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# REPORT AND ACCOUNTS

## 2005 financial year



### **FONDIARIA-SAI S.p.A.**

FONDIARIA-SAI S.P.A. - HEAD OFFICE IN FLORENCE - P.ZA DELLA LIBERTA' 6 - HEAD OFFICE IN TURIN - CORSO G. GALILEI, 12 - SHARE CAPITAL € 173.880.363 FULLY PAID UP - TAX CODE , VAT REGISTRATION AND NUMBER UNDER WHICH THE COMPANY IS REGISTERED IN THE COMPANIES REGISTER OF FLORENCE 012 - AUTHORISED TO OPERATE AS AN INSURANCE COMPANY BY ARTICLE .65 OF THE ROYAL DECREE-LAW NO. 066 OF 29 APRIL 1923, CONVERTED INTO LAW NO. 473 OF 17 APRIL 1925.

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## BOARD OF DIRECTORS

Salvatore Ligresti	<i>Honorary Chairman</i>
Jonella Ligresti*	<i>Chairman</i>
Giulia Maria Ligresti*	<i>Vice Chairman</i>
Massimo Pini*	<i>Vice Chairman</i>
Antonio Talarico*	<i>Vice Chairman</i>
Fausto Marchionni*	<i>Managing Director and Chief Executive Officer</i>
Andrea Broggin	
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	<i>Secretary to the Board and to the Executive Committee</i>
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### \* Members of the Executive Committee

The Chairman, Signora Jonella Ligresti and the Managing Director, Prof. Fausto Marchionni in addition to representing the company as stated in article 21 of the Company's bye-laws, shall be vested with all the powers of ordinary and extraordinary administration, to be used with a single signature and with the possibility of conferring terms of office and powers of attorney, with the exception of the following exclusively:

- transfer and/or purchase of immovables with a value greater than € 10m for each transaction;
- transfer and/or purchase of shareholdings with a value greater than € 25m for each transaction and controlling shareholdings;
- taking on financing at a sum greater than € 50m for each 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 to the said 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 meeting on 29 April 2003.

The Board's term will end at the same time as that of the Board of Statutory Auditors, with the meeting to approve the accounts for the financial year.

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## BOARD OF AUDITORS

Benito Giovanni Marino  
*Chairman*

Giancarlo Mantovani  
*Auditor*

Marco Spadacini  
*Auditor*

Sergio Castellini  
*Alternate Auditor*

Giorgio Di Giuliomaria  
*Alternate Auditor*

Maria Luisa Mosconi  
*Alternate Auditor*

## INDEPENDENT AUDITORS

DELOITTE & TOUCHE S.p.A.

## REPRESENTATIVE OF THE SAVINGS SHAREHOLDERS

Sandro Quagliotti

## GENERAL MANAGEMENT

Fausto Marchionni

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# NOTICE OF ORDINARY AND EXTRAORDINARY SHAREHOLDERS' MEETINGS

Dear Shareholders,

You are hereby called to attend an Ordinary and an Extraordinary Shareholders' Meeting at 11.00 hours on 27 April 2006, on the first call, at the offices of FONDIARIA-SAI in Florence, via Lorenzo il Magnifico n. 1, and again on 28 April 2006, at the same time, on the second call, at the Palazzo dei Congressi in Florence, Piazza Adua n. 1, in order to discuss and decide on the following

## AGENDA

### Ordinary part

- Accounts as at 31 December 2005. Board of Directors' Management Report. Report by the Statutory Board of Auditors pursuant to Art. 153 of Legislative Decree no. 58/1998 and the Report by the external firm of auditors. Related and consequent resolutions.
- Appointment of the Board of Directors subject to a decision on the number of its members.
- Resolutions on the remuneration of the Board of Directors.
- Appointment of the Statutory Board of Auditors and its Chairman for the 2006/2007/2008 three year period subject to a decision on their remuneration.
- Appointment to the task of auditing the accounts and the consolidated accounts and the half yearly report, for the period 2006-2011. Decision on the remuneration for the firm of auditors.
- Resolutions regarding own shares in accordance with Articles 2357 and 2357-ter of the Civil Code.
- Resolutions regarding shares of the holding company Premafin Finanziaria Società per Shares - Holding di Partecipazioni in accordance with Art. 2359-bis of the Civil Code.

### Extraordinary part

- Proposal to amend art. 5 of the share capital limited to the last paragraph, containing the specification of the part of the share capital intended for the non-life insurance business and that intended for the life insurance business. Related and consequent resolutions.
- Awarding the meeting the powers stipulated in art. 2441, number four, second period, of the Civil Code, with related amendment of art. 5 of the Company's Bye-Laws. Related and consequent resolutions.
- *Stock option* plans for the executive directors and the *management* of the Company, its subsidiaries and the holding company.

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Increase of the share capital by issuing a maximum total of 15,000,000 savings shares of a nominal € 1.00 each to be set aside to service the above-mentioned Plans and consequent amendments of art. 5 of the Company's Bye-Laws.

Granting the Board of Directors powers to implement the aforementioned resolutions.

In accordance with art 8 of the Company's Bye-Laws, shareholders holding ordinary shares and in possession of a certificate issued by an intermediary adhering to the centralised management system of Monte Titoli S.p.A., under the dematerialisation system, holders of FONDIARIA-SAI S.p.A. ordinary shares not centralised with Monte Titoli S.p.A. are also reminded that the rights relating to said securities may be exercised only after the securities have been delivered to an intermediary for admission into the centralised management system.

The shareholders are invited to submit proposals for the appointment of the Board of Directors and to file their proposals at the Company's registered office the appropriate amount of time in advance of the date fixed for the meeting on a first call.

Furthermore, it is recalled that in relation to point 4 of the agenda for the ordinary part, for the purposes of the appointment of the Statutory Board of Auditors, shareholders are entitled to submit lists, in accordance with the procedures and limits referred to in art. 24 of the bye-laws. It is stated that lists containing the names of the candidates must be filed at the Company's registered office, at least ten days before the date fixed for the meeting on a first call, by shareholders, individually or with other shareholders who are involved in the submission of that list and who provide evidence that they own a total of at least 3% of the share capital with voting rights at an ordinary meeting.

The documentation relating to the agenda will be made available to the public on the terms and in accordance with the procedures laid down in the regulations in force. Members are entitled to obtain a copy of this.





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# **MANAGEMENT REPORT AS AT 31 DECEMBER 2005**

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Dear Shareholders,

For the Fondiaria-SAI Group, 2005 represented the year of consolidation of the ambitious post-merger objectives. In the last 12 months, profitability improved decisively, allowing the Group to continue to reap the benefits of the industrial plan since the company reorganisation and thus confirms the positive expectations for the past financial year.

During 2005, the Fondiaria-SAI Group has focussed all the targets of the industrial plan, limiting exposure of industrial risks as far as possible, by means of a careful underwriting policy sensitive to the dynamics of the market and aimed at recovering efficiency in the claims handling and settlement processes. The choice of a particularly vast distribution network and of diversified products to suit the Group's customers was also successful.

In that context, the Fondiaria-SAI Group developed further skills to provide effectiveness in the field of risk management and further improving the products structure. The Group is, therefore, in a position to offer efficient and creative solutions, enabling a much wider range of risks to be insured than in the past, going beyond the traditional limits for events insured and the risks relating to market prices.

In the international economic panorama, economic results no longer represent the cornerstone of management. Today, all the stakeholders in the socio-economic system ask increasingly complex questions about company performance, identifying intangible aspects, such as reputation, image, reliability and quality in terms of ethical, social and environmental responsibility. To that end, the first 2004 Social Report was presented last December, aimed at reconciling the values of ethics and business in all the company's processes, in order to ensure social responsibility is a value shared by the whole of the Fondiaria-SAI Group.

It should be pointed out that, in a particularly positive financial year for income trends in the non-life sector and growth in the life business, last December, the Fondiaria-SAI Group won important recognition for its performance in asset management. On the occasion of the "Premio Alto Rendimento 2005" (2005 High Returns Prize) for the year's best Italian funds, Effe Gestioni, the Group's savings management company, won the prize in the "small" category.

Finally, we would like to take this opportunity to remind you that, on 1 June last year, the Head of State Azeglio Ciampi appointed 25 new "Cavalieri del Lavoro" (distinction awarded to industry leaders) including, as a representative of the insurance world, our Managing Director and Chief Executive Officer Prof. Dr. Fausto Marchionni.

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## The insurance market in 2005

2005 turned out to be a positive year for the international economy, signalling the start of the economic recovery in the Euro zone, its definitive takeoff is expected in 2006 with forecast growth of 2.1% compared with 1.4% estimated in 2005. The first estimates show that, in the fourth quarter, the GDP of the Euro area grew by 1.7% on an annual basis, with internal demand accelerating, especially in terms of investments. At the end of 2005, the main European forecast indicators reached their highest values since the year 2000, recording economic growth in the Euro zone in particular of approximately 1.4% (1.8% in 2004).

One particularly favourable aspect which enabled these results to be achieved (this should be considered a success in view of the forecasts of the recession headed for in 2005) is the very good global market reaction to the flare-up of the prices of raw materials, in general, and of oil, in particular. Compared with an increase which doubled in two years (from an average of 30 dollars a barrel in 2003 to approximately 55 in 2005), the world GDP growth rate fell only by 7/10ths of a point, from 4.7% to 4% (USA: +3.5%; Japan: +2%; OECD countries: +2.8%; developing countries: +6.3%).

Furthermore, the fact that the Central Banks did not react aggressively in response either to the rise in the price of oil or the increase in the rate of inflation (in September 2005: 4.7% in the USA, highest rate for more than 14 years; 2.6% in Europe, highest rate for approximately three years and well above the reference threshold of 2%) not only averted a sudden slowdown in consumption, the main factor which drives the economy, but also favoured the rise in property prices, producing a positive “wealth effect” which at least partially offset the loss of purchasing power of earnings. Consumption has resisted the flare-up of inflation well, with growth remaining above the economists’ expectations.

In recent months, the European economy has been assisted further by the fall in the value of the Euro, which enabled exports to recover. That does not necessarily mean that the Euro zone is on the threshold of a real acceleration of the economy, but rather that it is moving slowly towards the growth levels of a trend over a long period, with expectations about the dynamics of family consumption which are no longer stable but moving towards a definite recovery.

There are also signs of recovery in the Italian economy, although these are weaker and not as distinct as in other European countries. At national level, Italy’s gross domestic product remained steady in 2005, decelerating compared with the 1.1% increase in 2004, but with forecasts of a recovery in demand with effect from 2006, above all due to a monetary policy with moderate intervention on the reference rates. The first nine months of the year also saw a worsening of the deficit-to-GDP ratio (4.1% compared with 3.4% in 2004), well above the debt level forecast in the stability programme (2.7%).

Vehicle registrations in January 2006 were nearly 11% on an annual basis against an average of 5% in the Autumn months; retail sales to November increased 1.7% on an annual basis, the strongest increase in the last 18 months. There was also a net increase in exports, which grew more than 11% in that same month.

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Also from the point of view of the insurance market internationally, Italy is a country where there is little inclination to take out insurance cover. It should be considered that the relationship between non-life insurance premiums and GDP has been substantially unchanged in the last three years, steady at 2.6%, approximately one percentage point lower than the main European countries and the ratio between the actuarial reserves and GDP, which is around 20% in Italy, remains an indicator still at lower levels in the European context (Germany: approximately 29%, France: approximately 50%, United Kingdom: approximately 87%).

Therefore, considering that there is still room for growth in the European market, the Italian insurance industry has shown positive economic results overall during 2005, principally through an improvement in the technical results in the non-life business and a favourable development of the life business.

ANIA development forecasts estimated a 5.4% growth in premiums for 2005, with a moderate increase forecast for premium income in the non-life business of 3.6% (and contained growth in the Motor TPL class of 2.2%) and forecasts for premium income in the life business of approximately 6.5%. Income from gross premiums realised in Italy in the non-life and life businesses in the first nine months of 2005 totalled € 79,226.8m, an increase of 11.8% compared with the same period in 2004. In particular, in September 2005, the non-life portfolio totalled € 25.4bn, an increase of 1.9%, in line with expectations and stable generally compared with the same period in 2004. Growth was achieved virtually exclusively in the “non-motor” sector, most significantly, a recovery was reported in income from the Health (+7.7%), with fairly good results also in the Accident (+5.3%) and the General TPL (+5.8%) classes. Growth in the motor vehicle class was also stable (Motor TPL: +0.61%, Land vehicles – own damage: +0.07%). The analysis by distribution channel, produced by ISVAP, continues to show that income is achieved predominantly through authorised agencies: the latter arranged 85.2% of the total non-life portfolio (85.9% in the same period in 2004) and 91.5% in the individual Motor TPL class (92.1% in 2004).

Life premiums of € 53.8bn at the end of the third quarter showed an increase of 17.1%, well above the forecasts at the start of the year, this affected the global non-life and life portfolio which recorded more than two-thirds of the income in all classes (67.9% compared with 64.8% in the same period in 2004). Within the scope of the most representative classes in the business, class I (Life assurance) at approximately € 24.2bn records an 11.8% increase in the first nine months of 2005 compared with the same period in 2004 and 44.9% of total income from Life policies; class III (linked: insurance with a more marked financial content) with € 19.4bn shows an increase of 20.5% compared with the first nine months of 2004 and 36.1% of total income from Life policies; income in class V (capitalisation) amounts to € 9.7bn, a development rate of 21.2% and 18% of the total. Income in classes IV (health) and VI (pension funds), added to premiums for additional insurance, represents less than 1% of total premium income in the Life business.

The distribution of premium income by distribution channel, produced by ISVAP, shows that the banking and post office outlets arranged 63.8% of the life portfolio

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(5.6% in the same period in 2004), strengthening their position as the main channel. They are followed by authorised agencies (15.9% compared with 17.3% in 2004), specialist finance and management agencies (12.1% compared with 12.5% in 2004) and financial advisers (6.8% compared with 8.8% in 2004).

Notwithstanding some present and recurrent risks, such as for example the persistent scenario of low interest rates, the misalignment between assets and liabilities which characterises some companies and possible pressure on margins which could occur in the long term because of stricter regulation of supervision, Standard & Poor's indicates that the main success factors of the Italian insurance market are strong growth prospects in the life business, high margins for new production, more efficient risk management tools and a prudential policy adopted by the companies for their own investments.

In a year in which the Italian economy has shown albeit slim signs of recovery, activity in the domestic insurance industry has seen company profits increase significantly within the sector. In terms of income, in that sense, a consolidation of acquired positions emerges, while the risks covered, commensurate with the trend in premium income, remain stagnant. Overall, these good results are derived essentially from the reorganisation of the Motor TPL division: companies have learned to assess risks better and select risks better, with the consequent reduction in company tolerance of "concentrated" risks.

Furthermore, the Italian insurance business, traditionally not present on the United States market, has not suffered the heavy effects of reinsurance within the scope of the disastrous catastrophes which occurred during the year on the American continent. In the non-life business, compared with their foreign competitors, Italian insurers can in fact count on a market structure directed more towards retail with limited exposure to large risks. It should be recalled that 2005 was the most expensive year ever for reinsurance worldwide as it paid compensation in excess of 75 billion dollars for damage caused by natural disasters: these insurance losses are actually higher (approximately one and a half times) than those for the terrorist attacks of September 2001. The exceptional dimension of the damages suffered during the year and the prospect of an increase in the frequency and severity of natural disasters will force companies to review forecasting and pricing models, with forecasts of an average period of gradual cooling of the market.

The Italian insurance business is, therefore, prepared for stability in the near future. Standard & Poor's main indications on this determine unchanged ratings for the companies in the sector, thanks to key factors such as: high profitability in the non-life segment with opportunities for growth which are to be determined in the "non-motor" sector (still particularly under-developed in Italy in comparison with the European market), rigid underwriting rules supported by a prudent investment policy, positive growth prospects (particularly in the Life business), and high capitalisation sustained, again in this case, by prudential investment policies. The negative factors could however be represented especially by possible pressures on the fall in Motor TPL rates and external factors (such as, for example, political interventions) which would change the scenario in the sector.

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Despite low growth in the sector's turnover, the core insurance business has become more profitable, although keeping rates at a stable level (ISVAP commented that premiums written report a nominal increase of 0.6% in the first half of the year). Notwithstanding the effect of the economic crisis, the lower number of car registrations and increasing competition in a sector which has become particularly attractive in recent years, the compulsory insurance sector was confirmed as one of the most profitable on the whole insurance market, with a stable combined ratio below 100%. In particular, the combined ratio of listed companies at the end of the first half of the year was 96% on average.

It is highly probable that this positive trend will continue in 2006, by virtue of the rise in the price of fuel, which had the effect of reducing car usage and, consequently, indirectly, the number of claims made, thereby allowing the companies in the sector to make savings and keep the tariffs the same, despite a context influenced by the rise in the prices of spare parts, repair times and manpower.

It is forecast that the current peak in the Motor TPL cycle (and, more generally, in the non-life business) will continue in 2006 (a year in which a recovery of 3% was recorded in the automotive vehicle market, thanks to government incentives to finance ecological solutions, such as gas or electrical-powered cars), providing technical results which are still decidedly positive.

In addition to the positive cycle, recoveries of productivity and costs achieved in recent years by the insurance business made a strong contribution to the good results in the non-life business. The overall technical result for the Land Vehicles – own damage class also remained positive because of an increase in premiums recorded and substantial stability in charges for claims in the current year and amounts set aside for claims made in previous years.

In the more advanced industrial countries, “non-motor” business represents the cornerstone of the non-life segment and to a large extent determines its profitability. In Italy, it makes up 40% of total business and its profitability (€ 369m in the first half of 2005) represents slightly more than one-third of that generated by the Land Vehicles – own damage class alone. In the insurance sector, historically, the most profitable sector is the Accident class, especially by virtue of the different policies adopted at the end of the 1990s on policy terms and conditions (such as the introduction of excesses and deductibles), as well as preventive risk assessment. The gradual reduction of claims frequency in the Motor TPL class also contributed to the improvement in the number of claims in the class and, consequently, this implied a fall in the number of accident claims by drivers. The General TPL class seems to be a long way off reorganising itself (with losses in excess of € 400m in the first half of 2005), essentially because of the increase in charges for claims which include amounts set aside for claims made in previous years. It is really the increase in that latter component, linked consequently to the loss ratio on claims made in previous years and the relative shortage of reserves partly due to a continued increase in late claims, which influenced the increase in charges for claims.

In 2005, the managed savings industry reported gross assets of approximately € 1,050bn (approximately € 915bn as at 31/12/2004). Income was earned mainly on

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investment funds and SICAV (unit trusts) with approximately € 585bn (€ 523bn at the end of 2004), followed by management of insurance products with € 190bn (€ 161bn at the end of 2004), Asset management of retail funds is confirmed in third place again at € 114bn (approximately € 97bn in the same period last year), followed by asset management currency retail (31/12/2005: € 78bn, 31/12/2004: € 58bn), other businesses (31/12/2005: approximately € 68bn, 31/12/2004: approximately € 64bn) and pension fund management (31/12/2005: € 15bn, 31/12/2004: € 12bn).

From the beginning of 2005, families showed they had rediscovered some interest in savings and investment, in spite of substantial weakness in the communication of the products on offer. With no strong guide in that direction, families went along unknown routes (such as managed savings and investment in single shares and debentures) which do not necessarily represent the best route for family financial plans. At the same time, there also seems to be a resumption in relations with financial advisers for these “spontaneous” investments, with growth in total gross income through intermediaries of 37.8% (in 2005, € 164bn for the network of financial advisers, compared with € 119bn in 2004).

Precise trends emerged in 2005: customers brought in through advisers were directed particularly towards three categories of financial products, balanced, debentures and shares, with an increase of 81% in the flow of net income (€ 14.3bn compared with € 7.9bn last year), whereas the banking channels concentrated resources principally on flexible financial products and debentures.

The recent intense regulatory activity is profoundly changing the context in which Italian insurance companies are operating. The objective of creating a single, integrated, competitive, efficient market, with low costs, high stability and consumer protection presents a reference scenario which is highly complex, since the new rules are currently being defined nationally, in Europe and internationally.

There were important regulatory changes in the insurance sector in the last period (as many as 42 measures in the space of 5 years), presumably with impacts on company performance which will extend into 2006 and which represents a turning point for the sector. Notwithstanding the high costs of coming into line with the regulations, ANIA reported that as many as 83% of insurance companies consider that coming into line with regulations also represents an opportunity for internal innovation.

On 7 September last year, the Private Insurance Code was approved (Decree-Law no.209), in force with effect from 1 January 2006. The code simplifies and reorganises the insurance regulations governing, in particular, the access to and the operation of insurance business, policies, transparency of operations and supervision of companies, compensation and penalty systems, stipulations relating to insurance companies' accounts (annual and consolidated), accounting books and records. In that context, (ref. art. 149 Consolidated Insurance Law), the extension of direct settlements for a large number of road accidents would introduce a physiological mechanism for containing the cost of claims for the companies in that sector, laying down the bases for a gradual containment of premiums paid by consumers. By increasing the level of transparency and discouraging more futile litigation, compulsory

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direct compensation of claims should in fact improve relations with users, favouring forms – although hybrid forms – of own damage policies (which currently do not exceed 5%) and, above all, exert strong and structural downwards pressure on insurance tariffs, at the same time encouraging a reduction of litigation. Currently, litigation represents approximately 10% of the annual costs of total compensation, that is, € 1.5bn in the year.

On 24 November 2005 a draft legislative decree aimed at incorporating Directive 2003/20 was passed, which stipulates the extension of the rules on the use of seat belts to new categories of four-wheeled vehicles, or buses with more than eight seats, as well as goods transportation vehicles in excess of 3.5 tonnes, with no more exceptions for persons carried in rear seats. In the legislative decree, which could be issued shortly, exemptions from the use of seat belts will be confirmed where there are serious and documented health reasons: any medical certificate issued by the competent structures will be valid throughout the European Community.

With effect from 1 December 2005, when ISVAP circular 551/D started to be implemented, the market for life policies changed. The new rules governing the form and content of the pre-contractual information and during negotiation. It therefore becomes obligatory to provide the customer with an information leaflet about the policy which includes a summary schedule, an information sheet and the contractual terms of the insurance. All of this will also be published on the website. In that way, the standards on transparency of policies are aligned with those already in force in other financial sectors, protecting policyholders in relation to the adequacy of the policy based on the risk profile and the information about changes in the return on the investment taken out.

On 30 December, – through a measure – the Italian Private Insurance Supervisory Authority revolutionised the companies' system of internal controls and risk management. From 2006, in fact, the companies concerned would have to adopt an ad hoc technological system integrated with other company processes in order to be able to report the actual risk situation to ISVAP, moving from deterministic management to stochastic recording the valuation of multi-year investments in order to make a correct estimate of the company's assets absorbed by the theoretical future distribution of the commitments in the accounts.

Although less widespread than in the past, insurance fraud still represents a phenomenon which has a significant effect on the cost of the insurance service. There is, therefore, a commitment from the Government to propose in its future Parliamentary work the case for setting up a public fraud prevention agency, in order to provide more effective prevention of and opposition to fraudulent behaviour.

Finally, it should be pointed out that, at the time this report is being written, ISVAP, together with the Ministry for Productive Activities, has launched the Check Box project, which is aimed at monitoring road accidents, reducing fraud and containing Motor TPL tariffs through the widespread introduction of satellite devices which record the positioning and speed of the vehicle in real time. In the first phase of the project, drivers resident in the five cities considered to be most at risk of insurance fraud will be involved (Turin, Milan, Rome, Naples and Palermo). Anyone who decides to take



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part in the experiment will benefit from a 10% discount on the policy premium from the companies participating in the initiative.

## ACCOUNTS FOR FINANCIAL YEAR 2005

The Company's 84th financial year shows a net profit of € 300,603K, which can be broken down as follows:

	2005	2004	Change
Result of the non-life technical account	443,607	324,646	118,961
Result of the Life technical account	16,703	12,327	4,376
<b>TOTAL</b>	<b>460,310</b>	<b>336,973</b>	<b>123,337</b>
Net investment income Non-life business	197,147	116,151	80,996
(less shares transferred to the technical account)	(148,186)	(89,469)	(58,717)
Shares transferred from the Life technical account	24,626	30,382	(5,756)
Sundry income and charges balance	(171,221)	(149,406)	(21,815)
<b>RESULT OF ORDINARY BUSINESS</b>	<b>362,676</b>	<b>244,631</b>	<b>118,045</b>
Extraordinary income and charges balance	30,082	139,254	(109,172)
<b>PRE-TAX PROFIT</b>	<b>392,758</b>	<b>383,885</b>	<b>8,873</b>
Corporation tax for the financial year	(92,155)	(125,412)	33,257
<b>NET PROFIT FOR THE YEAR</b>	<b>300,603</b>	<b>258,473</b>	<b>42,130</b>
of which non-life	289,759	250,933	38,826
of which Life	10,844	7,540	3,304

The profit for the 2005 financial year, € 301m, is decidedly higher than the corresponding figure for the previous financial year which was moreover influenced positively through the elimination of the previous fiscal interferences. In homogeneous terms, in fact, this compares with profit in 2004 before reclassification and net of fis-

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cal interferences of approximately € 192m (€ 258m was the result in the accounts for 2004 after elimination of the fiscal interferences).

The result is extremely satisfactory as it was achieved in an economic context of contained growth and strong competition.

With reference to the essential aspects of the financial year just ended, we would point out the continuing good performance of the non-life business, the interesting development in the life business and the recent greater stability on the financial markets, in particular in stocks and shares, which has allowed the use of extraordinary headings to be contained in order to re-balance the negative trends in stocks and shares in past financial years.

Performance in the non-Life business is again extremely satisfactory with a technical balance in excess of € 443m.

The result achieved is the expression of the competitive advantage of the leadership dimension of the parent company, involving the construction of highly customised tariffs, vast knowledge of the market and the achievement of synergies on cost and improvements in internal efficiency in settlement processes. In particular, the Motor TPL class is always characterised by substantial stability in claims reported and consequently of claims frequency, although in a context characterised by increasingly significant increases in the external costs of the settlement process.

Performance in the Land vehicles – own damage class in which the result was partially affected by the atmospheric phenomena which characterised the summer period and customers' lesser inclination to take out insurance.

Technical performance is also improving in the non-marine branches through the effects of the usual strict policy on setting aside provisions in classes which are most problematic, such as General TPL, which has enabled significant insufficiencies in the dismantling of claims made in previous years not to be shown. Added to this is the lower impact of large claims in the current year.

The 2005 financial year, however, was somewhat critical for the Other Property Damage class because of a widespread increase in the number of claims reported and due to some claims for significant amounts. Performance in the health class was again negative, although in a context in which the non-marine branches are involved in a strategy aimed at selective growth with the consequent cancellation of unprofitable policies.

Within the scope of reinsurance, the policy to reform all existing treaties was consolidated: the negative balance on reinsurance reflects the good performance of direct business, the specific structure of the reinsurance programme which prioritises levels of protection for particularly serious events and greater prudence in estimating reinsurers' provisions. Outward reinsurance improved in particular during the financial year by virtue of certain protection mechanisms for particularly large claims under theft cover.

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The result of acceptances is worsening due to the effect of the deterioration of some forms of infra-Group reinsurance.

The life business is confirming a good development trend in terms of premium income and of profitability, recording a technical result of € 16.7m. That reflects the lower amount of write-downs made during the year, with higher trading activity in the portfolio and a general containment of general costs.

Work is continuing on containing management costs overall which reached € 886m (€ 874m in 2004) gross of the quota ceded to reinsurers, with an increase contained at approximately 1.4% and, therefore, in absolute terms is substantially in line with the figures for the last financial year. Consequently, the incidence on gross premiums falls from 17.3% in the last financial year to 16.9% in the current period. That incidence shows a more marked fluctuation with reference to the life business (6.1% compared with 7.1% in 2004).

Overall, technical provisions totalled € 14,538m (€ 13,873m as at 31/12/2004), an increase of approximately 4.8%: of that € 6,455m relates to the non-Life business (€ 6,520m as at 31/12/2004) and € 8,083m to the Life business (€ 7,353m as at 31/12/2004). Technical provisions in the non-Life business, validated moreover using the usual, widely accepted statistical and actuarial methods, confirm their traditional prudence and report an index compared with premiums of 166.3% (168% in 2004), fluctuating compared with the previous financial year mainly because of the good performance of the technical result.

Ordinary income from class C investments totalled € 515m (€ 443m in 2004). This increase was principally due to the greater impact on the profit and loss account of the dividends of participating interests, although in a context where income curves are flattening out. These results are in turn offset by good trading activity in the securities portfolio. Net realisations on stocks and shares, including long-term positions, benefited the profit and loss account by approximately € 69m (€ 93m in 2004).

The profit and loss account is in any event conditional on the recording of capital losses on the valuation of stocks and shares of more than € 64m, including € 17m for long-term losses of value in its subsidiaries. The remainder is principally attributable to the heading of certificates of indebtedness.

The result of ordinary business (€ 363m compared with € 245m in 2004) is very positive, although still deducting depreciation allowances on intangible assets of approximately € 87m, including € 48m for goodwill.

There is virtually a nil balance on other extraordinary headings, as the amount shown in the summary profit and loss account is mainly attributable to net realisations of long-term investments.

There was a positive influence on the fiscal burden for the financial year due to the benefits of adopting fiscal consolidation and a greater incidence of some income components which are fiscally insignificant following the reform of IRES, such as, for

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example, those linked to capital gains and losses and the valuation and realisation of exempt shareholdings (called “PEX”).

Added to that, due to the effect of the temporary system stipulated in art. 4 section 1 of Legislative Decree 344/2003 no longer existing, the company arranged to release provisions for deferred tax on write-downs of shareholdings which meet the requirements for partial exemption from taxation in art. 87 del Tuir, deducted in the 2003 financial year. The effect of that operation on the profit and loss account equalled more than € 19m and contributes towards significantly reducing the fiscal burden in the financial year, together with the benefits derived from the adoption of the national fiscal consolidation consisting of the immediate recovery in the Group taxation of the tax losses of some participating interests,

However, due to the extraordinary nature of the above-mentioned drawing and, in consideration of a different regulatory framework in future years following the adoption of the IRES corrective referred to in Legislative Decree 247/05, the reduction of the fiscal burden stated in this financial year might not be confirmed in future years.

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## Premium income

Overall, premiums written amounted to € 5,252m (€ 5,066m in 2004), an increase of 3.68%.

Premium income from direct business amounted to € 5,225m, an increase of 4.52%.

Premiums produced in 2005, within the various sectors, are summarised in the following table:

	31/12/2005	31/12/2004	Changes %
<hr/>			
<b><u>DIRECT BUSINESS</u></b>			
Motor vehicle business	2.674.544	2.695.297	(0,77)
Other Non-Life business	1.196.840	1.142.331	4,77
Total Non-Life business	3.871.384	3.837.628	0,88
Total Life business	1.353.127	1.160.917	16,56
<b>TOTAL DIRECT BUSINESS</b>	<b>5.224.511</b>	<b>4.998.545</b>	<b>4,52</b>
<b><u>INWARD REINSURANCE</u></b>	27.503	67.170	(59,05)
<b>OVERALL TOTAL</b>	<b>5.252.014</b>	<b>5.065.715</b>	<b>3,68</b>
<hr/>			
of which:			
Non-Life business	3.881.421	3.881.322	(0,00)
Life business	1.370.593	1.184.393	15,72
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## **Non-life insurance Business**

## PREMIUM INCOME

Overall, premiums written amounted to € 3,881,421K, virtually unchanged compared with the figure of € 3,881,322K in 2004. The reduction in the number of acceptances in inward reinsurance contributed to that result as there were no longer any reinsurance treaties with the company Sis (now incorporated into Milano Assicurazioni). Premium income from direct business amounted to € 3,871,384K an increase of 0.88%.

More specifically, premium income was distributed as follows:

	2005	2004	% change	% Distribution	
				2005	2004
<b>DIRECT BUSINESS</b>					
Accident	238.306	231.973	2,73	6,16	5,98
Health	171.694	163.353	5,11	4,43	4,21
Railway rolling stock	11	10	10,00	0,00	0,00
Aircraft – hull	1.049	1.889	(44,47)	0,03	0,05
Marine – hull	5.096	5.730	(11,06)	0,13	0,15
Goods in transit	22.413	20.153	11,21	0,58	0,52
Fire and other natural forces	200.948	190.864	5,28	5,19	4,92
Other property damage	204.988	192.756	6,35	5,29	4,97
TPL aircraft	567	523	8,41	0,01	0,01
Marine TPL	3.008	2.250	33,69	0,08	0,06
General TPL	280.169	271.328	3,26	7,24	6,99
Credit	422	1.409	(70,05)	0,01	0,04
Bonds	36.424	32.969	10,48	0,94	0,85
Pecuniary losses	11.037	11.595	(4,81)	0,29	0,30
Legal protection	7.556	7.122	6,09	0,20	0,18
Assistance	13.152	10.657	23,41	0,34	0,27
<b>TOTAL NON-MOTOR CLASSES</b>	<b>1.196.840</b>	<b>1.144.581</b>	<b>4,57</b>	30,92	29,49
Motor TPL	2.266.624	2.282.174	(0,68)	58,55	58,80
Land vehicles	407.920	410.873	(0,72)	10,54	10,59
<b>TOTAL MOTOR BUSINESS</b>	<b>2.674.544</b>	<b>2.693.047</b>	<b>(0,69)</b>	69,08	69,38
<b>TOTAL DIRECT BUSINESS</b>	<b>3.871.384</b>	<b>3.837.628</b>	<b>0,88</b>	100,00	98,87
<b>INWARD REINSURANCE</b>	<b>10.037</b>	<b>43.694</b>	<b>(77,03)</b>	0,26	1,13
Of which:					
Italian business	3.007	28.263	(89,36)	0,08	0,73
Overseas business	7.030	15.431	(54,44)	0,18	0,40
<b>OVERALL TOTAL</b>	<b>3.881.421</b>	<b>3.881.322</b>	<b>(0,00)</b>	100,00	100,00



## CLAIMS PAID AND REPORTED

Claims paid - gross of recoveries from reinsurers - totalled € 2,744,799K, an increase of 5.18% compared with the figure for 2004.

The following table summarises the claims trends in Italian direct non-Life business, gross of reinsurance including settlement costs:

	Claims paid (in thousands of Euro)			Claims reported (number)		
	2005	2004	% Change	2005	2004	% Change
Accident	122.146	124.847	(2,16)	51.806	52.920	(2,11)
Health	138.260	135.640	1,93	148.681	151.888	(2,11)
Railway rolling stock	3	0	1.396,	1	0	-
Aircraft – hull	6.647	902	637,0	7	16	(56,25)
			9			
Marine- hull	4.714	2.481	90,00	208	255	(18,43)
Goods in transit	10.613	10.564	0,46	2.612	3.953	(33,92)
Fire and other natural forces	112.047	103.691	8,06	37.363	37.750	(1,03)
Other property damage	121.049	117.167	3,31	82.483	76.666	7,59
Aircraft TPL	153	3	5.136,	14	6	133,33
Marine TPL	1.810	2.859	(36,68	140	322	(56,52)
			)			
General TPL	205.322	167.306	22,72	58.791	62.710	(6,25)
Credit	1.899	3.166	(40,03	124	553	(77,58)
Bonds	24.050	18.081	33,01	463	597	(22,45)
Pecuniary losses	5.027	3.267	53,87	3.699	4.201	(11,95)
Legal protection	939	941	(0,24)	1.035	1.060	(2,36)
Assistance	5.353	5.240	2,14	27.969	24.679	13,33
<b>TOTAL NON-MOTOR</b>	<b>760.031</b>	<b>696.155</b>	<b>9,18</b>	<b>415.396</b>	<b>417.576</b>	<b>(0,52)</b>
Motor TPL	1.790.394	1.727.411	3,65	503.813	527.407	(4,47)
Land vehicles	194.354	186.021	4,48	140.082	135.100	3,69
<b>TOTAL MOTOR VEHICLE BUSINESS</b>	<b>1.984.748</b>	<b>1.913.432</b>	<b>3,73</b>	<b>643.895</b>	<b>662.507</b>	<b>(2,81)</b>
<b>TOTAL DIRECT BUSINESS</b>	<b>2.744.779</b>	<b>2.609.586</b>	<b>5,18</b>	<b>1.059.291</b>	<b>1.080.083</b>	<b>(1,93)</b>

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## **MOTOR THIRD PARTY LIABILITY – LAND VEHICLES AND MARINE THIRD PARTY LIABILITY**

The premiums recorded amounted to € 2,267m, a decrease of 0.68%, compared with the 2004 financial year. The slight reduction in the number of premiums written is due principally to the effect of the bonus on the portfolio, which was not offset by the demanding rate changes introduced in 2004 and February and June 2005, made in compliance with the stipulations of the Memorandum of Understanding on Motor Third Party Liability Insurance (Protocollo d'Intesa sull'Assicurazione RCA) between the Government, ANIA and the Consumers Association signed on 5 May 2003 on the general containment of motor vehicle tariffs.

Furthermore, the strong contraction in the number of vehicle registrations recorded in the year and the economic situation in the country contributed to influencing its performance.

The number of vehicles insured by Fondiaria Sai overall reflects the volumes for the previous year; Fondiaria Sai is also continuing to work on improving the quality of the portfolio with action concentrated on cancelling policies for customers making a large number of claims, and greater tariff customisation.

Claims frequency continues to fall, although only slightly, due to the selection of the vehicles insured and economic reasons affecting the motor vehicle market, such as for example, the considerable increase in the cost of running vehicles, due mainly to the increase in the price of energy resources; compared with a rate of inflation of 1.9%, the energy component increased by 10.8%, in fact in one year the price of unleaded fuel increased 8.5% and diesel by 18%.

That further flare-up of prices, the introduction of anti-pollution measures and increasingly strict supervision to a certain extent affected the number of kilometres driven and the care taken by motorists, thereby generating positive effects on claims frequency.

With regard to the integration between the FONDIARIA and SAI Divisions, as at 31/12/2005, approximately 45% of the portfolio has the same product. In fact, from 1 February 2005 onwards, a single new motor vehicle product brought out on the basis of the combined experiences of the two companies before the merger is available to the whole sales network, which is planning equal rate and general conditions for Motor TPL and Land vehicles – own damage for both Divisions.

The new product, NUOVA 1<sup>a</sup> GLOBAL, is available for two lines: vehicles and vessels.

The strong points are the wider and up-to-date range of cover, the flexible and modular nature of the content and price, the clarity of the policy wording and the incorporation of the most recent regulatory developments such as the Memorandum of Understanding between ANIA, the Government and the Consumers' Association and the points certificate.

With regard to Motor TPL, the possibility was introduced of choosing the “single driver” tariff formula and the Bonus/Malus insurance for each type of vehicle.

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## Claims

The class is reporting a 4.5% fall in the number of claims reported, a 0.8% decrease in the amount settled and a 1.5% increase in the cost of the claims made in the year.

The average amount settled for claims increased by 3.50% for claims made in the year and by 7.40% for claims made in previous years, an increase of 4.49% overall. Correspondingly, the average cost of the provision for claims made in the current year increased 8.56% and by 14.98% overall.

The loss ratio, net of the Road Victims Guarantee Fund (Fondo di Garanzia per le Vittime della Strada), is 79.78%

The speed at which claims made in the year were settled changed from 67.74% in 2004 to 70.55% in 2005. The speed of settlement of claims made in previous years also improved considerably from 66.63% compared with 61.40% for the corresponding period last year.

In that context, the final position of the two divisions is as follows:

### Existing SAI Portfolio:

The number of claims reported fell by 5.00% (in 2004 : -5.52%).

The speed at which claims made in 2005 were settled was 70.66%, an improvement compared with the figure of 67.76% for 2004.

Alongside the decrease in the number of claims reported, there was an increase of 5.05% in the average cost of claims inclusive of expenses (in 2004 : +8.15% ).

The cost of claims made in 2005 totalled € 1.263.7m, an increase of 5.22% compared with the figure for 2004.

269,370 claims were settled in the year, 74.19% of those reported (72.10% in 2004).

The situation as regards claims outstanding at the end of 2005 compared with the number of claims reported over several years is as follows:

Year of claim	Claims re- ported*	No. of claims out- standing	% of claims re- ported
1997	413,395	575	0.14
1998	419,791	1,062	0.25
1999	431,427	1,845	0.43
2000	435,996	3,056	0.70
2001	427,068	5,093	1.19
2002	424,063	9,554	2.25
2003	389,199	15,874	4.08
2004	367,720	28,004	7.62
2005	363,059	93,686	25.80

(\*) excluding claims reported under the Mandatory DIA

The number of claims reported to SAI under the Mandatory DIA was 85,766, those under the Debtor DIA totalled 85,558.

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## Existing Fondiaria Portfolio:

The number of claims reported fell by 3.09% (- 3.24% in 2004).

The speed with which claims made in 2005 were settled was 70.29% (69.57% in 2004).

Given the reduction in the number of claims reported, there was an increase in the average cost of 3.01%.

Claims made in the current year amounted to € 497m (€ 485m in 2004).

102,428 claims made in the current year and settled during the year represented 72.70% of the total number of claims reported (72.52% in 2004).

The situation as regards claims still outstanding as at 31 December 2005, compared with claims reported (excluding claims reported under coinsurance policies) is shown in the table below:

Year of claim	Claims re- ported*	No. of claims out- standing	% of claims re- ported
1997	215,182	249	0.12
1998	175,730	350	0.20
1999	164,305	508	0.31
2000	177,259	830	0.47
2001	162,782	1,340	0.82
2002	154,157	1,915	1.24
2003	150,249	3,704	2.47
2004	145,385	7,863	5.41
2005	140,898	38,470	27.30

(\*) excluding claims reported under the Mandatory DIA

The number of claims reported to FONDIARIA under the Mandatory DIA was 40,256, those under the Debtor DIA totalled 40,537.

The result obtained shows that both Divisions benefit from the continual striving for maximum efficiency in claims handling and settlement, in order to cope with the steady rise in the average cost of the claims; rigorous criteria have moreover been maintained when evaluating claims outstanding at the end of the financial year, with average costs increasing (+14.98%).

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## **LAND VEHICLES AND MARINE - HULL**

Premiums amounted to € 408m, a decrease of 0.69% compared with 2004, showing a certain amount of difficulty in the market due to the unfavourable economic conditions and in particular the considerable falls recorded in the number of new vehicle registrations (-9.8%) and cancellations 2005 (-2.7%) which also have a negative effect on the insurance market, the ageing of the vehicles insured and very often little inclination to take out policies for cover other than compulsory cover.

With regard to technical performance, good profit margins continue to be recorded.

140,82 claims were reported in 2005, an increase of 3.7% compared with the previous financial year.

132,541 claims were paid, an increase of 3.8 % compared with 2004.

The cost of claims made in the current year amounts to € 193.0m, an increase of 7.5% compared with 2004. The speed of settlement, net of claims not followed up, was 88.34% for claims made in the current year (86.17% in 2004) and 88.20% for claims in previous financial years (88.40% in 2004).

## **NON-MARINE BRANCHES**

Premium income from the Italian direct business amounted to € 1,194m, an increase of 4.5% compared with the figure for 2004. The growth in premium income was mainly balanced in the Retail and Corporate business.

Taking into account the fact that the change in the consumer price index was 1.9%, real growth was 2.6%.

While 2005 showed a considerable improvement in the result for the previous year, which had been strongly penalised by the revaluation of the reserves for General TPL claims; in the current year, although revaluations are still being recorded on provisions for claims set aside on policies issued under coinsurance, the result for the class is still balanced.

Although the general economic situation is difficult, the portfolio can be considered to be experiencing a positive development, from the point of view of the development of premiums and of new business which has increased homogeneously for both mass and Corporate risks.

In the Retail sector, work has continued on the revision and refining of the range of products as part of the Group harmonisation and work has been completed for the launch of standardised products in the home and family sectors in 2006.

The products already on the market in 2004 have provided a satisfactory development during the year, with technical results in line with expectations.

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In the Corporate sector, where the market conditions are quite competitive and the stage of stagnation of the economy have made it very difficult to increase the volume of business, activity was also directed at consolidating existing positions and at preparing the technical and commercial structures to penetrate important market sectors.

More precisely, three new organisational units were set up within the Group in 2005: Tendering and Public Works, Large Companies, Institutional and Strategic Clients.

The Tendering and Public Works department is involved in the sensitive sector of tendering to supply insurance services, co-ordinating the correct involvement in tendering through all the sales networks, in compliance with the legislation in force and the specific economic and regulatory assessment required by those risks.

The Large Companies department is enabling those companies to exceed a certain level of turnover and is providing broker networks with specialist technical assistance for this important client segment.

The purpose of the Strategic Clients unit is to promote commercial relations, in the non-life and life businesses, with the Group's institutional and strategic clients.

Within the scope of the large companies sector and the broker channels, 2005 was the year when, in view of the economic conditions, continuous efforts were made to contain costs to the detriment of an in-depth analysis of types of policies.

Demand increasingly emerged for innovative cover (loan protection cover, product guarantees, long term care in the health class, etc.), and our Group is responding with specific solutions.

The trend towards reducing premiums also affected the public organisations sector - with the exception of the General TPL class - whereas the majority of the market has seen a rise in premiums in the year at a slower rate than in the recent past or, in any event, an attempt at technical rebalancing through the mechanism of excesses.

The non-life insurance project for natural disasters which was referred to in the 2005 financial report has not yet been implemented; these projects, which were frequently at the centre of attention in the media and the political world, are no longer at the realisation stage and it is not planned to introduce them in the near future.

Law 210 of 2004 became operative in 2005, with the issue of the implementing decree, which stipulates compulsory guarantees and decennial liability insurance to protect the property rights of purchasers of private property. Following studies carried out, in the first quarter of 2006, the new product Decennale Postuma will be issued relating to the aforementioned law.

It is stipulated that, as a result of that obligation, this will develop into the acquisition of an interesting portfolio of new risks in the years ahead. In the presence of a long-term commitment without the possibility of withdrawal, the maintenance of a satisfactory loss ratio is however linked to a correct assessment of the risks by the whole market, in order to avoid the extremely negative effects already experienced in France and in Spain in the years following the entry into force of similar legislative provisions.

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With regard to the main classes of business, we can make the following observations:

### **Accident**

The technical balance remained particularly positive and the class is confirmed as the most profitable, in line with previous financial years, by virtue of continuing a careful underwriting policy and selling policies that provide for an excess.

Premiums amounted to € 238.3m (+2.7%).

51,806 pro-quota claims were reported (- 2.1%).

The number of claims paid, 38,668, fell 7.9 % compared with 2004.

The cost of claims made in the current year amounts to € 107.7m, an increase of 3.7% compared with 2004.

### **Health**

The result remains quite unsatisfactory despite the fall in the number of claims in the current year and the repeated reorganisations carried out on very old portfolios with tariff and regulatory conditions which are no longer current.

The development of new products, with a view to greater profitability, has not yet balanced the negative effects of the previous portfolio which it is sometimes difficult to restructure for commercial reasons.

Premiums amounted to € 171.7m (+5.1%).

148,681 pro-quota claims were reported (- 2.1%).

The number of claims paid, 137,996, fell 1.2 % compared with 2004.

The cost of claims made in the current year amounts to € 129.8m, a decrease of 2.5% compared with 2004.

### **Fire and other natural forces**

The technical balance remained positive, although it worsened following a considerable number of large claims and natural disasters which especially affected risks located in northern Italy. Premiums increased compared with 2004 but not as much as expected especially as a consequence of the marked competitiveness experienced in the sector.

Premiums amounted to € 200.9 m (+5.3%).

37,363 pro-quota claims were reported (- 1.0%).

The number of claims paid, 32,899, an increase of 6.4 % compared with 2004.

The cost of claims made in the current year amounts to € 115.8m, an increase of 21.5% compared with 2004.

### **Goods in transit**

The technical balance for this class was not as positive as previously due to reduced savings on previous claims.

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### **Other property damage**

The technical balance is worsening and a negative result was recorded. Faced with a reasonable increase in premiums, however, there was a considerable increase in the number of claims in the year, especially in relation to some large claims on technological and theft risks. With regard to the latter cover, within the scope of the overall policies for credit institutions, at the end of the year a worrying concentration of the number of claims reported for potentially very large claims for employee disloyalty was recorded.

Another critical factor in the class was the negative performance on cover for risks of the water supply system (Acqua Condotta) which recorded an increase in the number and the cost of the claims.

For technological risks, the development of the CAR policies portfolio continued in 2005 linked to cover for the risks of large-scale construction projects, again with technically acceptable conditions.

Hail cover recorded a fall in premiums because of the unfavourable economic conditions and the fall in the prices of agricultural products and the claims trend in line with the previous year.

Premiums amounted to € 205.0m (+6.3%).

82,483 pro-quota claims were reported (+ 7.6%).

The number of claims paid, 70,006, increased 5.5 % compared with 2004.

The cost of claims made in the current year amounts to € 154.3m, an increase of 34.8 % compared with 2004.

### **General TPL**

The technical balance for this class, after a few negative years, returned to a balanced position in particular given the positive balance on previous claims, in particular coinsurance claims.

The increase in premiums, higher than the rate of inflation, but lower than the market estimates, confirms the continuation of the criteria of careful selection of risks already adopted in previous year, aimed at developing a satisfactory level of return while complying with the underwriting criteria.

A review of Corporate products is planned for 2006 for some specific forms of cover.

Premiums amounted to € 280.2m (+3.3%).

58,791 pro-quota claims were reported (- 6.2%).

The number of claims paid, 45,504, increased 7.4 % compared with 2004.

The cost of claims made in the current year amounts to € 197.3m, an increase of 10.0% compared with 2004.

### **Bonds**

The balance in this class continues to be positive, although it is worse than in 2004 because of insufficiencies recorded in the trend of previous claims. The number of claims made in the year fell and the increase in premiums was good.

With a view to optimising the procedures for issuing guarantees, in 2005 all sales outlets of the SAI Division were provided with a computerised procedure for controlling accumulation of exposure at the prevention stage.



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In 2006, the procedure for issuing guarantees stipulated by the regulation on the protection of purchase of property for future construction will become operative (Law 210 of 2004).

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### Remaining classes

The technical balance of the other classes in the accounts is improving thanks to the positive trend in pecuniary losses, legal protection and assistance, while the positive performance in the Marine – hull class has decreased because of two large claims for sports vessels.

The speed of settlement for the main non-motor classes for the 2005 financial year is set out below:

CLASSES – Claims made in the current year ( <i>Change %</i> )	2005	2004
Accident	41.70	44.00
Health	88.72	87.89
Fire and other natural forces	75.35	71.72
Other property damage	72.12	71.40
General TPL	56.65	49.87
Other classes	67.84	66.34

CLASSES – Claims made in previous years ( <i>Change %</i> )	2005	2004
Accident	73.17	74.52
Health	81.77	88.45
Fire and other natural forces	82.12	77.83
Other property damage	83.45	82.84
General TPL	43.70	37.92
Other classes	38.56	57.58

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## **NON-LIFE REINSURANCE**

### ***Outward reinsurance***

The premiums subject to reinsurance protection were ceded to the subsidiary The Lawrence Re of Dublin, which subsequently retroceded them to the international re-insurance market.

On the basis of consolidated practice and experience, the main classes (those with the highest volume of premiums) continue to be protected on a non proportional basis: that is the case for the Motor TPL, Fire, General TPL, Accident and Theft classes, which are covered for individual risks and covered following the occurrence of an event. The Land vehicles - own damage class is an exception, as it is covered jointly with the Fire class only in the occurrence of an event.

The other classes, specifically Transport, Credit, Bonds and Aviation, are covered through a combination of proportional reinsurance with a quota which corresponds to the year in which each individual policy is taken out and on non-proportional cover, which works on the basis of the occurrence of claims.

The Technological Risks class finally has proportional protection with a quota and excess, with non-proportional cover combined with Fire and Motor vehicles – own damage, only in the occurrence of an event.

Despite the high level of automatic capacity stipulated by each treaty, specific facultative cover was used mainly in excess of loss, where risk underwriting was for exposure higher than that laid down in the policy, in the case of tendering for several types of cover or when there are specific commercial reasons.

Overall, the reinsurance structure has not changed significantly compared with that existing in the previous financial year: in fact, continuity together with good results enabled savings to be made on the cost of individual cover or the same premiums to be paid for increased exposure of the portfolios covered.

It should only be pointed out that the increased retention made more adequate for the volume of premiums underwritten.

No significant events have affected this, with the exception of one large Theft disloyalty claim for which the final compensation will in any case be recovered by virtue of specific facultative cover.

### ***Inward reinsurance***

In line with previous financial years, we continued not to accept non-Group business; the data shown refer to 31/12/2005 as regards business within the group, while the run-off of past acceptances is reported one year in arrears.

The results show a substantial balance as they concern data which is now stabilised.

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## **LITIGATION - NON-LIFE INSURANCE**

Claims litigation as at 31/12/2005 concerned some 53,922 cases. 80.8% of these were in the Motor TPL class.

Motor TPL litigation cases as at 31/12/2005 represent 19.8% of claims outstanding at that date.

In the 2005 financial year, the cost of legal expenses paid was € 75,360K.

28,813 cases (motor vehicle and other) were settled in 2005.

90.7% related to the Motor TPL class.

A 13.31% fall in the number of civil cases for Motor TPL claims litigation was recorded in the 2005 financial year and an increase in criminal cases of 14.41% compared with the previous year.

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# **Life business, Pension Funds and Managed Savings**

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With reference to the Life market, despite the recovery on the stock market, the products known to provide protection (Class I) are those which are still most popular with savers today. After 2004, when premiums in that segment increased by more than 8% (with income in excess of € 30bn), experts maintain that income will continue to grow by more than 10% in 2005, widely offsetting the reduction of premiums for linked products. In particular, the segregated businesses (which can be taken out through traditional Class I and V policies) represent the product preferred by the retail market, as these are instruments which guarantee a refund of the capital invested and a minimum annual return. The corporate market is also contributing towards encouraging the taking out of life policies. The number of companies deciding to invest in traditional life instruments is in fact increasing, assisted by the strong reduction in interest rates, in order to stabilise their profit and loss accounts when faced with particularly volatile financial markets.

In the period January-September 2005, direct premiums in the Italian business increased 17.1% compared with the same period in 2004, far above the forecasts at the start of the year, and totalled € 53.8bn.

Income from Life policies represents more than two-thirds (67.9%) of the income in all classes of insurance business (64.8% in the same period in 2004), with significant results in Class I (life assurance) approximately € 24.2bn (+11.8% compared with the third quarter of 2004, 44.9% of the Life total), in Class III (linked) with income of approximately € 19.4bn (+20.5% compared with last year, 36.% of the Life total), in Class V (pure capitalisation policies with a guaranteed interest rate) with total premiums as at 30/9/2005 of approximately € 9.7bn (+21.2% compared with 2004, 18% of the Life total).

Income in Classes IV (Health) and Classes VI (Pension funds), added to Premiums for additional insurance, represents less than 1% of total premium income in the whole of the Life segment.

The banking and post office outlets channel recorded the highest result in the first nine months of 2005, arranging 63.8% of premiums and increasing the market share by 4.2, to the detriment of the financial advisers channel (-2 market share points) and the Agents channel (-1.4 points), while specialist finance and management agencies contained the loss to -0.4 points.

In December, an obvious contraction of premium income from new individual policies was recorded, amounting to approximately € 4bn (-22.1% compared with December 2004): during the year, the new premiums were approximately € 53bn, 12.6% higher than the whole of 2004.

The reduction in the number of new premiums recorded in December can be attributed principally to the activity of the banking and post office outlets which fell by 31.1% compared with the same month in 2004: in the year, income exceeded € 40bn with growth of 15.4% compared with the whole of 2004. In December, growth in agents' premium income was positive, however, at 15.8% compared with the same month in 2004, confirming the modest growth at the start of the year (+3.5%). Compared with December 2004, direct sales made through specialist agencies remained virtually unchanged (+0.6%), an increase of 56.2% since the beginning of the year. The activity of financial advisers was still negative, with premium income in 2005 of approximately € 3.1bn, a fall of 22.6% compared with the whole of 2004.

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Compared with December 2004, traditional policies are reporting a large increase in premium income in the class I (+25.1%), while Class V recorded a decrease (-3.7%). Since the beginning of the year, however, for both these classes, the variation rates were positive: +19.1% in Class I and + 19.9% in Class V. Compared with December 2004, the whole linked class fell: index-linked policies (new production to December 2005: € 570m, -67.6%), traditional unit-linked policies (new production to December 2005: € 516m, -29.3%), guaranteed unit-linked policies (new production to December 2005: € 185m, -22.4%).

New business remains concentrated mainly on single premium policies, with growth in the year of 14.2% compared with the whole of 2004, whereas annual and recurrent policies reduced respectively by 17.5% and 1.4%.

The decisive boost for the Life business, which was expected during the financial year as a result of the passing of the delegated legislation on the reform of the national pensions system (Law 243 dated 23/8/2004), was however “frozen” for a further two years, with the silent approval for granting severance indemnities as alternative forms of pensions slipping back to 2008. In order to prevent the risk that many employed workers will indefinitely postpone taking a decision on their future pension, it became necessary to carry out an awareness-raising initiative about the prospects for basic pensions. The parent company concentrated its activities on protecting the existing portfolio, particularly through the “Valore TFR” (“Severance indemnities”) product (as will be seen set out in detail further on), in order to provide the Corporate segment with advice on the impact of the regulation and an effective and flexible insurance solution.

During 2005, work also continued on harmonising the list of products of the Fondiaria and Sai Divisions: in December, at the same time as the entry into force of the provisions stipulated in the ISVAP Circular 551/d on transparency of life assurance policies, products available at Company level were standardised, organised according to a logic based on four macro areas corresponding to similar customer requirements - Security, Pensions, Savings and Investment.

The adoption of a single list is – even as a forecast – the assumption for optimising the quality level of the pre- and after-sales service offered to customers, while keeping the operations of all the sales networks unchanged.

## PREMIUM INCOME

Overall, premiums written amounted to € 1,370,593K, compared with the figure of € 1,184,383K in 2004, an increase of 15.72%.

Premium income from direct business amounted to € 1,353,127K, an increase of 16,6%, distributed as follows:

(€K)	2005	2004	Change %	% Distr.	
	2005	2004		2005	2004
<b>DIRECT BUSINESS</b>					
I – Life assurance	717,453	599,903	19.59	52.35	50.65
III - Life assurance linked to investment funds	50,560	102,171	(50.51)	3.69	8.64
IV - Health insurance	51	54	(5.56)	0.00	0.00
V – Capitalisation operations	567,415	440,286	28.87	41.40	37.17
VI - Pension fund management operations	17,648	18,503	(4.62)	1.29	1.57
<b>TOTAL LIFE BUSINESS</b>	<b>1,353,127</b>	<b>1,160,917</b>	<b>16.56</b>	<b>98.73</b>	<b>98.03</b>
<b><u>INWARD REINSURANCE</u></b>	17,466	23,476	(25.60)	1.27	1.97
of which:					
- Italian business	14,535	21,929	(33.72)	1.06	1.85
- Overseas business	2,931	1,547	(89.46)	0.21	0.13
<b>OVERALL TOTAL</b>	<b>1,370,593</b>	<b>1,184,393</b>	<b>15.72</b>	<b>100.00</b>	<b>100.00</b>

Premium income from direct business made up as follows:

Individual policies	718,079	687,662	4.42	53.07	59.23
Collective policies	617,400	454,752	35.77	45.63	39.17
Open-End Pension Funds	17,648	18,503	(4.62)	1.30	1.59



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What was particularly evident compared with previous reports, Class I (life assurance), with premiums of approximately € 717m, shows a good increase of 19.6% compared with 2004, and continued to be the class with the highest turnover and an incidence on the total Life premium income of more than 53%. Class III, considered to be specifically financial, with the prolonged period of uncertainty on the financial markets, however, showed a decrease of 50% compared with 2004.

Income allocated to the technical account totalled € 321.6m compared with € 298.9m the previous year. € 277.4m of this refers to financial income on traditional products (€ 264.2m in 2004) and € 44.2m to class D products (€ 34.7m in 2004).

During the financial year, a total of € 459,054K (€ 511,140K as at 31/12/2004) was paid for sums assured and matured annuities. Purchase commission amounted to € 21,280K (€ 16,512K as at 31/12/2004).

## SUMS PAID AND RELATED CHARGES

Payments made under the heading of direct business totalled € 833,399K, including the change in the provisions for amounts payable.

A comparison with the figure for the previous year (€ 840,104K) shows a decrease of 0.8%.

### Direct business

(€K)	31/12/2005	31/12/2004	Change %
<b>CLASS I</b>			
Claims	18,446	19,037	(3.1)
Sums assured and matured annuities	370,164	377,581	(2.0)
Surrendered policies	144,280	172,334	(16.3)
Total	532,890	568,952	(6.3)
Change in provision	20,160	(5,382)	-
<b>TOTAL</b>	<b>553,050</b>	<b>563,570</b>	<b>(1.9)</b>
<b>CLASS III</b>			
Claims	1,818	1,482	22.6
Sums assured and matured annuities	23,892	4,139	477.2
Surrendered policies	17,171	14,611	17.5
Total	42,880	20,232	111.9
Change in provision	5,322	(785)	-
<b>TOTAL</b>	<b>48,202</b>	<b>19,448</b>	<b>147.9</b>
<b>CLASS V</b>			
Claims	539	4,074	(86.8)
Sums assured and matured annuities	64,977	129,421	(49.8)
Surrendered policies	148,481	119,243	24.5
Total	213,998	252,738	(15.3)
Change in provision	13,699	(1,051)	-
<b>TOTAL</b>	<b>227,696</b>	<b>251,687</b>	<b>(9.5)</b>
<b>CLASS VI</b>			
Claims	1,615	0	-
Sums assured and matured annuities	22	0	-
Surrendered policies	2,815	5,400	(47.9)
Total	4,452	5,400	(17.6)
Change in provision			
<b>TOTAL</b>	<b>4,452</b>	<b>5,400</b>	<b>(17.6)</b>
<b>TOTAL FOR ALL CLASSES</b>			
Claims	22,418	24,594	(8.8)
Sums assured and matured annuities	459,054	511,140	(10.2)
Surrendered policies	312,746	311,588	0.4
Total	794,219	847,322	(6.3)
Change in provision	39,181	(7,218)	-
<b>OVERALL TOTAL</b>	<b>833,399</b>	<b>840,104</b>	<b>(0.8)</b>

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## TECHNICAL PERFORMANCE

In the macroeconomic scenario described above, for the parent company, similarly to recent years, the whole financial year was strongly characterised by the continuation of the action to protect the segment of capital maturing on life and capitalisation policies.

In the first half of the year, in the retail sector, the process continued which had been started the previous financial year, that of reviewing and up-dating products. The Company launched two new products onto the market, in the strategic sector of single premiums (Open Unico and Open Risparmio) linked to the segregated businesses and aimed at customers' specific savings and investment requirements.

Both products are characterised by a costs structure aimed at rewarding, firstly, constant payments and, secondly, the size of the payments made by customers.

"Open Protetto" was marketed in July. This is a new product aimed at meeting customers' medium- to long-term savings requirements. This was aimed at increasing the distribution of high value annual premium products for the Company.

"Open Protetto" is an insurance savings plan characterised by the fact that it is linked to a new segregated business and is known for providing the possibility of investing in assets in the property sector and a series of insurance cover, some of which are intrinsic to the product and other additional cover which the customer can choose to purchase.

During the year, two tranches of Index Linked were launched, the first characterised by the presence of annual coupons of a pre-determined amount and variable amount and the second by a mechanism linked to the growth of an innovative European share index.

With reference to unit-linked products, in order to carry out a rationalisation and optimisation of the Internal funds within the Company, with the objective of maximising management efficiency, also in terms of expected performance, the pre-existing funds were merged into an Internal Fund called FonsaiLink. This has four different sections.

With regard to the Individual Pensions sector, similarly to what happened in recent years, the distribution by the Company, and the whole market, was again influenced by demand which was still below the expected level.

During 2005, the market trend in the "corporate" sector on the purchase of capitalisation products continued; demand for this type of product in particular remained at high levels from Institutional Clients, with huge amounts of money to invest.

In order to protect all the typical business areas in the "corporate" sector, at the time of the production of the unified list, the Company arranged to re-position two products called products respectively:

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- “VALORE TFR”, a product for the insurance management of company funds intended for their employees’ severance indemnities;
  - “VALORE TFM”, a product for companies which want to guarantee a financial reserve for commitments to their own members or directors.

Both products, which had always been on the Companies’ lists, are now particularly innovative from the regulatory and technical/tariff points of view and – from the point of view of communication – have aroused considerable interest in the acquisition of new policies which are very attractive not only because of the volume of premiums distributed but also because of the type of customers acquired.

Furthermore, with the objective of increasing the level of penetration into the risk cover sector, the Company has carried out a further restyling of its own list aimed at the requirement for assistance with the communication of the new PLURAL VITA line for GROUPS and MANAGERS. This initiative has produced attractive results for the protection of the customer portfolio, through operations aimed at maintaining the portfolio for policies maturing.

Finally, with regard to the market sector linked with forms of supplementary pensions – in fact strongly influenced by the recent regulatory changes, activities were concentrated essentially on the protection of the current portfolio, using the stated product “VALORE TFR” as the vehicle for providing employers with advice on the impact of these changes for their company and also providing them with a possible insurance solution to enable them to provide their employees with an alternative or collateral tool which is objectively effective and flexible.

## **PENSION FUNDS**

Within the scope of Open-End Pension Funds and Individual Forms of Pensions implemented through open-end pension funds, the 2005 financial year was again characterised by a situation of stagnation due to modest demand on the market. The long-awaited decree implementing the delegated legislation, containing the reform of the pensions system, was issued on 05/12/2005 but will produce benefits with effect from 01/01/2008, the date on which it will take effect. In addition to consolidating the current positions, the years 2006 and 2007 will need to be used to the best advantage for studying the organisation and the tools required to be leading players in the complex and strengthened pensions market.

In that context, in 2005, through those entitled to make investments, the Company, continued taking on new customers (both individual and collective) and also consolidated the annual amount of total contributions collected.

In detail, we can see that the Sai Open-end Pension Fund had 2,482 members as at 31 December 2005. The contributions collected, through the Sai Division agency network, exceeded € 4m, bringing the assets in the Fund to more than € 21.5 m.

On the same date, the Fondiaria Previdente Open-End Pension Fund had 7,467 members. The contributions collected - through the Fondiaria and Milano Assicura-

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zioni Division Agency network, some credit institutions, one broker (Europa Benefits S.r.l.) and Banca SAI financial advisers – amounted to € 11m.  
The assets of the Fund exceeded € 59m.

The Conto Previdenza Open-End Pensions Fund had 846 members. The Fund, reserved for placement by banking outlets in some credit institutions, collected contributions amounting to more than € 2.5m and the related assets exceeded € 23m. The credit institutions currently entrusted with the placement are: Banca Alpi Marittime Credito Cooperativo Carrù, Carispaq – Cassa di Risparmio della Provincia dell'Aquila, Bancapulia, Banca della Campania, Carim Cassa di Risparmio di Rimini.

One significant fact which occurred after the year end is that, with effect from 01/01/2006, the depository bank for the “Fondiarria Previdente” and “Conto Previdenza” Open-End Pension Funds was changed. That change became necessary following the carrying out a project within the Unicredit Group to rationalise securities services activities which were concentrated in one new bank called “2SBANCA” replacing UniCredito Italiano, previously the depository bank for the above-mentioned funds.

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## **LIFE REINSURANCE**

### ***Outward reinsurance***

Total premiums ceded amounted to € 6,538K. During 2005, the standardisation of the reinsurance programme started in the previous financial year was consolidated for the above two divisions.

Again in 2005, the whole portfolio of individual and collective policies was protected with a proportional surplus programme; this structure allowed the retention of the less exposed part of the portfolio, with the consequent cession to reinsurers of the part which could have unbalanced the result.

The result of this cession, which is positive for reinsurers, was strongly mitigated by a bonus which allowed a considerable recovery of the premiums ceded.

The net retention was protected by an adequate non-proportional catastrophe programme.

### ***Inward reinsurance***

Premiums underwritten amounted to € 17,466K.

There was a considerable reduction in the underwriting activity which continues to be carried out within the Group, according to the requirements of the individual companies.

As in 2004, no new business was underwritten, solely with the exception of renewals of certain reinsurance policies.

The figures recorded relate to the management of previous acceptances by the Group which refer to 31/12/2005, whereas for the run off of acceptances from outside the Group the figures are those received from ceding companies as at 31/12/2004. The results confirm substantial balance with the gradual dismantling of the technical provision for payments, surrendered and matured policies.

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## **Asset and financial management**

## INVESTMENTS

As at 31 December 2005, the volume of investments reached € 15,404m compared with € 14,374m as at 31 December 2004, an increase of 7.2 %.

That increase can be explained by the reinvestment of funds from the contracting of the new subordinated loan for € 100m, lower requirements linked to the valuation of financial instruments in view of the recent favourable performance on the markets and a cautious policy of reinvesting the insurance cash flow.

The overall investment structure, excluding class D, changed as follows:

(€K)	31/12/2005	Breakdown %	31/12/2004	Breakdown %
- Real estate (1)	1,123,656	7.29	1,085,550	7.55
- Bonds and other fixed income securities	9,046,320	58.73	8,114,041	56.45
- Shareholdings and investment funds	4,579,420	29.73	4,514,090	31.40
- Corporate financing	96,569	0.63	101,025	0.71
- Deposits with Credit Institutions (2)	230,509	1.50	162,884	1.13
- Deposits with transferor companies	326,286	2.12	381,149	2.65
- Sundry financial Investments	937	-	15,491	0.11
<b>TOTAL</b>	<b>15,403,697</b>	<b>100.00</b>	<b>14,374,230</b>	<b>100.00</b>

(1) Gross of provisions for depreciation (2005: € 99,949K ; 2004: € 92,654K).

(2) Also includes the amount referred to under Class F of the assets.

The following table provides a breakdown of the class D investments by type:

## CLASS D INVESTMENTS

(€K)	31/12/2005	Breakdown %	31/12/2004	Breakdown %
- Fixed income securities	532,822	73.1	536,353	74.0
- Stocks and shares	182,513	25.0	178,926	24.7
- Liquid assets	7,071	1.0	6,809	0.9
- Other assets/liabilities	7,000	1.0	3,140	0.4
<b>TOTAL</b>	<b>729,406</b>	<b>100.0</b>	<b>725,228</b>	<b>100.0</b>



The following table, which compares homogeneous data from the last two-year period, shows the results of the financial and property management activities (excluding income derived from investments referred to as class D investments):

## INVESTMENT INCOME

(€K)	2005	2004	Change
Income from stocks and shares	166,885	115,008	51,877
Income from land and buildings	39,254	49,202	(9,948)
Income from other investments	349,293	336,150	13,143
<b>TOTAL GROSS INCOME</b>	<b>555,432</b>	<b>500,360</b>	<b>55,072</b>
Management fees	40,776	57,120	(16,344)
<b>TOTAL NET INCOME</b>	<b>514,656</b>	<b>443,240</b>	<b>71,416</b>
Net profits realised on land and buildings	6,900	39,865	(32,965)
Net profits on short-term investments	11,603	41,256	(29,653)
Net profits realised on other long-term investments	52,838	50,120	2,718
<b>OVERALL TOTAL</b>	<b>585,997</b>	<b>574,481</b>	<b>11,516</b>

For further details, please refer to the information provided in the Notes to the Accounts.

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## FINANCIAL MANAGEMENT

2005 was a year of positive growth in the world economy. The difficulties in the first two years of the new century, characterised by the recession in the US in 2001 and the difficult adjustment in 2002, seem to be a distant memory. The performance of the world economy was positive overall, despite ever present geopolitical tensions. In line with what happened in 2004, growth in goods and services produced, although maintaining a development rate of around 4.0% (4.7% in 2004), had to reckon with the large rise in the price of oil. Economic growth was fuelled especially in two areas: America and Asia, led by the United States and China, respectively. The Euro zone was also positive with growth estimated at 1.4% (compared with 1.8% in 2004). The Japanese economy developed well, expected to be at a rate of 2%, well above what was forecast in European countries.

The Italian economy was the subject of debate, mainly with itself. The year, started with growth forecasts of one and a half percentage points closed just positive, after having settled at quite a negative rate of economic activity between June and September. Italy was one of the lower performing European countries, penalised, compared with its direct competitors especially by the weight of low competitiveness. The latter element really emerged in the last two years, although stronger and more determined competition came from Asia.

During 2005, although it remained at historically low levels in all the main economic areas, inflation showed signs of increasing. The increase in the price of oil (from 30 dollars a barrel on average in 2003 to approximately 55 in 2005) produced increases in the general level of prices. The central banks responded to that development with the only weapon in their possession: by raising the cost of money. The phenomenon was, in fact, led by the Federal Reserve, the American Central Bank gradually revised the "Fed Funds" six times, increasing from 2.50% at the beginning of 2005, to 4.25%. The Central European Bank, assisted by an economic context of low growth and limited dynamism in the economy, decided to intervene only in the latter days of 2005 (1 December) increasing the reference rate by 25 base points, to 2.25%, breaking a phase of steady rates which started in 2002. The record rises in the price of oil, approaching the psychological threshold of 70 dollars a barrel, do not seem to be stopping there. Although Brent ended 2005 at 58.35 dollars a barrel, according to forecasts by the experts, it will move again in 2006 at high levels. As in the text book and, consequently as a logical development in the phase characterised by risks of inflation, this scenario made the price of gold take off and, at the end of the year, it had climbed to levels (513 dollars an ounce) not recorded for more than 25 years. At the beginning of January, the price of gold was 427 dollars an ounce, a value which did not seem likely to change very much.

Despite numerous geopolitical uncertainties, the persistent risk of terrorism and the strong tension which the price of crude passed on to energy costs, 2005 was a very positive year for the financial markets. In fact, the main activities all recorded positive returns. Short-term interest rates, although increasing, remained at historically low levels, thereby encouraging the development of an enormous mass of liquidity worldwide. This has enabled nearly all financial operators to close the year with very positive financial performances.

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Stock market performance was positive, with variations in double percentage figures on virtually all the main financial trading floors. The exception was the United States which was affected especially by automotive stock and saw the Dow Jones fall 0.11% straight away compared with the gain of 2.13% recorded on the Nasdaq technological listing. European stock exchanges recorded very positive performance, thanks to the very good period for the profit and loss accounts of listed companies, with profits rarely increasing in single percentage figures or, in rare cases, recording a negative percentage change.

The Italian stock market closed 13.4% up (Mibtel), carried along especially by energy shares and also financial securities. The bonds markets had to reckon with restrictive monetary policies: as has been stated, the FED increased the reference rate from 2.50% to 4.25%, the ECB from 2.00% to 2.25%. Despite that, bond prices held well. Returns on ten year bonds remained stable (in Europe) or fell (in the United States). 2005 should have been a year of crisis for bonds dealers, but it turned out to far exceed expectations. The most unexpected currency movement was recorded by the dollar. Sustained by the analysis of the imbalances in the United States in its balance of trade and the federal accounts, a fall in the value of the American currency was forecast compared with all the main currencies. That did not happen: the dollar-euro exchange rate increased 12% from 1.3461 to 1.1841 (dollars per euro).

In 2005, the favourable period on the main world Stock Exchanges continued. At the end of December, they reached the highest levels for the last four years. On the main financial markets, the following stand out in particular: Tokyo (+40.2%), Frankfurt (+27.1%), Amsterdam (+25.8%) and Paris (+23.2%). In general, the good stock market performance can be explained by the improvement in the basic company indexes, the increase in dividends distributed and the vast mass of liquidity in circulation in a general context where interest rates are very low. From the point of view of the investment sectors, the final situation in Europe in 2005 is rather differentiated: some sectors have in fact followed a similar course (in particular: banking, insurance, energy, chemicals, construction and industry), whereas others have recorded less brilliant performance (such as: technology, automotive, pharmaceuticals, media). Only the telecommunications sector reported a negative result, penalised by fears of compression of margins in traditional activities as a result of competition from Internet providers and expensive acquisitions made in recent years.

It should be pointed out that, within the scope of European stock market performance, the return on shares in the insurance sector (Life and non-Life) in the last 25 years was higher than that of the stock market overall. Up to 2001, the return on shares in the Life business was higher than that of the non-Life business. Since 2003, also thanks to the improvement in the technical results, the share index in the non-Life business exceeded that of the Life business.

However, 2006 appears to be a year full of unknown quantities. On the one hand, it is difficult to see how the trends which have emerged up until now can continue (relatively low interest rates, good performance on the Stock Exchange markets), on the other hand, it is easy to see that the tensions present in the geopolitical chess-board, in particular in the Middle East, will continue. The scenario is dominated,

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rather than by the well-defined trends, by considerable uncertainty. The main themes will consequently be rates, the dollar, oil, inflation, China (and India), and also Japan (which definitively seems to have come out of the stagnation in the last fifteen years) and, closer to us, Russia. Overall, these trends should lead to slower world growth than last year and, probably, non-uniform growth in the different areas. In that context, the European countries which have adopted the euro will have to show themselves capable of keeping up with the economies which have been more dynamic to date.

During 2005, Fondiaria-SAI debenture financial management followed an approach of slow but constant increase of the duration of the non-Life and Life portfolios. With regard to the former, that strategy was the consequence of a restrictive monetary policy introduced by the Central Banks which because of the depressive effect on European and American growth due to the rise in the price of oil, produced a flattening of the interest rates curve, with short maturity dates increasing at the same time as long maturity dates with steady or even falling interest rates.

In the Life business, the calm but gradual increase in duration was also realised in order to improve the distribution over time of the assets and liabilities of the parent company's segregated businesses.

At the end of 2005, the bonds sector represents 68% of the total portfolio (unchanged compared with 2004), with a duration of approximately 4.25 (3.60 in the last financial year). The non-Life business consisted of a fixed rate component of 70% (approximately 53% in 2004) and the remaining 30% variable rate (approximately 47% in 2004), with a total portfolio duration of 2.25 (2 at the end of 2004).

The Life business shows an asset allocation with more fixed rate components (75% compared with 62% in 2004) compared with the variable quota of approximately 25% (38% in 2004), with a total portfolio duration of 5 (4.3 at the end of 2004). Strategically, investment in Government stock was favoured in the Euro area, representing approximately 80% of the portfolio (75% as at 31/12/2004); the corporate market focussed on during the financial year in order to obtain some margin of return compared with the Government Stock, fell from 25% at the beginning of the year to 20% at the end of the year (5 percentage points lower than last year).

At the same time, Fondiaria-Sai's shareholding financial management followed an approach aimed at optimising positions acquired at the start of the year, with a view to maintaining a constant shareholding percentage weight in non-life and life portfolios. The favourable macroeconomic scenario therefore allowed the benefits to be reaped from the previous asset allocation more exposed to stocks and shares compared with other Italian companies operating in the insurance sector.

Within the scope of the Life sector, the dominant objective was to reduce management through investment funds and concentrate on Italian stock, however, operating with management directed towards stock in the euro area but diversified geographically and by sector.

Share management during the year in the non-Life business was, however, directed more towards opportunistic short-term choices.

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Similar to 2004, the share sector represents an important component, representing 24% of the Fondiaria–Sai portfolio (no significant percentage changes compared with the last financial year) and recording an increase in the short-term component.

## **SIGNIFICANT FINANCIAL TRANSACTIONS**

### **Transfer of 100% of the capital of International Strategy S.r.l.**

On 28 December 2005, subject to the issue of the stipulated authorisation from ISVAP, FONDIARIA-SAI transferred 100% of the capital of the company International Strategy S.r.l. to the holding company Premafin Finanziaria.

This is a property company. Its principal asset is a property located in Milan, Corso Buenos Aires, which the company had already decided to sell split into parts. Consequently, several offers to buy the property were received, including that from the holding company Premafin, which was prepared to buy the entire share capital of International Strategy from FONDIARIA-SAI.

In order to determine the sale price for the shareholding, FONDIARIA-SAI asked for assistance from KPMG Advisory S.p.A. Corporate Finance (hereinafter called: KPMG) for the comparative valuation of the different business options, and jointly with Premafin, for the preparation of a valuation of International Strategy.

The valuation of International Strategy, as has been stated, was derived mainly from the valuation of the property in question, so that KPMG started first of all, assigned the task exclusively by the Company, by analysing which of the possible valuations of the property, according to the different sales procedures, would produce the greatest increase in the general value of International Strategy.

With a view to that, KPMG checked how, once it had considered the expected income, the associated sales costs, the timing of the collections and the relevant risk profile, the option which provided the highest value for the company was the sale of the property split into parts, preferably through a block sale.

Consequently, for the purposes of the valuation of International Strategy, KPMG made exclusive reference to the case of increasing the value of the property through a sale split into parts, with the relevant associated sales costs, timing of the collection and application of a risk coefficient of 10%. In that way, the financial value of International Strategy was assessed to be € 74.9m, thereby determining the price at which the transfer of the shareholding was made.

The Board of Directors of FONDIARIA-SAI considered that the transfer of 100% of International Strategy to Premafin, having compared the price based on KPMG's estimates with those achievable otherwise from a sale of the property, split into parts, constituting the company's principal asset, was in any event advantageous for the Company as it was suitable for eliminating the risk of not selling it and inherent in a sale split into parts, as well as allowing the immediate collection of the price.

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## Acquisition of the remaining holding in Banca SAI

In July 2005, Société Generale exercised its right to sell its stake in Banca SAI S.p.A., of 19.53% of the share capital, Fondiaria-SAI holding 80.47% of the capital. That right to sell – with a consequent obligation for Fondiaria-SAI to purchase – was part of the original agreement entered into with the French company at the start of the partnership with the Bank, which started operating in 2001. On the basis of the existing agreements, the purchase price of the shares was set at € 13m.

The transaction was completed in September 2005.

## Other significant financial transactions

With reference to the listed shareholdings:

- IMMOBILIARE LOMBARDA: purchase of 1,870,000 shares with an outlay of € 379K; following the merger through incorporation of Progestim Spa, 2,055,680,000 shares were received in exchange for an equivalent value, including increased expenses, of € 325,402K. The percentage direct shareholding is 52.39%;
- MILANO ASSICURAZIONI ORD: sale of 12,155,459 shares realising a capital gain of € 20,886K. The percentage direct shareholding is 58.27%;
- MILANO ASSICURAZIONI RISP: sale of 723,790 shares realising a capital gain of € 1,800K;
- BANCA PROFILO: sale of 5,570,000 shares realising a capital gain of € 1,549K;
- CASSA DI RISPARMIO DI FIRENZE: sale of 2,998,750 shares realising a capital gain of € 2,355K;
- GEMINA: purchase of 2,441,013 with an outlay of € 4,882K. The percentage direct shareholding is 3.68%;
- ITALMOBILIARE: sale of 313,705 realising a capital gain of € 8,264K. The percentage direct shareholding is 3.58%;
- MELIORBANCA: purchase of 1,570,000 shares with an outlay of € 4,976K. The percentage direct shareholding is 6.10%;
- MONTE DEI PASCHI DI SIENA: sale of 24,450,000 shares realising a capital gain of € 2,32K. The percentage direct shareholding is 1.4%;
- PIRELLI & C.: subscription of the increase in the share capital subject to detachment and sale of part of the option rights, realising a capital gain of € 1,944K, for 47,498,142 shares and an outlay of € 33,249K. The percentage direct shareholding is 4.35%;

We can also give the main transactions which involved the unlisted shareholdings:

- MERIDIANO RISPARMIO.: payment on account of the increase of the capital of € 24,000K. The percentage direct shareholding is 100%;
- NUOVE INIZIATIVE TOSCANE: payment for loss cover of € 6,007K. The percentage direct shareholding is 96.88%;
- PROGESTIM: sale to the subsidiary Milano Assicurazioni, of 36,000,000 shares, realising a capital gain of € 7,444K; subscription of the increase of the share capital by 57,200,000 shares with an outlay of € 57,200K. The company was incorporated by Immobiliare Lombarda Spa.

## Own shares, shares in the holding company and shares in companies that are subsidiaries of the latter

As at 31 December 2005 and as at 31 December 2004, the parent company held in total own shares and the shares in the holding company Premafin Finanziaria as shown in the table below:

(€K)	31/12/2005		31/12/2004	
	Number	Book value	Number	Book value
<b>Own shares registered to:</b>				
Fondiarìa-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
<b>Overall total</b>	<b>14,637,769</b>	<b>270,036</b>	<b>10,500,769</b>	<b>169,735</b>
<b>Shares in the holding company registered to:</b>				
Fondiarìa-SAI	18,340,027	30,836	17,512,527	21,575
Milano Assicurazioni	9,157,710	12,196	5,569,700	5,948
Saifin – Saifinanziaria	66,588	73	66,588	73
<b>Overall total</b>	<b>27,564,325</b>	<b>43,105</b>	<b>23,148,815</b>	<b>27,596</b>

\* the book value of the Premafin shares as at 31/12/2004 is expressed as the book value according to national criteria consequently without the fair value valuation.

### Own shares:

During the financial year 2005, a total of 2,246,000 ordinary own shares were purchased with an outlay of € 51,900K.

Therefore, at the close of the 2005 financial year, there were 8,075,212 ordinary shares in the portfolio, equal to 6.154 % of the ordinary share capital.

Subsequently, at the close of the year, 515,000 ordinary shares were purchased with an outlay 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. holds 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 holding company:

During the 2005 financial year, a total of 827,500 ordinary shares were purchased in the holding company Premafin Finanziaria S.p.A. with an outlay of € 1,269K.

As at 31/12/2005, the parent company owns 18,340,027 shares in the holding company, equal to 4.469 % of the share capital.

Following the close of the year, no purchase or sale transactions were carried out, therefore, as at 27/03/2006, the parent company owns 18,340,027 shares equal to 4.469 % of the share capital, while the subsidiary Saifin-Saifinanziaria S.p.A. owns a further 66,588 ordinary shares equal to 0.016% of the share capital and the subsidiary Milano Assicurazioni owns a further 9,157,710 ordinary shares, equal to 2.232 % of the share capital.

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## PROPERTY MANAGEMENT

In recent years, the low level of interest rates and families' loss of confidence in alternative investments has meant increases in the value of housing, also thanks to a high level of borrowing by individuals and a gradual development of lending by the credit institutions. In Europe, between 2001 and 2004, the European Central Bank estimated that house prices increased on average by 6.6% a year, compared with growth of 3.8% recorded in the previous period 1997-2000, and reached average increases of 7.7% in the first half of 2005, with particularly sustained increases in France, Spain, Ireland and Italy.

In the first half of 2005, property prices in most Italian cities confirmed the bullish trend of recent years, but with more contained growth rates than in the past: from a minimum of 3% estimated by Agenzia del Territorio sulle abitazioni civili (Territorial Agency for civilian housing), to a maximum of two percentage points higher in the larger population centres, well below the +10% in 2003 and + 8% in 2004, with forecasts of a gradual slowing down in the overall growth rate.

After such strong moves, although the market is still growing, signs of sluggishness were bound to appear. This is in fact reflected by the longer time it takes to sell property and the larger discounts given on sales prices and the slow movement in property rents especially in metropolitan areas.

The slowing down of the rise in house prices can be explained principally by the tightening of family budgets caused by a long period of weak economic growth. However, it is still improbable that the national property market will go into a phase of stagnation, since demand for housing remains constant and is favoured by easy access to borrowing at low rates and the mortgage system which traditionally is less sophisticated than that in other European countries.

The commercial and services sector is feeling the effects of the current phase in the economy, however, demand is very weak generally. There are signs of a reversal of that trend: the market is currently seeing large-scale urban redevelopment projects in some of the major Italian cities.

Property transactions in the Fondiaria-SAI Group companies in 2005 were directed towards improving profitability and increasing the value of the assets through maintenance and marketing activities. We would highlight the following main transactions:

- the purchase by Fondiaria-Sai of the commercial property in Turin currently used by BANCASAI for a price of € 22,660,000;
- the transfer from Fondiaria-Sai to Premafin Hp of the whole stake in International Strategy for € 74,900,000;
- the subsidiary Meridiano Risparmio purchased a property for use as a tourist hotel called the GRAND HOTEL FIERA MILANO, for € 20,000,000, through competitive bidding by the company SISTEMA SVILUPPO FIERA, as the agent for the FONDAZIONE FIERA MILANO. The parent company provided its subsidiary with the necessary assets and financial resources for this;



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- on 28/06/2005, the subsidiary Nuove Iniziative Toscane purchased areas of land in Florence involved in the "Castello" initiative, a major project involving the re-design of the urban layout of Florence;
  - the subsidiary Milano Assicurazioni purchased 48% of the capital of the vehicle company Caprera which signed an agreement with the Commune of Milan for the development of the area called "Città della Moda" (Fashion City) reserved for private individuals. The business plan records an investment of approximately € 650m for the development of more than 110,000 square metres in the Garibaldi - Repubblica area of Milan;
  - the subsidiary Milano Assicurazioni transferred land owned in Milan ("rione Isola de' Castilia") and, at the same time, entered into the preliminary agreement for the purchase of a building for future construction work in the commercial building area;
  - the subsidiary Milano Assicurazioni transferred the building situated in Assago-Milanofiori to the subsidiary Meridiano EUR for € 34,000,000;
  - Milano Assicurazioni again arranged to acquire control of the companies Carlo Magno Spa and Carlo Magno Sport Srl, which own hotel complexes in Madonna di Campiglio for a total outlay of € 22,500,000;
  - the subsidiary Progestim S.p.A. concluded a transaction for the purchase of the future construction of a residence situated at S. Donato Milanese for an amount of € 18,000,000; the transaction was concluded with a "related" party and, therefore, legal and economic assessments were obtained from independent experts;
  - the subsidiary Progestim S.p.A. concluded a transaction for the purchase of the future construction of a hotel situated in Parma for € 28,160,000; the transaction was concluded with a "related party" and, therefore, legal and economic assessments were obtained from independent experts;
  - the subsidiary Progestim S.p.A. acquired 19% of the share capital of Progetto Alfieri S.p.A.. That company will acquire a representative share of 50% of the share capital of a vehicle company, which will own the property complex situated in Rome called "Torri dell'EUR", currently owned by FINTECNA, for a value of approximately € 161m.
  - In November 2005, the grouping consisting of the subsidiary Progestim (now Immobiliare Lombarda) and leading Turin construction companies were awarded the tender for the project to develop the "Spina 3" area in Turin, called "Cinque Cerchi".

The main upgrades of certain urban areas in which the Group is involved include:

- in Milan, the upgrade of the city's exhibition quarter, the initiative for the development of the area to be used as the "Fashion City" and the upgrade of the "Isola" district;
- in Florence, the initiative called the "Castello" area and the upgrade of the former tobacco factory;
- in Rome, the initiative called "Progetto Alfieri" to upgrade an office complex in the EUR district.

In order to develop and increase the value of the property transactions carried out by the Group, in November, the merger through incorporation of the subsidiary Progestim Spa into Immobiliare Lombarda S.p.A., a company listed on the Italian stock

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market, was completed. The parent company became the 'reference shareholder', controlling the majority of the share capital of the new company Immobiliare Lombarda S.p.A.

The merger achieved the combination of complementary businesses: on the one hand, the property side of Immobiliare Lombarda, with assets valued at approximately € 500m at the end of 2004, on the other hand, the management aspect of Progestim which, by operating through its offices in Turin, Milan, Florence and Rome, has industrial and development know-how and facility services for the whole Fondiaria-SAI Group.

For Italian real estate, it is one of the leading listed property companies because of the size of the properties in the portfolio, with assets with a book value of approximately € 720m, made up as follows: 23% residential property, 34% property in the services sector, 19% property for commercial use and 24% areas for construction, disused industrial areas and land. The financial resources contributed by Progestim, together with the reduction of the debt position of Immobiliare Lombarda realised by increasing the capital and re-financing the residual debt position of the incorporating company, have enabled the company produced by the merger to optimise the financial structure and implement the investments required to achieve the management targets.

For more information about the technical aspects of the merger transaction, please refer to the consolidated management report.

The Group is now positioned as one of the leading listed property companies, with total assets managed of approximately € 3bn.

The transaction comes within the scope of the wider expansion and increase of the value of the property services business on the market, with a view to maximising value for shareholders, moving from a static to a more dynamic form of property management. The integration with Immobiliare Lombarda allows the company's strategic plan to be strengthened by developing the property services it manages and increasing the value of the assets. In particular, it is planned to strengthen and expand the company's operations to all areas of activity where the major Italian and international property companies are traditionally present, strengthening the current services business, with a clear strategy of widening the scope of operations on the market, paying special attention to increasing the value of the property assets which need to be upgraded, in order to release their full business potential.

With reference to the closed mutual property investment fund with private contributions, the Tikal R.E. Fund, set up in 2004 by the savings management company Sai Investimenti SGR operating within the insurance Group, the unit value of the share as at 31.12.05 was € 307,011,008 compared with € 298,090,866 the previous year. Performance of 3.86% was obtained by netting the value of the share as at 31.12.04 of the income distributed during the year, of € 2,500. In the light of that result, the Board of Directors of Sai Investimenti SGR decided to distribute a total amount of € 8,005,684.90, representing € 5,000 for each individual share owned and corresponding to an annual dividend yield of 2% of the nominal value of the share.

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During the financial year ended, the Fund made a series of acquisitions, which increased the number of properties managed from 12 to 14, and signed 2 contracts for the purchase of future constructions in the Milan area. These investments increased the total annual income, in terms of rent, to approximately € 33m. Management of the property portfolio was concentrated, furthermore, on monitoring the intrinsic nature of increasing value through targeted ordinary and extraordinary maintenance interventions.

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## DEBTS

As at 31/12/2005, the debt situation of Fondiaria-SAI S.p.A. was as follows:

(€m)	31/12/2005	31/12/2004	Change
Subordinated loan 2002	400.0	400.0	-
Subordinated loan 2005	100.0	-	100.0
Borrowings from banks and other loans	307.9	310.1	(2.2)
<b>Total Debts</b>	<b>807.9</b>	<b>710.1</b>	<b>97.8</b>

On 12 December 2002, the incorporating company SAI entered into a loan agreement with MEDIOBANCA based on which the latter granted the Company € 400m, in order to bolster its solvency margin. On the basis of the understandings reached with Mediobanca and with the authorisation of ISVAP, in July 2003, FONDIARIA-SAI, acquired a new subordinated loan, for the same amount, with early repayment of the existing financing at the same time.

In December 2005, with authorisation from ISVAP, the interest rate on the loan was renegotiated with a reduction of the spread, compared with the Euribor 6 month rate, from 2.65% to 1.80%.

At the same time, a new contract for a subordinated loan of an amount of € 100m was entered into on the same terms as the existing loan. This took place at the end of the year.

Within the scope of the agreement illustrated above, the Company furthermore agreed with MEDIOBANCA to enter into a preliminary contract for MEDIOBANCA and FONDIARIA-SAI to sign in the future a further contract for a subordinated loan for a total of € 300m (to which MILANO ASSICURAZIONI may become a party) on similar terms as those above. The use of that financing will remain an option for FONDIARIA-SAI and/or MILANO (in case the latter decides to become a party to the agreements and it may be taken out, at their discretion, by 31 July 2007. That financing will be utilisable in a total number of six utilisations, at the discretion of the Companies, of a minimum amount of € 50m each (or multiples).

The item 'Sundry loans and other financial payables' consists of the financing granted by the subsidiary SAInternational S.A. of € 180,400K, relating to the liquid assets from the Convertible and Refundable Bonded Loan (Mandatory Exchangeable Guaranteed Notes) exclusively with BANCA INTESA ordinary shares owned by FONDIARIA-SAI, due date 29 September 2010. For more details, please refer to the report on consolidated debts.

The remainder of the item 'Sundry loans and other financial payables' is for onerous financing with subsidiaries. For more details, please refer to the appropriate section in the Notes to the Accounts.

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## Other information

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## ORGANISATION OF SALES AND CLAIMS SETTLEMENT OFFICES

With reference to the 2005, the territorial distribution of Fondiaria SAI agencies as at 31/12/2005 was as follows:

	<b>SAI Authority</b>	<b>Fondiaria Authority</b>	<b>Total as at 31/12/05</b>	<b>Total as at 31/12/04</b>
North	439	254	693	704
Centre	207	154	361	355
South	177	152	329	349
<b>TOTAL</b>	<b>823</b>	<b>560</b>	<b>1.383</b>	<b>1.408</b>

The number of SAI authorised agencies is 823, made up of 236 town agencies and 587 general agencies; the number of Agents is 1,351.

With reference to the La Fondiaria Assicurazioni S.p.A. authorised agencies, it should be noted that, as at 31/12/2005, 4 agencies under direct management were added to the agencies under a mandate.

In particular, the distribution structure has 1,383 single agent agencies and other locations owned by the parent company (1,408 as at 31/12/2004), and a further 2,772 single agent and multi-agent agencies (2,235 as at 31/12/2004) which work with the other Group Companies.

The secondary offices of the company are as follows: TURIN (C.so Galileo Galilei, 12), MILAN (Via Senigallia 18/2), ROME (P.zza di Spagna, 15).

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## MANAGEMENT AND DEVELOPMENT OF HUMAN RESOURCES

As at 31/12/2005, the company employed 2,673 staff including: 68 managers, 2,590 insurance officers and clerks and 15 people assigned to the caretakers' lodges of buildings owned by the company, whose employment is regulated by the contract for employees of building owners.

Of these, 1,737 (including 13 caretakers) are employed by the incorporating company (1,797 as at 31/12/2004), while 936 (including 2 caretakers) come from the incorporated company (952 as at 31/12/2004).

With regard to industrial relations, in addition to agreements signed during the year concerning the later stages of the current process of re-organisation within the Group, the 2005 financial year stands out particularly for the negotiation of the renewal of the "Contratto Integrativo Aziendale" (Company Integrated Contract), started in June, following the presentation of the platform by the trades unions and concluded on 20 December 2005 with the signature of the new Fondiaria-SAI Integrated Contract.

The most significant aspect of the new integrated contract was the standardisation of the regulatory and economic treatment of employees of the former Fondiaria and the former SAI, which took place for some institutions by the date the contract was entered into, whereas for others this will take place during or at the end of the period of the contract: 31 December 2008.

From the regulatory point of view, the standardisation of treatment was implemented regarding some important institutions such as holidays, leave, company closures, leave of absence for personal reasons, concessions for student workers.

With regard to the economic part, the harmonisation is particularly significant, not only for the productivity bonuses but also for refunds of expenses for internal and external staff on transfer, personal and car loans, home loans, advance payments on severance indemnities, supplementary pensions and health care.

Although the negotiations between the company and the unions were going through critical times due to the undoubted difficulty in reconciling the different treatments at the outset, the demands made on the platform and the compatibility of costs with the company accounts, was however carried out in a climate of constructive confrontation, without the unions intending to strike and in accordance with the system of industrial relations which the company decided to introduce by the start of the merger operations between Fondiaria and SAI.

In the last months of 2005, negotiations started and are still in progress for the renewal of Contratto Nazionale di Lavoro (Industry-Wide Agreement) for Managerial staff, which expired on 30 June 2003.

The Industry-Wide Agreement for non-managerial staff expired on 31 December 2005 and will be renewed during the year, after the platform of trades union demands has been presented.

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Conflicts in employment relations dealt with by the courts remained in line with the trend in previous financial years and consequently within contained limits. As at 31 December 2005, there were 36 outstanding employment cases including 18 relating to the Fondiaria Division and 18 to the SAI Division.

In recent years, there has been a strong commitment to training to support the integration between the various companies in the Group and the new systems and processes which are a feature of the new organisation.

The following training projects were carried out in particular during 2005:

- the involvement of managers in the production and promotion of a homogeneous culture linked to the performance of professionals and resources managers. The reference operating tool is the “managerial performance” manual which is to supplement the “performance management” manual issued during 2004. The manuals are in use and the stage of training in skills development will start during 2006;
- the conclusion of the “technical faculties” project which was an important step for integrating insurance know-how into the culture. All operators (sales staff, agents, sales people and technicians) can now access a number of courses on the subject and certified as to the contents. In 2006, further options will be on offer on niche insurance subjects;
- the start-up of the first distance-training initiatives on subjects such as privacy, countering money laundering, Legislative Decree 231 enabled a large number of employees and also agents to be involved. There are plans to widen the list of courses available in 2006;
- the start-up of a mass programme of interviews with managers and professionals (approximately 2000 people) initially planned to support the on-line introduction and, subsequently, took the form of an analysis of the climate. Further interviews and several initiatives will be carried out in 2006 to report on the results;
- the involvement of all managers in the analysis of the results of the interviews and training for the change;
- during 2005, in partnership with the firm of consultants Ambrosetti, a seminar is planned on general management and knowledge of the company system for young managers and those with strong potential in the group. The first one will be held in March 2006.

The guidelines produced for the years ahead are based principally on the consideration that training provides the cultural tools for standardising managerial behaviour and language and generates content for the challenges of tomorrow.

As always, all the members of the company have fully met our expectations, making a contribution in professional terms and in terms of commitment, which it is only right and proper to formally acknowledge by taking this opportunity to warmly thank the entire staff. Such thanks and appreciation are likewise extended to the agency network which contributed through a constructive spirit of co-operation towards the achievement of the company's results.



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## **STEPS TAKEN IN THE CULTURAL AND SOCIAL ARENA TO MAINTAIN THE COMPANY'S IMAGE**

During 2005, the first stage of the promotion of the Group's identification signs was completed for the purposes of consumer awareness and recognition of the different business areas and brand association with the concept of trust and desirability.

2005 was, therefore, the year in which the individual identification components developed in 2004 (brands, visual identity, brand identity) were combined to take the form of a full set of company tools.

Activities aimed at integrating traditional marketing and communication tools for Fondiaria-Sai and the Group companies with brand identity were equally important. In particular, during the first half of the year, work continued to guarantee adequate visibility for all the initiatives developed by the company's business centres for the distribution networks and customers, including the following most significant initiatives:

- the launch of the new motor vehicle product NUOVA 1a GLOBAL, through the organisation of the Convention with the Fondiaria and Sai agency networks and the preparation of communication tools to support local marketing initiatives.
- The PRESTO&BENE incentive, a Group initiative aimed at supporting and supplying the single Network of Agreed Repair Workshops for which a complex system was devised for converting claims into 'points' which can be accumulated, in co-operation with the Claims Department and the ICT department, and was useful for the collection of premiums, and a website launched on 1 April.
- the review of the whole communication of health products (Sanicard System).

The Group's Style Chart was completed within the scope of these brand identity activities and, from the beginning of the year, it started to be applied to all the new designs of on-line and off-line communication tools for Fondiaria-Sai and other Group companies.

"Distinguersi, nell'unità" (prominence within unity) the logo behind this project visibly shows the Fondiaria Sai Group as a lively and dynamic organisation, capable of producing value not only in the core business and of communicating in unison, while keeping the identities of the companies and the distribution networks intact.

In the same area of activity, the new Group Profile, planned in two editions, was completed and produced: one for institutions and another for the agency networks.

Finally, a new concept-store - in line with the Group's system of values and visual identity - was defined for the Agencies: in synergy with the territorial sales structures, the project is already at the realisation stage in some sales outlets.

In accordance with the stipulations of ISVAP Circular 533D, the External Relations and Communications Department took on the task of co-ordinating the company's activities required to produce the Group's first on-line Products catalogue which will provide access – through the Companies' websites - to information about the products most widely distributed by the networks.

The project has been an opportunity for comparing all the Group's classes of business and the External Relations and Communications Department has taken the

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opportunity to promote a new product structure, characterised by the introduction of three umbrella brands (corresponding to the business range showing the insurance and financial products on offer) across all the Companies and the distribution networks.

Support for the Agencies continued, in accordance with the stipulations of the ISVAP Circular 533D which stated that the External Relations and Communications Department should have a significant involvement in the development - in co-operation with other company organisations - of systems and procedures capable of guaranteeing the controls required by the Supervisory Body on the communication of traditional and on-line product/services produced by the agencies.

Activities also continued on the definition and realisation of specific product communication kits to be distributed to the agency networks in the formats most suitable for production, which will enable commercial initiatives to be started on the territory supported by communication tools which meet the requirements indicated by ISVAP and, therefore, authorised by the Company responsible.

In order to consolidate the integration of the different company cultures within the Group, numerous Internal Communication activities continued to be planned and looked at in this period – from the production of paper/on-line tools and internal events – which involved and will continue to involve the Group in the months ahead.

We would like to highlight the following most important activities:

- sharing information through the newsletter “NEWS” and the house magazine “TEAM”, for all employees in the Group and all the distribution networks;
- developing the loyalty of major clients (Policyholders Club) by producing the quarterly magazine “LINEA DIRETTA CLUB”;
- the production of the 2005/2006 Corporate Gifts Catalogue, for all employees and all the distribution networks, to manage the Group’s promotional gifts;
- continuing to integrate the Intranet;
- holding events for agents (“Awards for the best agents in 2004” and “25 years + service awards”).

With regard to claims made, also in accordance with Circular 518/D dated 21/11/03 in force from 01/04/04 governing ex novo management stipulating the keeping of up-to-date electronic records for cataloguing, actions were introduced aimed at reducing response times and proposing corrective actions based on the information received. For that purpose, three meetings were organised with the territorial claims handling structure during which, in addition to checking performance, suggestions and new information were provided for improving procedures and optimising times.

One of the main problems affecting the Customer Service Department is the notification from the Supervisory Authority of numerous proceedings involving, in the majority of cases, non-compliance with the rules on claims settlement processes. Thanks to greater awareness of the problem in the settlement network, the situation has improved in comparison with the previous year, with a significant fluctuation in the number of notices served by the Supervisory Authority.

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With regard to activities to increase customer loyalty, we designed and introduced the new version of the "Club Policyholders" (Policyholders' Club) which will be valid for the next two year period (2006-2007).

The new Club will feature "Last Minute" offers in several sectors ranging from tourism to fashion, household products, electronics, foodstuffs and luggage.

These offers will be advertised in an insert in the magazine "Linea Diretta Club" and on-line accessed through the company website.

For the purposes of consolidating the parent company's image at local level, meetings will be held in 2005 with the media and institutional and private opinion leaders and there will be financial support and initiatives in line with the company's objectives with great social impact.

Press office activities are aimed at guaranteeing a constant and timely flow of information about the company to the media, with a view to transparency and availability for dialogue and greater external perception of the company's image. In particular, the press office supported the publicising of the results of the quarterly and half year reports, the targets achieved and strategic operations undertaken in the property and bancassurance sectors, by issuing 16 press releases, holding interviews with the Managing Director and encouraging contacts between senior management and journalists. The press office also worked with the Investor Relations Department to organise the annual meeting with the financial community and publicised the results to the media, underlining the improvements compared with the targets stated in the Industrial Plan and future strategies outlined by the Managing Director.

In 2005, sponsorship and donations planned interventions principally in the social and cultural areas, in the arts and sport, and at institutional level, more specifically, aimed at strengthening the Company's presence in the operational poles of Florence, Milan and Turin.

With regard to institutional sponsorship, it is reported that, in consideration of the company's social responsibility principles, Fondiaria-Sai has renewed its support for the XXVIth meeting in Rimini.

The main theme of the meeting is freedom, described not only as a civil right, but also as the original capacity of human beings to recognise the truth and to commit to the truth. As the sole sponsor of the conference, Fondiaria-Sai combined its own logo with the title of this meeting: "Freedom is the greatest gift God has given mankind".

The event was very well attended by the public – more than 800,000 people - and there was a strong media presence, which had positive feedback for the Company's image.

Another significant commitment to society, which reflects the traditional sensitivity of Fondiaria-Sai for the values of solidarity with donations, including amongst others, to the 'AIMAC-Associazione Malati di Cancro, ANDOS (Association of women who have had breast surgery), A.T.L.Ha.-Associazione Tempo Libero Handicappati (Leisure Association for the Handicapped), which opened the headquarters of Cascina Bellaria, in the commune of Milan, renovated thanks to the contribution of Fondiaria-SAI.

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We would also like to recall the support given to the Gulliver Centre which works to help young people at risk of drug-dependency and their families; Agesol - Agenzia di solidarietà per il Lavoro (Agency for Solidarity for Employment), its purpose is to encourage the rehabilitation of prisoners and ex-prisoners into society through employment, and the project to renovate the Cascina Cantalupo, intended to accommodate immigrant mothers and children in difficult situations.

Support for the “Telefono Azzurro” was confirmed again, specifically to strengthen the emergency telephone service for children “114” and to hold four conferences in Milan organised on the occasion of the 18th anniversary of the Association. The subjects covered: “Children and prison”, “Children and the media”, “Emergency, 114 and the services network” and “Foreign and nomad children”.

Support has also been renewed for Andos, the voluntary association which provides psychological, therapeutic and material support for women who have had a mastectomy, and to Aimac, Onlus which provides psychological support for cancer sufferers and their families and information on health and treatments through a multi-media system.

In the world of culture, Fondiaria-Sai supported the activity of two prestigious institutions in Milan, the Philharmonic Orchestra of La Scala and the Philharmonic Orchestra of the Conservatorio G. Verdi, sponsoring its concert seasons.

A well-deserving member of the Fondazione Pierlombardo, Fondiaria-Sai also contributed to the project to renovate and convert the Franco Parenti theatre in the “Citadella of the Spettacolo”, a leading multi-hall theatre in Milan, which puts on shows, entertainment and cultural initiatives for all ages and at all times of the day.

In the world of the arts, Fondiaria-Sai has been involved in sponsoring three exhibitions - Mark Wallinger, Playground&Toys and Marina Abramovich - at the Hangar Bicocca, an international venue for contemporary culture and art.

Amongst the initiatives in the sporting world, there was sponsorship first of all for a +39, the Italian vessel sponsored by the Ministry for Welfare which is participating in the qualifying rounds for the 32° America's Cup and has the Fondiaria-Sai logo on its sails.

In consideration of the company's Social Responsibility principles, Fondiaria-Sai decided to sponsor the Team +39 as well because it shares the quality of “team ethics: in fact, the team espouses the guidelines of the CSR-SC project with its ethical, social and environmental references defined 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 ethical and responsible behaviour in all sectors of activity, not just in sport. The importance of the event and the good team performances have earned considerable feedback for the image in the media not only within the sector, in particular television coverage in Italy totalled more than 114 hours, with audiences of 112 million people.

The women's athletics team, Fondiaria-Sai Atletica, supported for many years, won the “tricolore” championship for the second consecutive year, attracting public attention (according to a Stage-Up survey, athletics is the sport with the second largest number of followers in Italy after football) and the attention of the specialist media.

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Work on strengthening the Group's presence in the Milan area intensified further with multi-year programmes of co-operation with the Fiera di Milano, which inaugurated the new Rho-Pero area under the imposing Fondiaria-SAI insignia, and in the cultural world with the Philharmonic Orchestra of the Conservatorio G.Verdi, a highly trained, professional organisation, unique in Italy for the best graduates of the Conservatorio and other Italian and European institutions.

In the second half of 2005, the parent company concentrated mainly on consolidating the Group's visual identity system, through the gradual extension of its codes to all on-line and off-line institutional and product communications.

Attention and resources were furthermore directed at improving the communications performance of the sales outlets through the development of initiatives and tools aimed at highlighting the Group's new product structure.

The inauguration of the Teatro Regio in Turin with Fondiaria-SAI as a founder member of the Foundation (11 October 2005, Giuseppe Verdi's *Aida*) is proof of the Group's desire to promote a very high level artistic and cultural scene, capable of creating a solid link between the City of Turin.

Further actions have been undertaken to reduce response times for claims, identifying actions to limit the number of proceedings and finally to complete the new Policyholders' Club.

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## **COMPUTER SYSTEM INTEGRATION**

With reference to the computer integration activities, important objectives in the 2003-2006 Information Technology strategic plan were achieved during 2005, laying the bases for implementing the results defined in the new plan for 2006-2008, approved in September.

For further details about the guidelines on computer strategies and the plans for the implementation and monitoring of progress, please refer to the section on this subject in the consolidated accounts.

## **DISCHARGE OF OBLIGATIONS CONCERNING MATTERS OF PRIVACY (Legislative Decree no. 196/2003)**

Bearing in mind what is provided for in point 26 of the “Technical regulations governing security measures”, Annex B) to Legislative Decree no.196 of 30/6/2003, Fondiaria-SAI S.p.A. declares that it has drawn up the document relating to the Security Programme for the year 2005, in compliance with the provisions of art. 34 of Legislative Decree 30/6/2003 no. 196 and the technical regulations mentioned above.

## **RATINGS AND DEALINGS WITH THE MARKET AND WITH INSTITUTIONAL INVESTORS**

Last August, thanks to more prudent financial management as well as strengthening the equity base and greater capitalisation, the rating agency S&P revised the rating of the parent company upwards from BBB- to BBB, with the outlook as stable. For more details on this, please refer to the same heading in the consolidated accounts.

## **MANAGEMENT AND CO-ORDINATION – DEALINGS WITH OTHER GROUP COMPANIES**

The Company is not subject to management and co-ordination by others pursuant to article 2497 et seq. of the Civil Code. On the other hand, it does carry out management and co-ordination activities in accordance with the aforementioned regulation in relation to its own subsidiaries, including MILANO ASSICURAZIONI and IMMOBILIARE LOMBARDA and their direct subsidiaries.

The Company has moreover applied rules of conduct to companies controlled by it, in order to ensure that the tasks of co-ordination and control of the companies in the Group are completed, and that the obligations of transparency and information with regard to the public imposed on listed issuers by current legislation are met. Such rules of conduct provide, inter alia, for special resolutions by the Board of Directors or the Executive Committee of Fondiaria-SAI with regard to some transactions relat-

ing to the subsidiaries, that are deemed to be significant based on the nature of the transaction or the amount of same.

The Company also has relations of a financial, insurance and service-providing nature with the majority of the companies in the Group.

It should be stated that relations with companies in the Group fall within the usual activity of co-ordination of the Company and are also subject to the specific ISVAP control regulations. Operations have not been carried out which are atypical in respect of the normal activity of the company.

The main operations within the Group, regulated at market prices, concern reinsurance, the claims settlement procedure of the non-Life classes, the computer service, administration, management of immovable and movable assets, as well as the granting of loans and guarantees.

The provision of services to the companies in the Group has guaranteed the rationalisation of the operating functions and the use of the synergies in the Group, achieving greater savings overall. For details of the operations within the Group, see the annexes to the accounts - Part C - Notes to the Accounts.

We give below in summary the data relating to the main relations with companies subject to management and co-ordination:

(€m)				
Company name	Assets	Liabilities	Costs	Income
<b>Subsidiaries</b>				
BANCASAI		163	2	1
CASA DI CURA VILLANO VA		1		
CONSORZIO CASTELLO				
EFFE FINANZIARIA	1			
FINITALIA	3			3
FINSAI	27			1
IMMOBILIARE LOMBARDA	5	1	9	5
MERIDIANO BELLARMINO	6			
MERIDIANO BRUZZANO	1			
MERIDIANO EUR	3			
MERIDIANO ORIZZONTI	9			
MERIDIANO RISPARMIO	8			
MERIDIANO SECONDO	2			
MILANO ASS.NI	206	252	31	54
MY FIN				
NOVARA VITA		259	11	
PO VITA		4	2	1
PRONTO ASSISTANCE	1	3		11
PRONTO ASSISTANCE SERVIZI		1		
SAI FINANZIARIA		12		
SAI HOLDING	12			
SAI INTERNATIONAL	237			13
SAI INVESTIMENTI	19	6		
SASA		13	1	
SASAVITA		7		
SIAT	2	13	1	
SIM ETOILE	37			1

SISTEMI SANITARI				7
STARVOX	1			
SYSTEMA TERRA	2	1		
THE LAWRENCE	50			2
UNISERVIZI	40	47	39	98
VILLA RAGIONIERI	1			
OTHERS	3	7	5	4

In particular, the liabilities in BancaSai refer to the correspondence current account which the parent company has with the subsidiary. The assets and liabilities of the subsidiary Milano refer mainly to the items within the Group originating after it joined the national tax consolidation scheme, while the differential between costs and income represents the net burden sustained by the subsidiary following the completion and allocation of the unified services of the Group. Other significant dealings were:

- The liabilities of Novara Vita refer to deposit accounts for reinsurance cessions to our company.
- The assets of SaiInternational refer to the financing granted in 2004 which accrues interest of 5.90% a year
- Costs and income refer to co-operative relations for some unified Group services.

## NATIONAL FISCAL CONSOLIDATION

In the 2005 financial year, the application of the new consolidated national taxation scheme continued as laid down in arts. 117 et seq. of the Decree of the President of the Republic 917/1986 which the Company decided to join, together with other subsidiaries, from its first period of application (2004 tax period).

The anticipated benefits of the adoption of the new procedure were fully confirmed in the 2004 financial year. Management of current taxation (IRES) at Group level in fact enabled a total tax saving of approximately € 9.4m to be achieved, including approximately € 8.1m relating to the immediate and complete use of the tax losses transferred from some subsidiaries.

In addition, there is the financial saving from advance tax payments for 2005 which were considerably lower as they were determined on the basis of taxable income (and tax) which took account of the negative results contributed to the Group by those subsidiaries.

As a result of the commitments undertaken as the consolidating company, during 2005, Fondiaria-SAI arranged to settle net IRES for the Group for 2004 of a total of € 184.7m and subsequently to pay the tax owed on the balance, net of debtors, with-holdings and advance payments transferred to the group of a total of € 181.5m. The Company also arranged to pay the advance IRES payment for 2005 subsequently by debiting (or crediting) the amounts owed (or due) by each of the consolidated companies, in full compliance with its obligations under the tax regulations and what was agreed with the subsidiaries joining also with a view to equal distribution of the economic and financial benefits achieved.



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For the 2005 financial year, the consolidation perimeter or basis includes, in addition to the consolidating company itself, 43 companies including Milano Assicurazioni S.p.A. (compared with 45 companies in 2004).

The reduction in the number of companies consolidated compared with the previous year can be attributed firstly to the reorganisation operations which led to the transfer of the shareholding in International Strategy S.r.l. to the holding company Premafin HP S.p.A. and also 4 companies leaving following their incorporation into Fondiaria-SAI, Milano Assicurazioni and other companies belonging to the Group which are not yet participating in the fiscal consolidation for the 2005 tax period. However, three new companies did join in, exercising the option for the three year period 2005-2007 in accordance with the provisions of art. 117, no. 3, of the Decree of the President of the Republic 917/1986.

Following changes in the basis of consolidation, the Company arranged to carry out, by the deadlines, the communications laid down in the regulations, at the same time recalculating any advance payments owed and allocating to the companies leaving the consolidation (or the companies incorporated) the advance payments already made on their behalf and in the amounts required by those companies in relation to the forecasts made.

In relation to the above, it is furthermore reported that the Company subsequently at the close of the 2005 financial year, filed its claims at appeal pursuant to art. 11 of Law. 212/2000, in order to obtain the continuation of the taxation scheme pursuant to art. 124, no. 5, of the Decree of the President of the Republic 917/1986 with the subsidiary Immobiliare Lombarda S.p.A. following the merger through incorporation of Progestim S.p.A..

Any granting of the petition made would lead to the inclusion of Fondiaria-SAI in the basis of consolidation, already with effect from that same tax period 2005, of Immobiliare Lombarda and the subsidiaries already members of the fiscal consolidation for the 2004-2006 three year period. Consequently, the results for the Group IRES for the 2005 financial year and the related debtor and creditor headings within the Group might change considerably compared with what was charged in the accounts for the year closed.

### **Effects on the accounts as at 31 December 2005 of joining the national fiscal consolidation**

The estimated Group Ires [corporate income tax] for the 2005 financial year is approximately € 183.5m (including € 82.0m payable by the consolidating company Fondiaria-SAI). This amount was shown in a provision for taxation and not as amounts owed in the fiscal burden as, at the close of the year, neither the declarations of income of the consolidated companies nor the declaration of the Group's income had yet been drawn up.

The expected tax saving, at Group level, amounts to approximately € 7.2m, of which € 5.9m relates to the use of the tax losses transferred by some consolidated companies and € 1.3m to the consolidation adjustments made to take account mainly of the further removal from taxation of 5% on the dividends granted by those consolidated

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companies within the Group. Added to this are the benefits, although only temporary and consequently essentially of a financial nature linked to the reduction of current tax due to the removal from taxation of capital gains realised on the assets transferred between companies in the national fiscal consolidation, under the scheme of fiscal neutrality pursuant to art. 123 of the Decree of the President of the Republic 917/1986. The related tax saving is estimated at approximately € 5.1m.

With regard to the IRES for the 2005 financial year, amounts due from subsidiaries of € 101.9m were recorded relating to the transfer of tax, whereas amounts due to the Revenue transferred to the group and charged in the accounts of the consolidating company offset against amounts due to subsidiaries totalling € 23.4m. Finally, at the close of the year, the amount of the advance payments by the consolidated companies, already paid to the consolidating company Fondiaria-SAI, and the amounts due to subsidiaries were recorded as € 135.7m.

## INFORMATION CONCERNING SHAREHOLDINGS HELD BY DIRECTORS, STATUTORY AUDITORS AND GENERAL MANAGERS

The chart below shows the shareholdings held by Directors, Statutory Auditors and General Managers under art. 79 of Consob Resolution no. 11971 of 14/5/99, containing the implementing regulation of Legislative Decree 24/2/98 no. 58 concerning regulations governing listed companies.

Shareholdings held by spouses not legally separated and by children who are minors, either directly or through subsidiaries, trust companies or persons acting as intermediaries, have also been taken into consideration.

Surname and Name	Participating interest	N° of shares owned as at 31 December 2004		N° of shares purchased	N° of shares sold	N° of shares owned as at 31 December 2005
		N.V. € 1				N.V. € 1
<u>GENERAL MANAGERS</u>						
MARCHIONNI Fausto	Fondiaria-SAI	625 a)	ord.			625 a)
		282 a)	savings			282 a)
<u>BOARD OF DIRECTORS</u>						
CARUSO Carmelo	Fondiaria-SAI	769 a)	ord.		769 a)	-
	Fondiaria-SAI	230 a)	savings		230 a)	-
LIGRESTI Giulia Maria	Fondiaria-SAI	1.500 b)	ord.			1.500 b)
PINI Massimo	Fondiaria-SAI	3.500 a)	ord.			3.500 a)
TALARICO Antonio	Fondiaria-SAI	9.385 a)	ord.			9.385 a)
	Fondiaria-SAI	5.200 a)	savings			5.200 a)
	Fondiaria-SAI	1.800 b)	ord.			1.800 b)
	Fondiaria-SAI	1.000 b)	savings			1.000 b)
ZANNONI Oscar	Fondiaria-SAI	29.000 c)	ord.			29.000 c)
<u>LISTED SUBSIDIARIES</u>						
Surname and Name	Participating interest	N° of shares owned as at 31 December 2004		N° of shares purchased	N° of shares sold	N° of shares owned as at 31 December 2005
		N.V. € 1				N.V. € 1
<u>BOARD OF DIRECTORS</u>						
PINI Massimo	Milano Ass.ni	10.000 a)	ord.			10.000 a)
	Imm. Lombarda S.p.A.	-	ord.	95.220 a)		95.220 a)
TALARICO Antonio	Milano Ass.ni	20.100 a)	ord.			20.100 a)
RUCELLAI Cosimo	Milano Ass.ni	8.694 a)	ord.			8.694 a)
ZANNONI Oscar	Milano Ass.ni	100.000 a)	ord.			100.000 a)
	Milano Ass.ni	93.000 b)	ord.		2.000 b)	91.000 b)
	Milano Ass.ni	74.000 c)	ord.		74.000 c)	-
LO VECCHIO	Imm. Lombarda	-	ord.			
Consolazione Lucia Lia	S.p.A.	-		50.377 a)		50.377 a)

(a) shares owned directly

(b) shares owned directly by the spouse

(c) shares owned through a subsidiary

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## **CURRENT DISPUTES**

### **Antitrust litigation**

During 2005, the litigation known as “Antitrust” – consisting of the well-known civil cases brought (as from April 2001) by our policyholders who are applying for repayment of part of the Motor TPL premium paid – continued far at higher levels than expected, despite the favourable judgment delivered by the Joined Sections of the Supreme Court of Cassation on 4 February 2005 which declared the incompetence of the Justices of the Peace to give a judgment in cases de quo in favour of the Court of Appeal. After the stated judgment of the Supreme Court of Cassation, the number of new cases brought before the Justices of the Peace fell to virtually zero; numerous cases were however brought or resumed before the Court of Appeal. As at 31 December 2005, the total number of cases since April 2001 was 21,456. There were still 5,916 cases pending on that date.

### **Writs by shareholders**

In June 2005, the Milan Court issued a judgment in the case at first instance brought, firstly, against the Company and MEDIOBANCA – and, secondarily, also against PREMAFIN BY PROMOFINAN S.P.A., as a partner of the incorporated company FONDIARIA, in relation to the stated obligation to make an offer to purchase to which the incorporating company SAI and MEDIOBANCA were committed following the purchase of FONDIARIA shares already owned by MONTEDISON.

In that judgment, the Milan Court, on the one hand, acknowledged the existence of the Obligation on SAI and MEDIOBANCA to make an offer to purchase and, secondly, although acknowledging that PREMAFIN and MEDIOBANCA had fulfilled the obligation to sell the quota of FONDIARIA-SAI shares exceeding 30% imposed by the Consob instruction dated 18 December 2002, considered that measure “late and insufficient to protect the rights of the minority shareholders”.

The Court consequently partially upheld PROMOFINAN’S main claim ordering FONDIARIA-SAI and MEDIOBANCA, jointly and severally, to pay compensation for damages of a total of approximately € 3.7m.

The Court in fact only upheld the plaintiff’s claim for compensation relating to loss of earnings, that is the loss of the gain due to the sale of the shareholding in the offer to purchase not taking place at the offer to purchase price. However, the Court did not consider upholding the claim for compensation for the consequential damage as the stock increased in value after the period of the offer to purchase which did not take place.

The Company filed an appeal against that judgment. The first hearing in the appeal process was held on 10 January 2006. At that session, the Company and MEDIOBANCA waived the petition for suspension of the temporary enforcement of the judgment at first instance, thereby preventing the bench from examining the laborious petition given the complexity of the case.

The Company applied for - and obtained – a reduction of the times for the discussion of the appeal on the merits of the case.

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Following the Company's waiver of the petition for suspension, the plaintiff applied for enforcement of the judgment at first instance. As a result of the agreements with the plaintiff, on 8 February 2006, the Company consequently arranged to pay everything it owed (€ 3.7m) under the judgment at first instance.

Payment was made in full by FONDIARIA-SAI, in accordance with the constraint of joint liability and subject to recourse against the joint and several debtor MEDIOBANCA, for the sole purpose of avoiding the action for enforcement and, therefore, expressly subject to improving the judgment under appeal for a total reversal of the above-mentioned judgment and of reviewing the amount stated above, increased by the interest, as a result of any grant on appeal.

The outcome at first instance of two of the other disputes of a similar nature to that described above can be expected by the end of 2006.

The provision for risks and charges of the parent company and other Group companies is adequate for meeting the charges of any worsening of the current disputes.

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## **SIGNIFICANT EVENTS OCCURRING AFTER THE END OF THE FINANCIAL YEAR**

### **Transfer of the shareholding in the company Swiss Life Holding**

On 11 January 2006, the subsidiaries FONDIARIA NEDERLAND B.V and MILANO ASSICURAZIONI S.P.A. arranged to sell the whole shareholding owned by them in the company 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, for a total of 2,828,816 shares equal to 8.3753% of the share capital, for CHF 234.75 each. The price was calculated by applying a discount of 0.53% on the CHF 236 the closing price on 11 January 2006.

The proceeds from the transaction totalled approximately CHF 664.1m, compared with a total book value of approximately CHF 702.8m.

With regard to the valuation of the shareholding in the 2005 accounts, MILANO ASSICURAZIONI did not make any adjustment or value readjustment as the sale of the SWISS LIFE HOLDING shares gave rise – in view of the CHF/€ exchange rate in the accounts and the CHF/€ exchange rate on conversion of the payment for the sale – to a modest capital gain of approximately € 336K.

FONDIARIA NEDERLAND arranged to write down the value of the shareholding in SWISS LIFE HOLDING with reference to the price and the selling exchange rate for the shareholding, with a negative impact on the profit and loss account 2005 of approximately € 27.1m. That reduction of the equity of Fondiaria Nederland did not, however, determine a permanent loss of value on the shareholding in FONDIARIA NEDERLAND, as the latter, on the other hand, had unstated capital gains derived from ownership of the controlling shareholding (THE LAWRENCE RE and EFFE FINANZIARIA).

In 2004, the Fondiaria-SAI Group had already assessed, together with the SWISS LIFE Group, that there were no grounds for entering into the planned *joint venture* in the Italian life sector.

In view of the opportunity provided by the performance on the stock exchange of the SWISS LIFE HOLDING stock, it was considered of interest for the Fondiaria-SAI Group and those subsidiaries to sell the shareholding very quickly by contacting some institutional investors about this and inviting those interested in competitive bidding, to formulate their firm offers, by 11 January 2006, in order to seize the moment considered most propitious for disinvestment in that market context.

The transaction allows the diversification of the *asset allocation* to be increased and forecasts greater flexibility in the sector of strategic investments.

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## **Capitalia Syndicate Agreement**

In a letter dated 11 January 2006, the Company declared it was prepared to increase the total shareholding in CAPITALIA and contributed to the Syndicate agreement directly and through MILANO ASSICURAZIONI, from the current 2.57% up to 3.50%.

The possibility was in fact stated to the shareholders concerned to change the shareholding quota in the Agreement, subsequently reduced, on the one hand, by some MCC shareholders joining the Agreement after the demerger of the latter (beneficiary CAPITALIA) and, on the other hand, the contribution of the Agreement of additional CAPITALIA shares by some members already shareholders of MCC and/or of FINECO, relating to the further extraordinary operation of the merger through incorporation of FINECO into CAPITALIA.

The purchase of new shares to be contributed to the agreement by the shareholders interested was made possible in fact firstly by the fact that TORO had declared its intention to sell its own stake (equal to 0,83%) and, secondly by the fact that, as the stake was currently owned by those joining the Agreement in excess of 30% (30.54%), it is possible to consolidate the shareholding, exempt from the obligation to make an offer to purchase, to the maximum of 3% a year pursuant to art. 46 of the CONSOB Issuers Regulation.

In particular, FONDIARIA-SAI and MILANO arranged to purchase part of the stake put on sale by TORO, for a share of slightly more than 0.5% of the share capital of CAPITALIA and, furthermore, were proceeding with the gradual purchase on the market of more CAPITALIA shares to reach the 3.50% of the latter's capital. The transaction will involve a total outlay of approximately € 128m.

## **Purchase of more than 99% of Liguria Assicurazioni S.p.A.**

Following the procedure started by the seller aimed at selecting the best offer for the purchase of a controlling shareholding of the capital of LIGURIA ASSICURAZIONI S.P.A. and concluded with the acceptance of the offer made by FONDIARIA-SAI, on 24 January 2006, the preliminary contract was entered into between GAULA CONSULTADORIA E INVESTIMENTI LDA, belonging to the De Longhi family, and FONDIARIA-SAI for the purchase of the whole stake in LIGURIA ASSICURAZIONI held by the seller, of 99.97% of the capital, for € 144,500,000, paid as follows:

- € 7,000,000, as a deposit and down payment, on signature of the contract;
- the difference, on the date of the share transfer subsequently between the following dates: (i) 30 April 2006 and (ii) the last working day of the month in which all the pending conditions will have been met, consisting of the authorisation by ISVAP pursuant to law and the approval of the 2005 accounts by the seller and of LIGURIA ASSICURAZIONI, which - regularly certified – shall have been handed over to FONDIARIA-SAI by 30 April 2006 .

Furthermore, it is stipulated that the seller provides a suitable guarantee of their commitments to the purchaser.

LIGURIA ASSICURAZIONI is a company operating in the non-Life business and, in turn, owns 100% of LIGURIA VITA S.P.A.

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That price of € 144,500,000 may be increased or reduced by an amount corresponding to the net profit or net loss realised by LIGURIA ASSICURAZIONI and LIGURIA VITA in the period between 1 July 2005 and 31 December 2005, as shown in the accounts as at 31 December 2005, without prejudice in any case – with regard to the net profit – to the maximum amount of € 5,000,000.

The price of € 144,500,000, which may be increased or reduced by the net profit or loss as stated above, should be considered as the provisional price and shall be revised subsequently to take account of the trend in claims made and reported after the date of the transfer of the shares and the technical provisions of LIGURIA ASSICURAZIONI and LIGURIA VITA which will be carried out with reference to the latter's accounts as at 31 December 2010.

Activity in the non-Life business represents approximately 90% of total activity of the LIGURIA GROUP. Premium income is concentrated in the small communes in the Centre and North (67% of premiums). The Company operates with a network of 219 agencies and staff of 118. 60% of the agencies have offices in communes of less than 50,000 inhabitants.

In the last three year period, premiums grew at an average annual rate of 16%.

In the 2004 financial year, LIGURIA ASSICURAZIONI wrote premiums for € 146.9m (including € 108.2m in the motor vehicle business), an increase compared with previous financial years. The technical result was positive at € 10.5m, with profit in the year of € 11.2m. The Company's equity as at 31 December 2004 totalled € 40.5m. The *combined ratio* on that date was 91.5%.

In the 2004 financial year, the premium income of LIGURIA VITA totalled € 14.6m, exclusively in Class I, the financial year closed with a technical result and result for the period was balanced. As at 31 December 2004, equity totalled € 5.7m.

Estimates at the close of the current year forecast a growth in premiums for LIGURIA ASSICURAZIONI of € 166m and profit for the year of € 14.6m, after the first half of the year closed with € 67m of premium income and profit of € 8.5m.

The strategic rationale for the acquisition of the LIGURIA GROUP can be summarised as follows:

- Increase in the turnover of the FONDIARIA-SAI Group;
- development of the commercial penetration of FONDIARIA-SAI through the expansion of its distribution network following the acquisition of the LIGURIA GROUP'S network of agents which is focussed in small- and medium-sized urban centres;
- creation of value of LIGURIA ASSICURAZIONI and LIGURIA VITA, by applying the skills developed by FONDIARIA-SAI within the scope of claims handling, the settlement processes and the *underwriting* policies, in addition to a general improvement in financial management.



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## **Lease with the company Atahotels for the property called “Principi di Piemonte”**

On 31 January 2006, FONDIARIA-SAI entered into a lease with ATAHOTELS for a property complex for use as a hotel and conference centre in Turin called “Principi di Piemonte”. Work is still continuing to complete and finish the complex. It is planned to be ready by the end of the year.

The rental period is set, in accordance with the law, at nine years with effect – also for payment of the rent – from 1 January 2007, the date planned for the definitive completion of all the finishing works on the complex. At the end of the first nine years, the contract will be renewed automatically on the same conditions for a further nine years.

The contract stipulates that ATAHOTELS will pay for all the equipment and the supply of all the goods and kit and anything else required for the provision of the services in the accommodation and restaurant business.

However, in view of the opening of the Winter Olympics and considering the need to seize the opportunity provided by that event, the parties declared their mutual interest in bringing forward the day for the handover of the property to the date of completion of the works and the start date of the lease.

On 1 February 2006, FONDIARIA-SAI handed over the complex to ATAHOTELS, in order to make it possible to start-up the business at the same time as the Olympics, allowing important people and institutions to be accommodated for the opening ceremony of the Games.

The annual rent was henceforth agreed between the parties at 18% of the total income (net of VAT at the legal rate), calculated excluding the payment for additional services provided to customers. In any event, it is understood that the rent which ATAHOTELS shall pay to FONDIARIA-SAI for the leasing of the complex for the whole term of the lease shall not be less than an annual amount calculated at 5% of the book value of the property, to be understood to be the minimum annual guaranteed rent.

However, the Parties agreed that, in consideration of the charges of the start-up phase of the lease of the complex by ATAHOTELS and the investments made by the latter on this, for the first five years of the lease, the rent and minimum annual guaranteed will be determined at a lower amount, gradually increasing until it reaches the above-mentioned amounts with effect from the fifth year, and for the remainder of the term of the lease.

As ATAHOTELS is a related party of the Company, the appropriate *fairness* and *legal opinions* were obtained respectively from KPMG CORPORATE FINANCE and the firm of lawyers ASHURST.

KPMG CORPORATE FINANCE considered that, on the basis of the estimates made, the rent represents a fair return, also in consideration of the increase in the value of the complex by the company SCENARI IMMOBILIARI S.R.L., as stated in the *fairness opinion*.

The firm of lawyers ASHURST provided suggestions on the wording of the contract which were incorporated into the final version.

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When it approved the transaction, the Board of Directors of FONDIARIA-SAI acknowledged:

- the strategic and industrial value of the operation overall and, within that scope, the Company's interest in entering into a lease agreement;
- that the nature of the correlation and the procedures for calculating the financial terms of the offer were stated in addition to the legal and fiscal aspects;
- that the lease agreement does not in itself contain any atypical and/or unusual aspects;
- that the Olympic Games make it appropriate to bring forward the handover the complex to allow it to open to the public.

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## **Alliance and co-operation with Banca Popolare di Milano in the Bancassurance sector**

On 21 December 2005, FONDIARIA-SAI signed an agreement with the BANCA POPOLARE DI MILANO GROUP for a wider industrial alliance and co-operation with BANCA POPOLARE DI MILANO (BPM) in the *bancassurance* sector to be realised essentially through agreements in the Life business – through the purchase of a controlling stake in the capital of BIPIEMME VITA S.P.A. – and in the non-Life business and the banking and financial services.

On 29 November 2005, the Board of Directors of BPM, resolved to accept the offer to develop jointly and exclusively with the Fondiaria-SAI Group *bancassurance* in the Life business and, more generally, to sign a Framework Agreement containing guidelines on the wider co-operation mentioned above.

Subsequently, on 7 February 2006, in agreement with the subsidiary MILANO ASSICURAZIONI, FONDIARIA-SAI appointed the latter to purchase the above-mentioned stake in the capital of BIPIEMME VITA.

Pursuant to the stated Framework Agreement and subject to authorisations being obtained from the competent Supervisory Authorities, MILANO will purchase initially from BPM and the subsidiary BANCA DI LEGNANO a quota of 46% of the share capital of BIPIEMME VITA S.P.A. with the possibility of control of the latter passing from the BPM Group to MILANO, through the sale of a further two quotas equal respectively to 4% and 1%, in two subsequent transactions, respectively by 31 December 2006 and 30 June 2007.

BPM and Milano will sign a cross-company agreement containing the rules on *corporate governance* of BIPIEMME VITA and the industrial aspects of the *partnership*, stipulating that BIPIEMME VITA continues to have access to the distribution networks of the BPM Group for a period of 5 years from the *closing*, with the possibility of renewal on expiry by mutual agreement between the parties for a further 5 years.

The price for 46% of BIPIEMME VITA was agreed to be € 94.3m, corresponding to a total valuation of the Company of € 205m. BIPIEMME VITA is the insurance company of the BPM Group which operates through approximately 700 of the Group's branches, with premium income in 2004 of € 518m. The Company closed the 2004 financial year with net profit of € 11.8m; as at 30 June 2005, equity totalled € 53.9m while total technical provisions were € 2,904m.

The *business plan* of BIPIEMME VITA, on the basis of which the valuations were made to determine the price, forecasts premiums in the new production increasing by € 481m at the end of 2004 to more than € 750m forecast in 2010 and net profit increasing by € 11m in 2004 to € 25m forecast for 2010.

The price stated above should be understood to be the provisional price, identified on the basis of an "*appraisal value*" approach whereas the final price as at the *close* forecast for the first half of 2006, will be equal to the provisional price revalued between the date of the *signing* and the *closing* date at an agreed reference rate, net of the 2005 dividends and increased by an increase of the capital paid up (both pro-quota).

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The purchase price for the other quotas of 4% and 1% of the capital of BIPIEMME VITA was agreed to be the final price paid for the 46% revalued on the date of settlement of the exercise of the options at the reference rate, net of any dividends distributed and increased by any increases of the paid-up capital – both pro-quota – as at the *close* on the respective date of settlement of the prices for the exercise of the above-mentioned options.

The *put* and *call* options on 4% of BIPIEMME VITA will be capable of being exercised in the period September-December 2006. The *call* option on MILANO is conditional on the performance of the agreement relating to the banking and financial services. After these options have been exercised, joint control and *governance* would be achieved.

The *put* and *call* options on the remaining 1% of BIPIEMME VITA, consequently acquiring control and full consolidation by MILANO, will be capable of being exercised in the period March-June 2007. BPM may exercise the *put* option only if the *put* option is first exercised on the 4%. The exercise of the *call* option on MILANO shall be dependent on the positive opinion of a joint committee consisting of four members (two per party) asked to assess the performance and results of the agreement from time to time.

In the current market context, characterised by re-focussing customers towards traditional insurance products, the *partnership* will allow BIPIEMME VITA to benefit from the technical and commercial *know-how* of a leading insurance operator, favouring the development of new products and improving the penetration of the customers of BPM and MILANO ASSICURAZIONI to benefit from the BPM Group's *commercial banking expertise*

For the BPM Group, the agreement will allow it to have wider technical and managerial support for the insurance services, through a range of products which best meet its own customers' requirements, required to aim for the important growth targets on volumes of production. That is also with reference to the role the banks and insurance companies may play for families and small- and medium-sized undertaking in the forecast for the future development of additional pensions.

The agreement represents a further opportunity for the Company and for the Fondiaria-SAI Group to develop the Life sector. From the industrial point of view, the transaction fits in perfectly with the Company and the Fondiaria-Sai Group's current *bancassurance* agreements, which will continue to be strategic within the scope of the Company and the Group's growth policies.

The transaction is dependent on authorisation being obtained from the competent Authorities.

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## BUSINESS OUTLOOK

Following a long phase characterised by a difficult context (low premiums, increase in compensation for damages, losses on capital investments and low interest rates), the insurance sector has shown signs of a recovery in the last three years. Better risk management, rationalisation and internal re-organisation, an increase in the level of premiums and a redirection of the investment policies have brought the company's profits back up to a level which is satisfactory overall.

The main trend forecast for the insurance sector in the next two year period will be for the companies to focus on the core business, with gradual improvements in the technical results of the Non-Life and Life businesses, the use of increasingly efficient risk management tools and the adoption of prudential investment policies.

In 2006, the insurance sector overall is expected to achieve a good increase in premiums again, assisted by demand and, at the same time, sustained by higher rates and a takeoff of profits and technical results improving substantially. Expectations of a recovery not only in the non-life business and reinsurance (the latter are expecting to balance the losses suffered during 2005 due to the large number of natural disasters), but also for Life insurance, with growth ultimately no longer linked just to unit-linked products. Due to the effect of the fall in the mortality rate, it is estimated that, in 2050, one in every three Italians will be senior citizens (over the age of 65), while four in every ten Italians will be over the age of ninety. In the years to come, Italy will therefore have to cope increasingly with the requirements for assistance of those who are no longer self-sufficient, with a risk equal to approximately 25% compared with an average in Europe of 2.1%.

In a similar context, it can be seen that Italian insurance companies will inevitably increasingly play a role in the whole welfare system: their development and profitability policy cannot, therefore, exclude the social role they fulfil. With total investments of € 500bn, the role of the insurance companies is confirmed as a long-term institutional investor, contributing to the development of the country and the stability of the market, although insurance is still not very widely taken out in Italy compared with other European countries, also because the risk culture is still not as developed there.

With reference to the parent company, in 2006, with the prospect of returns on the development of bancassurance and customer services, non-strategic investments will be re-organised and action will be aimed at achieving the internal and external growth targets.

In the motor vehicle business, in particular, the target will be to maintain the current market share and profitability, whereas the direction in the non-motor business will be to increase the market share, although through a highly selective approach, maintaining and improving current profitability.

In that context, the development of additional commercial channels may have an important role to play, as is the case in other countries.

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In the Life business, the management targets will involve paying greater attention to traditional type products and an approach aimed at the new market of additional pensions. Similarly, action will be taken to respond effectively to the new social requirements of protecting customers' savings and meeting the demand for assistance, in a context where the response of the public sector will tend to be less incisive than in the past.

Asset and financial management will continue the actions already undertaken to rebalance the mix of the Company's assets with a further fluctuation of the shareholding component of the total assets managed and a reduction of the volatility in the portfolio also through cover operations.

Activity in the property sector will continue especially through the subsidiaries and will be prepared to consolidate the initiatives started to improve the returns and to increase the value of the existing equity.

Milan, 28 March 2006

For the Board of Directors  
The Chairman

JONELLA LIGRESTI

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## **CORPORATE GOVERNANCE REPORT**

### **Section one – The Company’s governance structure: general principles**

Information is provided below on the company’s governance structure and on the implementation of the principles and recommendations contained in the Code of Self-Regulation for listed companies, prepared by the Corporate Governance Committee set up for such purpose at the initiative of the Italian Stock Exchange (hereinafter referred to as the “Code”), as reviewed in July 2002.

As is well-known, the Code was recently (March 2006) reviewed by the Corporate Governance Committee set up at the Italian Stock Exchange to look again at the current principles applicable to listed companies in order to bring them into line with the developments in the national and European regulations. The Company will arrange to come into line gradually with the recommendations contained in the new Code for the parts not yet in line with the company practice and with regard, in any event, to the company’s specific nature.

#### **Board of Directors and Executive Committee**

The functions and responsibilities of the Board of Directors are as follows: strategic and organisational approaches of the Company and the Group, and verifying that the necessary controls are in place to monitor the performance of the Company and its subsidiaries.

The Directors cannot be appointed for a period of more than three financial years but may be re-elected.

The list voting system shall not be used for the appointment of Directors. Pursuant to the regulations in force, the adjustments of the bye-laws required to bring the rule introduced by Law no. 262 of 28 December 2005 into effect (hereinafter referred to as “the Savings Law”) will be subject to the examination and approval of the meeting. As it is well-known, this provides for the compulsory introduction of a list voting mechanism for the appointment of the Board of Directors of listed companies, in order to guarantee the possibility that at least one Director may be elected by a minority, moreover referring the identification of the appointment procedures to the bye-laws.

While waiting for the issue of the regulation stipulated in art. 147-quinquies of Legislative Decree no. 58/98 (hereinafter referred to as the “Consolidated Finance Act”), as introduced by the Savings Law and containing rules on the requirements of honourable behaviour of Directors, they must be in possession of the requisites required to hold that post in the special regulation applicable to insurance companies (Ministerial Decree 186/1997).

The Board of Directors has delegated its own powers to an Executive Committee, apart from those for which the Board has retained exclusive competence and those which by law cannot be delegated.

Under art. 14 of the Company’s bye-laws, with the exception of matters which are reserved without derogation by law or by the bye-laws to the meeting or committee’s competence, the Board can delegate its own powers to the Chairman, Vice-Chairman and/or one or more of its members, determining the content, limits and any procedures for carrying out the delegation.

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In accordance with this provision, the Board has provided for allocating specific powers to the Chairman and the Managing Director.

The duties, powers and responsibilities of the Board of Directors, the Executive Committee and the Chairman are described in section two of this report.

### **The Board of Statutory Auditors**

The Board of Statutory Auditors performs the tasks assigned to it by Legislative Decree no. 58/98.

The Statutory Auditors stay in office for three financial years. The procedure for their appointment is designed, in accordance with the law and statute, in such a way that one statutory member and one alternate member can be elected by a minority.

While waiting for the issue of the regulation stipulated in articles 148, indent 4, and 148-bis of the Consolidated Finance Act, as amended and/or supplemented by the Savings Law, the requirements of honourable behaviour and professional competence of auditors are those established in Ministerial Decree no. 162/2000, implementing Legislative Decree no. 58/98, and by the Company's bye-laws, which have set limits on the number of offices held concurrently by statutory auditors. In particular, in accordance with the Company's bye-laws, anyone whose circumstances are such as to make them inadmissible under the law or according to the bye-laws, as well as anyone who holds the office of statutory auditor at more than ten insurance companies with their head office in Italy or companies issuing financial instruments, and listed in the Italian regulated markets, with the exclusion of holding companies, their subsidiaries and subsidiaries of FONDIARIA-SAI, may not be appointed as Statutory auditors and if elected, shall forfeit their office.

### **General Shareholders' Meeting and capital participation**

The General Shareholders' Meeting is held at least once a year to approve the accounts for the financial year and to decide on all other matters submitted to it for approval by the Board of Directors in accordance with the law.

The share capital consists of ordinary shares and savings shares and the rights of the shareholders are as provided for by the Company's bye-laws; the capital is controlled by Premafin Finanziaria - Holding di Partecipazioni S.p.A. in accordance with art. 2359, no. 1, no. 2) of the Civil Code.

FONDIARIA-SAI is not aware of any cross-company agreements relating to the capital participation of the said Company.

### **Management and co-ordination**

The Company is not subject to management and co-ordination by others pursuant to arts. 2497 et seq. of the Civil Code. It does on the other hand carry out management and co-ordination activities in accordance with the aforementioned regulation in relation to its own subsidiaries, including Milano Assicurazioni, Immobiliare Lombarda and the respective direct subsidiaries.

The Company has moreover applied rules of conduct to companies controlled by it, in order to ensure that the tasks of co-ordination and control of the companies in the Group are completed, and that the obligations of transparency and information with



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regard to the public imposed on listed issuers by the current legislation are met. Such rules of conduct provide, inter alia, for special resolutions of the Board of Directors or of the Executive Committee of FONDIARIA-SAI with regard to some transactions relating to the subsidiaries, that are deemed to be significant based on the nature of the transaction or on the amount of same.

## **Section Two – Information on the implementation of the provisions contained in the Code of Self-Regulation**

We present below the organisational solutions applied, and where these are different to those recommended by the Code, the reasons for the choices made.

### **Role of the Board of Directors and its composition**

In addition to exercising the powers and performing the duties provided for by the Civil Code, the Board of Directors fulfils the following functions on an exclusive basis in accordance with the law and/or corporate practice:

- it examines and approves the strategic, industrial and financial plans of the Company and the Group to which it belongs. Whilst respecting the competences of the administrative bodies of the individual subsidiaries, the Board of Directors decides on the business strategies of the Group which are proposed to it by the Managing Director;
- periodically it checks the adequacy of the internal control system, assisted in that task by the Internal Control Committee and any others;
- it assigns and revokes powers of attorney to directors and to the Executive Committee, defining the limits and procedures for exercising these said powers of attorney;
- on the basis of the information and reports received from the designated bodies, it evaluates the adequacy of the organisation, administrative and accounting situation of the company and the general management performance;
- it determines, subject to the favourable opinion of the Board of Statutory Auditors, the remuneration of the managing directors and of those who hold or are assigned to special positions, as well as the sub-division of the total fees payable to the Board of Directors and the Executive Committee.

With regard to the functions fulfilled by the Board of Directors on an exclusive basis, we would refer you to what is stated further on in this report with reference to transactions with related parties.

In accordance with Article 18 of the Company's bye-laws, the Board of Directors has delegated its own powers to an Executive Committee, currently made up of 7 members, with the exception of those which by law cannot be delegated, and without prejudice to the exclusive competence of the Board for any resolutions regarding significant transactions with related parties as specified further on in this report. The Board of Statutory Auditors is summoned to attend meetings of the Executive Committee.

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By implementing rules of conduct already in line with the recent review of the Code, the Board of Directors and the Executive Committee examine and approve beforehand transactions that are of economic and financial significance and of significance for the assets of the Company and its subsidiaries.

The composition of the Board of Directors, being unchanged as at today's date compared with 31 December 2005 and being made up of 19 members, is indicated elsewhere in this booklet. The current term of office will expire on the occasion of the General Shareholders' Meeting to approve the accounts as at 31 December 2005.

The appointment of the Directors was discussed at the General Shareholders' Meeting on 29 April 2003 at the proposal of the shareholders.

We should also recall that the Board of Directors appointed Salvatore Ligresti Honorary Chairman of the Company and invited him to take part in all the meetings of the Board and the Executive Committee.

As indicated elsewhere in the accounts booklet, the Executive Committee is currently made up of 7 members, including the Chairman, three Vice-Chairmen and the Managing Director. The current composition is unchanged as compared with 31 December 2005.

The Chairman, the Vice-Chairman and the Managing Director are statutorily bound to represent the company to third parties and in court.

The possibility of establishing managerial powers for the Chairman, the Vice-Chairmen and the Managing Director is reserved to the Board, in accordance with art. 14 of the Company's bye-laws.

Currently, the Board of Directors has delegated to the Chairman and the Managing Director all 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 immovables with a value greater than € 10m for each transaction;
- transfer and/or purchase of shareholdings with a value greater than € 25m for each transaction, and controlling shareholdings;
- taking on financing at a sum greater than € 50m for each transaction;
- issue of non-insurance guarantees in favour of third parties.

The delegated persons are directly responsible for actions carried out by them in exercising these powers of attorney: the Board of Directors as a whole however has greater power of guidance and control over all the various parts of the company's activities, with each director being bound at all events to act in an informed manner.

The delegated persons report to the Executive Committee or the Board of Directors at every meeting on the exercise of the powers of authority assigned to them in accordance with the above.

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At all events, the Board receives from the Executive Committee and from the executive directors, on the occasion of individual meetings, an informative report on the most important transactions, in terms of their size or characteristics, realised by the company or its subsidiaries. These delegated bodies report moreover in accordance with art. 2381 of the Civil Code, on the general management performance and on its expected development. The same information is provided to the statutory auditors, in accordance with art. 150 of the Consolidated Finance Act, also with regard to transactions in which the directors have an interest.

The designated bodies (executive Directors and Executive Committee) also provide adequate information to the Board of Directors and the Statutory Auditors, at each meeting of the Board, concerning transactions which are atypical, unusual or with related parties, the examination or approval of which is not reserved to the Board of Directors.

We should inform you that during 2005:  
the Board of Directors met on 9 occasions;  
the Executive Committee met on 5 occasions.

A similar frequency is foreseeable for the 2006 financial year.

In addition to the Chairman and Managing Director – as stated, vested with managerial powers of the Company assigned to them by the Board – the Vice-Chairman Antonio Talarico should be considered to be an Executive Director as holder of the managerial powers and/or leadership functions within subsidiaries operating in the property sector, and amongst those, in Progestim S.p.A., and, following the merger through incorporation of the latter into Immobiliare Lombarda S.p.A., and also Immobiliare Lombarda itself, which carries out the property management of the Company and of the Group. The same applies for Director Gioacchino Paolo Ligresti, who holds the post of Chairman and holds managerial powers in Immobiliare Lombarda.

All the directors other than those indicated are considered to be non-executive, as they do not have the managerial powers and/or leadership functions, within the corporate framework. Other than to provide a numerical presence, non-executive directors are there due to their authority to ensure their opinion provides a significant weighting on decisions taken by the Board, to which they bring their specific competences by contributing to the decision-making process in line with the company's interests. The contribution of the non-executive directors proves to be especially useful in cases in which the interests of the executive directors and the more general interests of the shareholders might not coincide. In fact a non-executive member of the Board can have a greater degree of detachment when assessing the proposals and courses of action to be taken by the managing directors.

Still in accordance with the definitions contained in the Code, the non-executive directors are: Mr Andrea Brogгинi, lawyer, Mr Carmelo Caruso, lawyer, Dr. Mariella Cerutti Marocco, Prof. Siro Lombardini, Dr. Enzo Mei, Prof. Giuseppe Morbidelli, Mr

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Massimo Pini, Mr Cosimo Rucellai, lawyers, Dr.. Oreste Severgnini, Dr. Salvatore Spiniello, Mr Oscar Zannoni. The said directors do not in fact, have either directly, indirectly or on behalf of third parties nor have they recently had financial dealings with the company, its subsidiaries, the executive directors and/or with the controlling shareholder which are of such significance as to interfere with the exercise of their independent judgement nor do they have shareholdings, either directly, indirectly or on behalf of third parties, the size of which is such as to permit them to exercise control or considerable influence on the Company, nor do they participate in cross-company agreements with the aim of controlling the latter, nor are they close relatives of executive directors of the Company or of persons who find themselves in the situations indicated above.

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

The Board of Directors has checked the independence of its own non-executive members with reference to the indications made in writing by each Director at the Company's specific request, based on the definition contained in the Code.

Generally, the directors accept the post whenever they feel they are able to devote the time necessary for the diligent performance of their tasks, having taken into account the offices held by them at other companies. The directors are obliged to be familiar with the tasks and responsibilities attended to the post held by them. The Chairman and the Managing Director do their best to ensure that the Board is kept informed of the principal legislative and regulatory developments affecting the Company and the corporate bodies.

We set out below, in accordance with the Code of Self-Regulation of listed companies, the list of posts of Director or Statutory Auditor held by the Company's Directors as at 28 March 2006 in other companies listed in regulated markets, including foreign ones, namely financial companies, banks, insurance companies or, in any event, sizeable corporates:

### **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.

Member of the Board of: ASSONIME Associazione fra le società italiane per azioni  
(Association of Italian public limited 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.

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### **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.

Member of the Board 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.

Member of the Board 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.

Member of the Board of: MILANO ASSICURAZIONI S.p.A.  
SAI INVESTIMENTI SGR S.p.A.

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**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 POLICYHOLDERSVI S.r.l.  
SASA Assicurazioni Riassicurazioni S.p.A.

Vice Chairman of: IMMOBILIARE LOMBARDA S.p.A.  
NOVARA VITA S.p.A.

Member of the Board of: ANIA (responsible for Welfare)  
ASSONIME Associazione fra le società italiane per azioni  
IRSA

**Andrea BROGGINI**

Member of the Board 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 listed companies, including foreign ones, financial companies, banks, insurance companies or in any event sizeable corporates.

**Mariella CERUTTI MAROCCO**

Chairman of: CERFIN S.p.A.

**Carlo d'URSO**

Vice Chairman of: IMMSI S.p.A.

Member of the Board 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.

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### **Vincenzo LA RUSSA**

Member of the Board of: IMMOBILIARE LOMBARDA S.p.A.  
Chairman of the Board of  
Statutory 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.  
Member of the Board of: FINSAI INTERNATIONAL S.A.  
GILLI S.r.l.  
SAILUX S.A.  
SAINTERNATIONAL S.A.  
TIM ITALIA S.p.A.

### **Lia LO VECCHIO**

Member of the Board of: ATAHOTELS S.p.A.  
MILANO ASSICURAZIONI S.p.A.  
SAIAGRICOLA S.p.A.  
SIAT S.p.A.

### **Siro LOMBARDINI**

Does not hold any post in listed companies, including foreign ones, financial companies, banks, insurance companies or in any event significant sizeable corporates.

### **Enzo MEI**

Chairman of: SOCIETÀ GESTIONE CAPANNELLE S.p.A.  
Managing  
Director of: GENERAL SERVICE ITALIA S.p.A.  
Member of the Board of: BANCA GALILEO S.p.A.  
DATA SERVICE S.p.A.

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**Giuseppe MORBIDELLI**

Member of the Board 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**

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

Statutory Auditor of: DE AGOSTINI S.p.A.  
RECORDATI S.p.A.

**Salvatore SPINIELLO**

Member of the Board of: BANCA SAI S.p.A.  
IMMOBILIARE LOMBARDA S.p.A.  
SASA Assicurazioni Riassicurazioni S.p.A.  
SIAT S.p.A.

Chairman of the Statutory  
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.

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.



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**Oscar ZANNONI**

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

Member of the Board of: AFIN S.p.A.  
FIN-ANZ S.p.A.  
FINANZIARIA NORDICA S.p.A.  
HERMES INVESTIMENTI S.p.A.

Currently, the Board considers that the number of posts of director and/or auditor held by Directors of other companies are compatible with effective performance of the post on the Board of Directors of FONDIARIA-SAI, in view of the nature and size of the companies in which the posts are held and, in some cases, are companies in the Group.

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Shown below are the posts of director or auditor held by the statutory members of the Board of Statutory Auditors at other companies listed in Italian regulated markets:

**Marco SPADACINI**

Member of the Board of: A. MONDADORI EDITORE S.p.A.

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

Auditor of: AUTOSTRADE S.p.A.  
IMMSI S.p.A.  
SNIA S.p.A.

The Chairman of the Board of Statutory Auditors Dr. Benito Giovanni MARINO and the Auditor Dr. Giancarlo MANTOVANI do not currently hold posts at other listed companies.

**Chairman of the Board of Directors**

The Chairman of the Board of Directors convenes meetings of the Board of Directors and of the Executive Committee, and is responsible for guiding the proceedings. The Chairman does his best to ensure that the directors and members of the Committee are provided in advance of the meeting, with the necessary documentation and information, except in cases of necessity and urgency with reference to the nature of the decisions to be made, to any possible requirements for confidentiality and to the timeliness with which the Board or the Executive Committee has to take certain decisions. The Chairman may invite persons to attend meetings of the Board and the Executive Committee, with the agreement of those who have taken part in such meetings, who are not members of those bodies, either as listeners and/or in an advisory capacity. The Chairman of the Board of Directors, moreover, presides over and directs the General Shareholders' Meeting. Apart from this, as has been stated, he has the powers assigned to him by the Board, as indicated above.

**Treatment of confidential information**

Some time ago, the Company adopted a practice, which has now been consolidated, that provides for rules of conduct for the management and treatment of confidential information and for the external communication of documents and information of a corporate nature, with particular regard for so-called price-sensitive information.

Generally, the management of confidential information concerning the Company and its own subsidiaries is entrusted to the Managing Director. Managers and employees of the Company and its subsidiaries are under an obligation of secrecy with regard to information of a confidential nature that they have become aware of.

Any dealings with the press and other means of mass communication (or with financial advisers and professional investors), for the purposes of the disclosure of docu-

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ments and information of a corporate nature, must be expressly authorised by the Managing Director. The Company belongs to the Network Information System, organised and managed by the Italian Stock Exchange, used for data transmission to the market.

In each case, the procedure is so designed to avoid the possibility of such communications being made on a selective basis (favouring some recipients to the detriment of others), in an untimely manner or in an incomplete or inappropriate form.

Under the terms of the regulatory provisions issued by the Italian Stock Exchange, the Company has adopted a special code of conduct in relation to so-called internal dealings, to regulate the obligations of disclosure in respect of transactions concerning financial instruments realised by so-called “relevant persons”, the latter being understood to be anyone who, for the purposes of the office held, has access to relevant information. The Company has moreover ensured that the relevant persons are informed of their obligations and responsibilities with reference to the transactions to which the code of conduct refers.

That code has been revised by the Board of Directors since it is well-known that following the introduction of the European Directive on abuses of the market into our national legislation, the subject is now governed by the Consolidated Finance Act and the Consob Issuers’ Regulation, in force from 1 April 2006. The new code is available on the Company’s website.

Again in accordance with the provisions of law and the stated regulation, the Company has produced a register of the people who, in their working and professional life or because of their functions carried out, have access to so-called “inside” information.

Finally, the changes introduced by the stated regulation governing the offences of insider trading and market manipulation; an appropriate procedure has, moreover, been identified for all members of companies and aimed at reducing risks which – in managing the Company’s portfolio and that of the Group companies – exist due to the Company’s conduct not being in line with the regulations in force. That procedure relates in particular to:

- dealings in own shares, those of the holding company and listed subsidiaries;
- dealings in certain financial instruments;
- other parties with which the Company has dealings.

## **Appointment of Directors**

During the 2005 financial year, it was still thought not expedient to set up within the Board a special committee for proposals for appointments to the post of director, given that the ownership of the Company is sufficiently concentrated so that there has never been any difficulty on the part of the shareholders in preparing such proposals for nomination, after being provided with a prior selection of candidates.

On the occasion of the appointment of directors, the shareholders who intend to put names forward are recommended to submit the curriculum vitae of each candidate to the registered office prior to the General Shareholders’ Meeting. The current Company bye-laws do not stipulate the list voting mechanism for the appointment of directors.

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On the terms permitted by the current regulations, the adjustments of the bye-laws necessary to implement the Savings Law shall be submitted for the examination and approval of the General Shareholders' Meeting, which – as it is well-known – provides for the compulsory introduction of a list voting mechanism for the appointment of the Board of Directors of listed companies, in order to guarantee the possibility that at least one Director can be elected by a minority, moreover referring the identification of the appointment procedures to the bye-laws.

### **Remuneration of Directors and Senior Management**

In the 2005 financial year, the Board of Directors again did not set up within the Board a specific committee for the remuneration of directors who hold special positions. The fees payable to directors were determined in accordance with art. 2389 of the Civil Code, having obtained the favourable opinion of the Board of Statutory Auditors, with the abstention of the party concerned.

The Board as a rule determined the fee payable to directors to whom special positions are assigned at the time of their appointment. This fee has been determined as a fixed amount, without any incentive component, in that the fee relates to the performance of ordinary activities connected with the office held. Where the Board has then decided to confer on these same directors, or on other directors, the task of handling and/or completing particular transactions, the Board has assessed the results achieved, as a rule ex post, and has where necessary determined, after obtaining the favourable opinion of the Board of Statutory Auditors, a special fee in a fixed amount commensurate with the importance of the transactions and the results obtained.

Fees allocated to directors under any item whatsoever during the course of 2005 are shown in a special statement contained in the Notes to the Accounts.

In the 2005 financial year, the Company has not as yet set up a special independent committee to determine the criteria of remuneration for the Company's senior management. To date, in fact, no particular procedures have been defined for the remuneration of the Company's senior management, nor have stock option schemes pertaining to shares in the Company or the subsidiary Milano Assicurazioni been introduced.

The Board of Directors shall submit for the examination and approval of the General Shareholders' Meeting, convened for 27/28 April 2006 next, stock option plans, one for the executive directors and the other for the management of the Company, its subsidiaries and of the holding company.

The Board considered it in fact timely to propose to the General Shareholders' Meeting an adequate structuring of the total remuneration of the executive directors as a tool suitable for adjusting the directors' interests. This was in the pursuit of the priority aim of creating value for shareholders in the medium- to long-term, by achieving the objectives of the Industrial Plan 2006-2008 of Fondiaria-Sai Group presented to the financial community in April 2006 .

Otherwise, using the tool in question for management as well will contribute to providing incentives for and developing their loyalty, furthermore contributing towards creating appropriate conditions for achieving the objectives of the Plan.

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The suitability of setting up an appropriate Remuneration Committee will then be assessed for the purpose of making proposals to the Board about the realisation of stock option plans and to assess the phases for their implementation.

## **Internal control**

Current legislation imposes on insurance companies the obligation to adopt adequate internal control procedures. ISVAP has in turn, since 1999, in its Circular no. 366, defined the system of internal control of the companies and the related operating procedures.

In view of the developments in the European regulatory framework, ISVAP Circular n° 577/D of 30 December 2005 provided new information compared with that in the previous Circular mentioned above, aimed at encouraging, although respecting business independence, the production of adequate systems of control and of risk management, which each company shall develop taking into account its own size and method of operation and its risk profile.

The internal control system consists of all the organisational rules, procedures and structures aimed at ensuring the correct functioning and good performance of the company and to guarantee, with a reasonable safety margin:

- the efficiency and effectiveness of the company processes;
- adequate control of risks;
- the reliability and integrity of accounting and management information;
- safeguarding the assets;
- the conformity of the company's business with the regulations in force, the directors and company procedures.

In accordance with Circular n° 577/D, furthermore, the company must have an adequate system of risk management for the size and complexity of the business, which enables the most significant risks to be identified, assessed and controlled. Significant risks are understood to mean risks with consequences which may undermine the company's solvency or constitute a serious obstacle to the realisation of the Company's objectives. The latest objective of the risk management system is to maintain the risks identified and assessed at an acceptable level, consistent with the Company's assets. Where necessary, a process of organisational adjustment to the provisions of the stated Circular n° 577/D is in place, in compliance with the deadlines stipulated in that Circular.

Within the Fondiaria-Sai Group, as part of the conduct of the business activities and the related procedures there is provision for control by the individual operating units (so-called "regular control"), as well as by those in charge of said units.

Responsibility for verifying the adequacy, effectiveness and efficiency of the procedures adopted and of the internal control system in general forms part of the function of the Group's Internal Audit Division; this operates under the remit of the Managing Director and its activities are also directed towards the correct identification and management of the business risks. The activities of the Internal Audit Division are therefore extended to include all the business processes of Fondiaria-Sai and the companies in the Group; the Division indicates what corrective action is thought to

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be necessary and it is moreover responsible for following this up in order to ensure that the corrective measures have been implemented and to check on the effectiveness of the changes made to the system.

The Board of Directors is responsible for the Company's internal control system and periodically checks on the adequacy and effective functioning of the system, assisted in this by the Internal Control Committee. The Managing Director has the task of establishing the policy guidelines for the internal control system, of identifying the business risks and of taking care of the planning, management and monitoring of the internal control system, appointing the persons to be in charge of the said system.

The Board of Directors annually approves the work plan that sets out the function of the Group Internal Audit Division. This latter Division is provided with the appropriate resources to carry out its activities in an autonomous and independent manner, the manager in charge of this Division does not report to persons in charge of operational areas. The function is moreover co-ordinated in collaboration with the Board of Statutory Auditors and the Company's external firm of auditors.

In order for the Internal Audit Divisions to function properly, the managers in charge of the operational areas of the company must ensure freedom of access to all documentation relating to the business area forming the subject of the audit. In terms of its function, the Internal Audit Division has organic links with all the officers of the Company and of the companies in the Group, and the manager in charge of the said Division is equipped with the necessary authority to guarantee its independence.

In particular, as a result of the assignment to a special Internal Control Committee of the functions which the Code provides for the latter to assume and which are specified further on in this report, and bearing in mind the fact that, included amongst the said functions, are those of assessing the work plans prepared as part of the function of the Group Internal Audit Division and of receiving periodic reports from the latter, the Division in question has prepared these reports and referred them for examination to the Internal Control Committee. This Committee has provided the Board with its own opinion regarding the work plan that sets out the function of the Group Internal Audit Division and regarding the adequacy of the internal control system.

The manager responsible for the functioning of the Group Internal Audit Division has moreover reported to the Managing Director at the conclusion of each individual activity performed.

### **Internal control committee**

The Board of Directors has set up, within the Board, an Internal Control Committee to support the Board of Directors, which was entrusted with the task of analysing problems relevant to the control of the business activities, it being assigned in this regard specific functions in which moreover its members act in a purely advisory capacity, merely making proposals, with each resolution regarding such matters remaining the exclusive competence of the Board of Directors.

The Internal Control Committee is currently made up of three non-executive, independent members, namely Dr. Enzo Mei, Mr Cosimo Rucellai, lawyer and Dr. Salvatore Spiniello. The Board decided to assign a special payment to these members for carrying out this task.

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All statutory auditors are invited to attend the meetings of the Internal Control Committee.

The Internal Control Committee is in particular given the task of:

- assisting the Board with the periodic checking of the adequacy and effective functioning of the internal control system;
- assessing the work plan prepared by those in charge of internal control and receiving periodic reports from them;
- assessing, in conjunction with the administrative managers of the company and the external auditors, the adequacy of the accounting principles used, and their homogeneity, for the purposes of drawing up the consolidated accounts;
- evaluating the proposals made by the external firm of auditors in its bid to secure the related assignment, as well as the work plan drawn up for the audit and the results set forth in the report and in any letter of suggestions that might possibly be submitted;
- reporting to the Board at least every half year, on the occasion of the approval of the accounts and the half year report on the activities performed and on the adequacy of the internal control system;
- monitoring the observance and the periodic updating of the rules of corporate governance adopted by the Company and its own subsidiaries.

The Committee has an active role in which it makes proposals in the assessment of the work plan that sets out the function of the Internal Audit Division and the periodic reports from it.

During 2005, the Committee met four times in order to fulfil the functions in question. In particular, on the occasion of the meeting prior to the meeting of the Board of Directors called to approve the draft accounts as at 31 December 2004, the Committee approved the plan setting out the function of the Internal Audit Division and stated its belief that the Company's internal control system was for the time being adequate. The Committee also expressed the opinion that:

- the accounting principles used, having heard the person in charge of the administrative management of the Company and the opinion of the external firm of auditors Deloitte & Touche S.p.A., on the basis of its verifications made, should be considered to be adequate and homogeneous for the purposes of drawing up the consolidated accounts;
- the rules of governance adopted by the Company, to the knowledge of the Committee, should be considered to have been observed and that the updating report prepared in accordance with the regulations in force was drawn up in line with the recommendations on that provided by Assonime and Emittenti Titoli S.p.A., in view of the new legislation introduced and stating the reasons for the choices made where these differ from those recommended by the Code.

On the occasion of a subsequent meeting prior to the meeting of the Board of Directors called on to approve the half year report to 30 June 2005, the Internal Control Committee confirmed its assessment of the adequacy of the internal control system.

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## **Company statement**

The company statement of the activities carried out by the Fondiaria-Sai Group in the 2004 financial year was presented in December 2005.

That document is new to the Group and analyses, from a qualitative and quantitative point of view, the impact of the Group's activities on its different stakeholders, whose interests, in addition to those of the shareholders, revolve to a certain extent around the Company and the Group.

The Company was assisted in the production of the company statement by the Economics Faculty of the University of Turin

The company statement 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 decided to set up a system of organisation, management and control to prevent the offences stated in Legislative Decree no. 231 of 8 June 2001, stating – as is known - "Regulation of administrative responsibility of legal persons, companies and associations including those without legal personality, in accordance with art. 11 of Law no. 300 of 29 September 2000", which introduced corporate criminal responsibility into our system for the first time. This is additional to that of the physical person who carried out the offence in material terms.

The Board decided that the adoption of the organisation, management and control model stated in Legislative Decree no. 231/2001 as mentioned, although not compulsory, could constitute a valid instrument to make all employees of FONDIARIA-SAI and all other subjects involved aware, so that they carry out their activities in a correct and linear way, to prevent the risk of the offences described in the decree being committed.

In accordance with the provisions of the Decree, the model, approved by the Board of Directors on 16 February 2005, follows the principles below:

- the ability to check and document every relevant transaction for the purposes of Legislative Decree no. 231/2001;
- compliance with the principle of separating functions;
- definition of powers of authorisation consistent with the responsibilities assigned;
- allocation to a supervisory body of the task of promoting the efficient and correct implementation of the Model by monitoring the company's conduct and the right to constant information on the relevant activities for the purposes of Legislative Decree no. 231/2001;
- communication of the relevant information to the Supervisory Body;
- set up appropriate preventive "protection", specifically for the macro-categories of activities and risks connected to them, to prevent the committing of different types of offences as stated in the Decree (ex ante control);
- make adequate resources available to the Supervisory Body to support it in its tasks and achieve results which can reasonably be obtained;
- check the functioning of the Model with consequent regular updating (ex post control);
- the implementation of instruments to raise and spread awareness of the rules as defined to all levels in the company.



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The Board decided to set up the Supervisory Body to which will be assigned, in general terms, the task of supervising compliance with the rules of the Model by those for whom it is intended, checking the truly efficient and effective capacity of the Model, in relation to the company structure, preventing the committing of the offences stated in Legislative Decree no. 231/2001 and updating the Model, where there is a need to adjust it for changes in corporate conditions. With regard to the composition of the Supervisory Body, it was considered appropriate to opt for a mixed collegiate composition, with two external professionals who know the situation of the Company and the Group supported by one person within the structure.

The Board of Directors finally approved the Company Ethics Code, to confirm the fact that, in carrying out its own activity, FONDIARIA-SAI is inspired by criteria of transparency and accuracy, in compliance with the law and the interests of the group.

### **Significant transactions and transactions with related parties**

The Board of Directors approved specific principles of conduct on the carrying out of significant transactions and transactions with related parties.

#### *Significant transactions*

In giving the Chairman and the Managing Director the specific powers listed above, identifying the limits of the amount, the Board of Directors of FONDIARIA-SAI has indicated the criteria followed to identify significant transactions, whose completion is subject to the examination and authorisation of the Board of Directors or the Executive Committee.

#### *Transactions with related parties*

With reference to transactions with related parties:

- transactions with related parties, also concluded through the subsidiaries, are reserved to the exclusive competence and prior approval of the Board of Directors, which in their subject matter, countervalue, procedures or times for realisation may have an effect on the safeguarding of the business assets or on the completeness or accuracy of information, including accounting information, relating to the issuer, and regarding which the issuers are obliged to make an appropriate informative document available to the public, under the terms of art. 71a of Consob Regulation no.11971/1999;
- a series of transactions with related parties specifically identified by type and limit of amount (unlike transactions within the group as stated below) are also subject to the examination and approval of the Board of Directors or the Executive Committee, usually in advance, even if they fall within the limits of value assigned to the Chairman and the Managing Director, considered both individually and accumulated with other transactions related to them within the previous twelve months;
- finally as regards transactions within the Group, these generally fall within the scope of the powers delegated by the Board to the Chairman and to the Managing Director and are therefore not reserved to the competence of the Board and/or Executive Committee, except when their value generally exceeds the lim-

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its laid down for the exercising of these delegated powers. It should be stated on this point that:

- according to what is laid down for insurance companies by the specific legislation for the sector, the transactions within the Group in which at least one of the parties is an insurance company – where these transactions are significant on the basis of quantitative parameters laid down in advance by the sector legislation – are subject to prior authorisation from ISVAP and are only carried out after the authorisation is given by the Supervisory Body ;
- transactions within the Group concluded between two subsidiaries which are not insurance companies fall, if the conditions apply, under those which are subject to communication to the parent company for which resolutions by the Board of Directors or the Executive Committee have been passed in accordance with the rules of conduct referred to in the last paragraph of the previous section.

For the purposes of the specific implementation of the rules of conduct mentioned above, each director and auditor is asked to provide a list of their related parties. A guideline is then issued by the Managing Director to regulate the operating procedures which the offices of the Company and the subsidiaries have to follow if significant transactions are realised with the persons on those lists.

Generally, all transactions realised with related parties must comply with criteria of substantial and procedural accuracy.

Where the nature, size and characteristics of the transaction so dictate, the Board of Directors ensures that the transaction is completed with the assistance of independent experts; fairness and/or legal opinions are then acquired from the latter for the purposes of evaluating the assets and the financial, legal or technical advice received.

Directors who have an interest in the transaction must inform the Board of Directors in good time of the existence of the interest and of the circumstances under which the interest has arisen, providing the Board with exhaustive information in this regard; the directors must assess, on a case by case basis, the advisability of keeping away from the Board meeting at the time that the resolution is passed or of abstaining from the vote. If it concerns the Managing Director, he shall refrain from completing the transaction.

In the cases referred to in the paragraph above, the decisions of the Board of Directors adequately justify the reasons for the transaction and its benefit to the company. The Board of Directors assesses what is the most appropriate decision to be taken in the event that keeping the directors away at the time that the resolution is passed might be considered prejudicial to the existence of the necessary constitutive quorum.

### **Dealings with institutional investors and with other members**

The Company has always been careful to attach importance to establishing an ongoing dialogue with the majority of shareholders, and particularly with institutional investors, based on a mutual understanding of the reciprocal roles of each; this includes, moreover, the observance of internal procedures for the external communication of documents and information concerning the business, an aspect that we

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have already examined earlier on in this report. The Chairman and Managing Director act accordingly.

The Company has identified the Group Investor Relations Division as the structure charged with maintaining an active dialogue with institutional investors, and it is aided in this task by the various Group divisions and business divisions involved. The Group Investor Relations Division is moreover charged with maintaining an active dialogue with the majority of members, and it is aided in this task by the Members Office.

The Investor Relations Division is responsible for providing the on-line information supplied through the Company's website, for the circulation of forecasts, dealings with the Rating Agencies and generally dealings with the institutional investors. Along with the Press Office, it also deals with the distribution of press releases and comments on market rumours.

The Investor Relations Division can be contacted on the telephone number 011/6657.642 and/or the e-mail address [investorrelations@fondiaria-sai.it](mailto:investorrelations@fondiaria-sai.it).

To promote further dialogue with shareholders, the Group's internet site has moreover been set up and its contents are constantly up-dated.

## **General meetings**

Notwithstanding the high degree of diversification in terms of the available means of communication with members, the Board of Directors regards the General Shareholders' Meeting as an important time in which there can be fruitful dialogue between directors and shareholders, with respect for the regulations concerning so-called price sensitive information. All directors attend the general meetings as a rule.

At the general meeting, the Board of Directors reports on the Company's activities and takes steps to ensure that shareholders have adequate information to enable them to take the decisions which come within the remit of the General Shareholders' Meeting in full knowledge of the facts.

This having been said, it has not been thought necessary to adopt specific regulations in respect of shareholders' meetings in view of the fact that the provisions currently contained in the Company's bye-laws, which confer on the Chairman the power to direct the General Shareholders' Meeting and contain moreover some specific provisions designed to define some of the *modus operandi* of the same, are thought to be such as to permit the said General Shareholders' Meeting to proceed in an ordered and functional manner.

Thus, in exercising the powers of management and co-ordination of tasks relating to shareholders' meetings conferred on him by the Company's bye-laws, the Chairman informs the General Shareholders' Meeting, at the opening of the meeting, of the principles which he intends to abide by in the fulfilment of his statutory functions, establishing *ex ante* the rules for the completion of tasks relating to shareholders' meetings.

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## **Savings shareholders' representative**

On 27 April 2004, the General Savings Shareholders' Meeting appointed Dr. Sandro Quagliotti the savings shareholders' representative for the financial years 2004/2005/2006 and, consequently, up to the approval of the accounts as at 31 December 2006.

## **Statutory auditors**

The statutory changes to the procedure for the appointment of statutory auditors as a result of the Consolidated Finance Act have assured the transparency of this procedure, designed to permit one statutory member of the Board of Statutory Auditors to be elected by a minority.

Pursuant to the terms of the regulations in force, the changes to the Bye-Laws following the provisions of the Consob regulation on the procedures for the election of statutory auditors, as stipulated in the Savings Law, will be submitted for the examination and approval of the General Shareholders' Meeting.

The current Board of Statutory Auditors is made up of three statutory auditors and three alternate ones, whose names are indicated elsewhere in this booklet. They were appointed by the General Shareholders' Meeting on 29 April 2003, on the occasion of which the shareholders submitted two lists for consideration.

With reference to the current composition of the Board of Statutory Auditors, it should be noted that Dr. Marco Spadacini and Dr. Sergio Castellini were elected at the aforesaid General Shareholders' Meeting as statutory auditor and alternate auditor respectively from the list that proved to be the second one based on the number of votes.

Again, in accordance with the Code, it should be noted that the minimum share of capital required in order to submit lists for the appointment of Statutory Auditors was deemed adequate by the directors.

It is recommended that shareholders who intend to submit a list for the appointment of statutory auditors in accordance with the Company's Bye-laws provide adequate prior information on the background of the candidates through the submission of a curriculum vitae for each candidate.

## **Firm of auditors**

On 29 April 2003, the Ordinary General Shareholders' Meeting assigned the task of auditing the accounts for the year and the consolidated accounts for the financial years 2003, 2004 and 2005 and the half yearly audit as at 30 June 2003, 2004 and 2005 to the firm of auditors Deloitte & Touche S.p.A.. That assignment comes to an end at the General Shareholders' Meeting to approve the accounts as at 31 December 2005.

Within the Group, the audit assignment for some of the subsidiaries, including Milano Assicurazioni, is entrusted to the firm of auditors Reconta Ernst & Young S.p.A..

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Three tables are appended which summarise the procedures for the adoption of the main recommendations of the Code:

- the first table summarises the structure of the Board of Directors and the Internal Committees;
- the second table summarises the characteristics of the Board of Statutory Auditors;
- the third, and last, table summarises the level of adaptation to the other provisions of the Code relating to the system of delegations, transactions with related parties, appointment procedures, general meetings, internal control and investor relations.

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## TABELLA 1

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## TABELLA 2

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### TABELLA 3



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## **Proposals to the Ordinary Shareholders' Meeting**

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## ***Distribution of the profit for the year***

Dear Shareholders,

Having regard to the management report and the report by the Statutory Board of Auditors, the contents of which are regulated by Legislative Decree no. 58/98, having regard moreover to the report from the auditors (all of which are available to be viewed by members at the registered office, together with the accounts, in accordance with the law), we now submit for your approval, together with the accounts, the following proposal for the distribution of the profit for the year of € 300,603,297.64, which is made up of the sum of profit of the Life business of € 10,844,011.13 and the profit of the non-Life business of € 289,759,286.51, which includes, after making the allocations due in accordance with the law and the by-laws, the distribution of a gross dividend of € 0.95 for each ordinary share entitled to the dividend and of € 1.002 for each savings share entitled to the dividend.

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Net profit for the year	€ 300,603,297.64
To the Life business legal reserve	€ 255,996.80
To the non-Life business legal reserve	€ 255,996.00
to 42,592,751 savings shares: dividend of € 0.065 gross, equal to 6.50% of their nominal value	€ 2,768,528.82
	€ 297,322,776.02
to 125,641,021 ordinary shares (1): dividend of € 0.95 gross, equal to 95% of their nominal value	€ 119,358,969.95
to 42,592,751 savings shares: further dividend of € 0.937 gross, and thus in total € 1.002 equal to 100.20% of their nominal value	€ 39,909,407.69
	€ 138,054,398.38
To the Life business extraordinary reserve	€ 10,588,014.33
To the non-Life business extraordinary reserve	€ 127,466,384.05
(1) Proposal drawn up on the basis of the shares that make up the share capital net of own shares in the portfolio.	

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If you agree with this proposal, in accordance with the regulations established in this regard by the Italian Stock Exchange, we would invite you to declare the dividend with effect from 25 May 2006.

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## ***Appointment of the Board of Directors subject to a decision on the number of its members***

The term of office of the whole Board of Directors ends at the meeting to approve the accounts as at 31/12/2005.

You are therefore invited to decide on the appointment of the Board of Directors, subject to a decision on the number of Board members. We would remind you that the Company's bye-laws stipulate that the Board of Directors has no more than 19 and not less than 7 members.

We would invite the shareholders who intend to make nomination proposals to file those proposals at the company's registered office, in advance of the date set for the meeting on the first call, accompanied by the curriculum vitae of each candidate and stating whether or not the candidate is classified as independent pursuant to the Code of Self-Regulation of listed companies.

We would remind you that, pursuant to art. 147-ter, no. 4, of Legislative Decree no. 58/98, as introduced by Law no. 262 of 28 December 2005, (hereinafter referred to as the "Savings Law"), if the Board of Directors consists of more than seven members, at least one must meet the requirements of independence established for Auditors by art. 148, no. 3, of Legislative Decree no. 58/1998.

Finally, we would state that, pursuant to art. 147-ter, no. 2, of Legislative Decree no. 58/1998, as introduced by the Savings Law, that voting for the appointment of the Board of Directors will take place on a secret ballot.

With regard to the adjustments of the bye-laws imposed by the Savings Law on the procedures for the appointment of directors (with the introduction of the list voting mechanism) and, more generally, all adjustments of the bye-laws stipulated in that law, some of which the law refers to Consob regulations, we would inform you that, pursuant to the terms stipulated in the regulations and in the light of the clarifications and interpretations which will be made, it is planned to convene ad hoc the extraordinary shareholders' meeting by the end of this year.

## ***Resolutions on the remuneration payable to the Board of Directors.***

We would invite you to decide on the annual remuneration for the Board of Directors appointed by you, for the whole of its term of office.

The distribution of the remuneration for the Board of Directors between the Board members and the members of the Executive Committee will subsequently be established by the Board itself.

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## ***Appointment of the Statutory Board of Auditors and its Chairman for the 2006/2007/2008 three year period subject to a decision on their remuneration.***

The three year term of office conferred on the Statutory Board of Auditors at the Meeting on 29/04/2003 has just come to an end.

We would invite you to appoint the Statutory Board of Auditors and its Chairman for the 2006/2008 three year period – and, therefore, up to the approval of the accounts as at 31/12/2008 – and to decide on their remuneration. This is in accordance with the procedures set out in art. 24 of the Company's bye-laws which stated that the system known as "list voting" is suitable for allowing one full member of the Statutory Board of Auditors to be elected by a minority as stipulated in Legislative Decree no. 58/98.

We would, therefore, state with reference to that provision of the bye-law, unless otherwise stated, that the lists containing the names of the candidates must be filed at the company's registered office, at least ten days before the date fixed for the meeting on a first call, by shareholders individually or with other shareholders who are involved in the submission of that list and who provide evidence that they own at least 3% of the share capital with voting rights at ordinary meetings.

We would state moreover that the Savings Law introduced in art. 148 of Legislative Decree no. 58/98 a new no. 2-*bis* pursuant to which "the Chairman of the Statutory Board of Auditors is appointed by the meeting from amongst the auditors elected by the minority". It is considered that this rule in force today is not subject for its operability to the issue of the Consob regulation referred to in the Savings Law with regard to the procedures for the election of auditors. Furthermore, it is stated that the rule does not require any adjustment of the bye-laws but that, first of all, as it is imperative, it takes precedence over other bye-laws on the specific point (as in the case of Fondiaria-SAI). Therefore, as an exception to the stipulations of art. 24 of the Company's bye-laws, if several lists are submitted, the chairman of the Statutory Board of Auditors shall be the candidate on the list gaining the second highest number of votes.

We would recall that the bye-laws stipulate that the Statutory Board of Auditors consists of three auditors and three alternate auditors.

Again pursuant to the stated art. 24 of the bye-laws, shareholders who intend to proceed to present a list must file at the company's registered office, at the same time and together with each list, a description of the professional experience of the candidates and the declarations that they accept their candidature and certify they fulfil the requirements of the regulations in force, as amended last by the Savings Law, and by the bye-laws.

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## ***Appointment to the task of auditing the accounts and the consolidated accounts and the half yearly audit for the period 2006-2011. Decision on the remuneration for the firm of auditors.***

The audit of the 2005 accounts ends the second three yearly audit assigned to the auditors Deloitte & Touche S.p.A. for the audit of the accounts and the consolidated accounts and the half yearly audit.

We would recall that the Savings Law introduced, inter alia, significant developments relating to the stipulations covering the audit of accounts, with consequences for the new audit assignment which shall be approved by the meeting.

The new regulation stipulates that the term of the assignment is extended to six financial years rather than the three laid down in the previous regulation.

The main and most widely accepted interpretation of this (as confirmed by Consob in its communication dated 23/03/2006) considers that the rule is interpreted in the sense that the firm of auditors can carry out two consecutive assignments with a term of six financial years each, up to a maximum of twelve financial years. At the end of that period, no further assignment may be entrusted to the same firm of auditors unless (at least) three years have elapsed from the end of the previous assignment and in any event the partner responsible must also be rotated even if the person has moved to another firm of auditors.

In accordance with the reading of that rule, in view of the fact that, as has been stated, the second three year period of the Deloitte & Touche S.p.A. assignment is coming to an end, it is possible for the Company to confer the assignment to the same firm of auditors for a further six financial years.

In view of the above, we would therefore invite you to decide to confer the assignment for the period 2006-2011, pursuant to articles 155 et seq. of Legislative Decree no. 58/98, to the same firm of auditors Deloitte & Touche S.p.A., in consideration of the fact that the latter has now acquired in-depth knowledge of the Company and of the Group.

Deloitte & Touche S.p.A. made a proposal for the audit of the accounts and the consolidated accounts as at 31 December 2006, 2007, 2008, 2009, 2010 and 2011, the audit activities allocated by Legislative Decree no. 58/98 to the firm of auditors and the half yearly audit and the half yearly audit of the consolidated accounts as at 30 June 2006, 2007, 2008, 2009, 2010, and 2011.

The timings and remuneration contained in the proposal are as follows, for each financial year:

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	<b>Hours</b>	<b>Fees</b> Euro
Audit of the accounts for the financial year of Fondiaria-SAI S.p.A.	4,030	420,000
Audit of the consolidated accounts of the Group, including co-ordination of the work on the audit of the consolidated accounts and audit of the consolidation procedure	2,430	255,000
Summary examination of the accounts of subsidiaries not subject to audit in order to provide an opinion on the consolidated Group accounts	380	40,000
Carrying out the procedures stipulated in no. 1 bis) of art. 165 of Legislative Decree 58/98 on accounts audited by other firms of auditors in order to assume full responsibility for the consolidated accounts	480	50,000
Checking that the accounts have been produced properly and the accurate reporting of facts in the accounting documents	760	80,000
Limited half yearly audit of Fondiaria-SAI S.p.A.	1,010	105,000
Limited half yearly audit of the consolidated Group accounts	480	50,000
<b>Total</b>		<u>1,000,000</u>

These amounts do not include refunds of the expenses incurred in carrying out the work, such as travel and accommodation expenses and transfers, for the full amount incurred, additional technology costs (databases, software, etc.) and secretarial and communication expenses, deducted at the fixed rate of 5% of the fees, the contribution for supervision to Consob and VAT.

The expenses shall include for each financial year, the costs of the firm of auditors, and the fee of the independent actuary Dr. Luigi Francavilla, whose assignment is for a three year period pursuant to the law and may be renewed, and specifically:

- actuarial audit of the accounts for the financial year, € 10.400 for each financial year;
- actuarial audit of the half year statement, € 3.120 for each financial year.

The fees of the firm of auditors and the fee for the actuary shall be adequate to take account of the variation of the tariffs over time. The annual adjustment shall be equal to the percentage variation of the ISTAT index on the cost of living (basis month of June 2005) and shall take effect from the audit of the accounts and the half year report for the 2006 financial year and the checks on the accounts kept for the 2006 financial year.

At the meeting, before this item is decided, the opinion of the Statutory Board of Auditors shall be read out about the assignment of the audit assignment, stipulated in art. 159 of Legislative Decree no. 58/98.

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## ***Resolutions regarding own shares in accordance with Articles 2357 and 2357 ter of the Civil Code***

In compliance with your previous resolutions, as at the date of this report, your Company, holds 8,590,212 own ordinary shares, equal to 6.53% of the ordinary share capital and 4.94% of the entire share capital. The Company does not hold own savings shares. Furthermore, again as at the date of this report, the subsidiary Milano Assicurazioni S.p.A. holds a further 5,362,557 ordinary shares in the Company, equal to 4.07% of the ordinary capital and equal to 3.08% of the entire share capital, and the subsidiary SAI Holding Italia s.p.a. holds 1,200,000 ordinary shares in the Company, equal to 0.91% of the ordinary capital and 0.69% of the entire share capital.

The average unit book value of the own ordinary shares held by the Company is € 18,046. The market value of the share as at 27/03/2006 is € 33,690.

On 27 April next, the twelve month deadline set by the Shareholders' Meeting on 27/04/2005 for the purchase and sale of own shares will expire.

We propose that you authorise, pursuant to articles 2357 and 2357-ter of the Civil Code, further purchases of own ordinary shares and/or savings shares, in one or more instalments and for a period of twelve months from the date of the resolution in accordance with the timetable set out below.

Furthermore, we propose authorising the sale, where appropriate, of the own shares currently in the portfolio and those which will be purchased on the basis of the Meeting's resolution.

The requirement to renew the authorisation to purchase and sell own shares is based on the objective, with regard to the purchase, to take further investment opportunities relating to the security's liquidity from time to time and the performance of the stock and the market and, with regard to the sale, to enable positive results to be achieved where appropriate.

Pursuant to art. 144-bis of Consob Regulation no. 11971/1999, purchases and sales shall be made exclusively in accordance with the procedure referred to in no. 1 b) of that article and, consequently, on markets regulated in accordance with operating procedures laid down by the Italian Stock Exchange, which do not allow the direct combination of proposals for the negotiation of the purchase on predetermined proposals for the negotiation for the sale. Block trading is excluded.

Consequently, we propose authorising, only through the procedure referred to in the paragraph above, further purchases of own and/or savings shares, for a maximum increase, in view of any sales made in the interim of 1,000,000 ordinary own and/or savings shares of a nominal € 1.00 each, within the maximum amount of € 32m, without prejudice to compliance with the limits referred to in art. 2357-ter of the Civil Code and any others referred to.

The maximum number of own shares which may be purchased as stated above must be understood to be the difference between own shares purchased and those sold in accordance with authorisation of the Meeting.

We propose that each purchase is made for a unit price not exceeding 5% (five per cent) of the average of the reference prices recorded on the data transmission system of the Italian Stock Exchange in the three sessions preceding any transaction and similarly that sales are made at a price which shall not be less than 5% (five per cent) of the average of the reference prices recorded on the data transmission system of the Italian Stock Exchange on the three sessions prior to each transaction.



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With regard to volumes, no purchases or sales shall be made, from time to time for amounts exceeding 25% of the average daily volume of shares traded on the regulated market on which the transaction is made, calculated on the basis of the average daily volume of exchanges in the month prior to the month during which the timetable is communicated to the public and, on that basis, set for the whole period of the timetable.

In any event, in accordance with the provision in article 2357, indent 3 of the Civil Code, the total nominal value of own shares, also taking account of those already purchased in accordance with previous resolutions of meetings and those which may be owned by the subsidiaries, will not exceed one-tenth of the share capital. All purchase and/or sale transactions will also be carried out in accordance with any other applicable supervisory provision.

In order to realise the above-mentioned purchases, we propose – following the clearing of the “Provision for own shares to be purchased”, for the amount which will apply on 27 April next on expiry of the previous authorisation, to be allocated to the “Extraordinary reserve” – that an amount of € 32m be set aside to the “Reserve for own shares to be purchased”, using funds drawn from the “extraordinary reserve”, from which we also propose to withdraw the amounts necessary to replenish the reserve as stated in art. 2357-ter of the Civil Code which provides for write-ups of own shares following any write-downs of same.

If the meeting approves the timetable set out above, before the start of the share purchase transactions, all the details of the timetable shall be communicated to the public, stating the objective of the timetable, the maximum equivalent value, the maximum number of shares to be purchased and the length of the period for which the timetable has received authorisation.

At the end of the period for which the authorisation of the meeting is granted, the Company shall furthermore communicate to the public information on the outcome of the timetable and its realisation.

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## ***Resolutions concerning the shares of the holding company PREMAFIN Finanziaria Società per Azioni - Holding di Partecipazioni in accordance with art. 2359 bis of the Civil Code***

In compliance with your previous resolutions, your Company, as at the date of this report, holds 18,340,027 ordinary shares in the holding company Premafin Finanziaria S.p.A. – Holding di Partecipazioni (hereinafter: Premafin), equal to 4.47% of the share capital. Furthermore, again as at the date of this report, the subsidiary Milano Assicurazioni S.p.A. holds a further 9,157,710 Premafin ordinary shares, equal to 2.23% of the share capital, and the subsidiary SAIFIN Saifinanziaria S.p.A. holds 66,588 Premafin ordinary shares, equal to 0.02% of the share capital.

The average unit book value of the ordinary shares in the holding company Premafin held by the Company is € 1.68. The market value of the share as at 27/03/2006 is € 2.321.

On 27 April next, the twelve month deadline set by the Shareholders' Meeting of the Company on 27/04/2005 for the purchase and sale of shares in the holding company Premafin will expire.

We also propose the authorisation, in accordance with to art. 2359-bis of the Civil Code, of further purchases of shares in the holding company Premafin, in one or more instalments and over a period of twelve months from the resolutions in accordance with the timetable set out below.

We furthermore propose that you authorise the sale, where appropriate, of shares in the holding company Premafin currently in the portfolio and those purchased on the basis of the resolution taken by the meeting.

The requirement to renew the authorisation to purchase and sell shares in the holding company Premafin is based on the objective, with regard to the purchase, to take further investment opportunities relating to the share's liquidity from time to time and the performance of the share and the market and, in relation to the sale, to allow positive results to be achieved, where possible.

Pursuant to art. 144-bis of Consob Regulation no. 11971/1999, purchases and sales shall be made exclusively in accordance with the procedures referred to in no. 1 b) of that article and, consequently, on the regulated markets in accordance with the operating procedures laid down by the Italian Stock Exchange on which do not allow for the direct combination of proposals for the negotiation of the purchase on predetermined proposals for the negotiation for the sale. Block trading is excluded.

Consequently, we propose authorising, only through the procedure referred to in the paragraph above, further purchases of shares in the holding company Premafin, for a maximum increase, in view of any sales made in the interim, of 6,000,000 shares of a nominal € 1.00 each, with the maximum amount of € 15m, without prejudice to compliance with the limits referred to in art. 2359-bis of the Civil Code and any others referred to.

The maximum number of shares in the holding company Premafin which may be purchased as stated above must be understood to be the difference between the Premafin shares purchased and those sold, in accordance with authorisation of the Meeting.

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We propose that each purchase is made for a unit price not exceeding 5% (five per cent) of the average of the reference prices recorded on the data transmission system of the Italian Stock Exchange in the three sessions before each transaction and similarly that the sales are made at a price which shall not be less than 5% (five per cent) of the average of the reference prices recorded on the data transmission system of the Italian Stock Exchange in the three sessions before each transaction.

With regard to volumes, no purchases or sales shall be made, from time to time for amounts exceeding 25% of the average daily volume of shares traded on the regulated market on which the transaction is made, calculated on the basis of the average daily volume of exchanges in the month prior to the month during which the timetable is communicated to the public and, on that basis, set for the whole period of the timetable.

In any event in compliance with the stipulations of in art. 2359-bis, indent 3 of the Civil Code, the total nominal value of the shares in the holding company Premafin, also taking account of any which may be owned by that company and its subsidiaries, shall not exceed one-tenth of the share capital of Premafin. All purchase and/or sale transactions, furthermore, shall be carried out in compliance with any other applicable supervisory provisions.

In order to make the aforementioned purchases, we propose – following the clearing of the “Reserve for shares to be purchased in the holding company”, for the amount which will apply on 27 April next on expiry of that authorisation, to be allocated to the “Extraordinary provision” – that an amount of € 15m be set aside in the “Reserve for shares to be purchased in the holding company”, using funds drawn from the “Extraordinary reserve”, from which we also propose to withdraw the amounts necessary to replenish the reserve as stated in to art. 2359-bis of the Civil Code which provides for write-ups of the shares in the holding company following any write-downs of same.

If the Meeting approves the timetable set out above, before the start of the share purchase transactions, all the details of the timetable shall be communicated to the public, stating the objective of the timetable, the maximum equivalent value, the maximum number of shares to be purchased and the length of the period for which the timetable has received authorisation.

At the end of the period for which the authorisation of the Meeting was issued, the Company shall furthermore communicate to the public information on the outcome of the timetable and its realisation.

## List of direct and indirect shareholdings in unlisted companies exceeding 10% of the share capital held as at 31/12/2005

(Attachment to the Board of Directors' Management Report)

(In accordance with articles 125-126 of the CONSOB Resolution no. 11971 of 14/5/1999)

**FONDIARIA-SAI S.P.A. HAS OWNERSHIP AS AT 31/12/2004 OF THE FOLLOWING ORDINARY SHARES/SHARES WITH VOTING RIGHT**

<b>FONDIARIA-SAI S.P.A. HAS OWNERSHIP AS AT 31/12/2005 OF THE FOLLOWING ORDINARY SHARES/SHARES WITH VOTING RIGHT</b>				
Name of the company- Registered office	Shareholding company	Voting shares owned	% shareholding%	%Total
AGRISAI S.r.l. ITALY	SAIAGRICOLA SPA SAIFIN SAIFINANZIARIA SPA	60.390,00 610,00	99,000 1,000	100,000
ATHENA PRIVATE EQUITY S.A. LUXEMBOURG	SAINTERNATIONAL S.A.	2.911.647,00	11,647	11,647
A7 SRL ITALY	IMMOBILIARE LOMBARDA SPA	40.000,00	20,000	20,000
BANCA SAI S.p.A. ITALY	FONDIARIA-SAI S.p.A.	56.677.161,00	100,000	100,000
BIM VITA SPA ITALY	FONDIARIA-SAI S.p.A.	3.750.000,00	50,000	50,000
BORSETTO SRL ITALY	IMMOBILIARE LOMBARDA SPA	320.203,00	31,000	31,000
BRAMANTE – SRL ITALY	IMMOBILIARE LOMBARDA SPA	10.000,00	100,000	100,000
CAMPO CARLO MAGNO SPA ITALY	MILANO ASSICURAZIONI SPA	2.625.000,00	100,000	100,000
CAMPO CARLO MAGNO SPORT SRL ITALY	MILANO ASSICURAZIONI SPA	87.000,00	100,000	100,000
CARPACCIO SRL ITALY	IMMOBILIARE LOMBARDA SPA	10.000,00	100,000	100,000
CASA di CURA VILLA DONATELLO SPA ITALY	FONDIARIA-SAI S.p.A.	70.000,00	100,000	100,000
CASA di CURA VILLANOVA SRL ITALY	FONDIARIA-SAI S.p.A.	350.000,00	100,000	100,000
CASCINE TRENNO SRL ITALY	IMMOBILIARE LOMBARDA SPA	10.000,00	100,000	100,000
CESTAR CENTRO STUDI AUTO RIP. Scarl ITALY	FONDIARIA-SAI S.p.A. MILANO ASSICURAZIONI SPA SASA S.p.A. SYSTEMA COMPANY di ASS.NI SPA	586.575,00 453.835,00 248,00 4,00	14,664 11,346 0,006 0,000	26,017
CITYLIFE SRL ITALY	IMMOBILIARE LOMBARDA SPA	2.664,00	26,640	26,640

Name of the company - registered office	Shareholding company	Voting shares owned	% shareholding	%Total
COLPETRONE SRL ITALY	SAI AGRICOLA SPA	10,000.00	100.000	100.000
COMPANY TIRRENA DI ASSICURAZIONI SPA in forced liquidation ITALY	MILANO ASSICURAZIONI SPA	3,900,000.00	11.143	11.143
COMPANIA DE SEGUROS Y REASEGUROS KAIROS SA in liq. SPAIN	EUROSAI FINANZIARIA DI PARTECIPAZIONI SRL	48,815.00	11.486	11.486
CONSORZIO CASTELLO ITALY	NUOVE INIZIATIVE TOSCANE SRL	99,660.00	99.660	99.660
CONSULENZA AZIENDALE PER L'INFORMATICA - SCAI SPA ITALY	FONDIARIA-SAI S.p.A.	601,400.00	30.070	30.070
COS.ED SPA in liquidation ITALY	IMMOBILIARE LOMBARDA SPA	120,000.00	100.000	100.000
CRIVELLI SRL ITALY	IMMOBILIARE LOMBARDA SPA	10,000.00	100.000	100.000
DELTAPRIME SRL ITALY	CONSULENZA AZIENDALE PER L'INFORMATICA - SCAI SPA	12,500.00	51.020	51.020
DIALOGO ASSICURAZIONI S.p.A. ITALY	MILANO ASSICURAZIONI SPA	8,818,363.00	99.848	99.848
DOMINION INSURANCE HOLDING Ltd GREAT BRITAIN	FONDIARIA-SAI S.p.A.	50,780,305.00	100.000	100.000
EFFE FINANZIARIA SPA ITALY	THE LAWRENCE RE IRELAND Ltd	10,000.00	100.000	100.000
EFFE GESTIONI SGR SPA ITALY	FONDIARIA-SAI S.p.A.	500,000.00	100.000	100.000
EFFE VITA COMPANY DI ASSICURAZIONI SULLA VITA SPA ITALY	FONDIARIA-SAI S.p.A.	12,000,000.00	100.000	100.000
EURO C.S. SRL ITALY	CONSULENZA AZIENDALE PER L'INFORMATICA – SCAI SPA	204,000.00	51.000	51.000
EUROPA LEGAL PROTECTION S.p.A. ITALY	FONDIARIA-SAI S.p.A.	2,000,000.00	100.000	100.000
EUROSAI FINANZIARIA DI PARTECIPAZIONI SRL ITALY	SAIFIN SAIFINANZIARIA SPA SAINTERNATIONAL S.A.	13,056.00 1,292,544.00	1.000 99.000	100.000
FINADIN SPA FINANZIARIA DI INVESTIMENTI ITALY	SAIFIN SAIFINANZIARIA SPA	20,000,000.00	40.000	40.000
FINITALY SPA ITALY	SAIFIN SAIFINANZIARIA SPA	15,376,285.00	100.000	100.000

Name of the company - registered office	Shareholding company	Voting shares owned	% shareholding	%Total
FIN.PRIV. SRL ITALY	FONDIARIA-SAI S.p.A.	5,714.00	28.571	28.571
FINSAI INTERNATIONAL S.A. LUXEMBOURG	FONDIARIA-SAI S.p.A. SAILUX S.A.	80,000.00 127,650.00	38.526 61.474	100.000
FONDIARIA NEDERLAND BV HOLLAND	FONDIARIA-SAI S.p.A.	1,907.00	100.000	100.000
FONDIPREV Compagnia di Assicurazioni sulla Vita SPA ITALY	FONDIARIA-SAI S.p.A. MILANO ASSICURAZIONI SPA	4,800,000.00 7,200,000.00	40.000 60.000	100.000
FONSAI MB&A SPA MERCHANT BANKING & ADVISORY ITALY	FONDIARIA – SAI S.p.A.	800,000.00	100.000	100.000
GARIBALDI SCS LUXEMBOURG	MILANO ASSICURAZIONI SPA	480.00	47.952	47.952
IFB INTERNATIONAL FUR BROKERS SPA in liquidation ITALY	FONDIARIA – SAI S.p.A.	60,000.00	60.000	60.000
IMMOBILIARE LITORELLA SRL ITALY	IMMOBILIARE LOMBARDA SPA	10,329.00	100.000	100.000
INFOMEDIA ITALY IMI SRL ITALY	CONSULENZA AZIENDALE PER L'INFORMATICA – SCAI SPA	10,400.00	20.000	20.000
INIZIATIVE VALORIZZSHARES EDILI – IN V.ED.SRL ITALY	IMMOBILIARE LOMBARDA SPA	10,329.00	100.000	100.000
INSEDIAMENTI AVANZATI NEL TERRITORIO I.A.T. SPA ITALY	IMMOBILIARE LOMBARDA SPA	500,000.00	100.000	100.000
ISTITUTO EUROPEO DI ONCOLOGIA SRL ITALY	FONDIARIA-SAI S.p.A. MILANO ASSICURAZIONI SPA	10,186,526.00 1,394,536.00	12.883 1.764	14.646
ITAL IBERIA PROYECTOS Y PROMOCIONES INMOBILIARIAS S.A. SPAIN	FONDIARIA-SAI. S.p.A	70,000.00	100.000	100.000
LAWRENCE LIFE AG LIECHTENSTEIN	THE LAWRENCE LIFE ASSURANCE COMPANY Ltd	999.00	99.900	99.900
Logistique, Conseils, Services S.A. FRANCE	SIAT S.p.A.	2,423.00	96.920	96.920
MAA FINANZIARIA SPA ITALY	MILANO ASSICURAZIONI SPA	150,000.00	100.000	100.000
MANTEGNA – SRL ITALY	IMMOBILIARE LOMBARDA SPA	10,000.00	100.000	100.000
MASACCIO – SRL ITALY	IMMOBILIARE LOMBARDA SPA	10,000.00	100.00	100.00
MB VENTURE CAPITAL FUND I PARTECIP. COMPANY D NV HOLLAND	FONDIARIA-SAI S.p.A	15,000.00	30.000	30.000
MERIDIANO AURORA SRL ITALY	FONDIARIA - SAI S.p.A	10,000.00	100.000	100.000
MERIDIANO BELLARMINO SRL ITALY	IMMOBILIARE LOMBARDA SPA	10,000.00	100.000	100.000

Name of the company - registered office	Shareholding company	Voting shares owned	% shareholding	%Total
MERIDIANO BRUZZANO SRL ITALY	IMMOBILIARE LOMBARDA SPA	10,000.00	100.000	100.000
MERIDIANO EUR SRL ITALY	MILANO ASSICURAZIONI SPA	10,000.00	100.000	100.000
MERIDIANO ORIZZONTI SRL ITALY	MILANO ASSICURAZIONI SPA	10,000.00	100.000	100.000
MERIDIANO PRIMO SRL ITALY	IMMOBILIARE LOMBARDA SPA	10,000.00	100.000	100.000
MERIDIANO QUARTO SRL ITALY	SAI HOLDING ITALIA S.p.A.	10,329,000.00	100.000	100.000
MERIDIANO RISPARMIO SRL ITALY	FONDIARIA-SAI S.p.A.	10,000.00	100.000	100.000
MERIDIANO SECONDO SRL ITALY	IMMOBILIARE LOMBARDA SPA	10,000.00	100.000	100.000
MERIDIANO TERZO SRL ITALY	SAI HOLDING ITALIA S.p.A.	10,000.00	100.000	100.000
METROPOLIS SPA ITALY	IMMOBILIARE LOMBARDA SPA	35,676.00	29.730	29.730
MIZAR SRL ITALY	IMMOBILIARE LOMBARDA SPA	10,329.00	100.000	100.000
NOVARA ASSICURA SPA ITALY	MILANO ASSICURAZIONI SPA	13,000,000.00	100.000	100.000
NOVARA VITA SPA ITALY	SAI HOLDING ITALIA S.p.A.	27,000,000.00	50.000	50.000
NUOVA IMPRESA EDIFICATRICE MODERNA SRL ITALY	IMMOBILIARE LOMBARDA SPA	10,329.00	100.000	100.000
NUOVE INIZIATIVE TOSCANE SRL ITALY	FONDIARIA-SAI S.p.A. MILANO ASSICURAZIONI SPA	48,440,000.00 1,560,000.00	96.880 3.120	100.000
PO VITA Compagnia di Assicurazioni SPA ITALY	SAI HOLDING ITALIA S.p.A.	54,100,000.00	50.000	50.000
PORTOBELLO SPA ITALY	IMMOBILIARE LOMBARDA SPA	5,536.00	100.000	100.000
PORTOFINO VETTA SRL ITALY	FONDIARIA-SAI S.p.A.	20,000.00	100.000	100.000
PROGETTO ALFIERE SPA ITALY	IMMOBILIARE LOMBARDA SPA	22,800.00	19.000	19.000
PROGETTO BICOCCA LA PIAZZA SRL ITALY	IMMOBILIARE LOMBARDA SPA	2,332,332.00	74.000	74.000
PRONTO ASSISTANCE SERVIZI SPA ITALY	PRONTO ASSISTANCE SPA SAIFIN SAIFINANZIARIA SPA	309,600.00 206,400.00	60.000 40.000	100.000
PRONTO ASSISTANCE SPA ITALY	FONDIARIA-SAI S.p.A.	2,500,000.00	100.000	100.000
RISTRUTTURSHARES EDILI MODERNE – R.EDIL.MO. SRL ITALY	IMMOBILIARE LOMBARDA SPA	10,329.00	100.000	100.000

Name of the company - registered office	Shareholding company	Voting shares owned	% shareholding	%Total
RITA SRL ITALY	FONDIARIA – SAI S.p.A. MILANO ASSICURAZIONI SPA PRONTO ASSISTANCE SPA SASA S.p.A. SIAT S.p.A. SYSTEMA S.p.A.	1,787,540.00 941,694.00 2,621.00 12,959.00 26,936.00 4,091.00	16.250 8.561 0.024 0.118 0.245 0.037	25.235
SAI HOLDING ITALIA S.p.A. ITALY	FONDIARIA-SAI S.p.A.	143,100,000.00	100.000	100.000
SAI INVESTIMENTI SGR SPA ITALY	FONDIARIA- SAI S.p.A. MILANO ASSICURAZIONI SPA	1,565,435.00 1,565,435.00	40.000 40.000	80.000
SAI MARKETS MOBILIARI – SOC. - DI INTERMEDIAZIONE MOBILIARE SPA ITALY	FONDIARIA-SAI S.p.A.	20,000,000.00	100.000	100.000
SAI SISTEMI POLICYHOLDERSVI SRL ITALY	FONDIARIA-SAI S.p.A SAIFIN SAIFINANZIARIA SPA	50,490.00 510,00	99.000 1.000	100.000
SAIAGRICOLA SPA- Società Agri- cola ITALY	FONDIARIA-SAI S.p.A. MILANO ASSICURAZIONI SPA PRONTO ASSISTANCE SPA	46,002,093.00 3,402,001.00 595,906.00	92.004 6.804 1.192	100.000
SAIFIN SAIFINANZIARIA SPA ITALY	FONDIARIA-SAI S.p.A.	102,258,000.00	100.000	100.000
SAILUX S.A. LUXEMBOURG	FINSAI INTERNATIONAL S.A. SAIFIN SAIFINANZIARIA SPA	10,00 9,387,800.00	0.000 99.999	100.000
SAINTERNATIONAL S.A. LUXEMBOURG	FONDIARIA-SAI S.p.A.	15,399,997.00	99.999	99.999
SALEVOX SRL ITALY	STARVOX SPA	45,000.00	90.000	90.000
SANTA MARIA DEL FICO SRL ITALY	SAIAGRICOLA SPA	78,000.00	100.000	100.000
SASA Assicurazioni Riassicurazioni S.p.A ITALY	FONDIARIA-SAI S.p.A.	51,999,988.00	99.999	99.999
SASA VITA S.p.A. ITALY	FONDIARIA-SAI S.p.A. SASA S.p.A.	5,000,000.00 5,000,000.00	50.000 50.000	100.000
SCONTOFIN S.A. LUXEMBOURG	SAILUX S.A.	950.00	19.000	19.000
S.E.P.I. – SERVIZI E PROGETTAZIONI IMMOBILIARI 97 SRL ITALY	IMMOBILIARE LOMBARDA SPA	52,000.00	100.000	100.000
SERVICE GROUP FONDIARIA – SAI SRL ITALY	FONDIARIA-SAI S.p.A. MILANO ASSICURAZIONI SPA	140,000.00 60,000.00	70.000 30.000	100.000
SERVIZI IMM. MARTINELLI SPA ITALY	IMMOBILIARE LOMBARDA SPA	200.00	20.000	20.000
SIAT - SOC. ITALIANA ASSICURAZIONI E RIASSIC. SPA ITALY	SAI HOLDING ITALIA S.p.A.	33,489,481.00	88.130	88.130
SIM ETOILE S.A. FRANCE	FONDIARIA-SAI S.p.A.	200,002.00	100.000	100.000



Name of the company - registered office	Shareholding company	Voting shares owned	% shareholding	%Total
SISTEMI SANITARI SPA ITALY	FONDIARIA-SAI S.p.A. MILANO ASSICURAZIONI SPA	811,283.00 925,415.00	22.536 25.706	48.242
SOAIMPIANTI-ORGANISMI DI ATTESTAZIONE SPA ITALY	FONDIARIA-SAI S.p.A.	127,419.00	21.637	21.637
SOCIETA' FINANZIARIA PER LE GEST.ASS.VE SRL in liq. ITALY	FONDIARIA-SAI. S.p.A. MILANO ASSICURAZIONI SPA	13,931,807.00 7,012,859.00	14.907 7.504	22.410
SOCIETA' FUNIVIE DEL PICCOLO S. BERNARDO SPA ITALY	IMMOBILIARE LOMBARDA SPA	1,441,691.00	27.384	27.384
SOFINPA SPA ITALY	SAIFIN SAIFINANZIARIA SPA	2,400,000.00	30.000	30.000
SOGEINT SRL ITALY	MILANO ASSICURAZIONI SPA	10,000.00	100.000	100.000
SRP ASSET MANAGEMENT S.A. SWITZERLAND	SAINTERNATIONAL S.A.	1,000.00	100.000	100.000
STARVOX SPA ITALY	FONDIARIA-SAI S.p.A.	258,000.00	100.000	100.000
STIMMA SRL ITALY	FONDIARIA-SAI S.p.A.	10,000.00	100.000	100.000
SYSTEMA COMPANY DI ASSICURAZIONI SPA ITALY	MILANO ASSICURAZIONI SPA	10,000.00	100.000	100.000
TELVOX SRL ITALY	CONSULENZA AZIENDALE PER L'INFORMATICA – SCAI SPA	150,000.00	100.000	100.000
THE LAWRENCE LIFE ASSURANCE COMPANY Ltd IRELAND	FONDIARIA NEDERLAND BV	802,886.00	100.000	100.000
THE LAWRENCE RE IRELAND Ltd IRELAND	FONDIARIA NEDERLAND BV	125,000.00	100.000	100.000
TRENNO OVEST SRL ITALY	IMMOBILIARE LOMBARDA SPA	10,000.00	100.000	100.000

Name of the company - registered office	Shareholding company	Voting shares owned	% shareholding	%Total
UFFICIO CENTRALE ITALIANO S.c.a.r.l. ITALY	DIALOGO ASSICURAZIONI S.p.A.	1.00	0.000	25.207
	FONDIARIA-SAI. S.p.A.	141,363.00	14.136	
	MILANO ASSICURAZIONI SPA	109,751.00	10.975	
	SASA S.p.A.	1.00	0.000	
	SIAT S.p.A.	948.00	0.095	
	SYSTEMA S.p.A.	2.00	0.000	
UNISERVIZI GROUP FONDIARIA S.c.r.l. ITALY	BANCA SAI S.p.A.	2,000.00	0.020	99.960
	DIALOGO ASSICURAZIONI S.p.A.	20,000.00	0.200	
	EFFE GESTIONI SGR SPA	2,000.00	0.020	
	EFFE VITA S.p.A.	2,000.00	0.020	
	EUROPA/LEGAL PROTECTION S.p.A.	2,000.00	0.020	
	FINITALY SPA	6,337,000.00	63.370	
	FONDIARIA – SAI S.p.A.	2,000.00	0.020	
	FONDIPREV S.p.A.	2,000.00	0.020	
	IMMOBILIARE LOMBARDA SPA	2,800,000.00	28.000	
	MILANO ASSICURAZIONI SPA	90,000.00	0.900	
	PRONTO ASSISTANCE SPA	2,000.00	0.020	
	SAI INVESTIMENTI SGR SPA	2,000.00	0.020	
	SAI MARKETS MOBILIARI S.p.A.	2,000.00	0.020	
	SAIAGRICOLA SPA	585,000.00	5.850	
		34,000.00	0.340	
	SASA VITA S.p.A.	2,000.00	0.020	
	SERVICE GROUP FONDIARIA – SAI SRL	84,000.00	0.840	
	SIAT S.p.A.	2,000.00	0.020	
	STARVOX SPA	18,000.00	0.180	
	SYSTEMA S.p.A.	2,000.00	0.020	
	THE LAWRENCE LIFE ASSURANCE Ltd	2,000.00	0.020	
	THE LAWRENCE RE IRELAND Ltd			
VILLA RAGIONIERI SRL ITALY	FONDIARIA-SAI S.p.A.	150,000.00	100.000	100.000

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## ANNUAL ACCOUNTS 2005

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## NOTES TO THE ACCOUNTS

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The accounts for the financial year closed on 31 December 2005:

- comply with the compulsory chart stipulated in Legislative Decree no. 173 of 26/5/1997;
- adopt the general regulations on the drafting of accounts and apply the valuation criteria established in art. 16 et seq. of the above-mentioned Decree;
- consist of the Balance sheet, the Profit and Loss account and the Notes to the Accounts, pursuant to art. 2423 of the Civil Code; the Director's Management Report is also set out in the pages above.

The Balance sheet and the Profit and Loss Account were produced in accordance with the charts contained respectively in annexes I and II of Legislative Decree 173/1997.

The Notes to the Accounts, which provide the information and statements referred to in annex III below, are sub-divided into the following sections:

Part A - Valuation criteria

Part B - Information on the Balance Sheet and on the Profit and Loss Account and related annexes

Part C - Other information.

The following statements are also attached :

- Financial statement
- Change in the equity accounts
- Statement of property still owned on which the currency revaluation was carried out or derogation to the valuation criteria on the basis of art. 2425 3<sup>rd</sup> indent of the Civil Code now substituted pursuant to Legislative Decree 127/91 (in accordance with art. 10 of Law no. 72 of 19/3/1983)
- Statement of property showing the changes in the financial year
- Statement of property showing the situation as at 31/12/2005.

The accounts were audited by the firm of auditors Deloitte & Touche S.p.A pursuant to art. 155, indent 2 of Legislative Decree 58/98, art. 62 of Legislative Decree no. 174 of 17/3/1995 and art. 73 of Legislative Decree no. 175 of 17/3/1995, as amended by articles 79 and 80 of Legislative Decree no. 173 of 26/3/1997, implementing the decision of the meeting held on 29/04/2003, which entrusted the audit and the task of issuing the auditors' report to this company for the financial years 2003, 2004, 2005.

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## **Part A**

### **Valuation criteria of balance sheet items**

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## **Section 1 – ILLUSTRATION OF THE VALUATION CRITERIA**

The valuation criteria used, unchanged from the previous financial year, comply with the provisions of law and make reference, for interpretation, to the accounting principles issued by the Organo Italiano di contabilità (Italian Accountancy Authority).

### **Intangible assets**

The total amount of pre-calculated commission paid to intermediaries for the acquisition of multi-year policies is charged to the profit and loss account for the financial year; that principle was used with effect from the 2002 financial year also for contracts entered into with the former La Fondiaria S.p.A..

Acquisition commission in the Life business, relating to the former La Fondiaria portfolio, and already depreciated at the start of the financial year, comply with the original depreciation plan, equal to the actual term of the contracts and within the limits of the loading charges of life policies and, in any case, over a period of no more than 10 years.

Any other charge borne for the acquisition and management of risks relating to multi-year contracts is shown in the profit and loss account for the financial year in which it is borne.

"Start-up and expansion costs" and "other multi-year costs", considered to be long-term, are recorded at the purchase cost and are depreciated in relation to their residual lifetime.

The goodwill acquired in exchange for a consideration is recorded under the assets and systematically depreciated over a limited period of time, considered appropriate in relation to its lifetime, taking account of the forecast return on the companies to which they relate, in particular the amount of € 245,860K recorded under the goodwill item relates to the remainder of the loss on the cancellation of the investment in La Fondiaria S.p.a., net of the share attributed to the increase in the value of the property and controlling shareholdings. The share of depreciation for the financial year of € 15,366K is calculated on the basis of a depreciation period of 20 years determined in relation to the lifetime of that asset, also considering that the main factors for their determination are the value and size of the portfolio of premiums acquired with the merger and the market position of the incorporated entity.

### **Land and buildings**

Property is shown in the accounts at the acquisition or construction cost increased by ancillary costs, increased expenses and any revaluations at the time of the losses on the merger are allocated and net of the relevant depreciation and write-downs made in previous financial years.

Depreciation relates in any case to all the company's operational properties, whereas those used by third parties are depreciated in accordance with prudential considerations when they record capital losses compared with their current value and when the capital loss represents a long-term loss in value.

The financial-technical rate of 3% is applied in most cases, considered to be absolutely prudent with reference to operational property and its residual useful life.



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### **Long-term financial investments**

Pursuant to art. 16 indent 3 of Legislative Decree no. 173/1997, Italian and overseas shareholdings and debentures classified as "long-term" are valued at the lower of the acquisition cost, which may have been adjusted in previous financial years, and that which is shown to be lower in the long-term on the close date of the financial year. Certificates of indebtedness and capital securities, in the short-term portfolio are valued at the value produced by applying the relevant valuation criterion at the time of the transfer.

Reductions in value are readjusted in the following financial years, if the reasons for the rectifications made no longer exist. The acquisition cost assumes the cost determined by the weighted continuous average method, adjusted to take account of the calculation of the issue and trading spreads and in the case of previous alignments, revaluations of the original cost and the allocations of merger losses.

For securities issued or acquired without coupons, the original acquisition cost is increased pro-quota, on the basis of the relevant year, by the difference between the acquisition cost and the nominal value collectable at maturity.

For the value at the close of the financial year, it is assumed:

- in the case of listed fixed income securities, the value produced by the arithmetic mean of the prices for the last half of the year;
- in the case of listed shareholdings, that shown by the analyses aimed at determining their recoverable value, although in the short term.
- in the case of unlisted shareholdings, the normal determined also taking account, pro-quota, of the reductions in the equity stated in more recent accounts;
- in the case of unlisted debentures, the normal determined with reference to the price of the securities with similar characteristics or on the basis of other objective elements.

### **Short-term financial investments**

Pursuant to art. 16 indent 6 of Legislative Decree 173/1997, Italian and overseas shareholdings and debentures which constitute "short-term" investments are recorded at the acquisition cost which may have been adjusted in previous financial years or at the realisation value taken from the market trend, if lower. Reductions in value are not maintained in the following accounts if the reasons for these no longer exist.

Acquisition cost assumes the cost determined using the weighted continuous average method adjusted in the case of previous alignment or write-up of the original cost. The original acquisition cost is also adjusted, pro-rata temporis, by the issue spreads, and the differences between the acquisition cost and the nominal value collectable at maturity for securities of specific interest.

Realisation value assumes:

- in the case of listed shareholdings and debentures, and for own shares, the value resulting from the arithmetic mean of the prices in the last month of the financial year;
- in the case of unlisted shareholdings, the normal value determined taking account pro-quota of the reductions in the assets shown in more recent accounts;

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- in the case of unlisted certificates of indebtedness and for unit trust holdings, the normal value determined with reference to the price of the securities with characteristics or on the basis of other objective elements.

### **Investments for the benefit of life policyholders who bear the risk and investments deriving from pension fund management**

These investments relating to index-linked and unit-linked products and the assets which are part of the special segregated "SAI QUOTA" life business are recorded at the current value pursuant to art. 16 indent 8 of Legislative Decree 173/1997. Similar criteria are used for recording investments deriving from pension fund management.

### **Repurchase agreements**

The value of securities acquired "spot", with a repurchase obligation on the seller are recorded in the accounts under "Sundry financial investments" and securities sold "spot" under "Creditors and other liabilities".

Interest and differences between the "spot" and "forward" values are recorded in the accounts respectively under "Income from other Investments" and "Investment management charges and interest paid"; for operations which may be current at the end of the financial year, the income is appropriated using the pro-rata temporis method.

### **Derivative contracts**

Premiums earned and paid for options on securities and currencies are recorded respectively with the creditors and other liabilities and with investments.

When the option matures, without being exercised, the premium is charged to Investment Income and Equity and Financial Charges whereas, for premiums exercised, the book value or the selling price is adjusted in the event of the acquisition or sale of the assets; otherwise they are charged to Investment Income or Equity and Financial Charges in the event of financial adjustment of the commitment.

Current options at the end of the financial year are valued taking account of the assets in securities or currency, making reference to their recoverable value, in the case of long-term assets, or the respective prices, in the case of short-term assets. In the latter case, if there is no price, then on the basis of a prudent valuation of their presumed realisation value.

Any capital losses on the valuation of current contracts are recorded in accordance with prudential considerations in the provision for risks and charges.

Derivative operations aimed at covering the investments and financing are valued consistently with the respective assets.

### **Income from securities**

Interest received accrued, issue spreads and spreads between the acquisition cost and nominal value collectable at maturity are recorded in the profit and loss account on the basis of the principle of collection in the current year.

Dividends are recorded in the financial year in which they are paid.

Dividends from subsidiaries are recorded on the basis of the "maturity" principle, that is, in the financial year in which the profits are produced by the subsidiary.

Capital gains or capital losses from trading securities present in the company's portfolio are recorded in the profit and loss account for the financial year in which the relevant contracts of sale are entered into.

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The gain on any forward sales of certificates of indebtedness is recorded at the time of the financial adjustment.

### **Premiums written**

Pursuant to art. 45 of Legislative Decree 173/97, gross premiums written include amounts accrued during the financial year for insurance contracts.

### **Tangible assets**

The assets are shown in the accounts at the acquisition cost and depreciated on the basis of their residual useful life, the depreciation rates applied correspond to the maximum laid down in the fiscal regulations considered to reflect the actual wear and tear of the assets.

### **Debtors**

Premiums receivable from policyholders are recorded on the basis of the presumed realisation value, net of write-downs, made in accordance with analytical and flat-rate methods with reference to individual branches and the trend in collections recorded for similar categories of debtors. Other debtors are recorded at the presumed realisation value.

### **Technical provisions for direct business**

The general rules on technical provisions, described in art. 31 of Legislative Decree 173/97, ratify the principle by which the amount of the provisions must always be sufficient to enable the companies to meet the commitments taken on with the insurance contracts, where reasonably foreseeable. The following accounting principles derive therefrom:

#### **Provision for unearned premiums in the Life business**

Art. 32 of Legislative Decree 173/97 stipulates the obligation to record the provision for unearned premiums broken down into two components "provisions for premium fractions" and "provision for existing risks".

##### **- Provision for premium fractions**

This is calculated in all branches, by applying the pro-rata temporis method on the basis of the gross premiums recorded, net of acquisition expenses, as identified by arts. 51 and 52 of the above-mentioned Decree.

For hail and nuclear energy risks, the calculation is applied in accordance with the stipulations of Ministerial Decree 23/5/1981.

In the credit branch, the stipulations of Ministerial Decree 22/6/82 were also applied for contracts entered into or renewed by 31/12/1991.

In the other property damage, fire, accident and goods in transit branches, further provisions were made for the risks of natural disaster, proceeding in accordance with the stipulations of Ministerial Decree 15/6/84.

In the bonds branch, the supplement stipulated by ISVAP Instruction no. 1978/2001 was made.

##### **- Provision for existing risks**

That component of the provision for unearned premiums intended, in accordance with art. 32 of Legislative Decree 173/97, to cover risks for which the company is li-

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able after the end of the financial year, to meet all the costs of claims which might be made on contracts which gave rise to the formation of provisions for premium fractions.

The calculation procedure used for the appropriation to that provision complies with the empirical method suggested by the Supervisory Authority in its circular no. 360/D of 21/1/99, applied separately for each branch and, within the scope of some of these, to any type of risk included. The claims ratio used was assessed also taking account of a retrospective time frame in relation to individual branches.

### **Provision for outstanding claims - non-life business**

The provision for outstanding claims represents the total amount which, from a prudent valuation made on the basis of objective elements, is shown to be necessary to meet the payment of claims outstanding at the end of the financial year, and the related settlement expenses.

The provision for outstanding claims was valued in accordance with the provisions of indent 2 of art. 33 of Legislative Decree 173/97, assuming that criterion for determining the latest cost, to take account of all future foreseeable charges, on the basis of historical and forecast data. That also includes the estimate for claims made but not reported by the close date of the financial year.

The provision for outstanding claims recorded in the accounts is the result of a complex multi-phase technical valuation which arises out of a first valuation made through the analytical examination of the individual positions opened, followed by the process, entrusted to the company's managerial structures, which uses statistical and actuarial methods to determine the amount of the latest cost of the claims.

In particular:

- **Land vehicles - TPL**

For portfolios which do not have an analytical inventory which is actually representative of the charge for claims generated in the accounts, this is valued using the average cost criterion, for groups of similar and sufficiently numerous claims, for which the projection model takes account of management experience over the last five years. The generation cost is determined using five different statistical methods (paid in the first year, average value of the generation, incidence of the first year premiums on the generation cost, trend in costs generated and an analytical method which takes account of the territorial zone, the tariff sector and the type of claims made), producing an average for the results obtained by each one.

On the other hand, for continuously inventoried portfolios, the current generation is represented by the analytical adjustment of the claims handling department, which may be supplemented by the management's valuation, for which the determining factors specifically take account of claims with average costs which are higher than the market average due to specific phenomena (physical damage and other catastrophes).

The previous generations are observed after the analytical adjustment made by the claims handling department which checks the reliability of the estimates made. With regard to the former SAI claims portfolio, subject to analytical checks by the claims handling department in accordance with rotating criteria, the amount of the provisions generated previously are used as data for entering a projection model which

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takes account, amongst other elements of the sufficiency/insufficiency of the provisions, the percentage incidence of the "drop" in the provisions for payments, the incidence on the provision showing the balance between eliminations "not followed up" and "re-opened", finally taking account of write-ups, in order to define the latest cost of the claims.

In order to determine and make a final valuation of the latest cost of the claims, taking account of the longer settlement period, statistical and actuarial methods were used on the trend in the cost of claims based on historical and forecast elements, adapted appropriately to the specific type of company (methods attributed to the Fisher-Lange methodology): in particular, for determining the future increase in the cost of the provision for claims not yet made, forecast inflation and the specific dynamics of the costs of the insurance sector were taken into account.

- **Other non-Life business**

The valuations are made analytically claim by claim by the claims handling department. These valuations may have been adjusted by the management on the basis of the results of appropriate valuation models taking account of past experience and the dismantling of the provision for claims not yet made.

### **Other technical provisions**

In accordance with the provisions of art. 25 of Legislative Decree 175 of 17/3/1995, these include the provision for old age formed for insurance contracts against long-term illnesses and for which the company has waived the right of withdrawal, the provision was calculated in accordance with the stipulations laid down by indent 3 of that article.

### **Equalisation provisions**

These contain the amounts of the provisions by implementing art. 12, indent 1 of Decree-Law no. 691 of 19/12/1994 concerning the procedures for the formation of the provision for balancing the risks of natural disasters. With reference to contracts with the characteristics referred to in art. 1 of the regulation implementing the former Ministerial Decree no. 705 of 19/9/96, the provision was made in accordance with the stipulations of the regulation. They include, amongst others, the provision for offsetting the credit branch referred to in art. 24 of Legislative Decree no.175/95.

### **Technical provisions - Life business**

The actuarial reserve for direct insurance in the life business was calculated analytically for each contract, on the basis of the pure commitments without reductions for policy acquisition expenses and making reference to the actuarial assumptions (technical interest rates, demographic assumptions of eliminations due to death or incapacity and operating expenses) used to calculate the premiums for the existing contracts. In each case, the actuarial reserves are not lower than the surrender values. The ratio of premiums to the share of annual premiums in the next financial year was included in the technical provisions.

The actuarial reserves also take in the additional provision for contracts with revisable payments as laid down in ISVAP Instruction 1801-G of 21/02/2001 and stated in art. 25 no. 12 of Legislative Decree 174/95.

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As stipulated in Legislative Decree 174/95, the actuary's report states the principles and technical procedures used to determine the provisions and that they are sufficient.

**Technical provisions where the investment risk is borne by the policyholders and provisions arising from pension fund management**

The provisions for all products with the characteristics stated by art. 30, paragraphs 1 and 2 of Legislative Decree 174/95 come within that category. Their calculation, as it is analytical by contract, follows the general procedures for other technical provisions in the Life business. These provisions most accurately represent the assets.

**Reinsurers' technical provisions**

Reinsurers' provisions include amounts in the year determined in accordance with contractual reinsurance agreements, on the basis of the gross amounts of the technical provisions.

In particular, the provision for unearned premiums on proportional cessions is calculated on the basis of the stipulations of art. 32 of Legislative Decree 173/97 for the gross provisions for unearned premiums.

**Inward reinsurance**

For reinsured risks, the premiums and costs already communicated by the ceding companies, excluding the companies which are part of the Group and any portfolios managed by your company, are partly recorded in the equity accounts and charged to the profit and loss account in the next financial year; the reason for that time difference is that it is impossible to have all the data available in time to produce the accounts. The technical provisions are recorded in the accounts on the basis of the communications from the ceding companies. On the basis of the stipulations of indent 2 of art. 39 of Legislative Decree 173/97, these communications are subject to careful and independent assessment and, where past experience shows any deficiencies, the appropriate adjustments are made to guarantee sufficient appropriations to provisions.

**Provision for future risks and charges**

This is formed for non-technical insurance risks, for which the amount and date of occurrence have not been determined.

**Provision for long service allowances pursuant to art. 30 CCNL**

The provision is formed for all employees who have completed twenty or thirty years of service with the company at the end of the financial year on the basis of the annual remuneration as at 31/12/2005 and proportional to the bonus payable on the 25<sup>th</sup> and 35<sup>th</sup> year of service. The provision is used for bonuses awarded and re-determined at the end of each financial year.

**Provision for property maintenance**

The provision includes the costs, in current and previous financial years, not yet borne because the relevant works, for technical and economical reasons, are carried out at periodic intervals.

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The total review of the provision is made, on the recommendation of an expert, exclusively with regard to property used as dwellings.

No provisions are made for property which it is planned to dispose of or completely restructure before the normal maintenance cycle has been completed and for individual properties which, on examination, show annual maintenance costs uniformly distributed over time.

### **Employees' severance indemnities**

This provision is made on the basis of existing employment contracts and the criteria stipulated in article 5 of Law no. 297 of 29/5/1982 governing severance indemnities.

The charge derived from contract renewals, with retroactive effect, is recorded in the accounts when these agreements come into force.

### **Accrued income and deferrals**

Accrued income and deferrals are calculated on a time basis so as to reflect the principle of the applicable time period in the accounts.

### **Guarantees, commitments and other memorandum accounts**

These are recorded in the accounts at the equivalent value of the commitments taken on or the guarantees provided or received.

### **Corporation tax**

Corporation tax is determined on the basis of the valuation of the fiscal charge in the current year and deferred. Direct taxation in the period is calculated on the basis of the fiscal regulations in force.

However, when there are temporary differences between the profit for the financial year and the taxable income, the tax temporarily deferred is calculated taking account of the nominal tax rate, providing appropriate adjustments in the event of a change in the rates for the current financial year.

Advance tax is recorded only if its recovery is reasonably certain in relation to the amount of the expected taxable income.

Liabilities for deferred taxation are recorded in the accounts if they arise out of temporary tax differences. Deferred tax is appropriated to the provisions, in accordance with prudential considerations, relating to the higher values not recognised for tax purposes for write-ups of investments made against capital losses on the merger not taxed originating from the incorporation of Fondiaria Assicurazioni S.p.A., when it is probable that these higher values will generate higher taxable amounts.

No provisions were made for taxation against the taxable equity reserves in the event of a distribution when that distribution is not probable.

Deferred tax is recorded in the accounts under corporation tax and is offset against the equity under "Other assets" or "Provisions for taxation".

Deferred tax paid arising as a result of the possibility of deducting the negative components referred to in art. 109 indent 4 b) of the new Tuir (as amended by Legislative Decree 344/03) from the taxable income is also recorded. These deductions outside the accounts relate only to depreciation on property for use by third parties.

The assets and liabilities for deferred tax also include the previous balances and those arising in the course of 2005 relating to participating interests which opted for the taxation system stipulated in art.115 of the Decree of the President of the Republic 917/1986.

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In that case, the deferred taxation of the participating interest is recorded in the accounts in proportion to the percentage shareholding held.

**Foreign currency transactions**

Transactions denominated in foreign currencies are recorded in the accounts by using multi-currency accounting. Therefore, the balances on the accounts stated in foreign currency are set out in the accounts by converting them into euros applying the exchange rates in force at the close of the financial year. The relevant effects are charged to the profit and loss account under "Other income", if positive or "Other charges", if negative.

Only shareholdings considered to be long-term are maintained at the historical exchange rate when the exchange rate does not represent a permanent loss of value.

**Apportionment of claims settlement expenses not directly chargeable to the Government**

On the basis of the evidence of analytical accounting, settlement expenses are apportioned between the "motor vehicle" and "Other Non-Life branches" sectors.

The apportionment for each branch in law is made in proportion to the arithmetic mean of the percentage incidences of the numbers of claims settled and the amounts, the latter do not include any particularly serious events.

All amounts set out in the annexes to the accounts are stated in euros. The figures in the Notes to the Accounts are stated in euros with an accurate indication in cases where amounts in thousand or million Euro are used with the normal rounding.



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## **Part B**

### **Information on the balance sheet and profit and loss account**

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# Balance sheet - Assets

Information on the changes in the items in the Balance Sheet and the corresponding values for the previous financial year are set out below.

Where the items for the previous financial year were not comparable with those for the current financial year, the necessary adaptations were made. The comments under the individual items show the adaptations or, where this is impossible, their non-comparability.

## Section 1

### INTANGIBLE ASSETS - (Item B)

All intangible assets, considered to be long-term, amounted to € 476,807K and are stated net of depreciation.

Intangible fixed assets are systematically depreciated in relation to their residual useful life. No situations emerged in the financial year showing evidence of write-downs due to long-term losses of value.

The changes in the financial year are summarised in annex 4, to which please refer.

(€K)	31/12/2005	31/12/2004	Change
Deferred acquisition commis-			
sion:			
Life business	2,727	3,921	(1,194)
Non-Life business	0	0	0
Start-up and expansion costs	31,616	36,134	(4,518)
Goodwill	412,313	460,970	(48,657)
Other multi-year costs	30,151	50,096	(19,945)
	476,807	551,121	(74,314)

### Deferred acquisition commission

This item refers to the whole of the former La Fondiaria life portfolio and complies with the original depreciation plan, equal to the actual term of the contracts which make it up. The depreciation period is contained within the limits of the policy loading charges and in any case over a period not exceeding ten years.

Total multi-year commission, in the life and non-life businesses, arising in the financial year was charged, in accordance with prudential considerations, to the profit and loss account.

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## Start-up and expansion costs

The item "Start-up and expansion costs" includes:

- € 12,733K for the expenses involved in the merger through incorporation of La Fondiaria S.p.A. into Fondiaria-SAI S.p.A., and depreciated over 5 years;
- € 15,243K concerning charges borne for the contracting of subordinated loans and depreciated over 5 years;
- € 3,640K relating to the cost of the loan granted by the subsidiary Sainternational SA.

In particular, in the course of the financial year, € 11m was charged to the profit and loss account, including € 8.8m relating to the cost of renegotiating the subordinated loan granted by Mediobanca originally for € 400m and € 2.2m for the new subordinated loan for € 100m granted by Mediobanca at the end of December 2005.

## Goodwill

The item "Goodwill " consists of:

- € 245,860K from the loss on the cancellation arising out of the merger through incorporation of La Fondiaria S.p.A. into Fondiaria-SAI S.p.A., which took place in 2002, net of the share charged to property and shareholdings: those costs are depreciated over 20 years;
- € 116,203K from goodwill from the incorporated entity Fondiaria Assicurazioni and relating to the company transfer operation in 1990 and depreciated over 20 years;
- € 46,777K relating to the incorporation of Fondiaria Assicurazioni which took place in 1995 and depreciated over 16 years;
- € 3,473K for the transfer, in 2001, of the portfolio from the subsidiary BIM Vita and the company Profilo Life made in the financial year.

## Other multi-year costs

"Other multi-year costs" are as follows:

(€K)	<u>31/12/2005</u>	<u>31/12/2004</u>	<u>Change</u>
- Research and development costs	29,120	47,935	(18,815)
- User licences for computer products	998	2,120	(1,122)
- Increased expenses on third party assets (assessment centres and agencies)	12	16	(4)
- Trade marks	22	25	(3)
<b>Total</b>	<b>30,152</b>	<b>50,096</b>	<b>(19,944)</b>

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During 2005, research and development costs of € 7.0m were capitalised. These related mainly to management consultancy to support the decision-making processes aimed at the development of growth incentives for the Group in the three year period 2006-2008, and to improve the performance of the Group's claims network.

The capitalisation of those amounts produces future profits it is considered can be derived from the above-mentioned activities.

With effect from 2005, the role of the subsidiary Uniservizi S.c.r.l. was strengthened. All resources management activities, existing and newly acquired goods and services in the areas of ICT, Services, Group Purchasing and Logistics and Organisational Services were concentrated in it. The activity of the co-operative company consists of the centralised management of all activities of interest to all the companies in the Group, in the ICT departments, Group purchasing (plant, equipment, fittings, consumable materials), and in the management of flows of information to all the companies concerned, for the distribution and rollover of the costs borne.

In the light of this new situation, during the financial year, the company arranged to transfer to Uniservizi the costs capitalised as at 1 January 2005 in the Group's "On-line" project, of a net value of € 3.5m.

The residual value of the research and development costs recorded under the assets allows dividends to be distributed as there are sufficient equity reserves available to cover the amount of the undepreciated costs.

All other multi-year costs were recorded under the assets in view of the fact that they are used for many years and are depreciated over three years for computer product licences and over five years for increased expenses on third party assets.

## Section 2

### INVESTMENTS - (Item C)

#### Land and buildings

(€K)	31/12/2005	31/12/2004	Change
Property intended to be used by the company	162,934	159,398	3,536
Property to be used by third parties	953,764	919,239	34,525
Other property	4,679	4,634	45
Other rights in rem	2,279	2,279	0
Gross total	1,123,656	1,085,550	38,106
Provision for depreciation	(99,949)	(92,659)	(7,290)
Net total	1,023,707	992,891	30,816
Current value	1,380,209	1,312,573	(67,636)

"Other property" includes the Montepulciano agricultural holding and some land in Turin (Corso Giulio Cesare), in Florence Via S. Leonardo 38-40-42 and Sanremo and property in Modena V. Buonarroto and in Rome Tor Carbone.

"Property to be used by third parties" also includes fixed assets in progress.

"Other rights in rem" includes some car spaces in Florence.

The € 38m reduction in the assets, gross of depreciation, compared with the figure as at 31/12/2004 is due to:

(€m)	31/12/2005	31/12/2004	Change
- Acquisitions	-	11	(11)
- Increased expenses and improvements	25	20	5
- Fixed assets in progress	23	5	18
- Sales	(10)	(265)	255
Total	38	(229)	267

The increase in fixed assets in progress relates to the purchase of a property situated in Turin, which will be completed in 2006, subject to the exercise of the purchase option on the market by the Ministry for Culture and the Environment.

Implementing the provisions of art. 18 of Legislative Decree 173/97 and ISVAP Instruction no. 1915-G of 20 July 2001, and on the basis of valuations by independent experts, the company decided the current value of the land and buildings it owned.

The market value was determined by the separate valuation of any assets, applying equity type methodology, supplemented by elements which take account of their income, consistent with the stipulations of the supervisory authority.

In total, the current value of the property is approximately € 387m greater than its book value. Gross capital gains amount to € 391m, whereas capital losses were € 4m.

The annex to the Notes to the Accounts sets out the current value separately for wholly owned property and cumulatively for jointly owned units. The negative differences between the book value and the current value were not considered to show a long-term loss of value for some properties owned.

Capital gains realised in the financial year gross of the selling expenses on the disposal of property amount to € 7m.

The assets relating to property were all considered to be long-term.

Annex 4 sets out the detail of the changes in the financial year.

## Investments in Group companies and in other participating interests

(€K)	31/12/2005	31/12/2004	Change
- Shares	2,700,061	2,730,456	(30,395)
- Debentures issued by companies	156	156	0
- Corporate financing	19,152	20,086	(934)
	2,719,369	2,750,698	(31,329)

Class C. II. of the balance sheet includes short-term listed assets, represented by the shareholding in the holding company Premafin Finanziaria S.p.A. - Holding di Partecipazioni.

### Shares

The shareholdings listed in item C.II.1 of the Balance sheet amount in total to € 2,700K after write-downs of € 17,126K, relating to classified shareholdings under "other long-term assets", and the increase in value of € 7,992K for the holding company Premafin Finanziaria S.p.A. classified under "short-term assets". That allocation is in accordance with the stipulations of the resolution of the Meeting on the purchase and disposal of shares in the holding company.

This item is as follows:

(€K)	31/12/2005	31/12/2004	Change
- Holding company	30,836	21,575	9,261
- Subsidiaries	2,584,236	2,611,544	(27,308)
- Associated companies	38,478	38,609	(131)
- Others	46,511	58,728	(12,217)
	2,700,061	2,730,456	(30,395)

The accounting value of the listed companies set out under item C.II.1 of the Balance Sheet is € 621,009K lower than the market value, determined on the basis of the arithmetic mean of the list prices for the month of December 2005; € 6,028K of that difference relates to the holding company Premafin Finanziaria S.p.A. and € 540,570K to the subsidiaries Milano Assicurazioni S.p.A. and € 74,411K to Immobiliare Lombarda S.p.A..

The other detailed information on shareholdings under item C.II.1 of the Balance sheet is set out in annexes 5-6-7 of these Notes to the Accounts.

As laid down in art.16 point 4 of Legislative Decree no.173/97, the following table is provided, relating to shareholdings in subsidiaries and associated companies, classified as "long-term", with a book value greater than the net equity, calculated using the methodology set out in point 5 of the above-mentioned article.

(€K)	% share	Accounting values	Valuation using the equity method	Difference
<u>Subsidiaries:</u>				
EFFE VITA S.p.A.	100.00	18,902	10,700	8,132
MILANO ASSICURAZIONI S.p.A.	58.27	829,800	766,273	63,527
NUOVE INIZIATIVE TOSCANE S.r.l.	96.88	162,402	153,335	9,067

These differences can be attributed to losses on shareholdings not considered to be long-term (Effe Vita), existing gains on property owned by the company (Nuove Iniziative Toscane and Milano) and goodwill paid at the time of the acquisition (Milano Assicurazioni).

## Debentures issued by companies

The fixed income securities listed under item C.II.2 amount in total to € 156K and are not listed on regulated markets.

This item is as follows:

(€K)	31/12/2005	31/12/2004	Change
Subsidiaries	156	156	0
	156	156	0

The whole item relates to debentures issued by the subsidiary SCAI S.p.A..

## Corporate financing

The situation of “Loans to other companies in the group and other participating interests”, with regard to the beneficiaries is as follows:

(€K)	31/12/2005	31/12/2004	Change
Holding company	0	0	0
Subsidiaries	19,152	20,086	(934)
	19,152	20,086	(934)

The loans granted may be detailed as follows:

(€K)	31/12/2005	31/12/2004	Change
Sasa S.p.A.	10,000	10,000	0
Uniservizi S.c.r.l.	5,000	0	5,000
Villanova S.r.l.	1,152	1,995	(843)
Sim Etoile S.A.	0	5,466	(5,466)
Consorzio Castello S.r.l.	0	2,325	(2,325)
Meridiano Risparmio	0	300	(300)
	16,152	20,086	(3,934)

The loan to Sasa S.p.A. was granted to enable the company to improve the component items of the subsidiary's solvency margin. That subordinated loan is for a period of ten years, with the option of even partial repayment with effect from the twenty-fourth month. Interest was set at the Euribor six month rate increased by 2.80% to be paid half yearly.

Loans to Uniservizi S.c.r.l. and International Strategy S.r.l. both mature on 31/12/2006 and the interest paid is at the Euribor 3 month rate increased by 1.25%.

The amount reduces by approximately 1 million euros essentially due to nonfulfilment of the loans to the subsidiaries Sim Etoile S.A., Consorzio Castello S.r.l. and Meridiano Risparmio and the granting of new loans to Uniservizi S.c.r.l. and Interna-



tional Strategy S.r.l.. The reduction in the amount of the loan to the subsidiary Villanova S.r.l. of € 843K should also be pointed out.

Loans granted to affiliated companies are detailed as follows:

(€K)	<u>31/12/2005</u>	31/12/2004	Change
International Strategy S.r.l.	3,000	0	3,000
	3,000	0	3,000

The loan to International Strategy S.r.l. matures on 31/12/2006 and the interest to be paid is at the Euribor 3 month rate increased by 1.25%.

The change is set out in annex 5.

## Other financial investments

(€K)	31/12/2005	31/12/2004	Change
Stocks and shares	1,522,437	1,505,615	16,822
Unit trust holdings	356,921	278,020	78,901
Debentures and other fixed income securities	9,046,164	8,113,884	932,280
Loans	77,417	80,939	(3,522)
Deposits with credit institutions	13,232	17,146	(3,914)
Sundry financial investments	937	15,491	(14,554)
	11,017,108	10,011,095	1,006,013

## Shares included under Other financial investments

This item is as follows:

(€K)	31/12/2005	31/12/2004	Change
Listed shares	1,491,699	1,475,505	16,194
Unlisted shares	30,738	30,110	628
	1,522,437	1,505,615	16,822

The shareholdings recorded capital losses due to an alignment of € 2,680K on investments in listed companies.

The value readjustments amount to € 9,150K, of which € 8,346K relates to listed shareholdings and € 804K to unlisted shareholdings.

The accounting value of listed companies is € 419,429K less than the market value determined on the basis of the arithmetic mean of the list prices for the month of December and the exchange rates at the end of the financial year.

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The most significant operations under item C.III.1 were as follows:

- ACEA: purchase and sale of 4,000,000 shares realising a capital loss of € 1,394K; during the financial year, the company distributed dividends of € 1,512K;
- AEM: purchase of 6,150,158 shares with an outlay of € 10,799K. The percentage direct shareholding is 0.05%;
- AUTOSTRADE: purchase of 9,765,000 shares with an outlay of € 189,787K and sale of 9,797,000 shares realising a net capital loss of € 2,398K; during the financial year, the company distributed dividends of € 2,685K;
- BANCA INTESA RISP. NC.: purchase and sale of 5,000,000 shares realising a capital loss of € 533K; during the financial year, the company distributed dividends of € 580K;
- BANCA PROFILO: sale of 5,570,000 shares realising a capital gain of € 1,549K;
- BANCA POPOLARE DI VERONA E NOVARA: purchase of 3,500,000 shares with an outlay of € 51,450K and sale of 3,565,000 shares realising a net capital loss of € 1,609K; during the financial year, the company distributed dividends of € 1,750,156K;
- CASSA DI RISPARMIO DI FIRENZE: sale of 2,998,750 shares realising a capital gain of € 2,355K;
- CIR: purchase of 5,000,000 shares with an outlay of € 10,238K and sale of 5,100,000 shares, realising a net capital loss of € 222K; during the financial year, the company distributed dividends of € 255K;
- ENEL: purchase of 26,422,000 shares with an outlay of € 183,565K and sale of 27,904,500 realising a net capital loss of € 5,990K; during the financial year, the company distributed dividends of € 6,788K. The percentage direct shareholding is 0.01%;
- ENI: purchase of 21,067,900 shares with an outlay of € 473,976K and sale of 21,008,500 realising a capital loss of € 12,246K; during the financial year, the company distributed dividends of € 13,046K. The percentage direct shareholding is 0.0002%;
- FINMECCANICA: purchase and sale of 22,500,000 shares realising a capital loss of € 259K; during the financial year, the company distributed dividends of € 320K. The percentage direct shareholding is 0.03%;
- GEMINA: purchase of 2,441,013 shares with an outlay of € 4,882K. The percentage direct shareholding is 3.68%;
- IFIL: purchase and sale of 5,217,500 shares realising a capital loss of € 320K; during the financial year, the company distributed dividends of € 362K. The percentage direct shareholding is 0.01%;
- ITALMOBILIARE: sale of 313,705 shares realising a capital gain of € 8,264K. The percentage direct shareholding is 3.58%;
- MEDIASET: purchase of 5,015,000 shares with an outlay of € 50,901K and sale of 5,000,000 shares realising a capital loss of € 1,772K; during the financial year, the company distributed dividends of € 1,910K. The percentage direct shareholding is 0.003%;
- MELIORBANCA: purchase of 1,570,000 shares with an outlay of € 4,976K. The percentage direct shareholding is 6.10%;
- MONTE DEI PASCHI DI SIENA: sale of 24,450,000 shares realising a capital gain of € 2,032K. The percentage direct shareholding is 1.44%;

- PIRELLI & C.: subscription of the increase of share capital, subject to the detachment and sale of part of the option rights, realising a capital gain of € 1,944K, for 47,498,142 shares and an outlay of € 33,249K. The percentage direct shareholding is 4.35%;
- RAS: purchase and sale of 2,820,000 shares realising a net capital loss of € 1,847K; during the financial year, the company distributed dividends of € 2,000K;
- SAIPEM: purchase of 5,075,000 shares with an outlay of € 49,000K and sale of 5.000.000 realising a capital loss of € 686K; during the financial year, the company distributed dividends of € 750K. The percentage direct shareholding is 0.02%;
- SNAM RETE GAS: purchase of 9,929,400 shares with an outlay of € 44,496K and sale of 10,064,554 shares realising a net capital loss of € 4,607K; during the financial year, the company distributed dividends of € 4,987K. The percentage direct shareholding is 0,0004%;
- TELECOM ITALIA ORD: purchase of 57,500,000 shares with an outlay of € 167,937K and sale of 57,688,750 shares realising a net capital loss of € 5,622K; during the financial year, the company distributed dividends of € 6,346K. The percentage direct shareholding is 0.004%;
- TELECOM ITALIA RISP: purchase of 21,650,000 shares with an outlay of € 52,362K and sale of 20,500,000 shares realising a capital loss of € 2,311K; during the financial year, the company distributed dividends of € 2,567K. The percentage direct shareholding is 0.04.%;
- UNICREDIT BANCA: purchase of 25,000,000 shares with an outlay of € 110,394K and sale of 25,111,900 shares realising a net capital loss of € 4,558K; during the financial year, the company distributed dividends of € 5,226K. The percentage direct shareholding is 0.01%.

### Unit trust holdings

(€K)	31/12/2005	31/12/2004	Change
Unit trust holdings	356,921	278,020	78,901
	356,921	278,020	78,901

The main holdings in this sector are the Tikal Fund of € 203,126K and the Fondo Immobili Pubblici (Public Property Fund), of € 74,168K.

The significant increase came principally from the acquisition of the above-mentioned Fondo Immobili Pubblici whereas further shares in the Tikal Fund were purchased, in which Fondiaria-SAI has a controlling stake of € 6,522K.

The capital losses recorded due to alignment amount to € 44K whereas compulsory value readjustments amount to € 1,623K.

### Debentures and other fixed income securities

(€K)	31/12/2005	31/12/2004	Change
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Listed	8,807,804	7,862,543	945,261
Unlisted	237,343	245,512	(8,169)
Convertible debentures	1,017	5,829	(4,812)
	9,046,164	8,113,884	932,280

In the financial year, € 4,072K was charged for issue spreads and discounts with a positive impact on the profit and loss account, and € 517K for trading spreads with a positive net impact on the profit and loss account.

The capital loss due to alignments with market values, which are lower than the accounting value recorded on the profit and loss account, amounts to € 37,009K; the compulsory readjustments amount to € 2,064K. Listed securities are recorded in the accounts at a total value of € 255,711K lower than the market value determined on the basis of the arithmetic mean of the list prices in the last six months of 2005 for securities classified under "long-term assets" and the arithmetic mean for the month of December 2005 for securities classified under "short-term assets" and the exchange rates at the end of the financial year.

The positions of significant amount are set out below broken down by issuer

Issuer - (€K)	2005	2004
Italian State	4,577,459	4,998,185
State of Germany	1,040,396	411,251
State of Greece	574,314	91,866
State of the Netherlands	414,203	69,416
State of France	206,774	170,308
State of Belgium	137,453	107,350
Enel	125,608	130,953
Bear Stearns	82,443	-
State of Portugal	73,680	90,299
State of Spain	69,986	50,022
Monte dei Paschi di Siena	61,025	57,068
Morgan Stanley	56,507	-
BEI Banca Europea Investimenti	51,499	78,061
Banca Intesa Ireland	49,000	-
Unicredit Banca	48,312	-
Allianz Finance	47,963	-
Mediobanca	44,073	64,669
State of Austria	38,351	-
Telecom Italia	37,264	38,975
Portugal Telecom	35,678	-
Citigroup	33,657	-
France Telecom	30,501	48,955
Commerzbank	29,437	29,436
Banca Intesa	28,949	28,304
Società Generale	26,644	35,000
Barclays Bank	26,493	-
Olivetti Finance	23,008	25,547
Bayer Hypo-Vereinsbank	22,024	28,146

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Autostrade	21,426	42,873
RCI Banque	21,414	-
Deutsche Telecom	20,750	13,372
Infrastrutture	20,396	20,390
Veolia Environ	20,248	25,302

As at 31/12/2005 there were the following positions in the portfolio relating to securities with subordination clauses, for a total book value of approximately € 241m:

(€K)							
Section	Beneficiary	Book value	Nominal value	Redemption date	Level of subordination	Interest rate	Early re-payment
C.III.3 ASSURANCE GEN.DE FRANCE		3,532	3,500	perpetual	Tier 1	4,6250%	10-Jun-15
C.III.3 AVIVA		6,408	6,200	perpetual	Tier 1	4,7291%	28-Nov-14
C.III.3 BANCA ANTONVENETA		2,516	2,500	23-Apr-13	Lower Tier 2	Euribor 3m+90	23-Apr-08
C.III.3 BANCA CARIGE		2,515	2,500	28-Sept-11	Lower Tier 2	Euribor 3m+80	28-Sept-06
C.III.3 BANCA INTERMOBILIARE		999	968	29-Jul-15	Lower Tier 2	1,5000%	29-Jan-07
C.III.3 BANCA INTESA		230	230	1-Dec-07	Lower Tier 2	Euribor 3m+20	no
C.III.3 BANCA ITALEASE		4,990	5,000	15Oct-14	Lower Tier 2	Euribor 3m+50	15Oct-09
C.III.3 BANCA LOMBARDA		7,983	8,000	30-Jun-14	Lower Tier 2	Euribor 3m+45	30-Jun-09
C.III.3 BANCA POPOLARE EMILIA ROMAGNA		4,038	4,000	28-Jun-12	Lower Tier 2	Euribor 3m+90	28-Jun-07
C.III.3 BANCO BILBAO VIZCAYA ARG.		3,399	3,300	20-Oct-19	Lower Tier 2	4,3750%	20-Oct-14
C.III.3 BANESTO BANCO EMISIONES		12,828	12,500	23-Mar-16	Lower Tier 2	4,0000%	23-Mar-11
C.III.3 BANQUE PARIBAS		2,487	2,500	7-Aug-08	Lower Tier 2	5,6250%	no
C.III.3 BARCLAYS BANK		16,158	17,000	perpetual	Tier 1	4,7500%	15-Mar-20
C.III.3 BAYER		2,474	2,500	29-Jul-2105	Lower Tier 2	5,0000%	29-Jul-15
C.III.3 BAYER HYPO-VAREINSBANK		22,024	22,500	21-Jul-06	Lower Tier 2	Zero coupon	no
C.III.3 BCP FINANCE BANK		4,038	4,000	28-Oct-13	Lower Tier 2	Euribor 3m+55	28-Oct-08
C.III.3 CASSA RISPARMIO FIRENZE		4,478	4,500	5-Dec-13	Upper Tier 2	Euribor 3m+95	no
C.III.3 CASSA RISPARMIO FIRENZE		7,484	7,500	15-Dec-14	Lower Tier 2	Euribor 3m+40	15-Dec-09
C.III.3 COMMERZBANK		12,485	12,500	21-Apr-09	Lower Tier 2	4,7500%	no
C.III.3 CREDIT AGRICOLE		2,494	2,500	perpetual	Tier 1	4,1300%	9-Nov-15
C.III.3 CREDIT LOGEMENT		3,508	3,500	perpetual	Tier 1	Euribor 3m+60	15-Dec-09
C.III.3 DANSKE BANK		6,507	6,500	16-Mar-18	Upper Tier 2	4,1000%	16-Mar-15
C.III.3 DEUTSCHE BANK		10,981	11,000	20-Sept-16	Lower Tier 2	Euribor 3m+30	20-Sept-11
C.III.3 DEUTSCHE CAP TRUST IV		4,295	4,000	perpetual	Tier 1	5,3300%	19-Sept-13
C.III.3 DEXIA CREDIT LOCAL		1,500	1,500	perpetual	Tier 1	4,3000%	18-Nov-15
C.III.3 DZ BANK CAPITAL FUND 2		1,007	1,000	perpetual	Tier 1	Euribor 3m+160	22-Nov-11
C.III.3 EFG HELLAS FUNDING		1,500	1,500	perpetual	Tier 1	4,5650%	2-Nov-05
C.III.3 ERSTE FINANCE 6		1,715	1,750	perpetual	Tier 1	5,2500%	23-Sept-10
C.III.3 GENERALI		2,500	2,500	20-Jul-22	Lower Tier 2	6,9000%	20-Jul-12
C.III.3 HBOS		1,452	1,500	18-Mar-30	Lower Tier 2	4,5000%	18-Mar-25
C.III.3 HSBC CAPITAL FUNDING		2,504	2,500	perpetual	Tier 1	5,1300%	29-Mar-16
C.III.3 HSBC HOLDINGS		5,398	5,400	22-Sept-14	Lower Tier 2	Euribor 3m+30	22-Sept-09
C.III.3 ISLANDSBANKI		4,950	5,000	perpetual	Tier 1	8,0000%	16-Jun-15
C.III.3 KAUPTHING BANK		6,487	6,500	30-Jun-14	Lower Tier 2	Euribor 3m+65	30-Jun-09
C.III.3 MONTE DEI PASCHI DI SIENA		5,999	6,000	2-Oct-06	Tier 3	Euribor 3m+30	no
C.III.3 MONTE DEI PASCHI DI SIENA		4,486	4,500	30-Nov-17	Lower Tier 2	Euribor 3m+40	30-Nov-12
C.III.3 MONTEPASCHIVITA		17,150	17,150	1-Dec-09	Other clauses	Euribor 3m+80	1-Dec-06
C.III.3 SANTANDER PERPETUAL		12,686	12,500	perpetual	Lower Tier 2	4,3750%	10-Dec-14

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C.III.3 SNS BANK NEDERLAND	2,743	2,500	perpetual	Tier 1	5,7500%	22-Jul-13
C.III.3 SOCIETE GENERALE	16,644	16,500	perpetual	Tier 1	4,1960%	26-Jan-15
C.III.3 STANDARD CHARTERED	2,495	2,500	3-feb-17	Lower Tier 2	3,6250%	3-Feb-12
C.III.3 THOMSON	1,311	1,500	perpetual	Tier 1	5,7500%	25-Sept-15
C.III.3 VITTORIA ASSICURAZIONI	18	17	1-Jan-16	Lower Tier 2	5,5000%	1-Jan-11
	241,396	241,515				

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## Loans

The item is as follows:

(€K)	31/12/2005	31/12/2004	Change
Loans with tangible security	29,458	34,913	(5,455)
Loans on policies	42,854	40,629	2,225
Other loans	5,156	5,397	(241)
	77,468	80,939	(3,471)

Loans with tangible security refer principally to a loan called a mezzanine loan for € 29,327K granted to Ganimede S.r.L. after the spin-off property operations which took place in 2003. That loan is backed by a second mortgage on the property transferred to Ganimede; the repayment of the capital and interest is subject to meeting the debtor's payment obligations pursuant to the "senior" loan acquired by it, always in relation to the transaction described; the term is for seven years from the date it is granted, therefore maturing in December 2010; advance partial repayments by the debtor are stipulated in the repayment plan for the property in the transaction and the debtor has the option to make total or partial early repayment of the loan at any time.

The interest rate is 8%. The change in the item "loans with tangible security" relates wholly to repayments of the above-mentioned loan made in 2005. Considering that the original value of the loan was € 33,624K, currently and on the basis of the information available, it is considered that there are no risks relating to the recoverability of the remainder of the above-mentioned loan.

The change in the item "loans with tangible security" refers wholly to repayments of the above-mentioned loan in 2005.

"Loans on policies" for life insurance increased by € 2,225K compared with the 2004 accounts due to new expenditure of € 14,216K and repayments of € 11,991K.

"Other loans" consist mainly of loans granted to employees on which no guarantees are issued.

## Deposits with credit institutions

These decreased by € 3,915K from € 17,147K in the 2004 accounts to € 13,232K. The amount includes only bank deposits from which drawings are subject to temporary fixed deposits of more than 15 days.

Annex 10 sets out the change in loans and deposits with credit institutions in the financial year.

## Sundry financial investments

These amount to € 937K (€ 15,491K in 2004).

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The decrease compared with the previous financial year is due mainly to the nonfulfilment of repurchase agreements maturing after 31 December.

## **DERIVATIVES**

Pursuant to the stipulations of art. 7 point 3 of ISVAP Instruction no. 297 of 19/07/1996, it is reported that, during the financial year, the company entered into derivative finance agreements as specified in more detail below; the activity was carried out in full compliance with the framework resolution of the Board of Directors dated 23 March 2005 on the utilisation of derivative and structured financial instruments making use of the control and monitoring tools available which exist within the scope of the company's organisation for verifying the consistence of the operations carried out and the strategy for the effectiveness of hedging operations within the limits set; furthermore for each hedging operation the related "Hedging Relationship Documentation" stipulated in the above-mentioned resolution was produced in accordance with the stipulations on the subject in the international accounting principles.

### **Open positions**

Open positions in derivative instruments at the end of the financial year relate mainly to :

- Hedging operations on listed shareholdings by forming a portfolio of combined options (purchases of put options – sales of call options with the same contractual characteristics). The quantity of shares in the portfolio hedged consists of 7,750,000 Mediobanca shares, 62,000,000 Pirelli & C. ord. shares, 19,000,000 Monte dei Paschi di Siena shares, 21,200,000 Capitalia shares, 3,750,000 RCS Mediagroup ord. shares. This strategy arranged to cover a considerable part of the latent capital gains on the market in the listed share section, arranging the settlement at maturity of the differential as soon as the underlying security is handed over;
- Purchase options linked to a basket or international share indexes for a value of premiums paid of € 937K.

### **Closed operations**

The following operations were completed during the financial year:

- Purchase of put options on debentures for a notional € 304,250K, for which the abandonment cost was € 776K;
- Sale of call options on debentures for a notional € 152,665K; partly abandoned or closed and partly exercised, those abandoned by the other party were recorded in the accounts under investment income of € 21K, those closed were recorded in the accounts under equity and financial charges of € 2,553K, those exercised were recorded in the accounts to increase income from the sale by € 50K;
- Purchase of call spread options on Italian and overseas shares on a notional represented by 30,000 Autostrade ord. shares, 29,250 Credit Suisse Group shares reg. in CHF, 14,500 Deutsche Bank shares, 22,000 Numico ord. shares; those

abandoned involved a cost of € 65K, those abandoned by the other party involved income of € 7K, those closed involved a cost of € 7K and income of € 22K;

- credit default swap for the purposes of covering the risk of the issuer Morgan Stanley with premiums paid with a cost of € 97K.

The abandonment of put purchase options on debentures and the cost borne for closing call sales options on debentures are fully offset by the drawings from the provision for risks and charges, with regard to the operations which were opened at the end of the previous financial year.

## Long-term equity

ISVAP Instruction no. 893 G dated 18 June 1998 issued stipulations on the classification and valuation of insurance companies' securities portfolio, in particular with regard to the determination of the essential characteristics, in terms of quality and quantity, of the long-term investments and short-term investments sections.

Pursuant to art. 15 of Legislative Decree 173/97, equity intended to be maintained in the company's equity for the purposes of a stable investment is allocated to the "Long-term equity" section.

These are Class B investments "Intangible assets", C.I "Land and buildings" and class C.II and C.III "Securities", the latter within the limits of the "framework resolution" approved by the Board of Directors on 24 September 1998 and illustrated in the Notes to the Accounts - Part B of the Accounts for the 1998 financial year, as amended by the Board of Directors on 29 September 1999; by a resolution dated 26 March 2004, the Board of Directors redefined the guidelines in order to re-balance the structure of the securities portfolio to contain the level of capitalisation of the assets and risks deriving from their composition, consistently with the portfolio management planning and the time profile of the commitments to policyholders. The resolution states specifically that securities in the "Long-term investments" section are held in the company's equity as a "stable investment", this requirement must continue to be met at the time the security is allocated to the section.

Furthermore, another condition for capitalisation of the security is that it has a rating at least equal to BBB- or equivalent.

The new guidelines were applied to allocations to sections after 1/1/2004.

Long-term assets represented by securities and shareholdings amount to € 5,438,792K as at 31/12/2005, corresponding to 39.91% of the company's securities portfolio (classes C.II and C.III), as follows:

(€K)	31/12/2005	31/12/2004	Change
Shareholdings and funds	3,994,852	4,061,976	(67,124)
Fixed income securities	1,443,940	1,597,993	(154,053)
	5,438,792	5,659,969	(221,177)

The comparison of the accounting value of the listed securities included in the long-term assets section and their market value determined on the basis of the arithmetic mean of the list prices for the month of December 2005 for shareholdings and the arithmetic mean of the list prices in the last six months of 2005 for fixed income securities shows net capital gains not shown of € 1,152,449K including € 995,658K of net capital gains on shareholdings and € 156,791K for net capital gains on fixed income securities.

Long-term equity included under shareholdings in the following listed companies in particular:

<b>Company</b>	<b>Number of shares</b>	<b>Book value (€K)</b>
Aem	6,150,158	10,799
Banca Intermobiliare	2,683,400	17,861
Banca Intesa	44,184,083	181,536
Capitalia	49,615,187	173,653
Gemina	13,373,013	20,384
Generali	15,761,100	437,591
Immobiliare Lombarda	2,057,550,000	325,782
Mediobanca	25,438,686	138,902
Meliorbanca	7,700,000	24,725
Milano Assicurazioni ord.	249,416,878	893,328
Monte dei Paschi di Siena	35,255,250	100,477
Pirelli & C.	223,543,498	159,918
Rcs Mediagroup	14,329,502	52,295

Capital losses due to the alignment with the charge to the profit and loss account of € 17,784K were recorded under long-term assets: of these € 17,126K were unlisted shareholdings in subsidiaries, € 658K was the write-down of the shareholding in the listed company Meliorbanca as the surplus book value compared with the prices at the end of the financial year was considered to be an expression of a permanent loss of value.

Compulsory value readjustments of € 3,298K were also recorded relating to securities and listed shareholdings.

Changes in the long-term assets in the financial year under items C.III.1, C.II.2, C.III.3 and C.III.7 are set out in annexes 8 and 9.

The main changes in the financial fixed assets as at 31/12/2005 and those as at 31/12/2004 in accordance with the approved guidelines can be attributed to:

Total as at 31/12/2004	1,597,993
- acquisitions and mergers	388,819
- capital transactions	153,430
- transfers from class D1	10
- discounts	6,496
- sale and mergers	(755,455)
- value adjustments	(14,477)
Total as at 31/12/2005	1,443,940

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## **Deposits with ceding companies**

These reduced by € 54,863K from € 381,149K as at 31/12/2004 to € 326,286K as at 31/12/2005: € 257,442m of these relate to the subsidiary Novara Vita S.p.A..

That change can be attributed essentially to the reinsurance policy with the subsidiary Novara Vita. With effect from the 2004 financial year, the new premiums for the quota and capitalisation treaty are no longer reinsured. The reinsurance of the risk portfolio remains in force.

## **Section 3**

### **INVESTMENTS FOR THE BENEFIT OF HOLDERS OF LIFE POLICIES WHO BEAR THE RISKS OF SUCH INVESTMENTS AND INVESTMENTS DERIVING FROM PENSION FUND MANAGEMENT - (Item D)**

These amount in total to € 729,406K and € 623,937K to Class D.I investments and € 105,469K to Class D.II investments (as at 31/12/04 € 725,228K, including € 642,533K for Class D.I.).

In accordance with the stipulations of ISVAP Circular no. 360/D of 21/1/1999, transfers were made from class D to class C for a total of € 40,852K because of payments of advance surrenders of policies and cancellations of contracts.

Transfers of a value of € 18,063K between class C and class D were made in the financial year because new contracts were issued, for which the payments were covered by securities already held in the portfolio.

Annex 11 sets out the composition by type of investments separately for each type of class D.I. product.

Investments deriving from pension fund management are stated in annex 12. Their composition is set out by type and section, please refer to the specific statements appended to the accounts for more details.

## SAI Open-end Pension Fund

(€K)	<u>Previ-mix</u>	<u>Previ-gest</u>	<u>Previ-bond</u>	<u>Previ-capital</u>	<u>Previ-europa</u>	<u>Previ-global</u>
<b>Management lines</b>						
Shares	8,436	608	-	15	76	121
Debentures and fixed income securities	7,105	3,305	1,529	80	12	42
Other assets	819	343	209	25	40	54
	16,360	4,256	1,738	120	128	217

## Fondiaria Previdente Pension Fund

(€K)	Share line	Balancing line	Debenture line	Currency line	Guaranteed currency line
<b>Management lines</b>					
Shares	24,232	10,105	-	-	-
Debentures and fixed income securities	4,340	9,201	6,123	1,491	1,862
Other assets	1,284	545	204	44	59
	29,856	19,851	6,327	1,535	1,921

## Previdenza Pension Fund

(€K)	Share line	Balancing line	Debenture line	Guaranteed currency line
<b>Management lines</b>				
Shares	3,371	5,700	-	-
Debentures and fixed income securities	603	5,087	2,456	5,291
Other assets	163	267	55	167
	4,137	11,054	2,511	5,458

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## Section 4

### REINSURERS' TECHNICAL PROVISIONS - (Item D bis)

These decreased in total by € 39,070K, as shown in the table below:

(€K)	31/12/2005	31/12/2004	Change
<b>NON-LIFE BUSINESS</b>			
Provision for unearned premiums	36,269	36,004	265
Provision for outstanding claims	299,051	338,737	(39,686)
<b>TOTAL</b>	<b>335,320</b>	<b>374,741</b>	<b>(39,421)</b>
<b>LIFE BUSINESS</b>			
Actuarial reserves	77,750	76,874	876
Provisions for sums payable	1,828	2,353	(525)
<b>TOTAL</b>	<b>79,578</b>	<b>79,227</b>	<b>351</b>
<b>OVERALL TOTAL</b>	<b>414,898</b>	<b>453,968</b>	<b>(39,070)</b>

Reinsurers' provisions for unearned premiums in the non-life business are recorded as facultative and excess of loss treaties whereas, for proportional treaties, the same criterion was used to determine the provision for unearned premiums in the direct business.

## Section 5

### DEBTORS - (Item E)

(€K)	31/12/2005	31/12/2004	Change
Debtors arising out of direct insurance operations	1,285,868	1,207,016	78,852
Debtors arising out of reinsurance operations	62,144	78,353	(16,209)
Other debtors	732,682	670,307	62,375
	2,080,694	1,955,676	125,018

### Debtors arising out of direct insurance operations

(€K)	31/12/2005	31/12/2004	Change
Premiums receivable from policyholders	480,003	419,887	60,116
Insurance intermediaries	583,410	473,078	110,332
Companies' current accounts	180,015	270,350	(90,335)
Policyholders and third parties for amounts recoverable	42,440	43,701	(1,261)
	1,285,868	1,207,016	78,852

Appropriations were made in the previous financial years of a total of € 514,063K for premiums receivable from policyholders (including € 448,489 for premiums written in the current year and € 65,574K for premiums written in previous financial years) to the provisions for bad debts for possible non-payment by policyholders of the gross total amount of € 34,060K (€ 28,507K for premiums written in the current year and € 5,553K for premiums written in previous financial years).

The apportionment of the above-mentioned provision for bad debts is set out for possible cancellations and non-payment by policyholders, for the main branches concerned:

(€K)	31/12/2005	31/12/2004	Change
Motor TPL	8,097	16,500	(8,403)
Health	6,920	7,340	(420)
General TPL	5,003	6,144	(1,141)
Fire	3,696	4,743	(1,047)
Accident	2,174	4,196	(2,022)
Other property damage	2,277	3,201	(924)
Land vehicles – own damage	2,535	3,166	(631)
Bonds	2,632	2,989	(357)



## Debtors arising out of reinsurance transactions

(€K)	31/12/2005	31/12/2004	Change
Insurance and reinsurance companies	61,626	78,282	(16,656)
Reinsurance intermediaries	518	71	447
	62,144	78,353	(16,209)

The gross value of debtors arising out of reinsurance transactions of € 70,144K is adjusted, in accordance with prudential considerations, by the amount of € 8,000K, recorded as the provision for bad debts for possible losses which might affect some overseas reinsurers.

Debtors arising from insurance intermediaries were mostly settled in January. In accordance with prudential considerations, an amount of € 18,634K was recorded against the gross amount of € 602,044K for possible bad losses deriving from non-payment by some brokers and former agents.

Current accounts include coinsurance, Convenzione Indennizzo Diretto (Direct Indemnity Agreement), payment of claims on behalf of overseas companies and the Fondo Vittime della Strada (Road Victims Guarantee Fund), invoices receivable.

A provision for bad debts of € 240K was recorded against the gross amount of € 180,255K.

## Other debtors

The value of "Other debtors" € 732,682K (€ 670,307K in 2004) has already been adjusted, in accordance with prudential considerations, by the amount of € 11,145K for possible losses deriving from non-payment of some trade items.

Amounts receivable from the Tax Authorities for withholdings on account, advance tax on actuarial reserves paid pursuant to Decree-Law 209/2002, advance tax on insurance pursuant to former Decree-Law 282/2004, loans for which repayment was requested and interest of a total of € 435,471K were recorded under "Other debtors".

€ 187,135K of this relates to amounts due from the Revenue transferred to the company for advance payments made in the 2005 financial year, to which € 23,405K is added for the amounts receivable transferred in that year to the company which, as the consolidating company, will make the settlement and payment of the Group IRES, as it is part of the consolidated taxation pursuant to articles 117 et seq. of the Decree of the President of the Republic 917/1986.

Again due to the effect of adopting Group taxation, amounts due from subsidiaries and companies consolidated for tax purposes are recorded to subsidiaries and companies consolidated fiscally of € 101,922K for tax in the year of the above-mentioned

companies relating to the transfer of taxable income to the Group.

That last amount is offset by the provision for taxation at the end of the year, net of amounts due to consolidated companies which made fiscal losses in that financial year again and always to the extent in which the tax saving relating to the loss is allocated to the subsidiary.

With reference to what is set out in full in the management report on the use of the new fiscal consolidation, it is stressed that infra-group financial adjustments of debtor and creditor positions set out above will be made at the same time fixed for payment of the balance of IRES owed for 2005 .

The most significant components of the other items making up the balance of “Other debtors”, gross of the provision for bad debts are set out below:

(€K)	2005	2004	Change
Amounts due from the Tax Authorities	435,471	394,695	40,776
Amounts due for Group IRES	101,922	132,734	(30,812)
Rentals and expenses being collected	8,357	8,307	(50)
Customers	13,364	7,517	5,847
<b>Total</b>	<b>559,114</b>	<b>543,253</b>	<b>15,861</b>

## Section 6

### OTHER ASSETS - (Item F)

(€K)	31/12/2005	31/12/2004	Change
Tangible assets and stocks	13,456	18,605	(5,149)
Cash at bank and in hand	217,294	145,941	71,353
Shares	138,079	86,179	51,900
Other assets	549,401	555,146	(5,745)
	<b>918,230</b>	<b>805,871</b>	<b>112,359</b>

### Tangible assets and stocks

(€K)	31/12/2005	31/12/2004	Change
Furniture, office equipment and internal means of Transport	9,130	13,834	(4,704)
Properties recorded at public registries	10	19	(9)
Plant and equipment	1,314	1,777	(463)
Other stocks and goods	3,002	2,975	27
	<b>13,456</b>	<b>18,605</b>	<b>(5,149)</b>

Stocks were depreciated as follows:

- furniture, office equipment, Internal means of transport depreciated share	91.14%
- properties recorded at public registries	“ 92.65%
- plant and equipment	“ 92.37%

With effect from this financial year, in order to achieve greater rationalisation and control of expenditure and investments, purchases of operational property were concentrated in the subsidiary Uniservizi Scarl, which charges the fee for the use of those assets to the associated companies.

These amounts are considered to be long-term assets and, in the course of the financial year, there were the following changes:

(€K)	2005	2004
Acquisitions	112	2,601
Sales	(295)	(845)
Provision for depreciation	(4,966)	105,753
	(5,149)	107,509

Depreciation of € 110,719K (€ 105,753K in 2004) increased by € 4,966K: depreciation in the year amounted to € 5,169K, whereas the use of depreciation for sales and disposals was € 203K.

## Cash at bank and in hand

(€K)	31/12/2005	31/12/2004	Change
Bank deposits and post office accounts	217,277	145,738	71,539
Cheques and cash in hand	17	203	(186)
	217,294	145,941	71,353

Bank deposits and post office accounts include the credit balances on the accounts and available as they are not subject to temporary deposits of more than 15 days.

Fees of € 4,972K accrued in the financial year.

€ 160,648K under bank deposits, in 13 current accounts opened with the subsidiary BancaSai S.p.A..

## Shares

As at 31/12/2005, 8,075,212 ordinary Fondiaria-SAI S.p.A. shares were held, for a total amount of € 138,079K. 2,246,000 ordinary Fondiaria-SAI S.p.A. shares were purchased in the financial year for an outlay of € 51,900K.

## Detail of debtor items C and E of the assets by maturity date and by type

The table below was produced as a supplement to the items shown previously in the assets and on the basis of the provisions of 16 of Legislative Decree 26/5/1997 no. 173.

(€K)	Premiums receivable from policyholders	Other debtors arising out of direct insurance operations	Debtors arising out of reinsurance operations	Other loans and financing	Total
1 year term	480,003	686,659	388,432	629,247	2,184,341
2 to 5 year term	0	47,677	0	136,875	184,552
Term of more than 5 years	0	71,529	0	44,028	115,557
<b>TOTAL</b>	<b>480,003</b>	<b>805,865</b>	<b>388,432</b>	<b>810,150</b>	<b>2,484,450</b>

€ 103,435K of debtors with a term of more than one year are amounts due from the Tax Authorities and to other debtors of more than one year are represented mainly by amounts due from agents for recoupment and instalments on loans on life policies, or loans to employees. Interest is earned on the above-mentioned loans.

## Other assets

(€K)	31/12/2005	31/12/2004	Change
Transitional reinsurance accounts	7,181	7,390	(209)
Sundry assets	542,220	547,756	(5,536)
	<b>549,401</b>	<b>555,146</b>	<b>(5,745)</b>

Transitional assets accounts include losses of technical income relating to direct and retroceded business and offset against operations recorded in the accounts for reinsurance companies, recorded in the technical account in the next financial year, because there is insufficient information necessary for determining the related result.

“Sundry assets” include the “connecting account” between the life and non-life businesses which shows a credit balance in the life business of € 231,873K.

Sundry assets include, amongst others "advance tax", calculated by applying the rates of tax which will be in force at the time the inversions of the same temporary differences are found to the nominal values of the temporary differences deductible.

The amount recorded at the end of the year amounts to € 183,044K and derives from transfers of a total of € 72,359K and from assets in the financial year of € 65,338K including € 59,687K for the current year and € 5,651K for previous financial years.

That last change relates to the appropriation for previous deferred tax to headings already included in the provision for risks and charges for which it was not considered appropriate, in accordance with prudential considerations, to make a provision for the related taxes because of the uncertainty of the temporary occurrence of the charges.

Sundry assets included the estimated amount of the payment for tax in the actuarial reserves of the Life business pursuant to Decree-Law 209/2002. The increase compared with the corresponding amount stated for the 2004 financial year can be attributed to the fact that, for the current year, there was the obligation to pay advance tax and, therefore, the amount stated related only to the estimated adjustment whereas that advance payment, already made, was recorded under "other debtors".

The detail of the main "sundry assets" are set out below:

(€K)	2005	2004
Non-life/life connecting account	231,873	177,151
Assets for deferred tax received	183,044	190,065
Assets in the year	46,712	63,525
Head office/operating divisions connecting account	6,820	20,432
Tax actuarial reserves Decree-Law 209/02	17,636	672

The assets items for the year mainly include recoveries of costs for services rendered to companies in the Group.

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## Section 7

### ACCRUED INCOME AND DEFERRALS - (Item G)

(€K)	<u>31/12/2005</u>	<u>31/12/2004</u>	<b>Change</b>
For interest	138,612	104,357	34,255
For rental fees	1	1	0
Other accruals and deferrals	1,293	5,154	(3,861)
	<b>139,906</b>	<b>109,512</b>	<b>30,394</b>

The apportionment between accruals and deferrals was as follows:

(€K)	<u>Accruals</u>	<u>Deferrals</u>	<b>Total</b>
For interest	138,612	0	138,612
for rental fees	0	1	1
Other accruals and deferrals	100	1,193	1,293
	<b>138,712</b>	<b>1,194</b>	<b>139,906</b>

There were no multi-year accruals and deferrals.

Accruals for interest relate virtually exclusively to certificates of indebtedness in the portfolio.

# Balance sheet - Liabilities

## Section 8

### EQUITY - (Item A)

(€K)	31/12/2005	31/12/2004	Change
Share capital	173,114	170,554	2,560
Issue premium reserve	193,729	190,532	3,197
Write-up reserve	200,025	200,025	0
Statutory reserve	34,111	33,671	440
Provision for own shares and of the holding company	168,915	107,754	61,161
Other reserves	1,624,176	1,548,571	75,605
	<b>2,394,070</b>	<b>2,251,107</b>	<b>142,963</b>

The subscribed and fully paid-up share capital consists of 131,219,902 ordinary shares and 41,894,211 savings shares, of a nominal value of € 1 each.

The share capital and equity reserves are allocated to the two insurance businesses as follows (in units of euro):

	Life business	Non-life business	Total
Share capital consisting of ordinary shares	43,299,753	87,920,149	131,219,902
Share capital consisting of savings shares	16,081,880	25,812,331	41,894,211
Share capital	59,381,633	113,732,480	173,114,113
Equity reserves	817,246,414	1,403,709,684	2,220,956,098
<b>TOTAL</b>	<b>876,628,047</b>	<b>1,517,442,164</b>	<b>2,394,070,211</b>



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The company's total equity increased by € 142,963K.

The share capital as at 31 December 2005 increased by € 2,560K, following the conversion of 555,632 SAI 1992-2006 Warrants and the conversion of 9,960,040 2002-2008 Warrants.

The issue premium reserve increased by € 3,197K following the above-mentioned conversion, whereas the increase in the statutory reserve of € 440K was wholly due to the appropriation of the profit for the 2004 financial year.

The details of the write-up reserve on the basis of their sources is as follows:

(€K)	31/12/2005	31/12/2004	Change
Special reserve pursuant to art. 26 of Law no. 413 of 30/12/1991	96,837	96,837	0
Write-up reserve for stocks and shares	58,029	58,029	0
Write-up reserve Law no. 72 of 19/3/1983	38,215	38,215	0
Reserve pursuant to art. 10 Law no. 904 of 16/12/1997	6,944	6,944	0
	200,025	200,025	0

There were no changes in the write-up reserves during the financial year.  
The write-up reserve for stocks and shares was formed on a voluntary basis.

The provision for own shares and of the holding company, € 168,915K consists of € 138,079K of the unavailable provision for own shares referred to in art. 2357 ter of the Civil Code, this value represents the cost of the own shares held in the company's portfolio as at 31/12/2005 (€ 86,179K in 2004), whereas the remainder of € 30,836K is the cost of the shares in the holding company held in the company's portfolio on the same date (€ 21,575K in 2004) and fulfils the stipulations of art. 2359 bis of the Civil Code, as renewed by Legislative Decree 315/94.

The unavailable provision for own shares increased by € 51,900K in the financial year.  
The same amounts are debited from the provision for own shares to be acquired.

The unavailable provision for the holding company's shares increased by € 9,261K attributed to the value readjustment recorded with reference to the market prices for the month of December 2005 and € 7,992K for purchases of shares in the holding company of € 1,269K.

The same amounts are drawn respectively, for purchases from the reserve for the holding company's shares to be acquired and as to the value readjustments re-debited to the extraordinary reserve.

The detail of the other provisions is as follows:

(€K)	31/12/2005	31/12/2004	Change
Extraordinary reserve	510,448	429,582	80,866
Provision for own shares to be acquired	45,342	49,395	(4,053)
Provision for the purchase of the holding company's shares	10,000	15,000	(5,000)
Issue premium reserve for the disposal of option rights not exercised	4,294	4,294	0
Dividend adjustment provision	2,852	2,852	0
Provision for capital gains on the merger	422	422	0
Provision pursuant to art. 20 no. 2 Legislative Decree 173/97	0	123	(123)
Provision pursuant to Law 742/1986	113,213	113,213	0
Loss on the merger exchange	933,686	933,686	0
Shares subscribed on increases of capital in progress	3,919	4	3,915
	1,624,176	1,548,571	75,605

The extraordinary reserve increased in total by € 80,866K following the operations described below:

- increase of € 132,974K due to the allocation decided by the general shareholders' meeting on 27 April 2005 ;
- decrease of € 80,000K, with transfer entry to the provision for own shares to be acquired as decided by the general shareholders' meeting on 27 April 2005 .
- decrease of € 10,000K with transfer entry to the provision for the holding company's shares to be acquired as decided by the general shareholders' meeting on 27 April 2005 .
- that provision was credited at the same time with the amount of € 45,884K as that decision revoked the previous decision of 27 April 2005 .
- € 7,992K debited due to the value readjustment of the holding company's shares made at the end of the financial year.

The provision for own shares to be acquired decreased by € 4,053K due to the provision referred to of € 80,000K decided on 27 April 2005, at the same time reducing the balance to zero by € 32,153K and the transfer due to purchases of € 51,900K to the unavailable provision for own shares. The reserve for the purchase of the holding company's shares decreased by € 5,000K due to the appropriation to provisions of € 10,000K decided on 27 April 2005, at the same time reducing the balance to zero by € 13,731K and the transfer due to purchases of € 1,269K to the unavailable provision for the holding company's own shares.

The provision referred to in the second indent of art. 20 of Legislative Decree 173/97 which includes the higher current value of the book value of the securities transferred from class C to class D of the assets reduced to zero in the financial year following the maturity or realisation of the underlying financial instruments.

The provision for the gain on the merger was generated following the incorporation of La Fondiaria S.p.A. which took place in the 2002 financial year.

The "provision for shares subscribed on existing capital increases" includes capital increases not yet completed as the recording at the companies' registry took place in January 2006. The details of this are shown below:

(Euro)	Warrants Exercised	Capital	Issue premium	Provision for shares subscribed in existing capital increases
1992-2006 Warrants	3,009,776	376,222	2,731,372	3,107,594
2002-2008 Warrants	1,560,112	390,028	421,230	811,258
<b>Total</b>	<b>4,569,888</b>	<b>766,250</b>	<b>3,152,602</b>	<b>3,918,852</b>

The new share capital, consisting of 131,609,930 ordinary shares and 42,270,433 of a nominal value of € 1 each, was deposited on 19 January 2006.

With reference to the stipulations of art. 109 indent 4 b) of the Decree of the President of the Republic 917/1986, it is stated that the free provisions recorded in the accounts are much higher than the total negative income components deducted outside the accounts which, net of the provision for deferred taxation relating to the amounts deducted, amount in total to € 105,768K including € 10,028K for deductions made in the financial year and of € 95,740K produced in previous financial years.

It is pointed out finally, also in relation to the stipulations of no. 18 of art. 2427 of the Civil Code, that the share capital is as follows:

<b>Capital subscribed, paid up and deposited as at 31/12/2005</b>	<b>Ordinary shares 131,219,902</b>	<b>Savings shares 41,824,211</b>	<b>Total 173,114,113</b>
Remainder to 92/2006 Warrants		1,418,990	1,418,990
Remainder to 02/2008 Warrants	4,584,204		4,584,204
Capital resolved	4,584,204	1,418,990	6,003,194

With regard to the capital resolved, it is pointed out that: the company issued 15,600,000 "Sai 1992-1996 Warrants" as per the decision of the extraordinary shareholders' meeting on 10 September 1992. These warrants, with a period for exercise extended by 4 years up to 31 August 2000 by the general shareholders' meeting on 27/6/1996 and a further 4 years up to 31 August 2004 by the general shareholders' meeting on 27/4/2000, awarded the right to subscribe Fondiaria-SAI savings shares at the rate of one share of a nominal € 1 for every eight warrants presented at the price of € 8.26, including € 7.26 as the issue premium.

With regard to the listing of the warrants on the Italian Stock Exchange, which took place on 09/12/2003, some amendments were incorporated including the option to subscribe continuously on a monthly basis; the option to exercise warrants extended in the information leaflet up to 31/08/2006 was decided by the general shareholders' meeting on 28/04/2004.

As at 31/12/2005, there were still 8,342,144 warrants to be exercised.

Following the merger which took place in December 2002 between Fondiaria and Sai, 28,296,857 "Fondiaria-SAI 2002-2008 Warrants" were issued. These warrants award the right to subscribe 1 ordinary Fondiaria-SAI share for every 4 warrants presented, at the price of € 2.08.

Applications must be submitted on any working day with effect from 30 June 2005 and up to 30 June 2008.

During 2005, 11,520,152 warrants were converted: therefore, as at 31/12/2005, there were still 16,776,705 warrants to be exercised.

## Analysis of the equity pursuant to art.2427, number 7 bis, of the Civil Code

(€K)

Type/Description	Amount	Residual use	Share available	Share available 2004
<b>Capital</b>	173.114		-	-
<b>Capital reserves:</b>				
Issue premium reserve	193,729	A,B,C	193,217	190,092
Write-up reserves	200,025	A,B,C	200,025	200,025
Provision for the gain on the merger exchange	933,686	A,B,C	933,686	933,686
Reserve pursuant to Law 742/1986	113,213	A,B,C	113,213	113,213
Provision for the gain on the merger	422	A,B,C	422	422
Issue premium reserve for the disposal of option rights not exercised	4,294	A,B,C	4,294	4,294
Dividend adjustment reserve	2,852	A,B,C	2,852	2,852
Reserve for shares subscribed on existing capital increases	3,919	-	-	-
<b>Provision for profits:</b>	-		-	-
Statutory reserve	34,111	B	-	-
Extraordinary reserve	510,448	A,B,C	410,448	429,581
Provision for the purchase of own shares	138,079	-	-	-
Provision for the purchase of shares in the holding company	30,836	-	-	-
Provision for own shares to be acquired	45,342	A,B,C	45,342	49,395
Provision for the holding company's shares to purchase	10,000	A,B,C	10,000	15,000
<b>Total</b>			2,013,499	1,938,560
Undistributable share (1)			61,767	86,230
Distributable share			1,951,731	1,852,330

Key:

A: for capital increase

B: to cover losses

C: for distribution to the members

(1): represents the undistributable share intended to cover multi-year costs not depreciated as stipulated in art. 16, no. 11, of Legislative Decree 173/1997

## SUBORDINATED LIABILITIES - (Item B)

These amount to € 500,000K. The change compared with 2004 is € 100,000K.

With regard to the charges on the new loan, these were aligned with the terms of the old loan (Euribor 6 months increased by a spread of 1.8%), as renegotiated with the lender in December 2005.

## Section 9

### TECHNICAL PROVISIONS - (Item C)

These increased in total, gross of the reinsurers' shares, by € 659,654K, including € 725,512K in the Life business and a decrease of € 65,858K in the non-Life business, as shown in the table below:

(€K)	31/12/2005	31/12/2004	Change
<b>NON-LIFE BUSINESS</b>			
- Provision for unearned pre-miums	1,342,537	1,310,287	32,250
- Provision for bonuses and rebates	0	0	0
- Provision for outstanding claims	5,094,202	5,193,967	(99,765)
- Other technical provisions	7,827	8,131	(304)
- Equalisation provisions	10,021	8,060	1,961
<b>TOTAL</b>	<b>6,454,587</b>	<b>6,520,445</b>	<b>(65,858)</b>
<b>LIFE BUSINESS</b>			
- Actuarial reserves	7.200.818	6.505.519	695.299
- Provision for unearned pre-miums from additional insurance	953	897	56
- Provisions for amounts payable	86.166	54.617	31.549
- Provision for bonuses and rebates	3,391	2,990	401
- Other technical provisions	63,221	65,014	(1,793)
<b>TOTAL</b>	<b>7,354,549</b>	<b>6,629,037</b>	<b>725,512</b>
<b>OVERALL TOTAL</b>	<b>13,809,136</b>	<b>13,149,482</b>	<b>659,654</b>

The provision for unearned premiums in the Italian direct business is represented only by the provision for premium fractions. The favourable trend in the business, with regard to the current generation, has not required a provision to be recorded for existing risks, which is shown in the acceptances of the ceding companies.

In that context, the only branch in the direct business which shows a claim on premiums in the current generation of such a size as to involve a modest provision is represented by the other property damage class. However, the deterioration of the loss ratio in the direct business can be attributed exclusively to two claims of a significant amount virtually all reinsured. Consequently, it was considered appropriate not to make a provision for existing risks in view of the exceptional nature of the phenomenon and the modest impact on the net retention.

The table below shows the apportionment by branch of the two components of the provision for unearned premiums:

Branches in the accounts (€K)	<u>Direct business</u>			<u>Indirect business</u>		
	Premium fractions	Existing risks	Total	Premium fractions	Existing risks	Total
Accident	85,114		85,114			0
Health	66,540		66,540			0
Land vehicles – own damage	127,530		127,530			0
Railway rolling stock	3		3			0
Aircraft – hull	226		226			0
Marine hull	1,904		1,904	22		22
Goods in transit	4,302		4,302			0
Fire and natural events	117,519		117,519	320		320
Other property damage	86,928		86,928	64		64
Motor TPL - land vehicles	672,124		672,124	3		3
Aviation TPL	106		106			0
Marine TPL	1,203		1,203			0
General TPL	113,840		113,840	442		442
Credit	1,288		1,288	59		59
Bonds	50,743		50,743	2,117		2,117
Pecuniary losses	4,176		4,176			0
Legal protection	2,330		2,330			0
Assistance	3,634		3,634			0
<b>Total</b>	<b>1,339,510</b>	<b>0</b>	<b>1,339,510</b>	<b>3,027</b>	<b>0</b>	<b>3,027</b>

With regard to the bonds branch, the provision for premium fractions was integrated in accordance with ISVAP Instruction no. 1978 of 2001.

The other technical provisions in the non-Life business include exclusively the provision for old age referred to in art. 25 of Legislative Decree 175/98, € 7,827K calculated using the analytical method on health insurance policies, for which the contractual structure provides for the worsening of the risk insured according to the age of the policyholder.

The equalisation provisions consist of the provision for balancing risks of natural disasters referred to in the Decree of the Ministry of Industry, Trade and Crafts no. 705 of 19/11/96, and the offsetting provision of € 24K.

The amount of the appropriation to the provision is € 10,045K and is distributed as follows by branch in the accounts:

(€K)	31/12/2005	31/12/2004	Change
Accident	256	256	0
Land vehicles – own damage	2,289	1,630	659
Aircraft – hull	81	79	2
Marine – hull	249	234	15
Goods in transit	694	627	67
Fire and natural events	5,847	4,671	1,176
Other property damage	510	482	28
Motor TPL - land vehicles	20	20	0
Credit	24	0	24
Aviation TPL	4	4	0
General TPL	13	13	0
Pecuniary losses	58	44	14
<b>Total</b>	<b>10,045</b>	<b>8,060</b>	<b>1,985</b>

The provision for outstanding claims in the non-Life business includes, in addition to the provision for claims settlement expenses and for claims occurring and not reported.

The different components of the provision for unearned premiums and the provision for outstanding claims are set out in annex 13.

The actuarial reserves were determined as at 31 December 2005 in accordance with the following more significant technical bases:

- Annual compound interest rate of 4% for the majority of existing cover (newly issued contracts stipulate an annual compound interest rate of 2%); due to the write-up guaranteed in the contract, these technical rates are increased to 4.20% in 2005 for NUOVA PRESS 2000, up to 4.16% for FONDIVITA, up to 4.21% for FONDICOLL and up to 4.03% for FONDIREND;
- Demographic assumptions based principally on Italian statistical mortality tables 1951, 1961, 1971, 1981 and 1992, and 1971 projected and selected, RG48 and RG48 selected.

They also include the additional provision for financial risks of € 55,688K, as stated in ISVAP Instruction no. 1801-G of 21/2/2001, and already regulated by art. 25 no. 12 of Legislative Decree 174/95.

The different components of the actuarial reserve are set out in annex 14.



The detail of the “Other technical provisions” branch of the Life business is set out below. This amount consists wholly of the provision for future expenses.

(€K)	2005	2004	Change
Class I	42,090	43,739	(1,649)
Class III	7,828	9,474	(1,649)
Class IV	39	18	21
Class V	13,224	11,747	1,477
Class VI	40	36	4
<b>TOTAL</b>	<b>63,221</b>	<b>65,014</b>	<b>(1,793)</b>

## Section 10

### **TECHNICAL PROVISIONS WHERE THE INVESTMENT RISK IS BORNE BY THE POLICYHOLDERS AND PROVISIONS DERIVING FROM PENSION FUND MANAGEMENT - (Item D)**

These amount to € 729,233K and are increased by € 5,296K. They represent the commitments deriving from insurance in the Life business on which the return is determined according to investments for which the policyholder bears the risk or according to an index and commitments deriving from pension fund management.

The details of the provisions by type of product in the portfolio are set out below:

(€K)	31/12/2005	31/12/2004	Change
- linked to the value of an Investment fund	152,163	142,917	9,246
- linked to the value of a share index or other reference value	471,601	498,325	(26,724)
- Open-End Pension Funds	105,469	82,695	22,774
<b>TOTAL</b>	<b>729,233</b>	<b>723,937</b>	<b>5,296</b>

With regard to Open-End Pension Funds, the figure above is broken down into the following sections:

(€K)	2005	2004	Change
<b>SAI Open-end Pension Fund:</b>			
- Previ-bond	1,738	1,310	428
- Previ-gest	4,256	3,337	919
- Previ-mix	16,360	12,655	3,705
- Previ-europa	128	61	67
- Previ-global	217	50	167
- Previ-capital	120	74	46
<b>Fondiarria Previdente Pension Fund:</b>			
- shareholding line	29,856	23,396	6,460
- balanced line	19,851	15,484	4,367
- debenture line	6,327	4,268	2,059
- currency line	1,535	1,212	323
- guaranteed currency line	1,921	1,370	551
<b>Previdenza Pension Fund account:</b>			
- shareholding line	4,137	3,137	1,000
- balanced line	11,054	9,166	1,888
- debenture line	2,511	2,267	244
- guaranteed currency line	5,458	4,908	550
<b>TOTAL</b>	<b>105,469</b>	<b>82,695</b>	<b>22,774</b>

## Section 11

### Provision for risks and charges - (Item E)

(€K)	31/12/2005	31/12/2004	Change
Provision for redundancy transactions and similar obligations	2,874	3,137	(263)
Provision for taxation	350,930	374,072	(23,142)
Other provisions	154,517	92,722	61,795
<b>TOTAL</b>	<b>508,321</b>	<b>469,931</b>	<b>(38,390)</b>

Annex 15 sets out the changes which took place in the financial year.

The provision for redundancy transactions and similar obligations includes amounts for which provision was made by the companies in previous financial years to supplement employee severance indemnities.

The other provisions are as follows:

(€K)	31/12/2005	31/12/2004	Change
Provision for future risks and charges	141,320	82,375	58,945
Provision pursuant to art.7 Law 738/78	5,154	5,154	0
Provision for old age pursuant to art. 30 CCNL	3,913	2,631	1,282
Provision for property maintenance	4,130	2,562	1,568
<b>TOTAL</b>	<b>154,517</b>	<b>92,722</b>	<b>61,795</b>

#### a) Provision for future risks and charges

The provision increased compared with the figures for the previous financial year by € 58,945K following provisions of € 80,770K and drawings of € 21,825K. In particular, the provisions include mainly new appropriations made due to the increase in disputes in progress against intermediaries, policyholders and third parties.

The total provision for risks and charges is adequate compared with the estimated charges arising out of the legal disputes in which the parent company is a party, including employment disputes. It also includes future expenses for employees. With effect from this financial year, the provision no longer includes the effect of the valuation of existing derivative transactions at the end of the year as no capital loss positions emerged.

#### b) Provision for old age pursuant to art. 30 CCNL

The provision increased by € 1,282K due to the provision in the financial year of € 2,376K and the drawing of € 1,094K for premiums paid or otherwise no longer due to employees.

c) **Provision for property maintenance**

The increase of € 1,568K follows the provision in the financial year of € 3,697K and the drawing for building maintenance and engineering made in the financial year of € 2,129K, in relation to properties for use as dwellings and for other uses.

## **COMPOSITION OF THE SUB-ITEM - E 2) - "PROVISION FOR TAXATION"**

The provision for taxation includes the provision for corporation tax (IRES and IRAP) for the year.

Current tax is charged to the provision as the amount which will be due to the Revenue following automatic payment based on the next tax return is not yet certain and/or determined. The provision for taxation also includes liabilities for deferred taxes deriving from the deferral to taxation of positive income components which contributed to determining the result for the financial year or previous financial years, net of that transferred in the year, the provision for tax at the time the loss on the merger was allocated against capital gains, not taken into account for tax purposes, allocated to property and shareholdings in the previous financial year and the provision for tax due to depreciation and only fiscal value adjustments.

The composition of the balance at the end of the financial year was as follows:

(€K)	<u>31/12/2005</u>	<u>31/12/2004</u>	<u>Change</u>
Provision for current taxation	239,547	233,672	5,875
Provision for deferred tax liabilities	111,383	140,400	(29,017)
Other taxes	0	0	0
<b>TOTAL</b>	<b>350,930</b>	<b>347,072</b>	<b>(23,142)</b>

With regard to the provision for current taxation, the change compared with the previous financial year is due to drawings of a total of € 205,133K compared with total increases of € 211,008K.

€ 184,667K of the decreases relate to the drawing from the provision for Group IRES for the 2004 financial year and € 20,466K for Group IRAP owed by the company alone in the same financial year. The drawing for the payment of IRES owed by the subsidiaries which, together with the consolidating company Fondiaria-SAI, opted for Group taxation (national fiscal consolidation) are offset against the amounts which the consolidated companies paid to the company, net of the tax credits and advance payments transferred to the Group, consistent with what is stated in its income declaration and the Group declaration for the same tax period.

€ 108,024K of the increase in the provision was due to the estimated IRES and IRAP to be paid by the company in the year closed, to which € 101,482K is added for the IRES for the other companies in the Group and relates to the transfer of the respective tax, positive and negative for the Group.

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An increase of € 1,502K is added due to the adjustment of the IRES provision for the year of the companies consolidated for the 2004 financial year compared with what was estimated at the close of the year.

The total provision for Group IRES for the 2005 financial year is € 183,506K.

With regard to deferred taxation, the changes made compared with the initial amount are due to the increase in tax arising in the financial year of € 16,026K and the decrease for tax transferred at the same time of € 45,043K set out in detail in the comments on taxation, to which please refer for further information. Of this, € 476K relates to drawings from the surplus provisions for deferred taxation for previous financial years cancelled and offset against extraordinary income.

### **DEPOSITS RECEIVED FROM REINSURERS - (Item F)**

These amounted to € 153,360K and decreased by € 8,928K (€ 162,288K in 2004).

## Section 12

### CREDITORS AND OTHER LIABILITIES - (Item G)

(€K)	31/12/2005	31/12/2004	Change
Creditors deriving from direct insurance operations	77,000	70,115	6,885
Creditors deriving from reinsurance operations	66,439	59,095	7,344
Sundry loans and other financial payables	307,914	310,140	(2,226)
Employee severance indemnities	57,399	55,132	2,267
Other creditors	410,584	242,341	168,243
Other liabilities	519,167	581,871	(62,704)
<b>TOTAL</b>	<b>1,438,503</b>	<b>1,318,694</b>	<b>119,809</b>

#### Creditors deriving from direct insurance operations

(€K)	31/12/2005	31/12/2004	Change
Insurance intermediaries	65,233	49,323	15,910
Companies' current accounts	11,399	13,343	(1,944)
Policyholders for deposits and premiums	253	5,956	(5,703)
Guarantee funds in favour of policyholders	115	1,493	(1,378)
<b>TOTAL</b>	<b>77,000</b>	<b>70,115</b>	<b>6,885</b>

The guarantee funds include € 1,123K of amounts payable to the Road Victims Fund and € 1K to the Hunting Victims Fund.

#### Creditors deriving from reinsurance operations

(€K)	31/12/2005	31/12/2004	Change
Insurance and reinsurance companies	65,202	58,276	6,926
Reinsurance intermediaries	1,237	819	418
<b>TOTAL</b>	<b>66,439</b>	<b>59,095</b>	<b>7,344</b>

## Sundry loans and other financial payables

These amount to € 307,914K (€ 310,140K in 2004) and can be broken down as follows:

(amounts in million Euro)	<b>Amount</b>	<b>Due date</b>	<b>Repayment terms</b>	<b>Interest rate</b>
<b>ITALIBERIA S.A.</b>	0.5	31/12/2005	One instalment or single tranches giving at least 7 working days' notice of the value date	EURIBOR 6 month average increase by a spread of 0.5%
<b>SAINTERNATIONAL S.A.</b>	16.4 40.0	31/12/2005	One instalment or single tranches giving at least 7 working days' notice of the value date	EURIBOR 3 month average increased by a spread of 1.,25%
<b>SAINTERNATIONAL S.A.</b>	180.4	Five working days in Rome before 29/09/2010	Single instalment on the due date, subject to conversions of the related convertible debentures issued by Sainernational	5.90% per annum
<b>SIM ETOILE S.A.</b>	35.6	31/12/2005	One instalment or single tranches giving at least 3 working days' notice of the value date	EURIBOR 3 month average increased by a spread of 1.25%
<b>FINSAI INTERNATIONAL S.A.</b>	27.0	31/12/2005	One instalment or single tranches giving at least 7 working days' notice of the value date	EURIBOR 3 month average increased by a spread of 1.,05%
<b>SAI HOLDING Italia s.p.a.</b>	8.0	31/12/2005	One instalment or single tranches giving at least 7 working days' notice of the value date	EURIBOR 3 month average increased by a spread of 1.05%

It should be recalled that the financial payables listed above with a due date of 31/12/2005 were renewed up to 31/12/2006 and the interest rate spread was standardised (except in the case of Italiberia S.A.) at 1.05%.

## Employee severance indemnities

These amount to € 57,399K (€ 55,132K in 2004).

In total, the increase of € 2,267K is due to provisions and other increases of € 10,641K, from drawings for payments and advance indemnities of € 8,374K.

## Other creditors

(€K)	<u>31/12/2005</u>	<u>31/12/2004</u>	<b>Change</b>
For taxes paid by policyholders	70,225	70,946	(721)
For sundry tax charges	41,001	20,123	20,878
To welfare and social security	16,221	5,205	11,016
Sundry creditors	283,137	146,067	137,070
<b>TOTAL</b>	<b>410,584</b>	<b>242,341</b>	<b>168,243</b>

“Amounts due for tax paid by policyholders” include € 20,608K for the contribution to the National Health Service.

€ 17,636K is included under “creditors for sundry tax charges for advance payments owed for tax on life actuarial reserves as stipulated in art. 1, paragraphs 2 and 2 bis of Decree-Law 209/2002 (converted into Law 265/2002).

Sundry creditors include, amongst others, the following items (€K):

(€K)	<u>31/12/2005</u>	<u>31/12/2004</u>	<b>Change</b>
Creditors for tax credits transferred to the Group	159,080	84,723	74,357
Suppliers	51,756	12,986	38,770
Guarantee deposits	3,977	4,643	(666)
<b>TOTAL</b>	<b>214,813</b>	<b>102,352</b>	<b>112,461</b>

Creditors for tax credits transferred to the Group include the amount due from the Revenue for withholdings, advance payments of tax, surpluses and other debtors transferred by the consolidated companies to the consolidating company due to the move to Group taxation referred to in articles 117 et seq. of the Decree of the President of the Republic 917/1986. They also include advance payments of tax paid by the company on behalf of the consolidated companies and those paid by them to the consolidating company.



## Detail of creditors by maturity date and by type

The table below was produced to supplement the items set out above under the liabilities and on the basis of the stipulations contained in section 16 of Legislative Decree 26/5/1997 no. 173.

(€K)	Creditors deriving from direct insurance and reinsurance operations	Loans with tangible security	Sundry loans and other financial payables	Employee severance indemnities and other creditors	Total
1 year term	296,799	0	127,514	467,983	892,296
Term 2 to 5 years	0	0	180,400	0	180,400
Term more than 5 years	0	0	0	0	0
<b>Total</b>	<b>296,799</b>	<b>0</b>	<b>307,914</b>	<b>467,983</b>	<b>1,072,696</b>

## Other liabilities

(€K)	31/12/2005	31/12/2004	Change
Transitional reinsurance accounts – liabilities	5,656	6,595	(939)
Commission on premiums being collected	71,688	63,392	8,296
Sundry liabilities	441,823	511,884	(70,061)
	<b>519,167</b>	<b>581,871</b>	<b>(62,704)</b>

Transitional reinsurance accounts include technical income for direct and retroceded business, offset against operations recorded in the accounts of the reinsurance companies, which are recorded in the technical account and deferred to the next financial year, because there is insufficient information to determine the result.

Sundry liabilities include: debit balances on the connecting account between the head office and the peripheral network of € 24,853K, the connecting account between the life and non-life businesses of € 231,873K debited to the non-life business, checks on expenses presumed to be € 72,252K, checks on items to reinsurers of € 11,746K and checks on production expenses of € 12,084K.

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## Section 13

### ACCRUED INCOME AND DEFERRALS - (Item H)

(€K)	<u>31/12/2005</u>	<u>31/12/2004</u>	<b>Change</b>
Interest	13,128	3,210	9,918
Rentals	<u>68</u>	72	(4)
Other accrued income and de- ferrals	<u>15</u>	16	(1)
	<u>13,211</u>	<u>3,298</u>	<u>9,913</u>

For the 2005 financial year, the apportionment between accrued income and deferrals was as follows:

(€K)	<b>Accrued income</b>	<b>Deferrals</b>	<b>Total</b>
Interest	13,128	0	13,128
Rentals	0	68	68
Other accrued income and de- ferrals	13	2	15
	<u>13,141</u>	<u>70</u>	<u>13,211</u>

The accrued interest of € 4,264 K relates to the share attributable to the financial year for the contractual financial charge on the loan granted by Saintinternational S.A. to Fondiaria-SAI in September 2004 and € 8,864K to the subordinated loan.

## Section 14

### Guarantees, commitments and other memorandum accounts

These amount in total to € 13,617,087K (€ 13,630,833K in 2004)

(€K)	<u>31/12/2005</u>	<u>31/12/2004</u>	<u>Change</u>
Guarantees provided	7,298	5,854	1,444
Guarantees received	161,608	159,130	2,478
Guarantees provided by third parties to companies	29,240	21,116	8,124
Commitments	221,279	936,679	(715,400)
Third party assets	7,053	8,620	(15)
Securities deposited with third parties	13,157,214	12,470,023	687,191
Other memorandum accounts	33,395	29,411	3,984
	13,618,639	13,630,833	(12,194)

The guarantees provided include:

(€K)	<u>31/12/2005</u>	<u>31/12/2004</u>	<u>Change</u>
Other personal guarantees	1,261	1,462	(201)
Guarantees with tangible security	6,037	4,392	1,645
	7,298	5,854	1,444

Guarantees with tangible securities relate to assets deposited to guarantee inward reinsurance operations.

Guarantees received include:

(€K)	31/12/2005	31/12/2004	Change
Guarantees	97,389	84,730	12,659
Other personal guarantees	31,664	39,114	(7,450)
Guarantees with tangible security	32,555	35,286	(2,731)
	161,608	159,130	2,478

Guarantees consist principally of € 87,852K for Group policies entered into to guarantee commitments taken on by agents and € 2,345K for guarantees provided by tenants; there are also guarantees of € 1,157K provided by agents after the end of the agency mandate.

Other personal guarantees include letters of patronage totalling € 29,326K received for the mezzanine loan granted to Ganimede S.r.l. in 2003, and € 2,338K for letters of credit issued by reinsurers.

Guarantees with tangible security consist principally of the mortgage on the mezzanine loan of € 29,326K and the pledge of € 3,229K, for VAT owed to the company Giugno Due 87 S.r.l.

Guarantees provided by third parties consist of bank guarantees for € 29,240K.

Commitments include mainly € 180,400K recorded for ordinary Banca Intesa shares, sold forward to Sainternational S.A. to service the convertible debenture loan (Mandatory). Furthermore, for the cover operations for shareholdings carried out through combined options (purchases of put options – sales of call options of the same type), included € 31,084K for the cash settlement to be paid and € 5,232K for the cash settlement to be collected for the valuations made at the end of the financial year; the exposure is moreover counterbalanced by the latent capital gains on the market on the securities covered. Compared with the previous financial year, there were no open positions on forward sales of debentures, repurchase agreement transactions or existing positions on derivative financial instruments on debentures.

There was, therefore, a considerable net reduction of € 715,400K on commitments mainly due to commitments on forward sales which totalled € 568,993K.

Third party assets include limited deposit books and Fondiaria-SAI ordinary and savings shares. The books were deposited at credit institutions, virtually exclusively with Banca SAI; shares in custody, owned by employees are expressed at their nominal value.

Securities deposited with third parties include the book value of the securities owned by the company placed on deposit. The main depositaries are credit institutions for € 11,797,976K, subsidiaries for € 1,082,823K, associated companies for € 29,964K, other participating interests for € 46,357K, other depositaries for € 200,093K

Other memorandum accounts include € 17,342K for limited deposit books and € 13,243K for the Fondiaria Previdente Open-end pension fund.

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# Profit and loss account

The values in the profit and loss account are analysed below compared with the corresponding amounts for the 2004 financial year.

Where the items for the previous financial year are not comparable with those for the current financial year, the necessary adaptations were made. The comments under the individual items show the adaptations or, where this is impossible, their non-comparability.

## Section 15

### INFORMATION CONCERNING THE PROFIT AND LOSS ACCOUNT FOR THE NON-LIFE BUSINESS

#### PREMIUMS EARNED, NET OF REINSURANCE CESSIONS

(€K)	31/12/2005	31/12/2004	Change
Premiums direct business	3,871,384	3,837,628	33,756
Premiums indirect business	10,037	43,694	(33,657)
Gross premiums recorded	3,881,421	3,881,322	99
Premiums ceded and retroceded in reinsurance	(104,234)	(114,932)	10,698
Change in the gross amount of the provision for unearned premiums	(36,948)	(7,675)	(29,273)
Change in the reinsurers' provision	1,823	(478)	2,301
<b>Total premiums for the year in the Non-Life business</b>	<b>3,742,062</b>	<b>3,758,237</b>	<b>(16,175)</b>

The item "gross premiums recorded" does not include, in compliance with the ISVAP Instruction no. 735 of 01/12/1998, cancellations of securities issued in previous financial years, which were charged to "Other technical charges".

The item "change in the gross amount of the provision for unearned premiums" includes € 36,948K for the change in the provision for premium fractions. The analytical evidence for this has already been commented on at the foot of the corresponding item of the Balance sheet – Liabilities.

## SHARE OF THE RETURN ON INVESTMENTS TRANSFERRED FROM THE NON-TECHNICAL ACCOUNT

The amount transferred amounts to € 148,186K and is confirmed by the definitions laid down in ISVAP Instruction no. 1140-G

## OTHER TECHNICAL INCOME NET OF REINSURANCE CESSIONS

(€K)	31/12/2005	31/12/2004	Change
Other technical income gross of re-insurance	21,652	9,346	12,306
Other technical income ceded and retroceded	1,558	1,495	63
	<b>23,210</b>	<b>10,841</b>	<b>12,369</b>

Other technical income amounts to € 23,210K and includes € 1,190K of Indemnity Agreement adjustments, € 4,795K of recoveries of commission on cancellations in previous financial years and € 15,111K for drawings from the provision for bad debts for premiums not yet collected.

## CHARGES FOR OUTSTANDING CLAIMS, NET OF RECUPERATIONS AND REINSURANCE CESSIONS

(€K)	2005	2004	Change
Gross amounts paid	(2,832,879)	(2,701,944)	(130,935)
Reinsurers' share	72,113	66,834	5,279
Change in gross recuperations	46,300	49,394	(3,094)
Reinsurers' share	(336)	205	(541)
Change in the gross amount of the provision for outstanding claims	101,693	(54,174)	155,867
Reinsurers' share	(17,143)	(25,077)	7,934
	<b>(2,630,252)</b>	<b>(2,664,762)</b>	<b>34,510</b>

The gross amounts paid include in summary:

(€K)	2005	2004	Change
Claims paid in the year	(857,644)	(793,341)	(64,303)
Claims paid in previous years	(1,670,314)	(1,623,093)	(47,221)
Contribution to the Road Victims Fund	(52,379)	(52,674)	295
Direct expenses and settlement expenses	(252,542)	(232,836)	(19,706)
	<b>(2,832,879)</b>	<b>(2,701,944)</b>	<b>(130,935)</b>

The change in gross recuperations includes € 9,200K of recuperations in the financial year and € 37,100K for an adjustment for previous financial years.

The change in the gross amount of the provision for outstanding claims can be broken down as follows:

(€K)	<u>2005</u>	<u>2004</u>	<u>Change</u>
Provision at the start of the year	5.193.967	5.181.582	12.385
Exchange rates	5.896	(3.104)	9.000
Provision for the financial year	(1.730.692)	(1.700.827)	(29.865)
Provision for previous financial years	(3.363.510)	(3.493.139)	129.629
Balance on portfolio changes	(3.968)	(38.686)	34.718
	<b>101.693</b>	<b>(54.174)</b>	<b>155.867</b>

Within the scope of the direct business, the provision existing at the start of the financial year showed a positive dismantling of approximately € 41m, as can be seen from the table below:

	<u>2005</u>	<u>2004</u>
Provision for outstanding claims existing at the start of the financial year	4.987.804	4.915.545
Compensation paid during the financial year net of recuperations	1.772.539	1.708.655
Change in the claims portfolio	0	0
Provision for outstanding claims at the end of the financial year	3.174.414	3.300.819
Difference	40.851	(93.929)

The significant difference compared with the last financial year was achieved because there were no significant insufficiencies recorded in the previous financial year in the General TPL class.

## CHANGE IN OTHER TECHNICAL PROVISIONS NET OF REINSURANCE CESSIONS

(€K)	<u>2005</u>	<u>2004</u>	<u>Change</u>
Provision for old age	(304)	(458)	154

The change, of € 304K, can be attributed to the provision for old age referred to in art. 25 of Legislative Decree 175/1995, determined according to the analytical criteria stipulated in art. 25 indent three of the above-mentioned decree.

## OPERATING EXPENSES

(€K)	<u>2005</u>	<u>2004</u>	<u>Change</u>
Acquisition commission	(590,081)	(568,772)	(21,309)
Other acquisition expenses	(78,965)	(77,005)	(1,960)
Change in commission and other acquisition expenses to be depreciated		-	0
Collection commission	(14,550)	(28,339)	13,789
Other administration expenses	(118,776)	(116,432)	(2,344)
Commission and bonuses received by reinsurers	27,691	26,229	1,462
	<b>(774,681)</b>	<b>(764,319)</b>	<b>(10,362)</b>

Acquisition commission includes acquisition charges on multi-year contracts of € 86,111K fully charged, in accordance with prudential considerations, to the profit and loss account for the financial year.

Acquisition commission includes the costs of the sales network as defined in art. 51 of Legislative Decree 173/97.

Other acquisition expenses can be attributed mainly to the acquisition structure operating on the territory.

Other administration expenses include the share of depreciation of property of € 4,624K (€ 4,611K in 2004), and other amounts defined by art. 53 of Legislative Decree 173/97.

## OTHER TECHNICAL CHARGES NET OF REINSURANCE CESSIONS

(€K)	<u>2005</u>	<u>2004</u>	<u>Change</u>
Other gross technical charges	63,884	103,579	(39,695)
Other technical charges ceded and retroceded to reinsurers	(654)	41	(695)
	<b>63,230</b>	<b>103,620</b>	<b>(40,390)</b>

These amount to € 63,230K and include cancellations of premiums, issued in previous financial years, unrecoverable at the end of the financial year or cancelled because they were issued due to a technical error of € 62,299K.



## EQUALISATION PROVISIONS – PROVISIONS AND DRAWINGS

The net change amounts to € 1,986K.

That change is shown apportioned by branch:

(€K)	2005	2004
<b>Provision for risks of natural Disasters (direct business)</b>		
Other property damage	(28)	(92)
Aircraft – hull	(2)	(7)
Land vehicles – own damage	(660)	(444)
Fire	(1,176)	(1,097)
Accident	0	(82)
Goods in transit	(67)	(61)
Marine – hull	(15)	(15)
General TPL	0	(4)
Pecuniary losses	(14)	(20)
Motor TPL	0	(8)
Aviation TPL	0	(1)
	<b>(1,962)</b>	<b>(1,831)</b>
<b>Provision for offsetting the credit branch</b>	<b>(24)</b>	<b>88</b>
	<b>(1,986)</b>	<b>(1,743)</b>

Annex 19 provides a summary representation by branch concerning the technical account of the non-Life business.

## Section 16

## INFORMATION CONCERNING THE TECHNICAL ACCOUNT OF THE LIFE BUSINESS

## PREMIUMS WRITTEN IN THE FINANCIAL YEAR, NET OF REINSURANCE CESSIONS

(€K)	2005	2004	Change
Premiums direct business	1,353,127	1,160,917	192,210
Premiums indirect business	17,466	23,476	(6,010)
Gross premiums recorded	<b>1,370,593</b>	<b>1,184,393</b>	186,200
Premiums ceded and retroceded in re-insurance	(11,538)	(14,955)	3,417
Premiums written in the financial year net of reinsurance cessions	<b>1,359,055</b>	<b>1,169,438</b>	189,617

Annex 20 sets out the composition of the premium income from the direct and indirect businesses, together with the balance of reinsurance.

In accordance with the ISVAP Instruction no. 735 of 1/12/1997, the item “gross premiums recorded” does not include the technical cancellations of first year premiums and single premiums written in previous financial years, which are charged to “Other technical charges”.

## INVESTMENT INCOME

In accordance with the stipulations of art. 54 of Legislative Decree 173/97, all financial equity income and expenses related to investments in the Life business are shown in the relevant technical account.

(€K)	<b>2005</b>	<b>2004</b>	<b>Change</b>
Income from shares	17,417	19,940	(2,523)
Income from other investments	248,316	255,122	(6,806)
Increase in the value of investments	10,079	14,747	(4,668)
Profit on the realisation of investments	88,586	37,097	51,489
	<b>364,398</b>	<b>326,906</b>	<b>37,492</b>

Within the scope of the item “Profit on the realisation of investments”, capital gains of € 17,518K are included realised on long-term investments in stocks and shares allocated here consistently with the allocation of the assets to the segregated businesses. That operation allows for the correct determination of the balance on the technical account.

Income from stocks and shares includes € 5,519K relating to the dividend decided by the subsidiary Milano Assicurazioni S.p.A..

The detail of the investment income shown in annex 21, which also sets out the corresponding figures for the non-technical account relating to investments in the non-Life business.

## INCOME AND UNREALISED CAPITAL GAINS ON INVESTMENTS FOR THE BENEFIT OF POLICYHOLDERS WHO BEAR THE RISK AND INVESTMENTS DERIVING FROM PENSION FUND MANAGEMENT

### Class D.I. income

(€K)	2005	2004	Change
Gross income	19,634	16,772	2,862
Profits on the realisation of investments	1,783	639	1,144
Unrealised capital gains	20,105	16,062	4,043
<b>TOTAL</b>	<b>41,522</b>	<b>33,473</b>	<b>8,049</b>

€ 9.817K of the amounts for unrealised capital gains relates to unit-linked policies and € 10,288K to index-linked products. The most significant capital gains show € 3,423K for the SAI Alfa 2000 product and € 2,046K for the Index Oxygene 3+3.

### Class D.II. income

(€K)	2005	2004	Change
Gross income	2,199	288	1,911
Profits on the realisation of investments	2,954	1,835	1,119
Unrealised capital gains	8,179	2,965	5,214
<b>TOTAL</b>	<b>13,332</b>	<b>5,088</b>	<b>8,244</b>

Class D.II. income refers to the “SAI Open-end Pension Fund”, the “Fondiarria Previdente Open-end Pension Fund” and the “Previdenza Open-end Account Pension Fund”.

Annex 22 shows the detail of Class D income.

## OTHER TECHNICAL INCOME NET OF REINSURANCE CESSIONS

(€K)	2005	2004	Change
Other technical income gross of reinsurance	16,233	2,577	13,656
<b>TOTAL</b>	<b>16,233</b>	<b>2,577</b>	<b>13,656</b>

During the financial year just ended, the computer system in the Life business was fully integrated and improved.

Consequently, the Company carried out work on the review and adjustment of the technical archives also in view of the relationships which, at the end of the financial year, had come to an end as they had lapsed. The positive effect on the profit and loss account for the financial year was € 13,723K.

Commission of € 716K received from coinsurers is included under the item again.

## CHARGES FOR OUTSTANDING CLAIMS, NET OF REINSURANCE CESSIONS

(€K)	2005	2004	Change
Gross sums paid	(859,368)	(921,396)	62,028
Reinsurers' share	7,290	6,521	769
Gross change in the provision for sums payable	(43,684)	7,565	(51,249)
Reinsurers' share	(318)	(208)	(110)
<b>TOTAL</b>	<b>(896,080)</b>	<b>(907,518)</b>	<b>11,438</b>

The gross sums paid include:

(€K)	2005	2004	Change
- for claims	22,418	24,594	(2,176)
- for matured policies	454,473	508,925	(54,452)
- for surrendered policies	312,747	311,588	1,159
- for annuities	4,582	2,215	2,367
- for reinsured risks	65,148	74,074	(8,926)
<b>TOTAL</b>	<b>859,368</b>	<b>921,396</b>	<b>(62,028)</b>

It is reported that the provision for sums payable at the start of the financial year, shows, amongst others, a positive dismantling of approximately € 8m attributable to the work on the review and adjustment of the archives as stated under "Other technical income".

## CHANGE IN ACTUARIAL RESERVES AND OTHER TECHNICAL PROVISIONS NET OF REINSURANCE CESSIONS

(€K)	2005	2004	Change
Change in the gross amount of the actuarial reserves	(695,650)	(339,827)	(355,823)
Reinsurers' shares	3,672	1,448	2,224
Change in the gross amount of the provision for unearned premiums for additional insurance	(56)	(5)	(51)
Reinsurers' share	-	-	-
Change in the gross amount of other technical provisions	1,392	282	1,110
Reinsurers' shares	-	-	-
Change in the gross amount of class D technical provisions	(5,296)	(118,515)	113,219
Reinsurers' shares	-	-	0
<b>TOTAL</b>	<b>(695,938)</b>	<b>(456,617)</b>	<b>(239,321)</b>

The insignificant change in class D technical provisions is due mainly to some index-linked policies maturing in 2005, such as for example the Saibond Wall Street and Asian Line.

## BONUSES AND REBATES TO POLICYHOLDERS OR OTHER BENEFICIARIES

(€K)	2005	2004	Change
- Net rebates	(404)	(3,885)	3,481
- Bonuses net of reinsurance	-	-	-0
<b>TOTAL</b>	<b>(404)</b>	<b>(3,885)</b>	<b>3,481</b>

All the rebates refer to collective direct business policies delegated to our or other companies.

## OPERATING EXPENSES

(€K)	2005	2004	Change
Acquisition commission	(22,358)	(18,514)	(3,844)
Other acquisition expenses	(15,021)	(20,000)	4,979
Change in deferred acquisition commission and expenses	(1,194)	(1,343)	149
Collection commission	(10,281)	(10,302)	21
Other administration expenses	(34,404)	(33,616)	(788)
Commission and share of the return for reinsurers	3,078	2,663	415
<b>TOTAL</b>	<b>(80,180)</b>	<b>(81,112)</b>	<b>932</b>

Acquisition commission includes acquisition charges on multi-year contracts of € 2,590K (€ 2,709K in 2004). The change is due mainly to the charge to the profit and loss account of the pre-calculated commission for contracts entered into by the former -La Fondiaria S.p.A.

Other acquisition expenses include, in addition to the expenses for the acquisition structure of the peripheral structures, marketing expenses and I.C.T. expenses attributed to the new contracts acquired.

## EQUITY AND FINANCIAL CHARGES

(€K)	2005	2004	Change
Investment management charges and interest paid	(12,472)	(14,921)	2,449
Value adjustments on investments	(28,853)	(11,745)	(17,108)
Losses on the realisation of investments	(21,099)	(5,628)	(15,471)
<b>TOTAL</b>	<b>(62,424)</b>	<b>(32,294)</b>	<b>(30,130)</b>

Annex 23 sets out the composition of the equity and financial charges for the life business.

The investment management charges include € 266K in respect of tax, including € 181K owed to ICI.

The size of the reduction of investment management charges and interest paid, of more than € 2.4m, achieved the improvement of the charges for the debenture component of the portfolio and sundry financial investments.

The value adjustments on investments include depreciation on property of € 364K, alignments of stocks and shares and unit trust holdings of € 1,518K and fixed income securities of € 26,723K.

“Losses on the realisation of investments” includes capital losses of € 653K realised on long-term investments in stocks and shares allocated here consistently with the allocation of those assets to the segregated businesses.

## **EQUITY AND FINANCIAL CHARGES AND UNREALISED CAPITAL LOSSES ON INVESTMENTS FOR THE BENEFIT OF POLICYHOLDERS WHO BEAR THE RISK OF SUCH INVESTMENTS AND INVESTMENTS DERIVING FROM PENSION FUND MANAGEMENT**

### **Class D.I. charges**

(€K)	<u>2005</u>	2004	Change
Investment management charges	(1,295)	(376)	(919)
Losses on the realisation of investments	(248)	(88)	(160)
Unrealised capital losses	(6,870)	(2,262)	(4,608)
<b>TOTAL</b>	<b>(8,413)</b>	<b>(2,726)</b>	<b>(5,687)</b>

€ 253K of the amount of unrealised capital losses relate to unit-linked products and € 6,617K to index-linked and other products pursuant to art.30 Legislative Decree 174/95.

### **Class D.II. charges**

(€K)	<u>2005</u>	2004	Change
Investment management charges	(1,415)	(34)	(1,381)
Losses on the realisation of investments	(406)	(769)	(363)
Unrealised capital losses	(391)	(291)	(100)
<b>TOTAL</b>	<b>(2,212)</b>	<b>(1,094)</b>	<b>(1,118)</b>

Class D.II charges relate to the “Open-end SAI Pension Fund”, the “Fondiarria Previdente Pension Fund” and the “Previdenza Account Pension Fund”. annex 24 sets out the details of these charges.

## OTHER TECHNICAL CHARGES NET OF REINSURANCE CESSIONS

(€K)	2005	2004	Change
Other gross technical charges	(7,561)	(9,526)	(1,965)
Other technical charges ceded and retroceded to reinsurers	-	-	-
			0
<b>TOTAL</b>	<b>(7,561)</b>	<b>(9,526)</b>	<b>(1,965)</b>

Other technical charges relate mainly to losses on amounts due for first year premiums and single premiums of € 5,038K.

## SHARE OF THE RETURN ON INVESTMENTS TRANSFERRED TO THE NON-TECHNICAL ACCOUNT

The amount transferred amounts to € 24,626K.

As stipulated in ISVAP Instruction no. 1140-G art. 6, the share of the return on investments must not be less than the amount of the profits on the investments contractually paid to policyholders in the financial year. The share is, therefore, aligned with that lower value.

## Section 17

## CHANGES IN THE TECHNICAL ITEMS

Annex 25 contains the summary of the technical accounts for each non-life branch of the Italian portfolio.

Annex 27 contains the summary of the technical accounts for each life branch of the Italian portfolio.

In the non-Life branches, the items for several branches are represented by the operating expenses and by the share of the return on investments transferred from the non-technical account; in the Life branches, the items for several branches are represented by operating expenses and the investment income net of the share transferred to the non-technical account..

The criterion used for the apportionment of those items by branch is as follows:

- Other acquisition expenses: are joined with the costs of the Commercial network and the assistance units for which the direct charging is made on the same basis as the cost centres; the other expenses which include the costs of procedures for the ICT department, on the management of the acquisition of contracts. These are allocated by an apportionment which uses statistical adjustments made on a sample of the staff employed in sales;



- Claims handling expenses: these relate to the settlement network's and the claims management departments' cost centres and costs of the claims procedures of the ICT department.  
The allocation of expenses not directly attributable to individual branches was made on the basis of the average number and amounts of the claims settled by employed staff.
- Other administration expenses: all other costs not in the two categories above make up the other administration expenses and relate to the costs of the head office structure.  
The criterion used for the apportionment is based, in the majority of cases, on premiums adjusted at the appropriate time, whereas for some companies the criterion was diversified due to the specific activity carried out.
- For the share of the return on investments, reference is made to the definitions referred to in ISVAP Instruction no. 1140-G.

Further summary information on the expanded technical items of the non-Life and life branches is set out in annexes 26, 28 and 29 with reference to the Italian and overseas portfolio.

## Section 18

### INFORMATION CONCERNING THE NON-TECHNICAL ACCOUNT

#### INVESTMENT INCOME FROM THE NON-LIFE BUSINESS

(€K)	2005	2004	Change
Income from shares	149,468	95,068	54,400
Income from other investments	140,231	130,230	10,001
Value readjustments on investments	10,805	6,314	4,491
Profits on the realisation of investments	30,038	39,346	(9,308)
<b>TOTAL</b>	<b>330,542</b>	<b>270,958</b>	<b>59,584</b>

Annex 21 sets out the detail of investment income with the income from the life business.

Income from stocks and shares includes € 61,434K relating to the dividend decided by the subsidiary Milano Assicurazioni S.p.A..

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## SHARE OF THE RETURN ON INVESTMENTS TRANSFERRED FROM THE TECHNICAL ACCOUNT OF THE LIFE BUSINESS

Please refer to the comments in the appropriate section of the technical account of the Life business.

## EQUITY AND FINANCIAL CHARGES IN THE NON-LIFE BUSINESS

(€K)	2005	2004	Change
Investment management charges and interest paid	(28,305)	(42,199)	13,894
Value adjustments on investments	(36,032)	(90,541)	54,509
Losses on the realisation of investments	(69,057)	(22,067)	(46,990)
<b>TOTAL</b>	<b>(133,394)</b>	<b>(154,807)</b>	<b>21,413</b>

€ 4.382K of the investment management charges is for tax and € 3,824K is owed to ICI.

The size of the decrease of the investment management charges and interest paid, of € 13.8m, was achieved mainly by the improvement of the charges for sundry financial investments.

The value adjustments on investments include depreciation on property of € 7,414K, and alignments of shareholdings and unit trust holdings of € 18,332K and fixed income securities of € 10,286K.

€ 16,826K of the alignments of shareholdings relate to subsidiaries.

Annex 23 sets out the detail of the equity and financial charges also with reference to the life business.

## SHARE OF THE RETURN ON INVESTMENTS TRANSFERRED TO THE TECHNICAL ACCOUNT OF THE NON-LIFE BUSINESS

The amount transferred totals € 148,222K and is confirmed by the definitions laid down by ISVAP Instruction no. 1140-G.

## OTHER INCOME

This totals € 132,981K (€ 132,621K in 2004) and is set out in detail below:

(€K)	2005	2004	Change
Interest on bank current accounts with no fixed deposit times	4,613	5,199	(586)
Interest on company current accounts	1,928	1,388	540
Interest on other loans	10,107	6,767	3,340
Drawings from provisions for risks and charges	30,090	39,564	(9,474)
Recuperations by third parties of administrative expenses and charges	70,933	66,243	4,690
Sundry income	9,317	10,371	(1,054)
Exchange rate differences	5,993	3,089	2,904
<b>TOTAL</b>	<b>132,981</b>	<b>132,621</b>	<b>360</b>

Interest on bank current accounts with no fixed deposit times include interest of € 940K on the Banca Sai account, interest of € 509K on current accounts at other banks and € 3,164K for interest and fees on time deposits.

Interest on other loans includes principally interest on claims handling of the Road Victims Fund of € 4,329K and interest on recoupments from agents of € 3,999K.

The drawings from the provisions for risks and charges include the drawing of € 4,778K from the provision for bad debts and € 2,129K from the provision for property maintenance, € 1,094K was also drawn from the provision for old age and redundancy pursuant to art. 30 of the CCNL and € 264K drawn from the provision to cover commitments deriving from the agreement dated 14-04-1972 for the supplementing of statutory pensions.

There were also drawings of € 21,825K from the provision for risks and charges to cover charges for which provision had already been made in previous financial years, for employees and some of the risks of linked to derivative operations not materialising.

€ 738K was recorded under "Sundry income" for the tax credit on dividends and on the realisation and valuation of shares in stocks and shares investment funds.

The remainder of sundry income, of € 8,579K, relates mainly to provisions of services carried out for companies in the Group: the values are added to those which relate to the recovery of costs and which are significant in recuperations from third parties of administrative expenses.

Recuperations by third parties of administrative expenses and charges, which are offset against other charges, therefore relate mainly to charges to companies in the Group for the apportionment, on the basis of objective criteria, of the costs of the unified functions at Group level.

## OTHER CHARGES

These total € 304,202K (€ 282,027K in 2004) and include amongst others:

(€K)	2005	2004	Change
Administrative charges and expenses on behalf of third parties	(70,933)	(66,243)	(4,690)
Interest on payables – current accounts	(1,442)	(926)	(516)
Sundry charges to credit institutions and companies	(347)	(456)	109
Interest on other borrowings	(452)	(292)	(160)
Shares assigned to the provision for risks and charges	(93,698)	(57,797)	(35,901)
Losses on loans	(4,432)	(4,318)	(114)
Share of depreciation on intangible assets	(38,994)	(46,834)	7,840
Depreciation of goodwill	(48,657)	(48,657)	0
Interest on loans	(14,808)	(9,733)	(5,075)
Interest on subordinated liabilities	(20,195)	(21,037)	842
SAInternational loan redemption premium	0	(7,097)	7,097
Exchange rate differences	(2,308)	(3,434)	1,126
Others	(7,936)	(15,203)	7,267
<b>TOTAL</b>	<b>(304,202)</b>	<b>(282,027)</b>	<b>(22,175)</b>

€ 80,770K of the shares assigned to the provisions for risks and charges refer to the share of the provision to the provision for future risks and charges. These amounts refer mainly to legal disputes against insurance intermediaries and former shareholders. The provision also relates to all definitive or calculated charges which the company will have to bear in relation to employees but which are still uncertain as at the date of this report.

The remainder of € 6,855K refers to the provision for bad debts, € 3,697K to the property maintenance fund and € 2,376K to the provisions for old age and redundancy pursuant to art.30 of the CCNL.

With regard to the share of depreciation of the goodwill, please refer to what is stated in the comments under the “Intangible assets” item.

The shares of depreciation of other intangible assets of € 38,994K refer to sundry assets from deferred commission and include € 1,822K for depreciation of software user rights, € 21,643K of depreciation of expenses for research and development, € 1,213K for the share for the financial year of capitalised costs in relation to the loan granted by the subsidiary SAIInternational S.A.; a further € 4,818K refers to the de-

preciation of the costs of the Mediobanca loan. Finally, € 9,487K refer to the depreciation of the merger costs, € 4K to the depreciation of increased expenses on third party assets, € 2K to the depreciation on trade marks and € 5K on the depreciation of expenses involved in the increase of the share capital.

Interest on loans includes € 10,644K for the loan granted by the subsidiary SAInternational.

Interest on subordinated liabilities refer in full to the subordinated loan granted by Mediobanca.

## EXTRAORDINARY INCOME

This totalled € 68,506K and can be broken down as follows:

(€K)	2005	2004	Change
Capital gains on sales of property	6,900	57,117	(50,217)
Capital gains on the disposal of long-term investments in stocks and shares	38,294	49,662	(11,368)
Elimination of previous fiscal interferences	0	101,717	(101,717)
Other extraordinary income	23,312	26,088	(2,776)
<b>TOTAL</b>	<b>68,506</b>	<b>234,584</b>	<b>(166,078)</b>

€ 3,187K of the capital gains relate to sales of property and are derived from the disposal of operational property and capital gains on sales of residential property of € 3,713K.

Capital gains on the disposal of long-term investments in stocks and shares were realised for € 3,534K on debentures, whereas € 34,760K related to shares.

The “elimination of previous fiscal interferences” item in the year 2004, referred to the write-off of depreciation of property and the write-down of listed shareholdings, made in previous financial years, exclusively by applying the tax rules.

“Other extraordinary income includes, amongst others, extraordinary income of € 17,309K and advance tax of € 5,651K.

## EXTRAORDINARY CHARGES

These total € 38,424K and are broken down as follows:

(€K)	<b>2005</b>	<b>2004</b>	<b>Change</b>
Expenses connected with the sale of property	158	1,704	(1,546)
Capital losses on the disposal of property	0	17,252	(17,252)
Capital losses on the disposal of long-term investments in stocks and shares	2,321	7,034	(4,713)
Elimination of previous fiscal interferences	0	34,933	(34,933)
Other extraordinary charges	35,945	34,407	1,538
<b>TOTAL</b>	<b>38,424</b>	<b>95,330</b>	<b>(56,906)</b>

€ 67K of the expenses connected with the sale of property was derived from the disposal of operational property and € 91K from the sale of residential property.

€ 163K of the capital losses on the disposal of long-term investments in stocks and shares were realised on debentures, whereas € 2,158K were realised on shares.

Other extraordinary income includes extraordinary losses of € 33,107K, including € 6,831K due to penalties imposed by ISVAP in relation to the claims settlement policy and expenses for refunds to policyholders for surplus premiums paid in compliance with the Antitrust decision of € 2,711K.

## CORPORATION TAX

This totals € 92,155K (€ 125,412K in 2004) and can be broken down as follows:

(€K)	<b>2005</b>	<b>2004</b>	<b>Change</b>
Provision for current tax in the provision for taxation	(108,024)	(86,454)	(21,570)
Net deferred tax	15,869	(38,958)	54,827
<b>TOTAL</b>	<b>(92,155)</b>	<b>(125,412)</b>	<b>33,257</b>

The provision for current tax in the provision for taxation refers to the estimated IRES and IRAP due in the current financial year, calculated according to the current tax rules and by applying the nominal rates of 33% for IRES and 4,25% for IRAP to the tax bases. When determining the IRAP for the year, in accordance with prudential considerations, the rate increases taken into account were those stipulated by

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some Regions for taxes owed on the basis of the territorial apportionment of the tax base.

With regard to IRES, in the 2005 financial year, the Group taxation referred to in articles 117 et seq. of the Decree of the President of the Republic 917/1986 (national fiscal consolidation) continued. That regards the company, as the consolidating company, as settling and paying the IRES on behalf of all the subsidiaries joining the tax consolidation.

Therefore, consistent with what occurred in the 2004 financial year, the IRES charged to the profit and loss account refers only to the corresponding tax attributable to the company based on its taxable income which is transferred to the Group. However, the provision for taxation includes the whole tax burden estimated for the Group.

Provision was made for current taxation and not for amounts owed for tax at the time the accounts were produced, as the tax return for the year had not yet been produced.

Current taxation for the financial year can be broken down as follows:

(€K)	<b>2005</b>	<b>2004</b>	<b>Change</b>
Current IRES gross of the benefits derived from fiscal consolidation	(91,045)	(67,249)	(23,796)
Estimated benefits derived from fiscal consolidation	9,021	6,162	2,859
Current IRAP	(26,000)	(25,367)	(633)
<b>TOTAL</b>	<b>(108,024)</b>	<b>(86,454)</b>	<b>(21,570)</b>

The increase of the current IRES is related to the increase in the pre-tax result for the 2005 financial year compared with the previous year and to the fact that in the 2004 financial year there was the fiscal reclassification of previous accounts interferences as a result of which € 66,784K was charged to the profit and loss account for positive net income components which were fiscally irrelevant.

However, there was no considerable change in the current IRAP estimated for the year compared with the previous year as the determination of the tax base for that tax was different and anchored mainly in income components not of an extraordinary nature and due to the effect of the lower weight of the respective nominal rate on the IRAP tax base.

The estimated net benefits of joining the national fiscal consolidation can be attributed partly to the allocation of the tax losses from some consolidated companies, restricted to the share which is presumed to be non-recoverable by those companies which produced it and partly to the further removal of 5% of the tax on dividends within the Group from those companies which are part of the Group taxation.

In the 2005 financial year, capital gains were also achieved under the system of fiscal neutrality on assets transferred to consolidated companies and consequently

removed from taxation in the group tax return. That last benefit is however fully stated in the appropriation of a higher amount of deferred tax to be repaid if one of the reasons stipulated to in art. 124, indent 1, of the Decree of the President of the Republic 917/1986 were to occur.

The following changes occurred in deferred tax in the financial year:

(€K)	2005	2004	Change
Deferred tax liabilities	(16,026)	(25,482)	9,456
Deferred tax liabilities cancelled	44,567	24,771	19,796
Deferred tax received	59,687	38,253	21,434
Deferred tax received cancelled	(72,359)	(76,500)	4,141
<b>TOTAL</b>	<b>15,869</b>	<b>(38,958)</b>	<b>54,827</b>

In accordance with the provisions of art. 2427 of the Civil Code, point 14, the following table is provided concerning the description of the temporary differences which determined the recording of deferred tax paid and advance tax calculated by applying the nominal rates of 33% for IRES and of 4.25% for IRAP to those differences (the latter where applicable).

(€K)	2005		2004	
Deferred tax received	Temp. diff.	Deferred tax	Temp. diff.	Deferred tax
Non-life multi-year commission paid	57,408	21,384	47,755	17,789
Write-down of premiums receivable from policyholders	27,714	9,146	15,054	5,608
Write-down of other debtors	6,855	2,262	5,948	1,963
Change in the provision for outstanding claims	0	0	3,963	1,308
Unrealised capital losses on shares	1,219	454	6,854	2,553
Appropriation to the provision for risks and charges	69,897	25,106	24,537	8,097
Other temporary differences	4,006	1,335	2,837	935
<b>TOTAL</b>	<b>167,098</b>	<b>59,687</b>	<b>106,948</b>	<b>38,253</b>

(€K)	2005		2004	
Deferred tax paid	Temp. diff.	Deferred tax	Temp. diff.	Deferred tax
Capital gains spread over several years	13,965	4,724	40,134	14,599
Unrealised capital gains on shares	13,306	4,957	13,479	5,021
Only fiscal depreciation	15,981	5,953	15,738	5,862
Other temporary changes	1,191	392	-	-
<b>TOTAL</b>	<b>44,444</b>	<b>16,026</b>	<b>69,351</b>	<b>25,482</b>



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The recording of advance tax of a total of € 59,687K is obtained mainly from the deduction over three financial years of the acquisition commission for multi-year insurance contracts in the non-life branch and the deduction over nine years of the write-downs made on loans to policyholders exceeding the share deductible pursuant to art. 106, indent 3 of the Decree of the President of the Republic 917/1986.

With effect from the 2005 financial year, that last temporary difference no longer gives rise to the apportionment of pre-paid IRAP due to the amendments made to Legislative Decree 446/1997 by art. 6, no. 1, of Decree-Law 203/2005 which confirmed the total fiscal irrelevance of those write-downs for the purposes of that tax.

The considerable increase of pre-paid tax in the 2005 financial year compared with the previous financial year can be attributed mainly to the higher provisions made to the provision for risks and charges. Please refer to the comments in the specific item in these Notes to the Accounts.

However, the transfer of pre-paid tax recorded in previous financial years generated an increase in the tax burden of € 72,359K.

€ 33,614K of that transfer relates mainly to the transfer of the deduction of the alignments made on capitalised shareholdings pursuant to art. 1 of Decree-Law 209/2002 and € 18,035K to the deduction of the multi-year commission deferred to previous financial years of € 8,411K for the transfer of the write-downs on loans to policyholders.

Added to the above, there was the transfer of a total of € 2,392K of prepaid tax appropriated to the write-downs made in the 2004 financial year on stocks and shares which do not come under the requirements referred to in art. 87 of the Decree of the President of the Republic 917/1986. That transfer takes into account the reabsorption of the differential between the accounting and fiscal value of those shareholdings due to the cessions which took place in the 2005 financial year, and due to the value readjustments made in 2005 on those securities for which the previous write-down was made and restricted to the reabsorption of those write-downs.

With regard to the change in deferred tax paid, it is stated that the major differences relate, on the one hand, to speculation about the temporary fiscal irrelevance of the value readjustments made on shares and shareholdings stated above and, on the other, to the deduction in the tax return of the income in 2005 from the depreciation of property made exclusively by applying the tax rules pursuant to art. 109, no. 4, b) of the Decree of the President of the Republic 917/1986.

However, compared with the 2004 financial year, the impact of the deferred tax paid, arising in relation to the capital gains realised in the 2005 financial year, which can be spread over several years for tax purposes, pursuant to art. 86 of the Decree of the President of the Republic 917/1986. Those differences arise mainly because of the lower number of disposals of properties in the financial year in question compared with the previous year.

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The transfer of the deferred tax appropriated in previous financial years generates a reduction of the tax burden in the accounts totalling € 44,567K.

€ 22,563K of that transfer is due, amongst others, to taxation in the 2005 financial year for the share of capital gains realised deferred from previous financial years and € 19,048K to the transfer of the appropriation of the amounts deferred due to the reclassification made in the 2004 financial year for the shareholdings for which a write-down is made only for tax purposes.

That last change relates to the cessation, at the end of the 2005 tax period, of the temporary system stipulated in art. 4 del Legislative Decree 344/2003. Under that system, any capital gains realised up to the end of the 2005 financial year on shareholdings in possession of the requirements stipulated in art. 87 of the Decree of the President of the Republic 917/1986 (Pex shareholdings) could contribute to taxation up to the limit of the write-downs deducted in the two year period 2002-2003.

It is reported, furthermore, on this that the tax transferred in the 2005 financial year takes account of the changes made to the rules on exempt capital gains in Decree-Law 03/2005. Due to the effect of the new provisions, part of the capital gains realised on those shareholdings are subject to taxation and, therefore, part of the write-downs, which is only of fiscal value, made previously may be reabsorbed at the time they are actually realised.

The deferred tax paid cancelled through the effect of the transfer of the value readjustments on shareholdings made in the 2004 financial year only with an accounting value amounted to € 1,778K.

Under the items excluded from the calculation of deferred tax, some amounts apportioned to the provision for risks and charges are stated for estimated charges for which it was considered appropriate, in accordance with prudential considerations, not to make provision for the relevant prepaid tax considering the objective uncertainty about the timing of the aforementioned charges and their deduction for tax purposes.

The write-downs and related value readjustments made on shareholdings in possession of the requirements referred to in art. 87 of the Decree of the President of the Republic 917/1986 were not taken into account either because, although theoretically transferable for the share of the capital gain which became taxable following the changes made to the Pex rules, there are no elements which can be determined objectively required for their correct valuation.

## Section 19

### OTHER INFORMATION RELATING TO THE PROFIT AND LOSS ACCOUNT

Annex 30 is a table of relations with companies in the Group and other participating interests and Annex 31 is a summary table of premiums recorded in the direct business.

The table of charges for employees, directors and auditors is set out in annex 32.

### EXCHANGE RATES

The exchange rates for the main currencies used for the conversion of the items in the accounts are set out 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

Pursuant to art. 78 of the Consob Resolution no. 11971 dated 14/5/1999 and as issuers of shares, we set out below the names and in accordance with the criteria established in annex 3C, the payments made to directors, auditors and general managers, for any reason and in any form, also by the subsidiaries:

			Payments				
Description of post							Other payments (3)
Surname and name	Post held (1)	Period	Emoluments for the post	Non-currency benefits (2)	Bonuses and other incentives	Emoluments for posts	Other
Ligresti Jonella	Chairman – Board member – EC	1/1-31/12/2005	1,452,016	2,329	2,000,000	165,459	
Ligresti Maria Giulia	Vice Chairman	1/1-31/12/2005	262,016	2,329	500,000	1,059,827	
Pini Massimo	Vice Chairman	1/1-31/12/2005	281,359	24,673	300,000	73,170	
Talarico Antonio	Vice Chairman – Board member – EC	1/1-31/12/2005	275,427	17,821		903,171	
Marchionni Fausto	Managing Director – Board member – EC	1/1-31/12/2005	700,000	5,667		359,431	(a)
Broggini Andrea	Board member	1/1-31/12/2005	50,000			0	
Caruso Carmelo	Board member	1/1-31/12/2005	50,000			1,991	
Cerutti Mariella	Board member	1/1-31/12/2005	50,000			0	
D'Urso Carlo	Board member	1/1-31/12/2005	50,000			15,000	(b)
La Russa Vincenzo	Board member – EC	1/1-31/12/2005	100,000			2,927	(c)
Ligresti Gioacchino Paolo	Board member EC	1/1-31/12/2005	100,000		500,000	1,598,704	
Lo Vecchio Lia	Board member	1/1-31/12/2005	50,000			14,438	

Lombardini Siro	Board member	1/1-31/12/2005	50,000	0	
Mei Enzo	Board member I.C.C.	1/1-31/12/2005	60,000	0	
Morbidelli Giuseppe	Board member	1/1-31/12/2005	50,000		(d)
Rucellai Cosimo	Board member	1/1-31/12/2005	60,000	70,288	
Severgnini Oreste	Board member	1/1-31/12/2005	50,000	0	
Spiniello Salvatore	Board member	1/1-31/12/2005	60,000	18,628	(e)
Zannoni Oscar	Board member	1/1-31/12/2005	50,000	0	
Marino Benito	Chairman of the Board of Statutory Auditors	1/1-31/12/2005	135,000	33,000	
Mantovani Giancarlo	Auditor	1/1-31/12/2005	90,000	115,439	
Spadaccini Marco	Auditor	1/1-31/12/2005	90,000	0	
Castellini Sergio	Alternate auditor	1/1-31/12/2005	0	0	
Di Giulio Maria Giorgio	Alternate auditor	1/1-31/12/2005	0	0	
Mosconi Maria Luisa	Alternate auditor	1/1-31/12/2005	0	101,088	

(1) The abbreviation "EC" means they are on the Executive Committee, the abbreviation I.C.C. means they are on the Internal Control Committee

(2) The estimated value is stated

(3) the reason for which they were granted is specified

- (a) Payment to employee: 1,241,711
- (b) Professional services rendered by the firm of Urso Munari Gatti to FONDIARIA-SAI SpA: 118.125 – Professional services rendered by the firm of 'Urso Munari Gatti to subsidiaries: 653,937
- (c) Professional services rendered to FONDIARIA-SAI SpA: 196.167 - Professional services rendered to subsidiaries: 71,448
- (d) Services rendered by the Professional Office Morbidelli-Bruni-Righi-Traina to subsidiaries: 562,000
- (e) Professional services rendered to FONDIARIA-SAI SpA: 125,000 - Professional services rendered to subsidiaries: 70,000

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## Part C

### Other information

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## AUDITORS' REPORT

## FINANCIAL STATEMENT AS AT 31.12.2005

Amounts in thousand Euro

	<u>2005</u>	<u>2004</u>
<b>Pre-tax profit (loss) for the financial year</b>	<b>392,758</b>	<b>383,885</b>
<b>Change in the non-currency items</b>	<b>897,000</b>	<b>710,207</b>
Change in the provision for unearned premiums in the non-life branches	31,986	26,901
Change in the provision for outstanding claims and other technical provisions in the non-life branches	(58,398)	89,605
Change in actuarial reserves and other technical provisions – life business	730,457	448,393
Change in deferred acquisition costs	1,194	1,343
Change in provisions	86,843	15,993
Non-currency income and expenses derived from financial instruments, investments in property and shareholdings	10,892	92,596
Other changes (capital gains, capital losses, drawings from provisions, losses on loans, depreciation provision, intangible assets, extraordinary income/expenses, provisions for the profit and loss account)	94,027	35,376
<b>Change in debtors/creditors generated by operations</b>	<b>92,482</b>	<b>(226,948)</b>
Change in debtors and creditors deriving from direct insurance and reinsurance operations	(63,526)	(171,463)
Change in other debtors and creditors	156,009	(55,485)
<b>Tax paid</b>	<b>(205,890)</b>	<b>(138,640)</b>
<b>Net liquidity generated/absorbed by currency elements relating to the investment and financial activity</b>	<b>40,902</b>	<b>(201,788)</b>
Liabilities for loan contracts issued by insurance companies	0	0
Borrowings from banking and interbank clients	0	0
Financing and loans to banking and interbank clients	0	0
Other instruments recorded at fair value in the profit and loss account	40,902	(201,788)
<b>TOTAL NET LIQUIDITY DERIVING FROM OPERATIONS</b>	<b>1,217,253</b>	<b>526,716</b>
Net liquidity generated/absorbed by investments in property	(38,123)	194,578
Net liquidity generated/absorbed by shareholdings in subsidiaries, related companies and joint ventures	27,438	7,286
Net liquidity generated/absorbed by financing and loans	4,405	40,646
Net liquidity generated/absorbed by investments held to maturity	0	0
Net liquidity generated/absorbed by financial assets available for sale	(1,006,888)	(534,205)
Net liquidity generated/absorbed by tangible and intangible assets	(3,472)	(22,319)
Other flows of net liquidity generated/absorbed by the investment activity	3,861	(549)
<b>TOTAL NET LIQUIDITY DERIVING FROM INVESTMENT ACTIVITY</b>	<b>(1,012,780)</b>	<b>(314,563)</b>

Net liquidity generated/absorbed by the Group's capital instruments	9,672	228
Net liquidity generated/absorbed by own shares	(51,900)	(36,987)
Distribution of dividends	(125,059)	(68,609)
Net liquidity generated/absorbed by capital and reserves of third parties	0	0
Net liquidity generated/absorbed by subordinated liabilities and participating financial instruments	100,000	0
Net liquidity generated/absorbed by sundry financial liabilities	(69,748)	(128,343)
<b>TOTAL NET LIQUIDITY DERIVING FROM FINANCING</b>	<b>(137,035)</b>	<b>(233,711)</b>

<b>Effect of exchange rate differences on liquid assets and equivalent means</b>	<b>0</b>	<b>0</b>
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<b>LIQUID ASSETS AND EQUIVALENT MEANS AT THE START OF THE FINANCIAL YEAR</b>	<b>163,088</b>	<b>184,646</b>
<b>INCREASE (DECREASE) OF LIQUID ASSETS AND EQUIVALENT MEANS</b>	<b>67,438</b>	<b>(21,558)</b>
<b>LIQUID ASSETS AND EQUIVALENT MEANS AT THE END OF THE FINANCIAL YEAR</b>	<b>230,526</b>	<b>163,088</b>