in same are investments where the risk is born by life insurance policyholders and deriving from pension fund management for € 4,064,858K.

Investment activities, the book value of which is given above, are represented by investments in shares and bonds in listed and unlisted companies, as well as in unit trusts, held with the aim of making a profit from same or via dividends and coupons or trading. Their fair value was calculated by using stock market listings as a reference.

5. OTHER RECEIVABLES

These are made up as follows:

(€K)	31/12/2005	31/12/2004	Variation	01/01/2005
Receivables deriving from direct insurance operations	2,034,610	1,926,451	108,159	1,921,185
Receivables deriving from reinsurance operations	160,642	248,075	(87,433)	248,075
Other receivables	615,791	215,188	400,603	215,895
TOTAL	**2,811,043**	**2,389,714**	**421,329**	**2,385,155**

The Group believes that the book value of trade receivables and other receivables approximate their fair value. Trade receivables do not bear interest and generally have a due date of less than 90 days.
The net balance of sales tax does not generally bear interest and is regulated by the relevant financial authorities on a monthly basis.

In particular, receivables deriving from insurance operations include receivables from policyholders of € 959,250K, including € 859,718K relating to premiums for the financial year and € 99,532K for premiums for previous financial years.
In addition, € 787,662K of receivables from insurance brokers, € 195,224K for receivables from current account companies and € 92,474K of receivables from policyholders and third parties for sums to be recovered, are included.

Receivables deriving from reinsurance contracts include € 111,489K of receivables from insurance and reinsurance companies for reinsurance operations and € 49,153K from reinsurance brokers. It should be noted that during the course of the financial year there were no significant write-downs of reinsurance assets.

Included in other receivables are trade receivables of € 151,352K, mainly comprising receivables from clients. Of these, € 34m relate to the subsidiary Immobiliare Lombarda and are for payments made in respect of commercial deals, details of which are given in the Management Report.

With reference to receivables from policyholders for premiums, from agents and other intermediaries as well as insurance and reinsurance companies, the Group does not present significant concentrations of credit risk, its credit exposure being divided between a large number of counterparties and clients.

6. OTHER ASSETS

In total, these amount to € 1,667,976K (€ 1,629,370K in 2004) with a rise of € 38,606K over the previous year.

They comprise:

(€K)	31/12/2005	31/12/2004	Variation	01/01/2005
Non-current assets or those held in a disposal group for sale	6,450	-	6,450	-
Deferred acquisition costs	306,954	294,254	12,700	294,254
Current tax assets	449,841	624,124	(174,283)	624,124
Deferred tax assets	673,490	477,318	196,172	620,125
Miscellaneous assets	231,241	233,674	(2,433)	289,364
TOTAL	**1,667,976**	**1,629,370**	**38,606**	**1,827,867**

Non-current assets or those held in a disposal group for sale

At the end of the 2005 financial year, the Group's Property Management Team decided to put two premises located respectively in Rozzano – Quinto de Stampi Via Tagliamento 32/34/36 and in Pieve Emanuele Via Delle Rose, 6 up for sale. In both cases, the disposal was formalised. In the first instance, by the stipulation of a preliminary contract and in the second instance by decision of the relevant company bodies. Deeds of sale will, therefore, be drawn up during the course of 2006.
It is estimated that payment for the sale will, in any event, be higher than the book value of the asset being sold and so no write-down was made when this asset was classified as being held for sale.

Deferred acquisition costs

Deferred acquisition costs of € 306,954K (€ 294,254K as at 31/12/2004) mainly relate to purchase commissions to be amortised on multi-year contracts to run from the 1999 financial year. These amortisations are deferred and amortised in approximately seven years for Non-life business and in six years for Life business, as resulting from recent analyses of the average duration of portfolio contracts. All of which conforms to principles responding to matching concepts.
The variation compared with the same date in 2004 amounts to € 12,700K. In accordance with what is laid down by IFRS 4.IG39. the table below shows the movement of these costs over the course of the financial year:

(€K)	31/12/2005 Non-life business	 Life business	 Total	31/12/2004
Amount at the start of the period	260,782	33,473	294,255	254,501
Increases over the period	103,475	6,654	110,129	117,375
Amortisation over the period (-)	(71,977)	(17,694)	(89,671)	(67,253)
Impairment losses recorded over the financial year (-)	(7,759)	-	(7,759)	(10,369)
Other variations	-	-	-	-
Amount at the end of the period	**284,521**	**22,433**	**306,954**	**294,254**

Impairment losses recorded over the financial year relate to the reduction in the future utility of capitalised front-loading for cancelled or amended insurance contracts. It should be noted that there are no deferred acquisition costs relating to inward reinsurance contract liabilities.

Current tax assets

Current tax assets, amounting to € 449,841K (€ 624,124K as at 31/12/2004) relate to receivables from financial authorities for advance taxes, withholdings and income tax receivables.
Also posted to this item are amounts paid for tax referred to in art. 1 paragraph 2 of Legislative Decree no. 209/02 as converted by art. 1 of law 265/2002 and subsequent amendments. This being in accordance with what is laid down by Isvap Instruction No. 2404/05, although the aforementioned assets do not, strictly speaking, come under the application of IAS 12, since they do not relate to income taxes.

Deferred tax assets

These amount to € 673,490K (€ 477,318K in 2004) and are calculated on the total amount of temporary differences between the book value of balance sheet assets and liabilities and the respective taxable value according to the "balance sheet liability method" provided for by IAS 12 in relation to the likelihood of their recovery correlated with the capacity to continuously generate positive taxable income.
Included in the deferred taxes posted direct to the balance sheet can be noted, amongst others, € 160,736K relating to the increase in the mathematical reserve set aside in accordance with the application of shadow accounting, € 43,508K due to the effect of the recalculation of the cost of premises constituting investment property and € 23,632K relating to the actuarial valuation of staff leaving indemnities and other long-term employee benefits in accordance with IAS 19.
On the other hand, the net impact of deferred tax assets transferred to the profit an loss account for the year amounts to € 19,972K.

Other assets

Other assets amount to € 231,241K (€ 233,674K as at 31/12/2004) and include, amongst others, transitory reinsurance accounts of € 7m, tax advances assessed on mathematical reserves to be paid in accordance with Legislative Decree 209/02 of € 46m, deferred commission payable on life insurance policyholder investment contracts of € 68m, claims paid to agents in anticipation of recoupments amounting to € 9m. Finally, other assets include approximately € 80m relating to connecting accounts between the head office and branches for equity operations bridging the financial year.

7. CASH AT BANK AND IN HAND

These amount, in total to € 526,505K (€ 755,797K as at 31/12/2004).

They include cash held by the Group and deposit and current bank accounts with a due date of less than 15 days. They include, therefore, liquid assets in the strict sense of the word (cash and demand deposits), either equivalent liquid assets or those short-term investments with high liquidity, readily convertible into known cash values which are, therefore, subject to a negligible risk of change in value.
The book value of these assets is a significant approximation of their fair value. Deposit and current bank accounts bear interest at both fixed and variable rates which is accrued and credited on a quarterly basis or in relation to the lesser duration of any unavailability constraint on fixed-term deposits.

Profit and Loss Account – Net Equity and Liabilities

1. NET EQUITY

The consolidated net equity, amounting to € 4,508,889K, inclusive of the result for the year and minority interests, rose by € 1,234,120K compared with 2004.

The composition of equity reserves is given below:

(€K)	**2005**	**2004**	**Variation**	**01/01/2005**
Group Net Equity	**3,459,660**	**2,633,399**	**826,261**	**2,798,353**
Capital	173,114	170,554	2,560	170,554
Other equity instruments			-	
Capital reserves	193,729	190,532	3,197	190,532
Profit and other equity reserves	2,378,368	2,108,421	269,947	2,123,202
Own shares	(270,057)	*(171,371)*	(98,686)	*(171,371)*
Reserve or net exchange differences	(441)	(394)	(47)	(394)
Profits or losses on financial assets available for sale	535,891		535,891	150,174
Other profits and losses recorded direct under equity	(16,227)	(5,034)	(11,193)	(5,035)
Group profit (loss) for the financial year	465,283	340,691	124,592	340,691
Minorities' Net Equity	**1,049,229**	**641,369**	**407,860**	**645,260**
Minorities' capital and reserves	892,353	536,978	355,375	539,277
Profits and losses recorded direct under equity	35,809	55	35,754	1,647
Minorities' profit (loss) for the financial year	121,067	104,336	16,731	104,336
			-	
TOTAL	**4,508,889**	**3,274,768**	**1,234,121**	**3,443,613**

The information required by IAS 1.76° is given below:

	Ordinary 31/12/2005	**Savings 31/12/2005**	**Ordinary 31/12/2004**	**Savings 31/12/2004**
Number of shares issued	131,605,377	42,098,578	128,729,892	41,824,257

It should be noted that as at 31/12/2005, 385,475 ordinary shares and 204,367 savings shares had been issued which were listed in the register of companies on 17 January 2006.

	Ordinary	Savings	Total
Shares existing as at 01/01/2005	128,729,892	41,824,257	170,554,149
Own shares (-)	10,500,769		10,500,769
Shares in circulation: existing as at 01/01/2005	118,229,123	41,824,257	160,053,380
Increases:			
Sale of own shares	1,060,000		1,060,000
Exercise of warrants	2,875,485	274,321	3,149,806
Decreases:			
Purchase own shares	5,197,000		5,197,000
Shares in circulation: existing as at 31/12/2005	116,967,608	42,098,578	159,066,186

Capital reserves amounting to € 193,729 relate to the share issue premium reserve recorded in the Parent company's accounts. This was increased by € 3,197K following the conversion of both 552,632 Sai 1992-2006 warrants, and 9,960,040 Fondiaria-SAI 2002-2008 warrants.
The ordinary and savings shares issued both have a nominal value of € 1.

Nature and purpose of other reserves

Profit and other equity reserves include other net equity reserves from the Parent company's separate accounts, increased by the allocation of the profit for 2004. Please refer to the notes to the Parent company's separate accounts for comment on changes to same.
Profit and equity reserves also comprise:
- a consolidation reserve amounting to € 708.6m;
- a reserve for profits and losses deriving from first adoption of the international accounting standards which is € 58m in the red.

Minorities' net equity, inclusive of the result, recorded an increase of € 407.8K, due to Gruppo Milano minority shares, as well as those belonging to the subsidiary Immobiliare Lombarda.

For variations in consolidated net equity please refer to the relevant table.

Own shares

These amount to € 270,057m (€ 171,371m as at 31/12/2004). This item includes the book value of instruments representing capital belonging to the Parent company Fondiaria-SAI amounting to € 138,079m and, for the rest, positions held by the subsidiaries Milano Assicurazioni S.p.A. (€ 103,672m) and Sai Holding S.p.A. (€ 28,306m).
The item is negative according to what is laid down by IAS 32. It should be noted that further to buy/sell transactions occurring over the financial year no profit or loss

was recorded in the profit and loss account. Consequently, provision was made to reverse the capital gain made by the subsidiary Saifin S.p.A. amounting to € 5.9m.

Reserves for net exchange differences

The item, negative to the tune of € 441k (€ 394k as at 31/12/2004), includes conversion differences deriving from the translation into foreign currency of accounts for foreign subsidiaries residing in countries outside the Euro zone.

Profits or losses on financial assets available for sale

The item amounting to € 535,891K, includes profits or losses deriving from the valuation of financial assets available for sale. It is expressed net both of the related deferred taxation and of the part attributable to policyholders and allocated to insurance liabilities.

Other profits and losses over the year recorded direct under equity

The item, amounting to € 16.2m mainly accommodates the effect of charging profits and losses of an actuarial nature amounting to € 15.5m, direct to net equity, further to application of IAS 19. The remainder relates to the valuation at equity of associate companies.

Parent Company accounts and Consolidated accounts reconciliation tables

The tables below are given for completeness of information, these being the first IAS/IFRS accounts:

(€K)	Profit over the year 31/12/2005	31/12/2004
Fondiaria-SAI S.p.A. accounts	300,603	258,473
Consolidation adjustments:		
- Financial year results and differences between the book value and Net Equity of companies consolidated:		
* fully	259,073	292,176
* using the Net Equity method	195	2,319
- Amortisation of consolidation differences	(11,203)	(23,427)
Elimination of inter-group transactions:		
- Inter-group dividends	(89,379)	(78,785)
- Other inter-group transactions	(13,382)	3,688
- Application of group accounting principles, conversion of accounts into foreign currency and miscellaneous	1,992	(97,949)
- Tax impact of consolidation adjustments	6,627	26,964
Consolidated result according to local standards	**454,526**	**383,459**
- IAS 38 "Intangible assets"		
Goodwill	80,012	78,699
Other intangible assets	11,851	14,247
- IAS 2, 16 and 40 "Inventories, Property and Property Investments"		
Property	(32,833)	(14,401)
- IAS 19 "Employee benefits"		
Staff leaving indemnity and other employee benefits	10,186	2,768
- IAS 27 "Basis of consolidation"		
Change in basis of consolidation	15,085	(12,550)
- IAS 37 "Provisions, contingent liabilities and contingent assets"	(1,447)	(271)
- IAS 32 "Financial instruments"		
Own shares	(5,936)	
- IAS 39 "Financial instruments"		
Financial assets	40,617	
Financial liabilities	(2,835)	
- IFRS 3 "Business combinations"	40,555	
- IFRS 4 "Insurance contracts"		
Provision for unearned premiums and equalisation reserve	8,107	
Mathematical reserves	13,845	
Service component linked policies (IAS 18)	(2,643)	
- Other IAS	73	203
Fiscal effect on items in reconciliation	(42,813)	(7,127)
Consolidated result according to IAS/IFRS principles	**586,350**	**445,027**
MINORITY SHARE	**(121,067)**	**(104,336)**
Group result according to IAS/IFRS principles	**465,283**	**340,691**

(€K)	Net Equity net of result 31/12/2005	31/12/2004
Fondiaria-SAI S.p.A. accounts	2,394,070	2,251,107
Consolidation adjustments:		
- Financial year results and differences between the book value and the Net Equity of companies consolidated:		
* fully	1,063,938	561,794
* using the Net Equity method	(186)	(3,619)
Elimination of the effects of inter-group transactions:		
- Inter-group dividends	22,426	12,764
- Other inter-group transactions	(35,775)	(36,935)
- Application of Group accounting principles	233,315	327,764
- Effect of converting accounts into foreign currency	(441)	(394)
- Tax impact of consolidation adjustments	(95,144)	(115,226)
Consolidated Net Equity according to local standards	**3,582,203**	**2,997,255**
- IAS 38 "Intangible assets"		
Goodwill	80,195	0
Other intangible assets	(25,542)	(39,838)
- IAS 2, 16 and 40 "Inventories, Property and Property investments"		
Property	(15,765)	(2,314)
- IAS 19 "Employee benefits"		
Staff leaving indemnity and other employee benefits	(69,434)	(46,890)
- IAS 27 "Basis of consolidation"		
Change in basis of consolidation	25,406	59,806
- IAS 37 "Provisions, contingent liabilities and contingent assets"	3,199	2,764
- IAS 32 "Financial instruments"		
Own shares	5,936	
- IAS 39 "Financial instruments"		
Financial assets		
Available for sale	1,078,328	
Fair value through profit or loss	2,352	
Other financial assets	(6,878)	
Financial liabilities	(7,650)	
- IFRS 3 "Business combinations"	(27,193)	
- IFRS 4 "Insurance contracts"		
Provision for unearned premiums and equalisation reserve	76,922	
Mathematical reserves	(411,457)	
Service component linked policies (IAS 18)	(22,559)	
- IAS 1 "Presentation of financial statements"		
Own shares	(270,057)	(171,371)
- Other IAS	503	318
Fiscal effect on items in reconciliation	(75,970)	30,012
Consolidated Net Equity according to IAS/IFRS principles	**3,922,539**	**2,829,742**
MINORITY SHARE	**(928,162)**	**(537,034)**
Group Net Equity according to IAS/IFRS principles	**2,994,377**	**2,292,708**

2. AMOUNTS SET ASIDE

These amount, in total, to € 229,075K (€ 171,294K as at 31/12/2004) and can be broken down into:

(€K)	2005	2004	Variation	01/01/2005
Provisions relating to tax issues	592	1,863	(1,271)	1,863
Other provisions	228,483	169,431	59,052	169,431
TOTAL	**229,075**	**171,294**	**57,781**	**171,294**

The Group does not show any significant tax disputes resulting in current obligations linked to past events.
Other provisions include amounts where there is doubt over the due date or the extent of future expenditure required for completion.

(€K)	Urbanisation charges	Non-tax related disputes	Employee-related costs	Recoupments not recoverable from intermediaries	Other liabilities	Total
Book value at the start of the period	-	92.998	29.209	5.016	42.208	169.431
Increases over the period including:						
• for provisions		65.704	20.409	3.772	12.588	102.473
• for other reasons	7.686				6.354	14.040
Withdrawals over the period for costs incurred	(206)	(24.804)	(14.005)	0	(3.215)	(42.230)
Withdrawals transferred to the profit and loss account		(1.372)	(771)		(13.088)	(15.231)
Increases for financial charges falling due or for variations in rates						
Book value at the end of the period	**7.480**	**132.526**	**34.842**	**8.788**	**44.847**	**228.483**

With reference to other provisions, some considerations appear below.

Non tax-related disputes

The fund includes the best possible estimate made by the Group to meet the cost of existing disputes relating to intermediaries, policyholders, employees and third parties.
Total provisions are consistent with costs estimated as a result of all litigation to which the Group is party. Provisions were estimated in reference both to past internal experience and to technical appraisals made by the Group's legal department.
With reference to the total number of existing disputes, it is thought that the planned timescale for disbursements is not extensive enough to involve time-discounting.

The fund also includes amounts set aside for takeover bids, an analysis of which is given in the Management Report in the section relating to disputes in progress. Having considered the criticality of the disputes, above all, from a legal perspective, it was deemed appropriate, in accordance with IAS 37.92, not to supply details of the extent of the amounts set aside.
Finally, it should be noted that the use of the fund for the non tax-related dispute resulting from the transaction with Consap by the subsidiary Milano, rose to € 20.7m.

Employee-related expenditure

The fund includes all probable liabilities resulting from work already performed by own employees. In particular, the fund includes both expenditure for holidays not taken and the cost of leaving incentives already formally signed by the employee and by company management.
Again, having considered the limited timeframe for financial repayment of these costs, it was deemed appropriate not to proceed with any time-discounting.

Recoupments not recoverable from intermediaries

The fund includes the best estimate of the value of current liabilities deriving from possible liabilities further to the debiting of recoupments, as per the industry-wide agents agreement, from intermediaries taking over agency mandates that have expired.
The estimate was made following the process of time-discounting the benefit accrued by Group agents on the date the accounts closed. The Group's historical experience determined the possible loss on this amount which was, in turn, time-discounted using, as a financial hypothesis, a free-risk rates curve.

Urbanisation charges

Accounts for certain liability, but estimated in terms of the amount, for urbanisation work to be deducted, as well as for charges to be paid. This is an item that relates to the subsidiary Immobiliare Lombarda S.p.A., active in the property industry.

Other liabilities

These are provisions relating to various phenomena with low unit amounts and include, amongst others, maintenance funds contractually provided for by companies operating within the property sector or already scheduled by Group companies that own property.
Also includes staff leaving indemnities to be paid to co-workers who are not employees.

With reference to what is laid down by IAS 37 it should be noted that the Group is not aware of significant contingent assets and liabilities for which it is necessary to supply specific information.

3. TECHNICAL RESERVES

These amount to € 25,359,603K and record a drop of € 1,268,419K compared to 2004.

Details of the technical reserves appear below:

(€K)	31/12/2005	31/12/2004	Variation	01/01/2005
NON-LIFE BUSINESS				
Premium reserve	2,490,917	2,456,758	34,159	2,392,433
Claims reserve	8,949,726	9,010,996	(61,270)	9,010,548
Other	10,825	25,154	(14,329)	11,413
Total non-life business	**11,451,468**	**11,492,908**	**(41,440)**	**11,414,394**
LIFE BUSINESS				
Mathematical reserves	12,336,050	11,226,368	1,111,769	11,153,777
Reserve for sums payable	104,711	84,224	20,487	84,224
Technical reserves where the investment risk is born by policyholders and deriving from pension fund management	950,944	3,692,235	(2,741,291)	900,898
Other	516,430	132,286	382,057	431,542
Total life business	**13,908,135**	**15,135,113**	**(1,226,978)**	**12,570,441**
TOTAL TECHNICAL RESERVES	**25,359,603**	**26,628,021**	**(1,268,418)**	**23,984,835**

The premium reserve includes the reserve for fractions of premiums amounting to € 2,490,055K and the reserve for risks in progress amounting to € 862K.
Other technical reserves relate entirely to the ageing reserve referred to in art. 25 of Legislative Decree 175/95.

The non-life claims reserve includes the IBNR claims reserve (IFRS 4 IG22C) amounting to € 895,180K.
The significant reduction compared with 2004 of the amount of technical reserves where the investment risk is borne by the policyholders and arising from pension fund management is due to the use of “deposit accounting” for life contracts solely of a financial nature.
Mathematical reserves include the additional financial risk reserve amounting to € 118,107K, as indicated in Isvap Instruction No. 1801-G of 21/02/2001, and already governed by art. 25 paragraph 12 of Legislative Decree 174/95.
Life business “other technical reserves” includes € 408,127 K of deferred liabilities in respect of policyholders for contracts with discretional profit-sharing components (IFRS 4.IG22f). The remainder is mainly due to the reserve for future expenses.

In particular, the Group has considered property-linked Life contracts, linked to separately managed returns, as contracts containing an element of discretional profit-sharing. In this case, the insurer may, in fact, intervene on a discretional basis, either by determining the retrocession quota or by influencing the return. At the same time, the shadow accounting method has been applied to these contracts.

With reference to financial liabilities relating to contracts with discretional profit-sharing components, as defined by IFRS 4.2 b, these are classified within the technical reserves and their book value amounts to € 5,481,762K. Together with deferred liabilities to policyholders, the total value amounts to € 5,889,889K, and is a reasonable indication of the fair value of the contracts in question. A group methodology adapted to supply specific data is being researched.

The movement of reserves over the course of the financial year is shown below:

(€K)	31/12/2005		
	Non-life business	**Life business**	**Total**
Reserve at the start of the period	11,414,394	12,570,441	23,984,835
Increases over the period	3,237,980	2,841,796	6,079,776
Payments (-)	(3,224,274)	(1,503,766)	(4,728,040)
Profits or losses recorded in the profit and loss account	10,132	43	10,175
Reserves acquired from, or transferred to, other insurers	2,605	(383)	2,222
Exchange differences	10,630	4	10,634
Reserve at the end of the period	11,451,468	13,908,135	25,359,603

4. FINANCIAL LIABILITIES

(€K)	**2005**	**2004**	**Variation**	**01/01/2005**
Financial liabilities at fair value recorded in the profit and loss account	3,231,858	31,443	3,200,415	2,797,832
Other financial liabilities	1,940,520	1,339,811	600,709	1,396,736
Total	**5,172,378**	**1,371,254**	**3,801,124**	**4,194,568**

Financial liabilities at fair value recorded in the profit and loss account can be broken down into:

Financial liabilities held for trading purposes
These relate to € 89,808K in repurchase agreements stipulated by the subsidiary SAI Mercati Mobiliari. The item includes over € 28,.515K relating to derivative hedging contracts stipulated by the Parent company and by the subsidiary Milano Assicurazioni, in respect of which, financial instruments owned by the Group recorded a similar positive variation impacting on the profit and loss account.

Financial liabilities at Fair Value recognised in the Profit and Loss account
As governed by IAS 39, the item includes investment contracts not falling within the scope of the application of IFRS 4 and posted to the accounts using Deposit Accounting. For these deposits, which amount in total to € 3,113,868K, this allocation eliminates and considerably reduces accounting asymmetry with the financial assets serving these contracts.

There are no financial liabilities in the "Fair Value through profit or loss" segment for which the variation in fair value component should not be attributed to variations in the market reference parameter.

Other financial liabilities
The item includes financial liabilities defined and governed by IAS 39 that are not included in the category "Financial assets at fair value recorded in the profit and loss account".
Included are deposits set up to guarantee risks ceded under reinsurance amounting to € 279,659K and subordinated liabilities entirely relating to the Parent company of € 483,888K.

With reference to loans from financial institutions and other financers, amounting to € 692,360K, the most significant amounts are given below:

- € 228.2m relates entirely to the consolidated indebtedness of the subsidiary Immobiliare Lombarda. In particular, this indebtedness was incurred in full over the financial year following a business combination. More specifically, € 204m resulted from renegotiation of the indebtedness of the acquired Immobiliare Lombarda, in accordance with the merger project for which this was one of the preconditions. The rate of interest on the loan was Euribor + 0.9%. Due dates are variable until 2012.
- € 169.6m relates to the loan stipulated by Fondo Chiuso Immobiliare Tikal R.E. with Banca Intesa, the latter in the capacity of Organising bank, Agent and Financier. The aim of the loan was to improve the return on the fund's capital funds and, thus, on the capital invested by members. The amount disbursed, which does not exceed the guarantee given, amounting in total to the € 280m, will be used both for investments in new initiatives and to make improvements with a view to future realisations or revenue increases. The cost of the funding is equal to the Euribor rate plus a variable credit spread of between 70 and 10 b.p..

- € 115.8m relates to the debt accessed from credit institutions by the subsidiary Finitalia, € 112.4m of which relates to debts with the obligation to repay at term or with notice. A breakdown into residual life bands shows that € 22.4m fall due within three months, € 2.5m between three months and one year and € 87.5m between one and five years.
- € 176.8m relates to the loan stipulated by the subsidiary Sainternational, due in 2110.

The item also includes deposits accessed by customers from the subsidiary BancaSAI of € 302,814K, € 60,737K relating to investment contracts stipulated by life policyholders valued using the amortised cost method and finally € 90,913K relating to repurchase agreements stipulated by the subsidiary SAI Mercati Mobiliari.

5. PAYABLES

These amount to € 1,100,580K and are made up as follows

(€K)	**2005**	**2004**	**Variation**	**01/01/2005**
Payables deriving from direct insurance operations	210,047	189,936	20,111	189,936
Payables deriving from reinsurance operations	113,541	111,166	2,375	114,680
Other payables	776,992	419,734	357,258	419,452
Total	**1,100,580**	**720,836**	**379,744**	**724,068**

Payables deriving from direct insurance operations include € 171,527K in respect of insurance intermediaries, € 35,182K of current account payables in respect of insurance companies, € 1,473K for policyholders' deposits and premiums and € 1,865K in guarantee funds for policyholders.

Payables deriving from reinsurance operations relate to reinsurance companies for € 61,410K and € 52,131K to reinsurance brokers.

Details of "other payables" are given below.

(€K)	**2005**
Trade payables	215.739
Staff leaving indemnity	138.256
Payables for taxes payable by policyholders	105.558
Payables for sundry tax liabilities	79.603
Payables to social security and welfare institutions	28.092
Other payables	209.744
Total	**776.992**

Staff leaving indemnity

The tables below provide analytical information relating to movement of the staff leaving indemnity fund, as well as the main demographical and financial hypotheses adopted for quantification of the Fund in line with the "Projected Unit Credit Method". Variations in staff leaving indemnities over the financial year:

(€K)	2005	2004
Total as at 31/12/2004	**122,369**	**115,510**
Increases	**27,262**	**23,159**
1, Cost of benefits relating to current work provisions	7,952	6,628
2. Financial liabilities	3,353	2,178
3. Members' contributions to the plan	-	137
4. Actuarial losses	14,922	14,128
5. Exchange differences compared with the presentation currency	-	-
6. Cost of benefits relating to past work provisions	-	-
7. Transfers between Group companies	58	89
8. Other variations	977	-
Decreases	**11,376**	**16,300**
1. Benefits paid	11,034	12,939
2. Cost of benefits relating to past work provisions	-	-
3. Actuarial gains	342	3,361
4. Exchange differences compared with the presentation currency	-	-
5. Reductions	-	-
6. Discharges	-	-
7. Other variations	-	-
Total as at 31/12/2005	**138,255**	**122,369**

The main statistical/actuarial assumptions used to determine staff leaving indemnity according to IAS 19 are shown below.

(values expressed in %)	Staff leaving indemnity			
	1	**2**	**3**	**4**
FONDIARIA-SAI	3.52	3.45	1.60	6.82
NOVARA VITA	3.69	3.45	1.60	6.82
PO VITA	3.72	3.45	1.60	6.82
PRONTO ASSISTANCE	3.69	3.45	1.60	6.82
SASA	3.61	3.45	1.60	6.82
SASA VITA	3.57	3.45	1.60	6.82
SIAT	3.43	3.45	1.60	6.82
BANCASAI	3.69	3.45	1.60	6.82
SAI MERCATI MOBILIARI	3.65	3.45	1.60	6.82
SCAI	3.69	3.45	1.60	6.82
STARVOX	3.75	3.45	1.60	6.82
IMMOBILIARE LOMBARDA	3.69	3.45	1.60	6.82
PORTOBELLO	3.61	3.45	1.60	6.82
DIALOGO	3.69	3.22	1.60	4.27
EFFE GESTIONI	3.65	3.22	1.60	4.27
EUROPA	3.57	3.22	1.60	4.27
FINITALIA	3.65	3.22	1.60	4.27
MILANO ASSICURAZIONI	3.52	3.22	1.60	4.27
SYSTEMA	3.75	3.22	1.60	4.27

1 = Discount rate
2 = Anticipated wage-rise rate
3 = Anticipated inflation rate
4 = Turnover

It should be noted that the average data appearing in the table represent indicative parameters, in so far as they are calculated with reasonable levels of aggregation and approximation. For this reason, the methodological choices made for the analytical definition of the main actuarial hypotheses are given below:

- Discount rate: use of an interest rate curve on the valuation date, rather than a constant rate, representative of bond issues from leading companies (Bloomberg).
- Anticipated wage-rise rate: analysis of historical movement of company wages over the last five years (2000-2004 period) and their adjustment on the basis of what is laid down by the industry-wide wage agreement and the anticipated inflationary scenario. Wage-rise hypotheses were differentiated by contractual rating and employee's length of service with the company.
- Turnover: analysis of historical movement over the last five years (2000-2004 period) relating to the departure from the company of employees and their standardisation on the basis of any "extraordinary" phenomena occurring in the past. Turnover hypotheses were differentiated by contractual rating, age details and sex of the employee.
- Rate of inflation: the inflationary scenario appearing in the current Economic and Financial Planning document on the valuation date.

Healthcare benefits for retired employees

The Group has implemented some healthcare benefit programmes for retired managers and their nuclear families. This benefit is reversible to surviving spouses and dependent children. The accounting method and actuarial hypotheses are similar to those usable for fixed benefit pension funds.
The tables below provide analytical information relating to movements in liabilities relating to Health Cover for Retired Managers, as well as the main demographic and financial hypotheses adopted to quantify the Fund in line with the "Projected Unit Credit Method".

(€K)

Company	**Fund as at 31/12/2005**	**Service Cost**
Fondiaria-SAI	16,355	151
Milano	7,963	54
Group Total	**24,318**	**205**

(values expressed in %)	**Executive benefits**			
	1	**2**	**3**	**4**
FONDIARIA-SAI	3.44	5.80	1.60	6.82
MILANO ASSICURAZIONI	3.44	5.80	1.60	4.27

1 = Discount rate
2 = Anticipated wage-rise rate
3 = Anticipated inflation rate
4 = Turnover

As regards hypotheses relating to the rise in healthcare costs, an analysis of historical data on refunds (2001-2004 period) was conducted. The rise in refunds can, essentially, be broken down into two parts:

- Adjustment for inflation;
- "natural" increase due to ageing.

The analyses conducted showed an average annual growth of 4.2% which brings the anticipated wage-rise rate, gross of planned inflation, to 5.8%.

6. OTHER LIABILITIES

These are made up as follows:

(€K)	2005	2004	Variation	01/01/2005
Current tax liabilities	272,838	289,844	(17,006)	289,844
Deferred tax liabilities	724,243	413,588	310,655	670,224
Liabilities for a group spin-off held for sale			-	
Other liabilities	612,546	664,132	(51,586)	750,956
Total	**1,609,627**	**1,367,564**	**242,063**	**1,711,024**

Current tax liabilities

These amount to € 272,838K (€ 289,844K as at 31/12/2004) and relate to taxes on income set aside in full by the Group at year end and calculated by applying current nominal tax rates on the accounting date to respective basic taxable amounts, the latter being determined by means of prudent estimates.

Deferred tax liabilities

Deferred tax liabilities, amounting to € 724,243K, include the tax impact of all temporary differences relating to items of an equity-related or economic nature, intended to be repaid in future years.
Of all the deferred tax liabilities allocated direct to the profit and loss account should be noted, in particular, € 268,.874K relating to the reserve for financial assets available for sale, € 31,454K relating to the value adjustment made to investment property in accordance with IAS 40 and € 28,289K relating to the value adjustment made to goodwill according to what is laid down by IAS 38.
The net impact of deferred liabilities transferred to the profit and loss account for the year amounts to € 17,096K.

Other liabilities

These amount to € 612,546K (€ 664,132K as at 31/12/2004) and comprise transitory reinsurance accounts of € 6m, commissions for premiums in the process of being collected of € 134m, deferred inward commissions on life policyholder investment contracts not covered by IFRS 4 of € 103m. The figure represents the financial product-related portion of revenue yet to mature, liabilities for cheques issued for claims and life sums cashed by beneficiaries after 31/12/2005 of € 102m.

Disclosure of risks and charges not recorded in the Profit and Loss account

In accordance with what is laid down by IAS/IFRS international accounting standards, the Accounts must not only contain information on data recordable in the accounts but also on risks and uncertainties brought to bear on the company as well as any resources and obligations not appearing in the Profit and Loss account.
The classification proposed by the aforementioned accounting standards lays down that memorandum items be reported “under the line” of the Profit and Loss account should be separate from risks and charges assumed by the company and third party assets on its premises.

Collateral securities given by the Group to third parties

These amount to € 443,318K and are made up as follows: € 408,000K comprise first mortgages registered on owned premises (separately for each property and for a value that is double that of the related payable allocated), following renegotiation of the bank exposure within the company Immobiliare Lombarda S.p.A.; € 12,398K comprise deeds of ownership, mainly settled on the Milan Comune to guarantee commitments assumed in respect of the latter, for urbanisation charges and for the issue of planning permissions; € 15,369K for bank guarantees relating to bank deposits on which a right of lien has been registered, relating to situations where there is a dispute over claims; € 6,037K relate to assets constituted by deposits guaranteeing inward reinsurance contracts.

Other guarantees given by the Group to third parties

Other commitments amount to € 35,784K and mainly account for guarantees given to Credit Institutions for the issue of declarations of indemnity as well as guarantees within other undertakings for which no formal discharge has been given. What’s more, guarantees still exist in favour of Financial Authorities, within the scope of the Group’s VAT regulations, for companies subsequently sold to third parties.

Guarantees given by third parties in the interest of the Group

At year end, these amounted to € 68,617K and mainly comprised bank guarantees for obligations assumed in respect of third parties, with particular reference to institutional investors (for property sales) and to the Milan Comune (for the construction of urbanisation works).

Guarantees received

The balance at year end amounted to € 405,549K and comprised sureties for guarantees issued by agents in performance of related mandates for € 281,342K, collateral securities of € 75,702K for the mortgage guarantee received for the "mezzanine" loan disbursed to Ganimede in relation to the development of some of the Group's property assets which took place in 2003. Included in the other personal guarantees was € 29,326K relating to letters of patronage received for said "mezzanine" loan.

Commitments

These mainly comprise € 142,593K of securities to be delivered and € 110,782K of securities to be received, registered for purchases/sales made in 2005, but settled in 2006.
In addition, it should be noted that, with reference to the Po Vita holding, our share of the commitments assumed was € 69,734K, corresponding to the equivalent value of commitments for the purchase of two zero coupons, with related optional parts, underwritten by the Company to hedge Index Linked-products placed in January 2006.

PART C – Notes to the Consolidated Profit and Loss account

NET PREMIUMS

Consolidated net premiums amount to € 9,096,306K (€ 9,442,459K in 2004).
The Group's gross premium income amounts to € 9,505,258K with a drop of 3.18% compared with 2004, broken down as follows:

(€K)	2005	2004	Variation
Life business gross premiums	2,360,942	2,807,567	(446,625)
Non-life business gross premiums	7,144,316	7,010,043	134,273
Variation in gross amount of premium reserve	163,457	57,646	105,811
Total Non-life business	6,980,859	6,952,397	28,462
Relevant gross premiums	**9,341,801**	**9,759,964**	**(418,163)**

As already shown in the consolidated Management Report, the comparison for Life business is not meaningful in so far as the data as at 31/12/2005 incorporates the full application of IFRS 4, with resultant failure to post to the accounts under the premiums item all those income components for which there is no significant insurance risk and which are, therefore, shown only as assets by means of being recorded under the financial liabilities item: deducting 2004 data from contracts of a financial nature, the increase in Life business premiums would have totalled 19.9%.
The item "gross premiums recorded" does not include the cancellation of securities issued in previous financial years, which have been posted to "Other costs". The above amounts are net of reinsurance carried out between Companies within the Group. For a breakdown of gross premiums recorded in the various classes of business in the accounts and the split between direct business and indirect business please refer to the tables contained in the Management Report.

Premiums ceded, totalling € 261,629K, account for 2.8% of total premiums written (3.3% in 2004).

(€K)	2005	2004	Variation
Life business	13.863	26.186	(12.323)
Non-life business	247.766	298.821	(51.055)
Variation in premium reserve borne by reinsurers	(16.134)	7.502	(23.636)
Total Non-life business	231.632	291.319	(59.687)
Premiums ceded under relevant reinsurance contracts	**245.495**	**317.505**	**(72.010)**

The Group's reinsurance policy had a positive impact on the consolidated accounts of € 3,795K (€3,763K in the Non-life segment).

It should be noted that, on existing outward reinsurance contracts, there is no deferral and amortisation of profits and losses.

For further illustrations of item 1.1 of the Profit and Loss account, broken down into Life and Non-life segments, please refer to the Annex at the end of the accounts.

CREDIT COMMISSION

Credit commission for 2005 amounted to € 53,453, up by € 37,474 from 2004.

(€K)	2005	2004	Variation
Credit commission	53,453	15,979	37,474

Comparison with 2004 data is not representative in so far as, as has already been shown, 2005 data was subject to full application of IFRS 4, on the basis of which commissions relating to investment contracts not falling within the scope of the application of the aforementioned IFRS were posted to the accounts: included in the aforementioned commissions we must remember explicit and implicit loadings impacting on investment contracts.
These commissions relate, in particular, both to explicit and implicit loadings relating to investment contracts written by Group companies and, as such, not covered by the application of IFRS 4, and to management fees for internal funds. In particular, approximately € 30,000K relates to the subsidiaries Novara Vita and Po Vita.
Also included are approximately € 20,000K of accrued credit commissions from companies operating within the managed savings and consumer credit industry.

NET INCOME DERIVING FROM FINANCIAL INSTRUMENTS AT FAIR VALUE RECOGNISED IN THE PROFIT AND LOSS ACCOUNT

These amount to € 126,561K, with a drop of € 167,563K from 2004.

(€K)	Interest	Other net income	Profits	Losses	Capital gains from valuation and write-ups	Capital losses from valuations and value adjustments	Total 2005	Total 2004	Variation
Result of investments deriving from:									
Financial assets held for trading	53,245	88,773	52,370	(128,419)	23,934	(25,128)	64,775	-	64,775
Financial assets at fair value recognised in the profit and loss account	50,754	(22,444)	10,621	(5,611)	47,779	(19,313)	61,786	294,124	(232,338)
Total	**103,999**	**66,329**	**62,991**	**(134,030)**	**71,713**	**(44,441)**	**126,561**	**294,124**	**(167,563)**

It has been shown that for 2005 this item recorded only income from Class D investments (according to Italian accounting principles) relating to life contracts with significant insurance risk. The latter amount to € 57m.

On the other hand, 2004 values mainly incorporate class D income, irrespective of how the policies that their placement serves are classed. This is a consequence of transition to the IFRS 4 accounting standard from 01/01/2005.

INCOME/CHARGES DERIVING FROM HOLDINGS IN SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES AND FROM FINANCIAL INSTRUMENTS AND INVESTMENT PROPERTY

(€K)	Net interest	Other net income	Profits	Losses	Capital gains from valuation and write-ups	Capital losses from valuations and value adjustments	Total 2005	Total 2004	Variation
Result deriving from:									
Investment property	-	76,511	23,482	-	-	(37,526)	62,467	83,829	(21,362)
Holdings in subsidiaries, associates and joint ventures	-	12,957	33,881	(3)	-	(2,973)	43,862	2,439	41,423
Loans and receivables	49,526	9,141	-	(4,011)	1,629	(264)	56,021	26,501	29,520
Investments owned to maturity	-	-	-	-	-	-	-	-	-
Financial assets available for sale	545,229	58,717	181,910	(46,803)	-	(27,267)	711,786	689,504	22,282
Various receivables	12,781	114	-	-	-	-	12,895	10,686	2,209
Cash at bank and in hand and equivalents	5,629	(41)	-	-	-	-	5,588	9,755	(4,167)
Other financial liabilities	(50,078)	(4,802)	-	-	499	-	(54,381)	(33,053)	(21,328)
Total	**563,087**	**152,597**	**239,273**	**(50,817)**	**2,128**	**(68,030)**	**838,238**	**789,661**	**48,577**

In accordance with IAS 32.94h ii its should be noted that, with regard to financial assets available for sale, the value of the holding in Swiss Life was reduced by € 27,138K.
The economic impact of the sale of various financial instruments is shown in the profits and losses columns. Profits made on holdings in subsidiaries, associates and joint ventures relate to the capital gain on the sale of the subsidiary International Strategy (€ 9.1m), whilst the remainder is mainly due to the sale of Milano Assicurazioni minority shares.
Losses from the valuation of investment property include depreciation allowances recognised over the year.
Negative interest on other financial liabilities includes the heavy burden of the Group’s financial indebtedness.

No accrued interest was received on financial assets written down for impairment losses in previous years (IAS 32.94h).

With regard to annex 11 please refer to the end of the accounts.

OTHER REVENUE

Other revenue amounted to € 393,.594K (€ 359,030K in 2004) and is summarised in the table below:

(€K)	**2005**	**2004**	**Variation**
Capital gains relating to non-current assets	24	42	(18)
Other technical income	72,348	45,797	26,551
Fund withdrawals	73,244	51,587	21,657
Exchange differences	16,261	6,846	9,415
Contingent assets	30,110	25,757	4,353
Profits realised on tangible assets	61	2,129	(2,068)
Other revenue	201,546	226,872	(25,326)
Total	**393,594**	**359,030**	**34,564**

In particular, the following revenue is included in the subitem "other revenue": € 38m in revenue from the subsidiary Immobiliare Lombarda, relating to the property segment, whose premises, being considered as inventories, are classified as tangible assets; revenue for sales of hardware and service provisions of an IT nature outside the Group, relating to subsidiaries operating in this industry of € 32m; revenue from care homes in which the Group has a controlling interest of € 26m and revenue relating to agricultural holdings of € 9m.

NET CHARGES RELATING TO CLAIMS

Claims paid, including life business amounts and related expenses reached, gross of units ceded to reinsurers, the sum of € 6,614,224 with a rise of 1.52% over the previous year.

Claims-related charges, amounts paid and changes to the technical reserves

(€K)	**2005**	**2004**	**Variation**
Non-life Business			
Amounts paid	5,145,986	4,752,175	393,811
Variation in recoveries	(121,226)	(126,167)	4,941
Variation in other technical reserves	(1,477)	2,226	(3,703)
Variation in claims reserve	(72,433)	241,085	(313,518)
Total Non-life business	**4,950,850**	**4,869,319**	**81,531**
Life Business			
Amounts paid	1,468,238	1,762,989	(294,751)
Variation in mathematical reserves and other technical reserves	1,180,182	755,448	424,734
Variation in technical reserves where the investment risk is borne by the policyholders and arises from pension fund management	28,681	774,085	(745,404)
Variation in the reserve for payables	35,528	(30,957)	66,485
Total Life	**2,712,629**	**3,261,565**	**(548,936)**
Total Non-life + Life			
Amounts paid	**6,492,998**	**6,388,997**	**104,001**
Variation in reserves	**1,170,481**	**1,741,887**	**(571,406)**

Claims-related charges, quotas borne by reinsurers

(€K)	**2005**	**2004**	**Variation**
Non-life Business			
Amounts paid	262,572	227,225	35,347
Variation in other technical reserves	(3,094)	(1,136)	(1,958)
Variation in recoveries	0	0	0
Variation in claims reserve	(89,020)	(67,779)	(21,241)
Total Non-life business	**170,458**	**158,310**	**12,148**
Life Business			
Amounts paid	31,474	39,800	(8,326)
Variation in mathematical reserves and technical reserves	(17,207)	(20,949)	3,742
Variation in reserve for payables	(1,866)	(397)	(1,469)
Total Life	**12,401**	**18,454**	**(6,053)**
Total Non-life + Life			
Amounts paid	**290,952**	**265,889**	**25,063**
Variation in reserves	**(108,093)**	**(89,125)**	**(18,968)**

The variation in non-life business net technical reserves amounts to € 15,110K, with a drop compared with 2004 of € 295,980K. The reduction in claims reserves was due mainly to the increased speed of settlement and the reduction in the frequency of claims.
Life business net technical reserves, including reserve for payables, varied by € 1,280,624K (€ 1,519,922K in 2004): the reduction in the so-called class D technical reserves was due to the often mentioned full application of IFRS 4 in 2005.

For further details of item 2.1 of the Profit and Loss account, broken down into Non-life and Life business, please refer to Annex 10 at the end of the accounts.

COMMISSIONS PAYABLE

Commissions payable for 2005 amounted to € 30,837K, up by € 18,017K from 2004.

(€K)	2005	2004	Variation
Commissions payable	30,837	12,820	18,017

Comparison with 2004 data is not representative in so far as 2005 data was subject to full application of IFRS 4, on the basis of which acquisition costs relating to investment contracts written by insurance companies and not falling within the scope of the application of the aforementioned IFRS were posted to this item.

OPERATING EXPENSES

(€K)	2005	2004	Variation
Non-life business			
Purchase commissions and variations in deferred acquisition costs	992,230	938,396	53,834
Other acquisition costs	146,670	143,906	2,764
Collecting commissions	52,789	65,932	(13,143)
Commissions and profit shares received by reinsurers	(64,937)	(58,905)	(6,032)
Total Non-life business	**1,126,752**	**1,089,329**	**37,423**
Life Business			
Purchase commissions and variations in deferred acquisition costs	48,149	72,112	(23,963)
Other acquisition costs	28,375	33,463	(5,088)
Collecting commissions	18,082	19,205	(1,123)
Commissions and profit shares received by reinsurers	(1,494)	(5,827)	4,333
Total Life	**93,112**	**118,953**	**(25,841)**
Investment management expenses	74,522	33,845	40,677
Other administrative expenses	308,263	293,578	14,685
Total	**1,602,649**	**1,535,705**	**66,944**

For annex 12 please refer to the end of the accounts.

Acquisition costs accrued over the financial year amount to € 1,215,424K.
Details are given below:

(€K)	**2005**
Portion incurred and disbursed over the year	1,137,064
Portion arising from amortisation of capitalised costs in previous financial years	78,360
Total acquisition costs	**1,215,424**

OTHER COSTS

Other costs amount to € 562,918K (€ 639,194K in 2004) and are summarised by type in the table below:

(€K)	**2005**	**2004**	**Variation**
Other technical charges	158,643	211,920	(53,277)
Provisions	117,371	71,737	45,634
Losses on receivables	34,916	19,166	15,750
Contingent liabilities	45,444	44,297	1,147
Amortisation tangible fixed assets	17,437	20,209	(2,772)
Amortisation intangible fixed assets	30,699	36,803	(6,104)
Exchange differences	7,388	9,785	(2,397)
Other costs	151,020	225,277	(74,257)
Total	**562,918**	**639,194**	**(76,276)**

In particular, the following charges are included in the subitem "other costs" appearing in the table above: € 31m relating to production and labour costs for the subsidiaries Scai, Salevox and Starvox; costs incurred by the subsidiary Pronto Assistance Servizi to provide Group policyholders and clients with call centre and support services in the event of a claim of € 20m; € 16m relating to costs incurred by Care Homes in which the Group has a controlling interest for typical activities and related labour costs; cost of characteristic management of the subsidiary Saiagricola of € 6m.

TAXES

(€K)	**2005**	**2004**
Charges (income) for current taxes	241,902	276,614
Adjustments recorded over the year relating to current taxes and taxes for previous years	0	0
Deferred tax liabilities arising over the year	117,815	145,524
(-) Deferred tax liabilities used over the year	134,911	48,837
(-) Deferred tax assets arising over the year	124,590	146,624
Deferred tax assets used over the year	154,606	87,711
Income for deferred tax assets arising in previous years and not previously recorded used to reduce current taxes	0	0
Income for deferred tax assets arising in previous years and not previously recorded used to reduce deferred taxes	0	0
Charges (income) relating to write-downs (write-ups) of assets for deferred taxes recorded in the previous year	0	0
Variations following estimate changes according to IAS 8	(10,044)	0
Total	**244,778**	**314,388**

Taxes for the financial year amount to € 244,778 (€ 314,388K in 2004) being the combined effect of current taxes of € 241,902K and net deferred taxes of € 2,876K.

Current national taxes (Ires and Irap) and taxes on foreign subsidiaries are calculated by applying current nominal rates of 33% for Ires and 4.25% for Irap to basic taxable amounts on the accounting date. When calculating Irap for the financial year, consideration was also given, again by prudent valuation, of any increases or reduction in rates decided upon by some regions with regard to particular categories of economic agents.

With regard to deferred taxation, the latter generated a tax hike of € 2,876K.
In particular, deferred tax liabilities showed a positive net balance of € 17,096K and, generally speaking, relate to all the taxable temporary differences arising, or repaid over the year. The overall amount of tax liabilities for deferred taxes recorded at the end of 2005 was € 724,243K.
As for the movement of deferred tax liabilities it should be noted that the setting aside of the latter correlates, amongst other things, with value adjustments for goodwill and other intangible assets, made in accordance with IAS 38 of € 26,861K and € 32,557K, with the consolidation adjustment of 2005 commissions posted to the accounts in previous years. On the other hand, the cancellation of deferred liabilities previously set aside was mainly due, in the amount of € 47,658 to the taxability of capital gains payable in instalments posted to previous years, of €

50,678K for the drawing of deferred liabilities due to the reduction in the transitional system referred to in art. 4 of Legislative Decree 344/2003 as explained in more detail below and, in the amount of € 27,857K, for the allocation, during consolidation, of amortisations on multi-year commissions.
On the other hand, deferred tax assets arising over the year, net of those repaid, resulted in a greater tax liability of € 19,972K. Of this € 10,044K relates to taxes prepaid in previous years set aside for estimate changes. The latter were set aside according to the likelihood of repayment, less related temporary differences in subsequent years. The net impact of the deferred assets relates to the deduction of write-downs on receivables from policyholders of € 1,412K due to the exemption of deferred assets of € 26,.922K against the cancellation of pre-payments of € 28,334K. Also included in the cancellation of prepaid taxes should be noted over € 49,148K relating to the deduction, in 2005, of adjustments made on capitalised holdings in accordance with Legislative Decree 209/2002.
Failure to set aside deferred tax assets for fiscal losses arising over the year as well as for the immediate absorption of losses made by consolidated companies involved in national taxation of the group as laid down by article 124 and subsequent articles of Presidential Decree 917/1986 (known as the Consolidated income tax code) relating to Fondiaria-SAI, was not significant.
At year end, prepaid taxes amounted in total to € 673,490K.

On the accounting date, the aggregated amount of temporary differences relating to profits not distributed by subsidiary companies had not given rise to the posting of deferred tax liabilities: i.e. since it was likely, considering the current dividend taxation system, that in the foreseeable future these differences would be cancelled. In addition, the Group is in a position to monitor cancellation times.
Temporary differences deriving from investments in associated companies and joint ventures were negligeable.

The reconciliation between the tax liability posted to the accounts and the theoretical tax liability, calculated on the basis of the current IRES nominal rate for 2005 of 33%, is as follows:

(€K)	**2005**
Pre-tax result	831,128
Tax on theoretical income (excluding Irap)	274,272
Tax impact deriving from permanent changes in tax liability	(20,249)
Tax impact of use of previous fiscal losses	(6,420)
Tax impact deriving from shares in associated company results	(162)
Tax impact deriving from foreign tax rates	8,131
Other differences	(61,513)
Income tax (excluding Irap)	**194,059**
Irap	50,719
Total income taxes posted to the accounts	**244,778**

For the purposes of making the reconciliation more understandable in terms of the actual balance sheet tax liability and the theoretical tax liability, the latter being calculated on the basis of a nominal tax rate of 33%, the effect of Irap was not taken into consideration since the taxable amount to which this tax relates is very different and, therefore, incomparable with the pre-tax result.

The positive effect of permanent tax changes was mainly linked to the prevalence of positive income components which, following the Ires reform as per Legislative Decree 344/2003, are subject to detaxation as, amongst other things, dividends allocated over the year are not subject to consolidation adjustment.

The theoretical tax liability is, in addition, reduced by recovery of previous fiscal losses by some Group companies for which it was not deemed appropriate to set aside, in respective year-end accounts, the related prepaid taxes. Included in these should be noted the full recovery of residual fiscal losses of € 15,529L appertaining to the subsidiary SASA Assicurazioni e Riassicurazioni due to positive results achieved over the year.

On the other hand, neutralisation of the impact on theoretical tax liability determined by the different taxation of foreign subsidiaries resulted in a tax hike of € 8,131K. This variation was due, in particular, to the allocation of a greater national theoretical tax on negative results achieved by the subsidiary Fondiaria Nederland BV which contributed to reducing the pre-tax consolidated result.

Other differences relate, in the amount of € 51,469, to drawings from the deferred liabilities fund due, in the main, to the reduction in the transitional system provided for by art. 4 of Legislative Decree 344/2003 in accordance with which taxes relating to the adjustment made in previous years on some of the Parent company and the subsidiary Milano Assicurazioni's holdings were repaid. The remaining € 10,044K relates to prepaid adjustments for previous years made by said companies.

FURTHER INFORMATION

With reference to the nature of the year's expenses (IAS 1.93), in addition to what has already been listed in the details on the balance sheet item "Other costs", it should be noted that the Group's total staffing costs amounted to € 289m.

Earnings per share

The basic earnings per share is calculated by dividing the net profit for the year attributable to the Parent company's ordinary shareholders by the weighted average number of shares in circulation during the year. It should be noted that the weighted average shares in circulation was decreased by the weighted average of own shares possessed by Gruppo Fondiaria-SAI.

Diluted earnings per share was calculated by dividing the net profit for the year attributable to the Parent company's ordinary shareholders by the weighted average number of shares in circulation during the year, adjusted for the diluting effects of Fondiaria SAI warrant options in circulation and, therefore, of all potential shares.

It should also be noted that dividends distributed in 2006 to savings shareholders are deducted from the Group's consolidated net profit.

Share results and information for the purposes of calculating basic and diluted earnings per share are given below:

(€K)	**2005**	**2004**
Net profit attributable to the Parent company's ordinary shareholders	422,774	307,147
Weighted average number of ordinary shares for calculation of basic earnings per share	117,433,266	119,752,441
Basic earnings per share	3.60	2.56
Dilution effect:		
Adjusted weighted average number of ordinary shares for the purposes of diluted earnings per share	124,685,647	119,752,441
Diluted earnings per share	3.39	2.56

It has been shown that for 2004 the weighted average number of ordinary shares for the purposes of earnings per share was the same as the basic earnings in so far as Warrants can only be exercised as of 30/06/2005.

It should be noted that it was not thought necessary to adjust the profit for discontinued business or business in the process of being hived off and that Warrants have a diluting effect in so far as the average market price of ordinary shares exceeds their strike price.

Dividends paid and proposed

The information below is given in accordance with what is laid down by IAS 1.125a and 125b:

(€K)	**2005**	**2004**
Declared and paid over the year		
Dividends on ordinary shares	91,515	49,711
Dividends on savings shares	33,544	18,899
Proposals for approval by the Shareholders' meeting		
Dividends on ordinary shares	119,359	91,515
Dividends on savings shares	42,678	33,544

It should be noted that dividends proposed for approval by the Shareholders' meeting were not recorded as liabilities as at 31/12/2005.
The dividends proposed are the result of an estimate that did not take into consideration any warrant conversions between the date of the decision and the date of the dividend coupon date, nor of any acquisitions of own shares over the same period.

PART D – Segment information disclosures

According to what is laid down by IAS 14, business segment disclosures provide an additional tool to improve the reader's understanding of the Group's economic/financial performance.
The logic underlying the application of the standard is that indicating how and where the Group's results are formed makes it possible to obtain information on both the Group's overall operability and, more especially, areas where risks and returns are concentrated.

The Group's primary reporting is by business segment. Group companies are organised and managed separately on the basis of the nature of the products and services supplied, for each business segment representing a strategic business unit offering different products and services.
In order to identify primary segments, the Group conducted an analysis of the risk/return profile of these segments and took into consideration the internal disclosure structure. The Non-life segment provides insurance cover for the events shown in annex A) "Classification of risks by class" of Legislative Decree 175/97. The Life segment, on the other hand, offers substantial insurance cover with payment of a capital amount or a return upon the occasion of an event appertaining to human life.

The property segment rents out offices, premises and dwellings that exceed the hedge requirements of the Group's technical/insurance reserves and is active in the investment property management and development market.
The Other Business segment, being of a residual nature, offers products and services within the scope of managed savings and asset management, as well as in the agricultural segment. Identification of the remaining segment is the result of a discretional valuation aimed at showing the primary source of risks and benefits to which the Group is exposed.
Transactions between segments are, generally speaking, concluded under the same terms applied to third parties.
Lastly, it should be considered that Isvap, with Instruction 2404/05, deemed it opportune to show the Non-life and Life segments as de minimis disclosure for the purposes of segment reporting.

It should also be noted that, in accordance with the geographical breakdown of the Group's business during the course of 2005, this was developed mainly in the European Union and that there are, therefore, no other geographical segments which satisfy the requirements laid down by IAS 14 par.69.

A balance sheet broken down by segment is shown below:

	Non-life Insurance segment		Life Insurance segment		Property segment		Other Activities segment		Intersegmental elisions		Total	
(thousands of Euro)	31/12/2005	31/12/2004	31/12/2005	31/12/2004	31/12/2005	31/12/2004	31/12/2005	31/12/2004	31/12/2005	31/12/2004	31/12/2005	31/12/2004
Net premiums	6,749,227	6,661,078	2,347,079	2,781,381	0	0	0	0	0	0	9,096,306	9,442,459
Charges relating to claims	-4,780,392	-4,711,009	-2,700,228	-3,243,110	0	0	0	0	0	0	-7,480,620	-7,954,119
Net commissions	-1,085	0	13,385	239	0	0	10,664	2,920	-348	0	22,616	3,159
Net income from investments	323,427	301,867	531,968	520,807	18,806	20,375	34,565	8,592	-20,450	-9,732	888,316	841,909
Net income deriving from financial instruments at fair value through profit and loss	43,922	3,008	78,930	285,183	0	0	3,709	5,934	0	0	126,561	294,125
Management costs	-1,328,907	-1,236,487	-148,156	-219,891	-206	0	-54,676	-46,655	3,818	1,173	-1,528,127	-1,501,860
Management costs on investments and interest payable	-46,689	-28,563	-22,025	-21,538	-51,465	-29,718	-25,031	-16,007	20,610	9,732	-124,600	-86,094
Other net income and expenditure	-229,911	-289,852	26,735	5,003	24,611	3,093	12,871	2,765	-3,630	-1,173	-169,324	-280,164
											0	0
Pre-tax profit (loss) for the year	729,592	700,042	127,688	108,074	-8,254	-6,250	-17,898	-42,451	0	0	831,128	759,415
Taxes											-244,778	-314,388
Consolidated profit (loss)											586,350	445,027
Group profit (loss)											465,283	340,691
Minority profit (loss)											121,067	104,336

PART E – Information on financial risks

Objectives and criteria

The Group's financial instruments mainly comprise debt and capital securities, represented by bonds and shares. Added to these are current bank accounts, bank deposits and receivables from policyholders, agents and other intermediaries. In short, financial instruments deriving from business operations and from insurance and reinsurance companies, the major reversal of the monetary cycle within the insurance industry being noted.
With regard to the Group's insurance companies, whether within the Non-life, or the Life segment, similar financial instruments are mainly intended to guarantee adherence to commitments to policyholders that have matured or are in the process of maturing. In particular, financial instruments represented by securities are mainly intended to hedge technical reserves in accordance with the criteria and procedures laid down by the Supervisory Authority with its own specific standards.

The main risks generated by financial instruments are: interest rate risk, liquidity risk, exchange risk, credit risk and the market price risk (fair value). The Parent company's Board of Directors reviews and approves policies to manage these risks.

Over the years, the Group has developed a plan for mapping and estimating financial risks. The plan was born of the need to supply appropriate support for management and financial choices, in terms of asset allocation. From an operational point of view this monitoring is facilitated by the fact that the Finance Department operates on a centralised model.

Interest rate risk, market risk and V.a.R.

The Group's exposure to market risk due to interest rate changes mainly relates to debt securities held and, in particular, long-term securities. In order to limit this risk, the Group uses a balanced mix of fixed and variable rate securities.

The Group's monitoring system provides for assessment of the risk of interest rate fluctuation and market risk, inherent in portfolios and measured by "Value at Risk" (V.a.R.). Using this measurement, the existing portfolio's loss in value can be estimated in the light of significant risk factor fluctuations over a predetermined timeframe and with a predetermined level of probability of the damaging event occurring.

The asset portfolio's risk profile is also determined by the structure of the liabilities being hedged by these securities.
Moreover, on an operational level, for Life business, the sensitivity of the value of the reserves to interest rate changes is determined and then the hedged asset portfolio is structured so that its sensitivity is in line with said risk value.

As for assets hedging Non-life reserves, these are selected in line with the portfolio's asset allocation, taking into consideration forecasts regarding trends in the settlement of the claims to which the reserves relate.

Financial instruments AFS – Analysis of the sensitivity of the bond component (bonds, income bond funds) by maturity band

	Composition %	Dur.	VaR rate %	Exchange VaR %	Rate sensitivity	Shift sensitivity
Government Euro	**86.36**	**4.34**	**0.48**	**-**	**(1.56)**	**0.04**
Variable rate	19.19	**0.54**	0.03	-	(0.38)	0.01
Fixed rate	67.17	**5.42**	0.61	-	(1.90)	0.05
0.0< ≤1.5	16.50	1.11	0.23	-	(0.91)	0.01
1.5< ≤3.0	10.73	2.18	0.47	-	(1.54)	0.02
3.0< ≤5.5	17.57	3.73	0.68	-	(2.10)	0.04
5.5< ≤7	1.22	5.28	0.79	-	(2.38)	0.05
>7	21.15	11.79	0.90	-	(2.65)	0.11
Corporate Euro	**12.27**	**5.08**	**0.61**	-	**(1.87)**	**0.05**
Variable rate	2.74	**1.07**	0.11	-	(0.59)	0.01
Fixed rate	9.53	**6.2**	0.75	-	(2.22)	0.06
0.0< ≤1.5	0.83	0.75	0.13	-	(0.65)	0.01
1.5< ≤3.0	0.82	2.07	0.44	-	(1.46)	0.02
3.0< ≤5.5	2.31	3.98	0.71	-	(2.14)	0.04
5.5< ≤7	1.12	5.53	0.83	-	(2.45)	0.05
>7	4.46	9.15	0.92	-	(2.61)	0.09
Euro income bond funds	**0.63**	**2.82**	**0.60**	-	**(1.57)**	**0.03**
Fixed rate	0.63	**2.82**	0.60	-	(1.57)	0.03
0.0< ≤1.5	0.18	0.99	0.21	-	(0.85)	0.01
3.0< ≤5.5	0.36	4.39	0.76	-	(2.30)	0.04
>7	0.08	-	0.76	-	(0.07)	0.00
Government Non Euro	**0.50**	**3.04**	**0.29**	**0.02**	**(2.23)**	**0.03**
Fixed rate	0.50	**3.04**	0.29	0.02	(2.23)	0.03
0.0< ≤1.5	0.19	0.59	0.06	0.01	(0.52)	0.01
1.5< ≤3.0	0.14	2.20	0.23	0.01	(1.91)	0.02
3.0< ≤5.5	0.08	3.44	0.43	-	(2.17)	0.03
>7	0.09	9.11	0.73	-	(6.35)	0.08
Corporate Non Euro	**0.24**	**1.26**	**0.20**	**0.01**	**(0.76)**	**0.01**
Variable rate	0.13	**0.12**	-	-	(0.12)	-
Fixed rate	0.10	**2.67**	0.44	-	(1.54)	0.03
0.0< ≤1.5	0.01	0.34	0.05	-	(0.27)	-
1.5< ≤3.0	0.04	2.47	0.48	-	(1.35)	0.02
3.0< ≤5.5	0.05	3.29	0.50	-	(1.99)	0.03
5.5< ≤7	-	6.16	0.62	-	(1.69)	0.06
Total	**100.00**	**4.41**	**0.49**	**0.02**	**(1.60)**	**0.04**

The table above shows the consolidated bond portfolio "Available for sale" (AFS) broken down by maturity band, distinguishing between government and corporate securities.

Securities in foreign currency are aggregated in a “non Euro” segment.
The financial duration of the securities exposed as well as the VaR (Value at Risk) is also shown.
The VaR shows the maximum loss to which the portfolio is exposed, with a 10 day timeframe, with a 1% level of probability.
For securities in foreign currency the component of risk appertaining to exchange is shown in the "Exchange VaR %" column.

The rate sensitivity measurement shows the price loss in percentage terms in the event of a rise in short-term rates of 100 base points.
The variation is estimated right the way along the rates structure using a stochastic model and reduces when the maturity timescale increases.
The risky nature of interest rate fluctuations is also represented by the percentage change in bond quotes for a standard shift of one base point over the entire curve due to interest rate expiry (as shown in the "Shift Sensitivity" column).
The portfolio’s potential yield is summarised by the immediate return calculated as the ratio between the coupon flow and the quotation, as is, on the processing date.

With reference to the table above, it is interesting to note that 97% of the Group’s listed bonds portfolio is exposed to trends in market rates.
An analysis by investment category is given below, which shows that a 50 b.p. rate drop would have a positive economic impact on the portfolio’s overall fair value totalling € 364.6m. This amount rises to € 754m for an interest rate drop of 100 b.p..
In contrast, a rise of 50 b.p. in returns of the same size would have a negative effect totalling € 342.1m. The negative effect rises to € 663.9m for a rate rise of 100 b.p..

Interest rate risk

			31/12/2005			
(€m)	**Total Fair Value**	**Composition %**	**Drop of 50 b.p.**	**Rise of 50 b.p.**	**Drop of 100 b.p.**	**Rise of 100 b.p.**
Government Euro	14,263.6	86.4	309.4	(289.6)	640.8	(561.5)
Corporate and Euro income bond funds	2,131.0	12.9	53.7	(51.1)	110.2	(99.6)
Non-Euro Area	121.0	0.7	1.5	(1.4)	3.0	(2.8)
Total	**16,515.6**	**100.0**	**364.6**	**(342.1)**	**754.0**	**(668.9)**

Financial instruments AFS – Analysis of values and Value at Risk

Typology	Currency	Composition %	Rate/price VaR %	Exchange VaR %	Total VaR %
Shares	Swedish Krona	0.01	10.32	1.89	12.20
	American Dollar	0.05	5.64	3.98	9.62
	Euro	14.73	3.34	-	3.34
	Swiss Franc	0.69	7.47	1.25	8.72
	English Sterling	0.13	4.64	2.53	7.17
	Japanese Yen	-	6.99	3.54	10.53
Total Listed Shares		**15.62**	**3.55**	**0.09**	**3.64**
Income bond funds	Euro	0.51	0.58	-	0.58
Bonds	American Dollar	0.31	0.10	4.03	4.13
	Euro	79.62	0.50	-	0.50
	Swiss Franc	0.23	0.33	1.27	1.60
	English Sterling	0.05	0.60	2.56	3.16
	Japanese Yen	-	0.09	3.57	3.66
Total Securities		80.72	0.50	0.02	0.52
Shares	Euro	3.66	3.93	-	3.93
Total Non-listed Shares		3.66	3.93	-	3.93
Sum Total		**100.00**	**1.10**	**0.03**	**1.13**

Please note:
Identification of all market data used: Market data as at 31/12/2005 – AFS..
The Dur. Index is the Macaulay duration expressed in years.
The Shift Sensitivity is calculated in reference to a parallel shift of 1 b.p.
The Sensitivity rate index is the change in value for a variation of 100 b.p. in the short-term rate.
Monetary amounts are represented in thousands of Euro at spot exchange rates on the valuation date.
The Value at Risk is calculated at a 99% level of probability, with a 10 working day unwinding period.
The flat book value is calculated on the nominal value; the listed value is calculated on the residual payable.
The total VaR percentage is calculated in accordance with the listed value as is.
The r/p VaR expresses the VaR rate for the bond segment and the VaR price for the share segment.
Book values and listed values are expressed at flat rate.

The above table analyses the portfolio AFS broken down by type of asset, shares, listed and unlisted bonds.

For the purposes of providing a measurement of the total exposure to bond and share risk, the portofolio's VaR is calculated, using the same parameters used in the table "Analysis of bond component sensitivity". In this report, the risk level of an Italian listed share index (Mibtel) was prudently attributed to unlisted shares. It should be remembered that operations to hedge shares via derivatives are summarised in the report and reduce the overall riskiness of the share portfolio.

Exchange risk

The Group has no significant exposure to exchange risk. In fact, most of the investments in financial instruments are denominated and/or redeemable in Euro which represents both the functional currency and the currency of account. With regard to financial instruments denominated in currencies other than the Euro zone, the Group mainly invests in dollars, Swiss francs and English sterling.

In this respect, there is a good balance between assets denominated in foreign currency and related liabilities, in turn, denominated in the same currency, in so far as a major part of these investments are intended to hedge commitments to life policyholders (this relates, in particular, to segregated accounts in foreign currency).
At least once a month, the Group monitors exposure in foreign currency in order to detect criticality or situations that require any corrective intervention in good time, including the stipulation of any hedge contracts.
What's more, with the sale, which took place in January 2006, of the interest in Swiss Life Holding, denominated in Swiss francs, the Group's exposure to exchange risk was considerably reduced.

Credit risk

The credit risk, arising from holding bonds, was estimated on the basis of models for valuing the portfolio's loss of value following fluctuations in bond quotes and possible failures of the issuers of said securities.
As seen in the table "Bond component sensitivity analysis" the bond portfolio was made up of over 86% government securities, mainly issued by the Italian government and marginally by other OECD states.

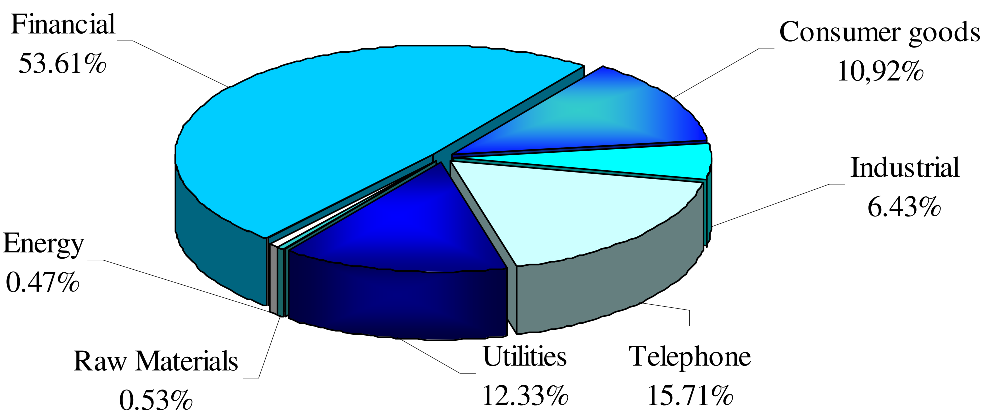
With reference to receivables from policyholders for premiums, receivables from agents and other intermediaries, as well as receivables from insurance and reinsurance companies, the Group does not have significant concentrations of risk, its credit exposure being divided between a large number of counterparties and clients. What's more, the balance of receivables is constantly monitored throughout the year so as to minimise the amount of exposure to losses.

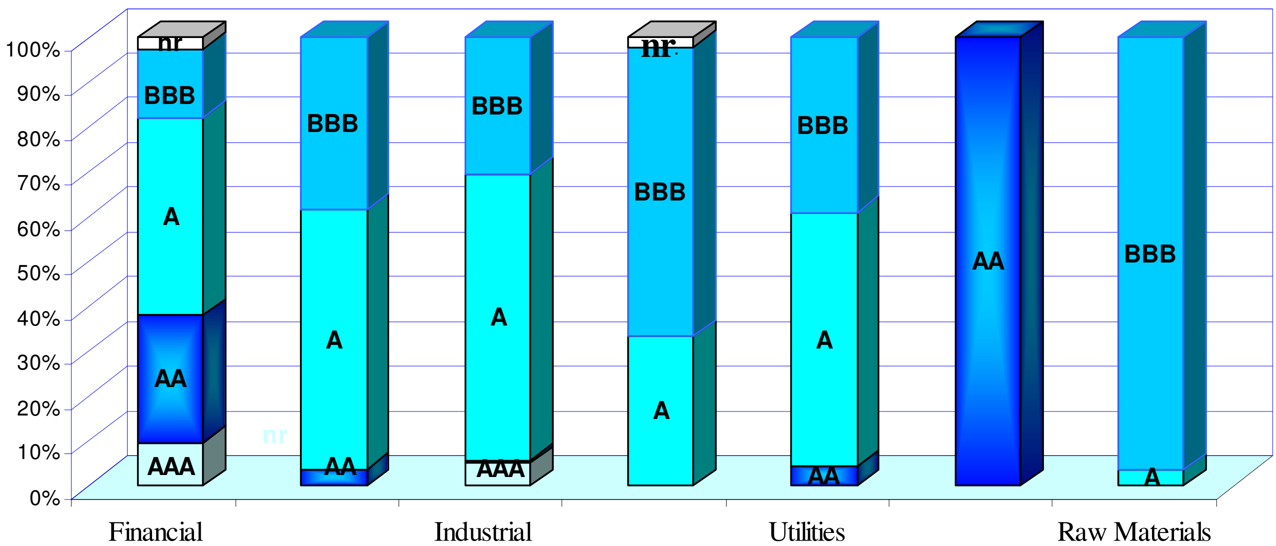
Finally, with reference to the property sector, following credit risk assessments, guarantees were requested from tenants or purchasers as sureties or deposits in property transactions.

Composition of the corporate portfolio

The graphs appearing below show the composition of the Available For Sale corporate portfolio of the Group's two main insurance companies.
The analysis identifies both a breakdown by the commodity sector to which the issuing entity belongs and an analysis of the corporate portfolio by rating level of the issuing entity. Government securities are excluded from the analysis: for Fondiaria-SAI they represent 87.88% of the portfolio, for Milano Assicurazioni they represent 87.40% of the portfolio.
A view of both portfolios analysed is given by means of histograms, in which fundamental risks (in terms of exposure) are identified for major issuers in the largest sectors. It should be remembered that by exposure we mean the estimated loss in the event of insolvency of the issuer, taking into consideration the "recovery rate" quota estimated for each rating.

Composition of the Fondiaria-SAI S.p.A. securities portfolio (*)



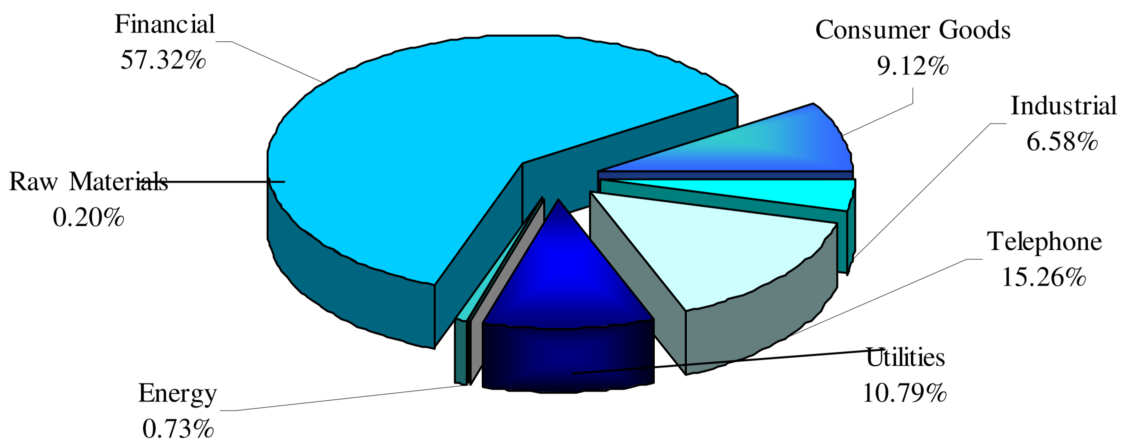


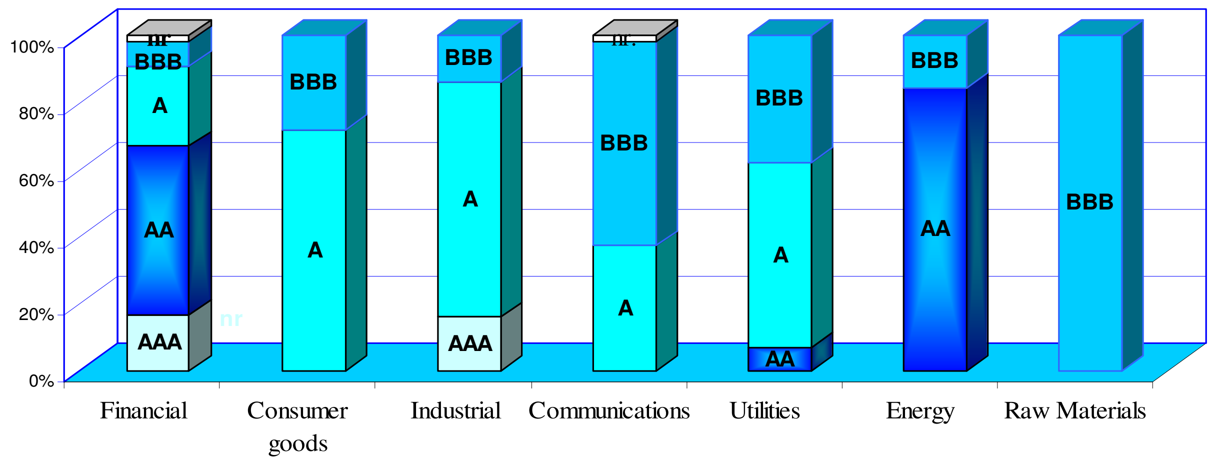
(*) Excluding Government securities

Major exposures:

Financial	Consumer goods	Industrial	Telephone	Utilities
Unicredito It. A+	Autostrade A	Bouygues A-	Telecom IT BBB+	Enel A+
Morgan Stalney A+	BMW A+	Finmeccanica BBB	Portugal Telecom A-	Edison BBB

Composition of the Milano Assicurazioni S.p.A. securities portfolio (*)





(*) Excluding Government securities

Major exposures:

Financial	Consumer goods	Industrial	Telephone	Utilities
Morgan Stanley A+	Autostrade A	Schneider Elect A	Portugal Telecom BBB+	Edison S.p.A. BBB+
Eurohypo A-	Metro BBB	Finmeccanica BBB+	France Telecom A-	Enel A+

Liquidity risk

The liquidity risk is the risk that the Group may have difficulty finding the funds to meet its own financial commitments.
The Group's objective is to maintain a balance between keeping a monetary reserve that is capable of covering, in good time, any unforeseen liabilities in respect of policyholders and suppliers and the opportunity to set aside excess liquidity for more profitable investment operations.
Liquidity risk management is supported on an organisational level by centralised financial resource management using the Group Treasury model and by using cash pooling techniques and tools.

Given the nature of the business transacted by Group companies and in view of Treasury management procedures, the liquidity risk is controlled by means of scheduling financial flow management using what is essentially a decadal system, in an attempt to make the most significant outflows coincide with agency remittances and by making excess funds with regard to cash flow requirements available, on a daily basis, to the Finance Department.
Excess liquidity in respect of what is not used by the Finance Department is used by the Treasury in 24 hour deposits (so-called "time deposits") and consequently liquidatable with 48 hours prior notice. As a further safeguard, in the event of particular emergencies due to unforeseen and urgent needs, the Treasury holds funds at the Group's Bank that are available to perform such operations up to a maximum amount of € 40m.

Derivatives

The Group makes a limited use of derivatives. In fact, the characteristics and peculiarities of the insurance business mean that the use of derivatives is regulated in relevant operational framework decisions provided for by the Supervisory Authority with its own Instruction No. 297/1996.
In particular, the aforementioned Instruction lays down that operating in derivatives for the purpose of so-called effective management should be kept within a tolerable quota of the available solvency margin. In this context, it should be noted that the Group's derivatives operations are mainly aimed at hedging the fair value of some significant holdings classed as available for sale.
In the light of the aforementioned hedging operations, the Group has arranged to write related hedge reports, from which the high level of efficiency of said hedging can be noted.

Amounts posted to the accounts for the aforementioned hedge derivatives are listed below:

(€K)	Assets	Liabilities
Azioni AFS		
Fondiaria-SAI S.p.A.	24,370	24,370
Milano Assicurazioni S.p.A.	4,145	4,145
Total	**28,515**	**28,515**

The hedge item has, therefore, been adjusted in accordance with variations in fair value attributable to the risk hedged with a contra entry in the profit and loos account. Profits and losses deriving from the valuation of hedge derivatives are also recorded in the Profit and Loss account.

The Group does not stipulate foreign currency contracts to hedge future transactions and cash flows, since exposure to the exchange risk is, generally speaking, absolutely immaterial and is itself, already hedged via the mechanism of congruence between foreign currency assets and liabilities.

During the course of the financial year, the Group stipulated credit default swap contracts to protect itself from the risk of insolvency of a counterparty issuing financial instruments acquired by the Group itself.
The cost of this cover, amounting to € 162.4K was entirely allocated to the Profit and Loss account for the year. It should, however, be noted, having also considered the limited cost of said cover, that the issuer of the financial instrument subscribed by the Group is a primary financial operator of international standard with a Standard & Poor's A+ rating.

The Group stipulates Interest Rate Swap contracts to manage the risk deriving from interest rate changes on outstanding liabilities in respect of banks, by converting a part of these loans from variable to fixed rates.
At present, contracts for a notional sum of approximately € 108m have been stipulated.
On the date of writing the accounts, the fair value of IRS was estimated at zero in so far as the cover runs from 01/01/2006. These derivatives are designated as instruments to hedge future cash flows:

- Loan cost amounting to the Euribor 6 month rate, act/360; Interest Rate Swap with start date of 31/12/2005 and end date of 31/12/2009, to hedge a notional amount of € 50m, at a rate of 3.16%;
- Loan cost amounting to the Euribor 6 month rate, act/360; Interest Rate Swap with start date of 31/12/2005 and end date of 31/12/2009, to hedge a notional amount of € 58m, at a rate of 3.12%.

With reference to perfectly hedged positions, opened with a view to arbitrage, as at 31/12/2005 the subsidiary SAI Mercati Mobiliari Sim S.p.A. presents derivatives contracts relating to options purchased and sold on the S&P MIB index, with the same due date and the same strike price. Positions opened in futures relate both to futures/minifutures relating to the S&P MIB index, purchased and sold with a view to arbitrage, and to positions opened in futures on interest rates hedging the existing securities portfolio.

In detail, as at 31/12/2005 the following positions were opened:

- In options:

  - 38 lots to purchase call options on S&P MIB, for a nominal reference capital value of € 9,500;
  - 38 lots to sell put options on S&P MIB, for a nominal reference capital value of € 9,500.

- In futures:

  derivatives contracts without exchange of capital

  - 295 contracts to purchase minifutures on S&P MIB, for a nominal reference capital value of € 29,.500;
  - 78 contracts to sell futures on S&P MIB, for a nominal reference capital value of € 39,000;
  - 1 contract to sell DAX future, for a nominal reference capital value of € 35,000.

  derivatives contracts with exchange of capital

  - 30 contracts to sell BUND futures, for a nominal reference capital value of € 3m;
  - 71 contracts to sell EUROBOBL futures, for a nominal reference capital value of € 7.1m;
  - 123 contracts to purchase EUROSCHATZ futures, for a nominal reference capital value of € 12.3m.

PART F – Amounts, timescales and level of uncertainty of financial flows relating to insurance contracts

With reference to what is laid down by paragraphs 38 and 39 of IFRS 4 the following information is given separately for Non-life and Life business.

NON-LIFE BUSINESS

Introduction
The Group's objective, in line with the strategic plan, is to develop the portfolio in all classes of non-life business in a balanced and technically cost-effective manner.

Procedures for underwriting risks differ from segment to segment, distinguishing between mass risks, corporate risks and special risks.
Mass risks, such as, for example, motor TPL, Land Vehicles and all those relating to the individual (Accident and Health), the family (Accommodation and Third Party Liability) and small companies (businesses, trades) are related, for our Group, to over 96.9% of the total number of premiums underwritten. These risks are covered with standard predetermined conditions which are set by central technical offices on the basis of existing standards, the experience of the Insurance market and the Group's specific experience.

Generally speaking, with mass risks and, in any event, all those risks where there are predetermined standard conditions and tariffs, the risk is taken on using relevant IT procedures used by the various Agency networks set up for this purpose. Within predetermined parameters, the sales networks can avail themselves of a tariff flexibility that is centrally monitored. In cases where the requirements of a specific Client mean that changes have to made to fixed terms, any exemptions allowed are assessed and authorised by the Company's Technical Departments.

With regard to corporate risks and special risks, which due, for one thing, to their size, cannot be covered using standard regulatory or price terms, the procedures used are more flexible i.e. the branch networks have limited autonomy in terms of value and typology, when it comes to taking on risk. In excess of these values or for different typologies, assistance is given by an appropriately trained network of Company Technicians who evaluate the risk and fix the terms on a case by case basis.

For more complex cases either in terms of size or the cover required, risks are only taken on by the Group's centralised specialist technical departments.

In some classes such as, for example, bonds, transport and aviation, the intervention of specialist departments is permanent or sometimes exclusive.

Motor TPL

For Motor TPL business, for which the Group is the market leader, the sizeable mass of statistical data held makes it possible to draw up sophisticated customised tariffs which take account of a wide range of subjective and objective risk factors. The database used is, in fact, statistically significant and makes possible the use of mulltivariate analysis which, using "General Linear Models", can assess the interrelationship between risk factors, by showing all those phenomena that are not directly identifiable just by analysing individual factors.

With the launch of the new "Nuova Prima Global" product by Fondiaria-SAI, additional risk selection and offer differentiation factors were introduced such as distance travelled, profession, and the possibility of opting for a single driver. During the course of 2006, however, the geographical factor will be further differentiated by introducing the Postal Service Code which makes it possible to divide the province up into more detailed areas of uniform risk.

With regard to Milano Assicurazioni, a gradual convergence of Nuova MAA and Milano tariffs is under way via several harmonisation stages, thus minimising any effects on the portfolio. This is similar to what has already been implemented with the Parent company and the launch of the first standardised Milano product is planned to coincide with the final harmonisation phase. Tariffs are monitored on a monthly basis and reviewed periodically. The portfolio is also the subject of continual attention with the aim of identifying any anomalous situations, both at a geographical level and with regard to remaining risk factors so as to make corrective interventions possible.
Similar attention has been paid to the best Clients whose loyalty is increased with incentivising initiatives not just in respect of existing contracts but also with initiatives such as the possibility of enhancing the driving records of mature clients on other types of vehicles, such as, for example, the case of a client who is insured for a motor vehicle and wants cover for a new motorcycle.

Land Vehicles
In the Land Vehicles class, which traditionally represents a very significant area of business for the Group, the new modular product "Nuova Prima Global" makes it possible to activate all the cover possible with tariff formulae which, at the client's discretion, make it possible to select the level of cover desired in line with the spending budget.
Tariffs are set, for Fire and Theft cover, according to geographical area, the types of vehicles insured and the extent of the cover given. The price of Casco cover is, on

the other hand, also set on the basis of No-claims Bonus together with the age of the owner and the vehicle insured. The Client can, in addition, choose between various exposures and minimums which permit him/her to modulate, even slightly, the prices of the various covers.

Non-vehicle

For mass risks with non-vehicle classes, risk taking and price setting principles are strictly correlated with the statistical experience of the Group's portfolio which is sufficiently broad and stable to make it possible to set cover and prices that are appropriate for various types of risk.

In particular, in the Health class, risk assumption is accompanied by, and subject to, the evaluation of an anamnestic questionnaire to adjust the cover to the terms of the insuring party.

Bonds

With particular attention to the Bonds class, risk analysis hinges on prior and accurate risk selection which is made by means of a dual examination:

- from an objective point of view, examination of the nature and specific characteristics of the initial report, which determined the request for the provision of the guarantee, aims, in the first instance, to trace back the transactions being examined to the categories of risk covered by the Class on the basis of standards governing their operation. In the second instance, particular attention is reserved for checking the characteristics of the guarantee contract which must always respect the principle of accessoriness in respect of the principal obligation;

- from a subjective point of view, the examination relates to valuation of the extent of the assets as well as all those factors pertaining to morality, professional ability and solvency of the Contracting party/principal.

Both the objective and subjective aspects are closely evaluated via the acquisition of specific asset disclosure documentation (accounts, memorandum of association and articles, Chamber of Commerce registration certificates, Unique Shareholder model agreements etc.) forwarded by the Agencies to Technicians in the field or to Management. This documentation is supplemented both with relevant information concerning commercial updates via specialist companies and with further investigations relating to the "historicity" of the relationship with the Client, compiled from Class databases for the purposes of checking total exposure in respect of the named parties.

The aforementioned activity is aimed at quantifying an overall "underwriting limit" on said name, requested, within precise and contained limits, from individual Technicians; over these limits, practices are subject to a collective decision taken within the Class, represented by the "Comitato Fidi" [Guarantee committee].

The guarantee policies are then written by Agencies, using a computer program which checks overall exposure in advance, to see that the underwriting limits agreed are not exceeded.

All guarantee policies written by the class are appropriately protected by 50% placement in a “proportional” reinsurance treaty. In addition, further cover is planned via a “claims excess” treaty over € 2,500,000, to protect individual policyholders.

Also, for the purposes of guaranteeing an appropriate distribution of risk, limiting points of exposure, the Group uses Coinsurance on a recurrent basis, making use of a system of reciprocal treatment solely with Companies adopting risk taking policies that are similarly marked by principles of caution and careful risk selection.

Risk Management in the Non-life sector

Within the scope of Risk Management activities it is necessary to show the processes adopted by the Group to optimise control over exposure to catastrophic risks.

Particular attention is paid to concentrations of risk peculiar to some classes, by using, in accordance with specific characteristics, appropriate methods of calculation.

The fire class is the one which, due to the greater volumes involved, requires special and individual attention, above all, in relation to risks of earthquakes and floods. To this end, concentration is assessed on a geographical, seismic, and, although not in as much depth, hydrogeological basis.

Exposure concentrations by seismic zone are updated during the year and subsequently modelled using two products universally adopted by the international market: RMS RiskLink DLM and EQECAT WorldCAT.

The results are then analysed with the help of international operators, to arrive at a level of protection adjusted on the basis of the two models used.

In this case, a return time per catastrophic claim of approximately 250 years was adopted.

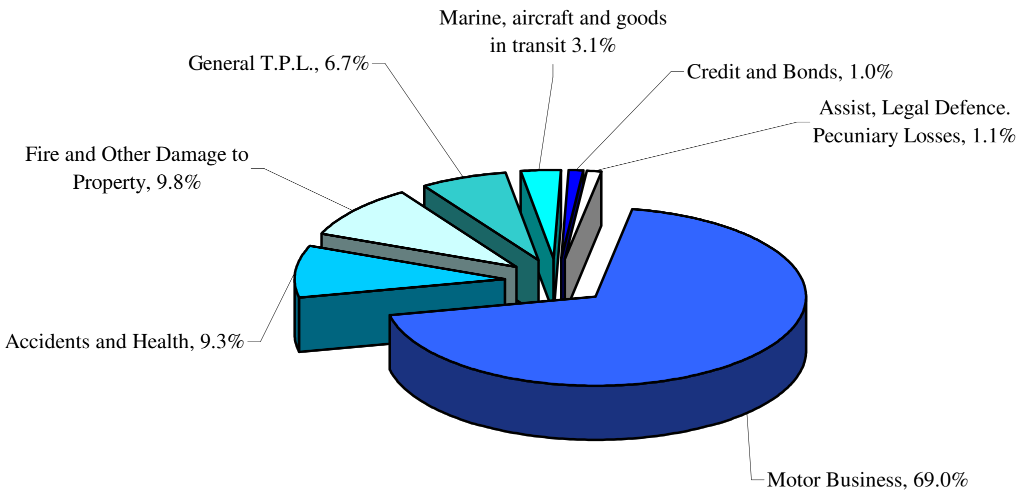
The flood risk is considered with greater reference to the existing portfolio, in so far as at the moment there are no suitable models capable of supplying an objective appraisal. As is known, the insurance and reinsurance industries are in the process of equipping themselves with a specific tool, known as Sigra, which will be available from 2007.

Land Vehicle business has lots of similarities with Fire business and because of this, benefits from the same reinsurance cover per event.

Technological Risks, because of the specific proportional programmes used, give no particular cause for concern, in so far as the risks are protected on the basis of the year of underwriting.

The potential concentration of risk following the failure of in individual policyholder/designated party in the Bonds Class is protected due to a claims excess programme which guarantees all the approvals given during all past underwriting years.

The percentage composition of direct business premiums in the Group's Non-life business is:



The importance of Motor business within the Group in determining future financial flows is clear.
This is a stable portfolio not subject to significant fluctuations likely to impact on future forecasts.

Motor products were recently reviewed with a view to standardisation at Group level and are the most up-to-date that the Market has to offer.
The Motor TPL sector, due to its particular characteristics, does not present any particular concentrations of risk. Individual events of particular seriousness can occur but the dimensions of the portfolio, geographically distributed uniformly throughout the national territory, are such that they can absorb these events without significant repercussions on results.

In any event, for events of extreme and unforeseen severity, the Group is protected by adequate reinsurance cover with primary Reinsurers.

As for the Land Vehicle portfolio, concentrations of risk are possible, mainly in the case of atmospheric events of extreme intensity or natural disasters (floods, earthquakes, storms or hailstorms). These concentrations are calculated on a geographical basis and are then covered by the same reinsurance cover as fire business.

The Group is active in all Non-Motor non-life classes, with the sole exception of credit business which is only underwritten sporadically.

Coinsurance

As with the rest of the market, the Group uses the institution of coinsurance, i.e. sharing risks with other companies, both for commercial reasons at local level and to limit exposure in the event of major risks.
Over the last few years, the percentage of risks coinsured, especially by delegation to other companies, has dropped, in so far as preference has been given to having direct control of the risk with possible use of reinsurance.
One of the reasons for the gradual drop in coinsurance, in addition to the Group's greater underwriting capacity, is the unsatisfactory trend in information flows on claims delegated elsewhere which, in previous years, resulted in the need for sizeable adjustments to reserves.
With regard to delegated claims, in 2005, the percentage of premiums collected for non-motor non-life business, was 9.2%, whilst claims amounted to 10.5%.

Claims trends

With reference to what is laid down by IFRS 4 paragraph 39, some information relating to Third party business claims is given.
The tables below are compiled from official data taken from the forms supplied to the Supervisory Authorities by the Fondiaria-SAI Group (ref. forms 29 and annex 1/29).
Each piece of data appearing on the "triangle" represents a snapshot of the cost of generation as at 31/12 of the observation year, represented summarily by the sum of the following components:

- Total amount paid from the event year to 31/12 of the observation year
- Reserved for claims opened, reported as at 31/12 of the observation year
- Late claims estimate for the event year recorded as at 31/12 of the observation year

The "Estimated final cost", the "Payments made" and the '"Amount in reserve" related to the most recent observation year, i.e. to the greatest diagonal of the triangle.
It was thought appropriate to represent the claims trend solely for Third Party business (Motor and General TPL) in so far as these are the classes that are most representative of the Group i.e. over 75% of claims paid can be attributed to these two classes of business.
General TPL business, in particular, is characterised by slow dismantling and by a high number of late claims. These peculiarities cause objective difficulties in determining the cost of generation, above all, in the first years of observation. This phenomenon, whilst common to all classes, is particularly marked for General TPL.

CLASSES 10 + 12 (Motor)

(€K)	2001	2002	2003	2004	2005	Total
Estimated cost						
At the end of the event year	2,686,036	2,906,702	3,154,460	3,177,530	3,274,025	
After one year	2,697,216	2,857,903	3,021,556	3,107,396		
After two years	2,744,892	2,922,023	3,047,264			
After three years	2,755,308	2,942,671				
After four years	2,774,909					
After five years						
Estimated final cost	2,774,909	2,942,671	3,047,264	3,107,396	3,274,025	15,146,265
Payments	2,429,188	2,468,318	2,378,619	2,023,163	1,015,399	10,314,687
Amount in reserve	345,721	474,354	668,645	1,084,233	2,258,626	4,831,579

CLASS 13 (General TPL)

(€K)	2001	2002	2003	2004	2005	Total
Estimated cost						
At the end of the event year	265,395	297,859	309,672	321,871	341,135	
After one year	274,270	279,731	336,686	321,824		
After two years	278,415	283,783	309,689			
After three years	281,334	290,814				
After four years	292,653					
After five years						
Estimated final cost	292,653	290,814	309,689	321,824	341,135	1,556,115
Payments	152,887	138,036	135,671	114,451	47,514	588,559
Amount in reserve	139,766	152,778	174,018	207,373	293,691	967,556

PLEASE NOTE:

- Each amount in the triangle is made up of:
  total amount paid in the event year (from the event year to the observation year)
  + amount reserved relating to the event year for known claims (in the observation year)
  + amount reserved relating to the event year for late claims (in the observation year)

- "estimated final cost" is the cost of the final observation year
- "payments" is the total payments for the event year in the final observation year
- "amount in reserve" is the reserve relating to the event year in the final observation year

The table below shows the position regarding Motor TPL claims for Fondiaria-SAI Group and Milano Assicurazioni which were still open at the end of 2005, compared with the number of claims filed in various years.

Generation	Claims filed	Number of claims opened	% of claims filed
1997	1,127,290	1,447	0.13
1998	1,023,602	2,253	0.22
1999	981,312	3,732	0.38
2000	1,017,239	6,018	0.59
2001	996,787	9,670	0.97
2002	987,098	17,049	1.73
2003	959,946	29,968	3.12
2004	929,973	57,932	6.23
2005	929,388	239,652	25.79

(overall number of delegations to other companies expressed as a coinsurance percentage, excluding mandatory direct indemnity agreement claims filed)

Congruity check on liabilities

The reserve for current risks is intended, as dictated by art. 32 of Legislative Decree 173/97, to cover risks incumbent upon the company after the end of the financial year for all costs relating to claims that could impact on contracts that have given rise to the formation of reserves for premium fractions.
The calculation procedure used for the allocation of this reserve mirrors the empirical method suggested by the Supervisory Authority in its circular No. 360/D of 21/1/99. This last reserve is in line with the adequacy test for non-life business technical reserves required by IFRS 4 (known as LAT).
It was also decided that current procedures for determining claims reserves according to final cost criterion were methodologically appropriate to represent future cash flows in the existing contracts portfolio.

LIFE BUSINESS

In the Individuals segment the risks typically insured by the Company are those relating to temporary cover in the event of death, stipulated both in stand alone format, via annual or single premiums and with constant or decreasing capital, or as an add-on to other types of policy.
To set the tariff for these products, the Company uses tariff formats specifically determined on the basis of the portfolio’s experience of the mortality of its own policyholders.
The products currently distributed provide for cost customisation for policyholders ready to undergo a medical examination, irrespective of the capital to be covered. On the other hand, there no price differentiation or discount is dependent on whether or not the Policyholder is a smoker.

The amount insured is agreed by the Company on the basis of fixed and predetermined rules, the so-called "risk assumption grid". This grid is structured on the basis of the various tiers of capital insured, for which there are various types of health-related assessments in line with "International Guidelines" within the medical field.
Additional premium loading occurs if the professional or sporting activities performed by the policyholder and/or their state of health are considered such as to involve a worsening of the risk.
Over a certain level of capital insured, the Parent company also obtains a series of pieces of information of a financial nature for the purposes of assessing the Client's economic and financial position.
In any event, above a specific threshold of capital insured, a health assessment performed on the basis of predetermined medical documentation, is always required.
It should, in addition, be pointed out that, for amounts in excess of a certain threshold, the assumption of risk is subject to explicit approval from a reinsurer.
Finally, it should be remembered that, following the medical assessment, the assumption of risk may involve additional premium loading on the grounds of health agreed beforehand with the reinsurer.
The technical trend borne out by the portfolio confirms – tendentially – the extent to which this has been applied historically in terms of customisation of the statistical database used compared with the generic ISTAT database.
To date, the risk of longevity has proved to be marginal - typically connected to portfolios relating to life annuities supplied – due to the almost total absence of this type of contract in the Company's portfolio.

In the corporate sector, risks typically incurred by the insurer are those relating to cover known conventionally as "assistential" cover and, therefore, with particular reference to the event of death and disability to which has recently been added the risk of loss of independence (LTC).
In consideration of the tariff structures used by the company for this type of contract, the demand for insurance cover has to emerge from objective situations such as a legal obligation or a corporate regulation involving, in a uniform manner, a whole group of subjects. All requests for insurance cover made on the basis of the requirements of individuals are, therefore, methodically excluded so as to eliminate, right from the start, any form of risk antiselection.
This basic rule governing risk assumption is supplemented by further restrictions consisting of the fact that the determination of the capital or amount insured must also be the result of an external rule so as to always prevent the individual from having any input when its comes to determining the amount.
The amount insured is taken on the basis of predetermined rules (insurance grid) which also vary according to the type of contracting party/policyholder and the numerusity of the group of individuals. In any event – over a specific threshold of capital/amount insured – a health assessment performed on the basis of predetermined medical documentation is always required.
It should, in addition, be pointed out that for amounts exceeding a certain threshold, the assumption of the risk is subject to explicit approval by a reinsurer.

Finally, it should be remembered that, following the medical assessment, the assumption of risk may involve additional premium loading on the grounds of health agreed beforehand with the reinsurer.
Particular attention is paid during risk assumption to accumulation risk (multiple events) normally regulated by means of the application of a clause limiting the amount payable by the insurer for death due to an event of a catastrophic nature.
The use by the company of specific tariff formats – determined not only on the basis of the experience of the generic mortality/disability of the Italian population, but specifically adjusted to the experience of the company's portfolio – involves recurrent monitoring of trends both of the entire portfolio acquired and of individual policies deemed to be sensitive in terms of exposure either overall or per capita.
The technical trend borne out by the portfolio confirms – tendentially – the extent to which this has been applied historically in terms of customisation of the statistical database used compared to the generic ISTAT database.
To date, the risk of longevity has proved to be marginal - typically connected to portfolios relating to life annuities supplied – due to the almost total absence of this type of contract in the Company's portfolio.
This risk is however present in the company's portfolio – down the line and to quite a considerable extent – for deferred life annuities distributed to Pension Funds or to individual Companies that have implemented a specific in-house supplementary benefit scheme for employees.
On this front, the company has, for some time now, implemented a distribution policy which focuses on compiling tariff formats that use decreasing guaranteed financial returns and the most up-to-date statistical databases.
With regard to the overall portfolio trend, this was marked by a substantial number of policies dedicated to covering the risk of death/disability and by policies for corporate reserves regulated by law (staff leaving indemnity etc.) and supplementary benefits (pension funds) due to advice given by our sales network, with an upward trend related to the upturn in salaries.
On the other hand, the portfolio relating to corporate liquidity management is made up of specific financial capitalisation policies relating to the premium paid by the contracting party under the system of guaranteed minimum return and annual performance consolidation and, what's more, shows a sharp acceleration in line with the market trend.
On this front, particular attention is given to the concentration of commitments to individual contracting parties so as to avoid negative impacts on the company's accounts in the event of early redemption which, tendentially, could be the case under certain economic conditions with a consequently negative effect for the insurer.
This phenomenon is limited by internal regulations which involve, on the one hand, having no more than one percent of this type of contract determined by investments of segregated accounts to which said contracts are linked and, on the other, the application of penalties for early redemption and adequate notice periods for exercising said redemption.

Classification of Life business insurance risks.

The Group's portfolio can be classified in three macro groups which are uniform in terms of technical characteristics and product range. There are risk products, for

which the range consists of products for the protection of the individual and his/her family and guaranteeing a certain standard of living in the light of unforeseen circumstances. There are pure investment products, mainly intended to meet requests for solutions to the cash flow requirements of small and medium-sized companies faced with a financial market which is still depressed. Finally, there are products aimed at saving over the medium to long term and also aimed at providing social benefits.
As for traditional products, the first category includes all contracts with a sizeable risk component in the event of death such as temporary life cover and mixed contracts, the second category includes contracts with a high financial component such as capitalisations and the third mainly incorporates annuities and deferred capital.
In addition to traditional contracts the portfolio contains unit and index-linked contracts, the former linked to internal funds and the others to mutual fund baskets, share or stock market indices.
Within these categories contracts may be of an insurance or financial nature.
Insurance contracts are contracts with a sizeable insurance risk.
An insurance contract is defined as: a contract which contains capital under risk of 5% or more of the mathematical reserve, pays dividends or contracts that contain an guaranteed return option.
A non-insurance contract is considered to be financial.
Insurance and financial contracts linked to segregated accounts are of the DPF type and so are posted to the accounts using local accounting principles.
This type of contract, which is linked to funds known as segregated accounts, according to a contractual regulation, is allocated an average rate of 85%/90% of the annual return of said segregated account, the guaranteed minimum return and commission deducted by the Company being understood.

Congruity checks on liabilities

For the purposes of evaluating the adequacy of the reserves posted to the accounts using GAAP criteria, the Companies have used an appropriate model which consists of comparing the value deriving from the time-discounting of anticipated contractual cash flows with the book value of the liability, net of DAC and related assets.

The table below quantifies the model points created using the aforementioned criteria for the Companies examined.

Number of policies and model points created as at 31/12/2005

Division		Capitalisation	Risk Products	Savings and social welfare	Total
Fondiaria-SAI S.p.A.	Number of policies	42,043	137,793	260,641	440,477
	Mod.points constructed	11,962	40,603	48,257	100,822
Milano Ass.ni S.p.A.	Number of policies	17,275	119,797	90,931	228,003
	Mod.point constructed	6,873	37,820	27,719	72,412
Po Vita	Number of policies	3,519	-	54,190	57,709
	Mod.points constructed	84	-	480	564
Novara Vita	Number of policies	1,955	-	33,624	35,579
	Mod.points constructed	210	-	742	952
Total	Number of policies	64,792	257,590	439,386	761,768
	Mod.points constructed	19,129	78,423	77,198	174,750

The tariffs modelled for the purposes of calculating LAT covered practically the entire portfolio of traditional contracts governed by IFRS 4 at the time of valuation, as can be send from the table below.
A similar analysis has been conducted for unit and index-linked contracts classified as insurance contracts (IFRS 4).

Composition of the traditional contract portfolio disaggregated by division as at 31/12/2005

Division	Reserve formed*	Total reserve*	% formed
Fondiaria-SAI S.p.A.	6,080,026	6,690,237	90.9
Milano Ass.ni S.p.A.	3,123,327	3,532,799	88.4
Po Vita	1,310,792	1,454,646	90.1
Novara Vita	742,519	851,171	87.2
Total	11,256,664	12,528,853	89.8

* (values expressed in €K)

The results obtained in the portfolio under consideration, using the methodologies described below, were then proportionally extended to the entire portfolio.

The valuation was made using the actuarial approach for life policy portfolios, in force on the valuation date, mostly linked to segregated accounts. The aforementioned model operates by creating standard policies, obtained from Companies' portfolios, which are summary policies representative of homogenous portfolio subgroups, which make it possible to obtain an optimum approximation of the overall portfolio.

For each grouping, prospective performance and counterperformance flows are analysed annually to maturity, taking into consideration demographical hypotheses, expiry due to redemption and death and costs in line with company experience as well as economic and financial scenarios on the valuation date, for the purposes to evaluating the economic impact of the guarantees given.

And so, performances and premiums were developed in consideration of the guarantee minimum return and due to time-discounting of anticipated future flows the model provides for the use of a risk- free market curve on the valuation date.

Traditional portfolio

Application of the Liability Adequacy Test model supplied the results given below. These results were compared with the reserves in the accounts, taking into consideration mathematical reserves, reserves for future costs, additional reserves to cover interest, less commissions to be amortised for the groupings described above.

Position as at 31/12/2005

(€K)

Company		**Capitalisation**	**Risk Products**	**Savings and Social Welfare**	**Total**
Fondiaria-SAI S.p.A.	LAT reserve	2,121,590	1,203,170	3,134,712	6,459,472
	Balance sheet total	2,164,000	1,286,779	3,337,409	6,788,188
	Balance sheet reserve	2,133,208	1,268,090	3,288,938	6,690,236
	Additional reserve	17,704	10,524	27,295	55,523
	Cost reserve	13,087	11,712	30,377	55,177
	DAC	-	3,548	9,201	12,749
Milano Ass.ni S.p.A.	LAT reserve	716,249	1,024,808	1,702,681	3,443,738
	Balance sheet total	737,263	1,104,147	1,756,292	3,597,702
	Balance sheet reserve	731,554	1,081,297	1,719,948	3,532,799
	Additional reserve	1,619	19,987	31,792	53,398
	Ris. Spese	4,090	5,370	8,542	18,002
	DAC	-	2,508	3,989	6,497
Po Vita	LAT reserve	333,268	-	1,080,922	1,414,190
	Balance sheet total	356,190	-	1,120,044	1,476,234
	Balance sheet reserve	352,199	-	1,102,447	1,454,646
	Additional reserve	1,684	-	5,270	6,954
	Cost reserve	2,307	-	12,327	14,634
	DAC	-	-	-	-
Novara Vita	LAT reserve	33,723	-	788,457	822,180
	Balance sheet total	35,438	-	828,267	863,705
	Balance sheet reserve	33,106	-	818,066	851,172
	Additional reserve	1,841	-	5,522	7,363
	Cost reserve	491	-	4,679	5,170
	DAC	-	-	-	-

N.B.:

- Write-up of performances: According to guaranteed minimums.
- Inflation: 3.00 %.
- Discount rate: EuroSwap curve on the valuation date.
- Mortality: SIM 92 discounted by 40%.
- Redemptions, Reductions, Rescissions: the frequency of elimination fluctuates according to the claim duration of policies, ranging from: 1.15% to 7.90 inclusive.
- Management costs: between € 15 and € 30 inclusive depending on whether these relate to individuals with a single premium, individuals with an annual premium/recurrent single premiums, collective premiums

Index and Unit-Linked Policies

The valuation appearing below relates to policies classified as insurance policies (IFRS 4), for which it is necessary to check the adequacy of the balance sheet reserves in relation to the risks assumed and future costs.

Position as at 31/12/2005

(€K)

Company		**Unit-Linked**	**Index-Linked**	**Total**
Fondiaria-SAI S.p.A.	LAT reserve	90,756	441,966	532,722
	Balance sheet total	94,276	445,194	539,470
	Class D reserve	92,690	438,644	531,334
	Additional reserve	428	272	700
	Cost reserve	1,158	6,276	7,434
Milano Ass.ni S.p.A.	LAT reserve	-	274,785	274,785
	Balance sheet total	-	281,781	281,781
	Class D reserve	-	278,103	278,103
	Additional reserve	-	189	189
	Cost reserve	-	3,489	3,489
Po Vita	LAT reserve	80,176	-	80,176
	Balance sheet total	80,592	-	80,592
	Class D reserve	79,434	-	79,434
	Additional reserve	479	-	479
	Cost reserve	679	-	679
Novara Vita	LAT reserve	50,651	-	50,651
	Balance sheet total	50,812	-	50,812
	Class D reserve	50,297	-	50,297
	Additional reserve	515	-	515
	Cost reserve	-	-	-

With regard to hypotheses, reference was made, where possible, to corporate experience or to the context of the Italian insurance market, as well as to financial and economic scenarios on the valuation date.

N.B.:

- Guaranteed minimum return: the guaranteed minimum return rate represents the Group's financial contractual commitment, inclusive of the technical rate.
- Inflation: 3.00 %.
- Discount r ate: EuroSwap curve on the valuation date.
- Frequency of interruption of recurrent premiums: 100% premium renewal for all recurrent premium contracts with a premium amount of less than € 1549.37, in line with the payment of premiums. Recurrent premium contracts over the aforementioned threshold were considered to be single premium.
- Mortality: SIM 92 discounted by 40%.
- Redemptions, Reductions, Rescissions: The frequency of elimination fluctuates, according to the claim duration of the policies, from 1.15% to 7.90%.
- Management costs: Annual costs attributable to contract management relate to personnel and to services relating to portfolio management.

Reserves for guaranteed returns

With reference to commitments made to policyholders, the disaggregation of Life reserves by Group companies below shows that approximately 26% (amounting to € 6,861.2m) relate to policies with a guaranteed return of between 1% and 3%, whilst approximately 22% (€ 5,875.4m) relate to policies with a guaranteed return of between 3% and 5%.
In comparison, the reserves intended for contracts with a guaranteed interest rate to maturity (€ 797.1m), contracts with no guarantee (€ 142m) and contracts with guarantees linked to specific assets (€ 60.4m) are modest.

Life segment insurance reserves: guaranteed return (*)

(€m)	**Gross direct business as at 31/12/2005**
Reserves with guaranteed annual interest rate	12,783.9
0% - 1%	47.3
from 1% to 3%	6,861.2
from 3% to 5%	5,875.4
Reserves with no guaranteed rate of interest	142.0
Reserves linked to specific assets	60.4
Reserves with a guaranteed interest rate to maturity	797.1
Total	**13,783.4**

(*) The total includes the gross direct amount of mathematical reserves and technical reserves where the investment risk is borne by the policyholders.

PART G – Information relating to business combinations

Acquisition of the Immobiliare Lombarda S.p.A.

On 01/12/2005 the subsidiary Progestim S.p.A. underwent a merger by incorporation into the listed company Immobiliare Lombarda S.p.A.. Due to the effect of the aforementioned transaction, details of which are given in full in the Merger Agreement compiled in accordance with art.70 of Issuers' Regulation no. 11971/99, Fondiaria-SAI took control of Immobiliare Lombarda S.p.A..
The circumstances under which the shareholders of the merged company, or Fondiaria-SAI, took control of the incorporating company, can be seen in the light of international accounting principles as a reverse merger. In particular, Annex B (reverse acquisition) of accounting standard IFRS 3, applied to the case in point, establishes that the consolidated accounts should be issued in the name of the legally incorporating company (Immobiliare Lombarda), but should be written as a continuation of the consolidated accounts of the legally merged company (Progestim).
Given the above, the legally effective date of the merger, 1st December 2005, is the date to which the accountancy aspects of the reverse merger relate, although the merger plan provides for a retroactive effective date for accounting purposes of the start of the financial year.
If follows that the subsidiary's Consolidated Profit and Loss Account, used for the purposes of consolidation in these accounts, is constituted by the result of twelve month's management of the Progestim Group and by one month's management (December) of the Immobiliare Lombarda S.p.A. Group.

A summary of the main stages of posting a reverse acquisition to the accounts is given below:

- The merged company (legal subsidiary) Progestim S.p.A. is the acquiror/incorporating company, whilst the incorporating company (legal parent) Immobiliare Lombarda S.p.A. is the acquired/incorporated company, in so far as, as a consequence of the merger, the governing power of the company resulting from the merger is taken by Progestim shareholders;
- The purchase price is the fair value of the percentage of Progestim S.p.A. share capital that shareholders of said company have assigned to Immobiliare Lombarda S.p.A. shareholders in order to take control of the company resulting from the merger via the share swap.

Progestim S.p.A. shareholders, upon completion of the merger, were automatically allocated, with effect from 1 December 2005, a 59.53% interest in the capital of the company resulting from the merger. They did, however, surrender 40.47% of Progestim S.p.A. capital to take control of the company resulting from the merger.

From this perspective, if Progestim had been obliged to increase the capital to make possible the share swap for incorporation of Immobiliare Lombarda, Progestim S.p.A. shareholders would have allocated Immobiliare Lombarda S.p.A. shareholders a number of shares representative of the aforementioned 40.47%.

100% of the share capital of Progestim S.p.A. as at 1 December 2005 was represented by 365,000,000 shares. The capital serving Immobiliare Lombarda S.p.A. shareholders, representing 40.47% of Progestim S.p.A. share capital, would have been increased by issuing 248,136,234 new shares.

The process of valuing Progestim S.p.A's economic capital resulted in the current value of the company's shares being estimated at between EUR 1.087 and EUR 1.164.

In identifying the middle value as the value prudently selected for the valuation of Progestim S.p.A., it follows that 40.47% of the share capital allocated to Immobiliare Lombarda shareholders amounts to € 279,277,331 (248,136,234 shares at € 1.1255). This last figure represents the purchase cost paid by Progestim S.p.A. shareholders for the acquisition of Immobiliare Lombarda S.p.A..

The accounting process, in accordance with the aforementioned IFRS 3 standard is, therefore, performed by comparing the purchase cost with the net equity of the acquired company (Immobiliare Lombarda) on the date on which the transaction was completed - 30 November 2005. The difference arising as the higher cost in respect of the aforementioned net equity must be allocated to the acquired company's assets which must be estimated at current values.

In brief, the accounts were compiled as follows:

(€K)

Purchase cost	279,277
Fair value of Immobiliare Lombarda net assets as at 30/11/2005	(248,710)
Merger deficit	30,567

The merger deficit calculated in this way was allocated to the higher value of the property owned by the incorporated company Immobiliare Lombarda S.p.A.. This allocation was supported in the expert estimates compiled by the independent experts who determined the current value. The aforementioned expert appraisals are an integral part of the process of evaluating economic capital and, after the trading phase, made it possible to identify the share swap ratio of the legal merger.

It follows, in accordance with IFRS 3.67 (h) that the goodwill recorded using this second accounting procedure is an expression of the higher value of the assets of the acquired company and, therefore, is consistent with the higher cost incurred by the incorporating company (Progestim) with regard to the fair value of the net assets of the legally incorporating company (Immobiliare Lombarda).

In the period between the purchase date and the year end date, the incorporated company contributed to the Group's Profit and Loss account with income of € 2,637K and losses of € 12,203K.
If the acquisition had been made at the start of 2005 the Group's total revenue would have amounted to € 66,975K (compared with € 23.8m) and there would have been a negative result for the year of € 41,587K (compared with a loss of € 4.5m).

Acquisition of Campo Carlo Magno S.p.A. and Campo Carlo Magno Sport S.r.l.

In December 2005, the Group acquired, via its subsidiary Milano Assicurazioni, 100% of the share capital of the companies Campo Carlo Magno S.p.A. and Campo Carlo Magno Sport S.r.l..
The purchase was made in cash for the sum of € 22.7m. The transaction has been posted to the accounts using the acquisition method.

A summary of the transaction values is given below:

(€K)	**Book value**	**Fair value adjustments**	**Fair Value**
Net assets acquired:			
Intangible fixed assets	396	395	791
Land and buildings	5,311	17,338	22,649
Other tangible fixed assets	2,704	719	3,423
Long-term loans and investments	329		329
Stocks and work in progress	365		365
Receivables/payables assets and liabilities	(4,847)		(4,847)
Total	**4,258**	**18,452**	**22,710**

The capital gains paid was nearly all allocated to the property of the acquired companies.

The purchase price was paid in cash before year end.
The net cash flow deriving from the acquisition can, therefore, be summarised as follows:

(€K)	
Payment in cash	(22,684)
Cash in hand and bank acquired	408
Net outward cash flow for acquisition	**(22,276)**

Disposal of subsidiaries

International Strategy S.r.l.

As indicated in the Management Report dated 28/12/2005, the Group sold 100% of the share capital of the company International Strategy S.r.l., operating in the property industry.
International Strategy S.r.l.'s net assets on the disposal date are shown below:

(€K)

Investment Property	65,065
Receivables	1,683
Liquid assets	3,451
Financial liabilities	6,701
Provisions for liabilities and charges	335
Book value of net assets sold	63,163
Higher value investment property compared with book value	2,638
Capital gains on sale	9,099
Sale price	74,900

The sale price was paid in cash before year end.
The net cash flow deriving from the sale can, therefore, be summarised as follows:

(€K)

Receipts in cash	74,900
Cash in hand and bank ceded	(3,451)
	71,449

PART H – Information regarding transactions with related parties

Transactions between the Parent company and its subsidiaries, which are entities related to said Parent company, were eliminated in the consolidated accounts and are not, therefore, shown in these notes.
Details of transactions between the Group and other related entities are shown below.

Transactions of a commercial and financial nature

(€K)	Income Year ending on 31/12/2005	Expenditure Year ending on 31/12/2005
Parent company	9,720	1
Associated companies and joint ventures	2,166	-
Affiliated companies	41	5
Other related parties	21,362	22,496

(€K)	Assets Year ending on 31/12/2005	Liabilities Year ending on 31/12/2005
Parent company	-	-
Associated companies and joint ventures	-	-
Affiliated companies	3,005	826
Other related parties	67,043	12,227

It should be noted that the transactions shown above were all concluded under normal market conditions. Credit amounts posted to the assets are not guaranteed and will be paid in cash. No amounts have been set aside over the year for any losses on receivables from related companies.

Wages for directors and chief executives

Wages paid during the year to directors and chief executives are as follows:

(€K)	**31/12/2005**	**31/12/2004**
Wages	8,648	5,647
Bonuses and other incentives	3,300	500
Non-cash benefits	53	59
Total	**12,001**	**6,206**

Wages paid to directors and chief executives are set according to average market wage levels, whilst bonuses and other incentives are, as a rule, determined ex-post in relation to results achieved by managing and/or completing particular and relevant operations.

PART I – Information relating to events occurring after the date on which the accounts are closed

These draft accounts were approved on 28/03/06 by the Fondiaria-SAI board of directors which, at the same time, authorised their publication on the Italian stock exchange. It should also be noted, for the purposes of IAS 10.17, that Shareholders are entitled to indirectly correct this draft prior to approval during shareholders' meetings, should the separate Parent company accounts be modified.

In accordance with what is laid down by IAS 10.19 it should be noted that any information relating to situations arising after year end are contained in the section "Significant events occurring after the 2005 year end" contained in the Management Report to which it relates.

PART L – Other information

Exchange

The exchange rates for the main currencies used to convert balance sheet items are shown below:

	2005	2004
United States Dollar	1.1797	1.3621
British Sterling	0.6853	0.70505
Japanese Yen	138.9	139.65
Swiss Franc	1.5551	1.5429

Group solvency margin

It should be noted that, further to the introduction of IAS/IFRS standards for the preparation of consolidated accounts, it is no longer possible to apply criteria for determining the Group's solvency margin based on the Consolidated Accounting method.
In anticipation of the final announcement of the instruction relating to prudential filters, it should be noted, purely for information purposes, that the percentage excess of the constituting items over requirements (determined using traditional criteria) is over 170%.
It should also be noted that the application of the new provision on the correct solvency margin for the application of prudential filters, based on the document available for public consultation, would result in a percentage excess of constituting items over requirements (both determined using IAS/IFRS criteria) of over 160%.

Milan, 28 March 2006

For the Board of Directors
The Chair

JONELLA LIGRESTI

AUDITORS' REPORT

Dear Shareholders,

As required, your Company has made provision to prepare the Consolidated Accounts as at 31/12/2005 in accordance with Legislative Decree no. 38/05 and Legislative Decree 173/97, by applying international accounting standards (IAS/IFRS), and taking note of the layouts and instructions issued by the Supervisory body with Instruction no. 2404 of 22/12/2005.

The Consolidated Accounts comprise the Balance Sheet, the Profit and Loss Account, the Statement of variations in Net Equity, the Financial Statement and accompanying Explanatory notes to the accounts.
These accounts are accompanied by the Management Report, in line with what is laid down by Legislative Decree no. 173/97 and Legislative Decree no. 209/2005 containing information aimed at illustrating the Group's management trends.

In addition, the Consolidated Accounts and the Management Report contain exhaustive and detailed information on the management trends of the Parent company and the consolidated companies, on the Group's main business sectors (life and non-life insurance, property, other activities), on asset and financial management, on current disputes, on significant events occurring after year end and on the business outlook.

In accordance with what is laid down by IFRS 1, the Company, as a "first time adopter" compiled reconciliation tables between consolidated net equity as at 1/1/2004, as at 31/12/2004 and as at 1/1/05, drawn up in accordance with previous accounting standards and that produced in accordance with IAS/IFRS. A similar reconciliation was produced for the result as at 31/12/2004. All tables are accompanied by relevant notes. In particular, it should be noted that the Group, as laid down by standards, applied IAS 39, relating to financial instruments and IFRS 4, relating to insurance contracts, commencing on 1 January 2005. Other IAS/IFRS standards were applied as of 1/1/2004, the date of transition to international accounting standards.

The areas of the accounts most affected by application of international accounting standards are:

- Full consolidation of all subsidiaries, even if performing an activity dissimilar to insurance business;
- Financial instruments which, due to the application of IAS 39 are classified by intended use and valued at fair value;
- Insurance contracts, posting of which to the accounts is aligned with the Italian method if, and only if, there is an actual transfer of risk to the insurer. The effects of this classification, above all for the life sector, are illustrated in the consolidated accounts;
- Goodwill which, as an asset with an indefinite life, is no longer systematically amortised but is subject to an impairment test, the methodologies of which are illustrated in the consolidated accounts;
- The value of the property for which, in the light of optional valuation criteria, the Group has selected the cost criterion, recording amortisations on property components as having a definite useful life. A similar criterion was adopted for

tangible fixed assets for which amortised cost was selected, with a record of any impairment losses;
- Staff leaving indemnity and other employee benefits, which were calculated according to actuarial criteria provided for by IAS 19;

Presentation, in different ways, of Group financial liabilities, above all for the classification of some insurance contracts considered to be investment contracts.

We subjected the Fondiaria Group Consolidated Accounts as at 31/12/2005 to the relevant checks and, as a result, ascertained:

- their validity and correspondence with accounting outcomes of the parent company and with information transmitted by companies included in the consolidation;
- adherence to consolidation principles;
- satisfactory presentation in accordance with presentation and disclosure requirements laid down by IAS/IFRS standards;

The Consolidated Accounts show a profit for the financial year and net assets appertaining to the Group of € 465,283K and € 3,459,660K respectively. In order to determine the components from which these results originate, the Consolidated Accounts include exhaustive comments on the main items.

We wish to inform you, therefore, that the Consolidated Accounts and the Management Report have been prepared in accordance with current regulations.

Milan, 10 April 2006

Board of Statutory Auditors

Dott. Benito MARINO

Dott. Giancarlo MANTOVANI

Dott. Marco SPADACINI

AUDIT REPORT