Draft

MILANO ASSICURAZIONI

2006 Financial Year
Consolidated accounts

GRUPPO FONDIARIA SAI

Reports and Accounts for the 2006 financial year

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Shareholders' capital € 242,987,703.40 fully paid.
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FONDIARIA-SAI Group – management and coordination FONDIARIA-SAI S.p.A.

MILANO ASSICURAZIONI S.p.A

5-YEAR SUMMARY - CONSOLIDATED *

	2002		2003		2004		2005		2006	
TOTAL PREMIUMS		%		%		%		%		%
MOTOR TPL	992,086	47.78	1,657,690	54.73	1,698,169	52.99	1,725,112	51.87	1,741,470	50.97
NON-LIFE CLASSES	707,513	34.07	941,390	31.08	982,737	30.67	1,014,221	30.50	1,033,811	30.26
LIFE BUSINESS	376,910	18.15	429,870	14.19	523,724	16.34	586,426	17.63	641,175	18.77
TOTAL	**2,076,509**	**100.00**	**3,028,950**	**100.00**	**3,204,630**	**100.00**	**3,325,759**	**100.00**	**3,416,456**	**100.00**
CLAIMS PAID OUT *and related costs*	**1,528,882**		**2,193,046**		**2,263,343**		**2,428,525**		**2,576,370**	
GROSS TECHNICAL RESERVES										
UNEARNED PREMIUM RESERVE	621,947		947,941		972,049		982,854		958,933	
CLAIMS RESERVE	2,061,407		3,099,257		3,258,229		3,340,651		3,402,204	
OTHER NON-LIFE TECHNICAL RESERVES	5,533		6,908		7,714		2,084		2,750	
LIFE TECHNICAL RESERVES	3,526,925		3,758,122		3,848,100		4,143,201		4,717,223	
TOTAL	**6,215,812**		**7,812,228**		**8,086,092**		**8,468,790**		**9,081,110**	
TECHNICAL/UNEARNED PREMIUM RESERVES	**299.34%**		**257.92%**		**252.33%**		**254.64%**		**265.80%**	
GROUP NET EQUITY										
SHARE CAPITAL AND RESERVES	776,604		986,572		1,107,425		1,434,062		1,737,650	
OPERATING INCOME	30,747		249,267		264,432		283,522		247,854	
TOTAL	**807,351**		**1,235,839**		**1,371,857**		**1,717,584**		**1,985,504**	
INVESTMENTS	**6,155,576**		**7,609,557**		**8,303,076**		**9,044,687**		**11,291,660**	
NUMBER EMPLOYEES	**1,293**		**1,813**		**1,709**		**1,680**		**1,658**	

* The data relating to the 2002 and 2003 financial years refer to the accounts compiled in accordance with national accounting principles; data relating to the 2004 financial year refer to the accounts compiled in accordance with IAS/IFRS accounting standards, excluding IAS 32, 39 and IFRS 4 which are applied as from 1/1/2005.

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CONSOLIDATED ACCOUNTS

These accounts have been translated into English from the original Italian which was issued in accordance with Italian practice. The Italian remains the definitive version and the correctness of the English version was not checked by the Fondiaria Group.

Translated by SEL, the translation company owned by the University of Salford, Manchester, UK.
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2006 Consolidated Accounts

Management Report

MANAGEMENT TRENDS

Premiums

Premiums and additional income from direct business and indirect business total € 3,416,456K and record an increase of 2.73% over the previous year.

Premium income for direct business was € 3,395,788K (+2.40% compared with the previous year). In particular, in the non-Life classes, premium income of € 2,754,718K was achieved, with a rise of 0.90%, whilst the life business premiums amount to € 641,070K and show growth of 9.34%.

The trend in premiums in the non-Life classes reflect the group's strategies which, in the Motor TPL classes, have led to streamlining initiatives in the geographic areas and in the tariff sectors which were showing unsatisfactory technical results and, in the other non-Life classes, provide for an underwriting policy which includes the application of correct technical parameters so that the growth in premiums is accompanied by the profitability of the acquisition portfolio.

In the life business sector, the increase in premium income essentially results from the contribution from Bipiemme Vita and, in particular, from the proportional consolidation, to the extent of 50%, of the premiums written by Bipiemme Vita in the 4th quarter of the year. The proportional consolidation according to the terms referred to became applicable following Milano Assicurazioni's attainment, in October, of a 50% interest in the share capital of Bipiemme Vita, as more fully reported in the chapter dedicated to the Life business sector.

Net of this contribution, for € 68,092K, the life premiums amounted to € 572,978K (-2.27%). The fall in relation to the 2005 financial year can be attributed to fewer issues relating to index-linked products, regarding which only one sales initiative was carried out during the last quarter of the year, whilst the premiums relating to traditional-style products rose by 2.73%, in line with the company's decisions to favour these products which offer higher profitability margins and encourage the write-up of the portfolio in the long term.

In the indirect business sector, premium income amounts to € 20,668K compared with € 9,437K in the previous year (+119.01%). The significant increase can be attributed to the new proportional agreement with the affiliate SIAT, covering the non-life classes with the exception of the transport branches. The premium income relating to acceptances by companies not part of the Fondiaria-Sai group remain paltry, however, due to the earlier decision to halt new subscriptions in the inward reinsurance market following unsatisfactory technical trends.

The table below provides a summary of data relating to premiums written, indicating changes compared with the previous year.

(€K)	**31/12/2006**	**31/12/2005**	**% change**
DIRECT BUSINESS			
Non-life classes	2,754,718	2,730,030	+0.90
Life business	641,070	586,292	+9.34
Total direct business	3,395,788	3,316,322	+2.40
INDIRECT BUSINESS			
Non-life classes	20,563	9,303	+121.04
Life business	105	134	-21.64
Total indirect business	20,668	9,437	+119.01
GRAND TOTAL	**3,416,456**	**3,325,759**	**+2.73**
including:			
Non-life classes	2,775,281	2,739,333	+1.31
Life business	641,175	586,426	+9.34

Consolidated Profit and Loss Account

The 2006 financial year closes with a net profit of € 247,854K, compared with € 283,522K the previous year. In comparing the results, it must be borne in mind that the profit for the 2005 financial year benefited from a particularly low tax bill following the withdrawal from the deferred tax fund of € 31,508K, equal to the tax liability relating to the portion of the write-up performed during the 2004 financial year on the Generali shares in the portfolio, which is no longer taxable.

The main aspects characterising the result achieved in 2006 can be summarised as follows:

- non-Life insurance management closes with a pre-tax profit of € 292,694K, compared with the profit of € 332,260K recorded at the end of the previous year. The fall can mainly be attributed to a rise in the loss ratio in the General TPL branch, with particular reference to the contracts signed in respect of Hospital Trusts and Territorial Authorities, and to a different economic impact in outward reinsurance which had, during the previous financial year, made it possible to achieve a particularly favourable result.
  The trend in the Motor TPL branch improved, however, this having benefited from the planned streamlining initiatives in the tariff sectors and in the geographic areas which were showing unsatisfactory technical trends. The trend in the land vehicle business is largely positive, continuing to bring in significant returns;
- life business shows a pre-tax profit of € 96,077K, a significant improvement compared with the 2005 result with profit of € 63,214K.
  The figure for the 2006 financial year includes the contribution of € 9,456K relating to Bipiemme Vita of which the parent company Milano Assicurazioni acquired a 50% share during the year, as more fully analysed in the chapter below dedicated specifically to the life business sector.
  Net of this contribution, the 2006 pre-tax profit is therefore € 86,621K and maintains a significant increase compared with the previous year, following both higher profit margins as a result of the growth in the traditional-style portfolio and lower requirements for additional reserves, the dynamics of which benefited the from the rising trend in interest rates;
- asset and financial management made it possible to achieve net income from financial instruments and investment property of € 356,913K, up by 5.9% compared with the previous financial year (+2.1% for the same basis of consolidation, that is, excluding the income attributable to Bipiemme Vita).
  In particular, the income from other financial instruments and property investments comes to € 330,030 (+17.8%), whilst the net income from financial instruments at fair value recognised through profit or loss

comes to € 23,705K, compared with the € 56,660K recorded in 2005. The fall is essentially attributable to the repeated monetary policy interventions adopted during the year by the main Central Banks in order to meet the risks of a resumption of the inflationist trend. These interventions had a negative impact on the rates for bonds, with particular reference to those with a fixed rate and longer maturity, producing a negative impact on the adjustments in the book values to the year-end market prices, although less than the peaks recorded at the end of the first half;

- operating expenses in the non-Life insurance segment amount to € 494,100K compared with € 473,803K the previous year, with an impact on net premiums of 18.2% (17.9% as at 31 December 2005). Life business operating expenses amount to € 35,216K, with an impact on premiums of 5.6%;

- current year taxes amount to € 142,403K and show an impact of 36.5% on the gross profit compared with the 2005 impact of 30.1%. The tax rate is lower compared with the nominal one, mainly due to the effect of dividends cashed, nearly all with no tax liability. In addition, the 2005 tax rate 2005 benefited from the withdrawal from the deferred tax fund of € 31,508K, equal to the tax liability relating to the portion of the write-up performed during the 2004 financial year by the parent company Milano Assicurazioni, on the Generali shares in the portfolio, which is no longer taxable.

We would also point out that the result for the period was not influenced by any atypical and/or unusual events or operations in regard to the usual carrying out of business.

The table below provides a summary of the 2006 profit and loss account compared with that for the previous year:

(€K)	**31/12/2006**	**31/12/2005**	**% change**
Net premiums	3,348,998	3,219,614	4.02
Net charges relating to claims	-2,668,448	-2,599,816	2.64
Net commissions	3,954	950	316.21
Income and charges deriving from financial instruments at fair value recognised through profit or loss	23,705	56,660	-58.16
Net incomes from subsidiaries, associated companies and joint ventures	3,178	292	988.36
Net incomes from other financial instruments and property investments	330,030	280,174	17.79
Operating expenses	-530,166	-500,834	5.86
Other costs net of other revenues	-120,913	-60,421	100.12
Pre-tax profit (loss) for the financial year	**390,338**	**396,619**	**-1.58**
Income tax	-142,403	-119,361	19.30
Profit (loss) for the financial year net of taxes	**247,935**	**277,258**	**-10.58**
Profit (loss) on discontinued operating activities	-	6,443	-100.00
Consolidated profit (loss)	**247,935**	**283,701**	**-12.61**
Minorities' profit (loss) for the financial year	81	179	-54.75
Group profit (loss) for the financial year	**247,854**	**283,522**	**-12.58**

The table below shows the pre-tax profits achieved by each individual segment. The property segment includes the results achieved by subsidiary property companies (Meridiano EUR, Meridiano Orizzonti, Campo Carlo Magno), whilst the Other Business segment summarises trends in subsidiaries, albeit of limited size, operating within the financial sector and in the Other Services segment (Maa Finanziaria, Sogeint, Campo Carlo Magno Sport).

(€K)	**Non-Life**	**Life**	**Property**	**Other Business**	**Total**
Net premiums	2,719,429	629,569	-	-	3,348,998
Net charges relating to claims	-1,977,647	-690,801	-	-	-2,668,448
Net commissions	-	3,954	-	-	3,954
Net income from subsidiaries and associated companies	351	2,292	-121	656	3,178
Net income from investments	149,043	179,115	1,879	-7	330,030
Net income deriving from financial instruments at fair value recognised through profit or loss	15,154	8,551	-	-	23,705
Operating expenses	-494,100	-35,216	-89	-761	-530,166
Other net income and charges	-119,536	-1,387	-370	380	-120,913
Pre-tax profit (loss) for the financial year	**292,694**	**96,077**	**1,299**	**268**	**390,338**
Pre-tax profit (loss) for the previous financial year	**332,260**	**63,214**	**980**	**165**	**396,619**

Non-Life insurance sector

National Statistics Institute (ISTAT) data show that over the last three years, from June 2003 to May 2006, the increase in the Motor TPL tariffs was 4.4% overall, whilst consumer prices generally rose by 6.5%. The calculation carried out does not, however, take account of the fact that over 90% of policyholders each year are not involved in incidents, and thus enjoy the "bonus" effect, nor of the discounts which insurance companies often apply in relation to the published rates. The cost effectively incurred by Italians for compulsory Motor TPL cover, measured via premium income in relation to the number of vehicles in circulation, was therefore shown to be in total only 2% during the three-year period 2003-2005. During 2005, for the first time, the average cost per vehicle actually fell (-1.5%).

The sums paid and set aside by the companies for losses incurred reached almost € 15bn. From this perspective, the introduction of the mandatory direct compensation system, by virtue of the Insurance Code, should result in benefits in terms of the quality of the service to policyholders. The prime objective of direct compensation, in the priority-interest of policyholders, must be the elimination of inappropriate costs imposed on claims settlement. Amongst these are the legal or accident assistance expenses which are unjustified in the event of claims being settled under the terms of the law and without contentious disputes.

With reference to the gross premiums recorded in the Non-life sector at the end of the third quarter of 2006, the portfolio grew by 2.3% to € 26,004m, with a percentage impact on the total increase from 32.1% for the previous year to 34% for 2006. The Motor TPL premium income was € 15,894m (+1.2% compared with the third quarter of 2005), with a percentage impact of 61.1% on the entire the Non-life premiums (61.8% in the same period for 2005). For the classes other than Motor TPL, in the third quarter of 2006, the percentage impact on the total Non-life sector remained essentially stable compared with the same period in 2005: 38.9% as at 30/09/2006 (with income of € 10,110m) compared with 38.3% as at 30/09/2005 (with income of € 9,719m).

In particular, the gross premiums recorded in the third quarter of 2006 in the Accident and Health classes grew by 4.4% (€ 3,241m) compared with the same period in 2005. Those for the General TPL classes rose by 3% (€ 1,993m), whilst those for the Credit and Bonds classes increased by 4.3% (€ 575m).

The authorised agencies continue to represent the predominantly long-term distribution channel: in the first six months of 2006, they contributed to total income to the extent of 85.3% of the total Non-life premiums and 91.1% of the motor ones compared with 84.6% and 91.2% respectively for the first half of 2005. Secondly came the brokers, with 6.6% of the total Non-life premiums and 2% of the Motor TPL premiums. The indirect channel, which includes telephone and internet, had a 3.9% impact on the total and 4.8% on the Motor TPL premiums.

Within the context of Non-life management, the Motor TPL and Boat class shows a positive result of € 432m (4.5% of gross premiums recorded), down compared with the € 659m recorded in the first half of 2005 (7% of gross premiums recorded). The total percentage impact of the costs relating to claims paid out and reserved against the gross premiums for the period is 69.1% (69% at the end of the first half of 2005) and that for operating costs against the gross premiums recorded is 17.5% (17.3% in the first half of 2005).

* * *

With reference to the Milano Assicurazioni Group, the premiums written total € 2,775,281K (+ 1.31% compared with 2005).
The direct business premium income comes to € 2.754.718K compared with € 2,730,030K collected in 2005 (+ 0.90%). Of this, € 2.001.246K relates to the motor business, essentially stable compared with 2005, whilst € 753,472K relates to other non-life classes, which show growth of 3.28% compared with the previous financial year.

These trends reflect the policies adopted during the year, consistent with the strategic lines of the Fondiaria-Sai Group's industrial plan.

In particular, in the motor business, the planned streamlining initiatives were implemented in the geographic areas and tariff sectors which were showing unsatisfactory technical results and, in particular, the scaling-down of the fleet portfolio.
An underwriting policy was continued in the other non-life classes which proposes combining growth and profitability by safeguarding the standard of the acquisition portfolio in terms of quality.

In this context, we would also point out that in the Corporate sector, the persistence of extremely competitive market conditions, already highlighted in the previous year, added to the difficulty of growing the volume of business to any significant extent, taking into account the fact that in a number of specific areas, such as the Civil Liability sector, the criteria designed to maintain a risk subscription policy based on observing rigorous technical parameters were strengthened.

Once again, despite initially being included amongst the measures to be adopted, there was no provision during the 2006 financial year for the implementation of the project to develop the non-life insurance classes as a result of natural calamities. Whilst constantly remaining at the centre of the media's attention, this has still not found a place within an organic legal instrument for performing the operation.

Instead, the SIGRA (Integrated Flood Risk Management System) project is at an advanced stage of realisation for monitoring natural flood events, which will make it possible to constantly monitor the risk parameters, with undoubted advantages both in terms of reclassifying the risks and of assessing the relating quotation criteria.

A breakdown of gross direct business premiums by class is given below:

(€K)	**2006**	**2005**	**% change**
Accident and health	230,275	225,181	+2.26
Land vehicle TPL	1,732,894	1,725,112	+0.45
Motor insurance other classes	268,352	275,384	-2.55
Marine, aviation and goods in transit	11,426	10,135	+12.74
Fire and Other Property Damage	277,108	265,750	+4.27
General TPL	184,722	179,207	+3.08
Credit and Bonds	22,856	23,548	-2.94
Sundry pecuniary losses	7,814	6,692	+16.77
Legal protection	6,149	6,011	+2.30
Assistance	13,122	13,010	+0.86
TOTAL	**2,754,718**	**2,730,030**	**+0.90**

The gross technical reserves amounted to € 4,363,887K (€ 4,325,589K in 2005) and the ratio with premiums written was 157.2 % (157.9% in 2005).

Gross claims paid out amount to € 1,852,766K compared with € 1,755,401K the previous year (+5.5%). A breakdown of the number of claims reported and the amount of claims, inclusive of costs, paid for Italian direct business is given below:

	Claims reported (Number)			Claims paid out (€K)		
	2006	**2005**	**% chg.**	**2006**	**2005**	**% chg.**
Accident and health	73,467	70,468	4.3	107,413	99,960	7.5
Land vehicle TPL	422,996	432,733	-2.3	1,332,762	1,280,900	4.0
Motor insurance other classes	96,636	92,379	4.6	120,500	115,162	4.6
Marine, aviation and goods in transit	806	982	-17.9	4,433	4,025	10.1
Fire and Other Property Damage	80,644	80,085	0.7	142,269	127,973	11.2
General TPL	42,678	41,487	2.9	117,877	106,024	11.2
Credit and Bonds	553	478	15.7	19,871	15,560	27.7
Sundry pecuniary losses	1,598	204	683.3	1,875	548	242.2
Legal protection	663	1,302	-49.1	444	562	-21.0
Assistance	37,601	38,566	-2.5	5,322	4,687	13.5
TOTAL	**757,642**	**758,684**	**-0.1**	**1,852,766**	**1,755,401**	**5.5**

The main technical indicators over the last four years are summarised in the table below:

TECHNICAL INDICES (%)	**2003**	**2004**	**2005 IAS**	**2006 IAS**
Combined ratio	92.1%	91.6%	92.2%	94.1%
Claims/premiums over the year	71.5%	70.4%	72.3%	72.7%
Reserve ratio (*)	156.0%	158.1%	157.9%	157.2%

(*) gross technical reserves/premiums

New products launched onto the market

During the first half of 2006, the *La Mia Assicurazione Casa* product, the new multi-risk cover for home and family protection (damage to building, damage to contents, theft of contents, robbery and bag-snatching away from home, CL for the head of the household, Legal protection and Assistance), was launched onto the market.
Measures were also taken to adapt the third party civil liability [RCT] and employer's civil liability [RCO] covers for the basic Retail products classes to the provisions of the Biagi Law (Legislative Decree no. 276 of 10/9/93) by introducing appropriate extensions and clarifications for a number of new professional figures.
In July, the *4x4 Tutela Persona* product was replaced by *2xTE*, a product comprising two covers (health and accident) and dedicated to protecting the health of the individual.
In September, the new *La Mia Assicurazione Multirischi* product was launched onto the market, designed to bring into the "policy world" all those Clients who have not yet shown an interest in protecting their property and who, therefore, do not have any other cover than the Motor insurance that they are legally obliged to take out.
The end of the year saw the launch of the new Group product, *La Mia Assicurazione Fabbricati*, dedicated to protecting property used for civil purposes. The aim of the product is to restore profitability, protect the particularly costly covers (losses due to water/atmospheric events), and adapt the insurance offer to new market requirements.
During the course of the financial year, a review was carried out of all the contractual materials for the list products in order to make any adjustments to them as stipulated by the New Private Insurance Code, which requires the clauses referring to forfeitures, invalidity or restrictions on cover, or the charges payable by the Policyholder/Insured, to be better highlighted.

Reinsurance

Premiums ceded in the non-life classes amount to € 88,621K (3.2% of the direct business premium) compared with € 63,686K for the corresponding period of the previous year.
The increase is due both to the new non-proportional treaties protecting the Motor TPL class, which is characterised by a lower cover intervention limit, and to the new proportional cover advanced for the transport classes.
Risks ceded in the non-Life business class were placed with leading international operators with a high rating (S&P A/AA/AAA) by the affiliate The Lawrence Re Ireland Ltd. The treaties underwritten give priority to non-proportional cessions for fire, theft, General TPL, Motor TPL and Land Vehicle classes.
Proportional cession treaties with proportional structures have been continued to protect against the related risk retained in the Credit, Bond and Aviation Risks classes.
For technological risks, the proportional and excess of loss reinsurance structure was confirmed, with non-proportional protection combined with Fire and Land Vehicle risks.
Assistance was proportionally reinsured with Pronto Assistance and Hail risks are covered by a stop-loss treaty.
As from this year, a proportional cover was started up with the affiliate SIAT in the Transport, Goods and Marine Hull classes.

Subsidiaries

Essential data for the 2006 financial year relating to subsidiaries operating in the non-Life insurance sector is given in the table below:

(€K)	**gross premiums**	**% chg.**	**result**	**net equity excluding financial year result**
Dialogo Assicurazioni S.p.A.	12,626	- 28.25	2,669	7,682
Systema Assicurazioni S.p.A.	10,952	- 11.64	3,147	9,739
Novara Assicura S.p.A.	1,472	-	- 918	15,191

DIALOGO ASSICURAZIONI S.p.A. – Milan (our direct shareholding 99.85%)

The Company is active mainly in motor product placement over the telephone and on the Internet. During the course of the financial year, the company began the experimental phase of a new advertising campaign aimed at re-launching the Diaologo brand, which will start during the early part of the 2007 financial year.
Overall, gross premiums posted to the accounts amount to € 12,626K compared with € 17,596K the previous year (-28.25%).
Despite the fall in premiums recorded, the lower percentage impact of claims costs and, in particular, the positive trend in claims from previous years, already posted to the reserve, enabled a profit of € 2,669K to be achieved compared with profit of € 761 recorded as at 31 December 2005.

SYSTEMA Compagnia di Assicurazioni S.p.A. – Milan (our direct shareholding 100%)

The Company operates within the non-Life sector via the marketing of standardised products distributed through banks, with which specific agreements have been concluded.
During the 2006 financial year, new bancassurance agreements came into force which, all the same, have still not had any significant impact on the Company's portfolio.
Gross premiums posted to the accounts over the current year amount to € 10,952K compared with € 12,395K the previous year (-11.64%).

The technical account for the 2006 financial year did, at any rate, benefit from a significant reduction in claims-related costs and closes with a positive result of € 4,627K (€ 2,814K as at 31 December 2005). The profit and loss account shows a net profit of € 3,147K, compared with a profit of € 2,075K recorded the previous year.
During March, as part of the alliance and cooperation project between the Fondiaria-Sai Group and the Banca Popolare di Milano Group in the bancassurance sector, BPM began marketing Systema insurance policies. The new range of insurance services offered was opened with a multi-protection policy created to meet the risks arising from accidental events which may affect the home or family unit.

NOVARA ASSICURA S.p.A. – Novara (our direct shareholding 100%)

In November 2005, the Company was authorised by ISVAP [the supervisory authority for the insurance industry] to conduct business in a number of non-Life classes, including Motor TPL, and is the tool for implementing the partnership in the non-Life bancassurance sector with Banco Popolare di Verona and Novara, whose existing agreements provide for the transfer of 50% of the share capital.
In fact, the Company places its own insurance products over the counter at branches of Banca Popolare di Novara, a subsidiary of Banco Popolare di Verona and Novara.
The premium income began in January and produced premiums written for € 1,472K, € 1,099K of which related to the motor class. The 2006 profit and loss account is still dependent on structure costs which are not counterbalanced by a sufficient volume of business, and closes with a loss of € 918K.

Life insurance sector

The most recent figures available analysed by the Central European Bank show how European families invest available capital in homes and/or financial activities. Depending on the structure of the pension system (or the extent of public pension provisions compared with those for the private sector), a sizeable portion of families' financial wealth may, in turn be invested in insurance and pension products.

The extent of the wealth of families within the Euro area invested in insurance and pension products has risen considerably over the last ten years for around 90% of disposable income in 2005. In comparison, the wealth held in working capital and bank deposits has remained essentially unchanged in relation to available income. On average over the last decade, investment transactions in technical reserves has risen to 5.5 per cent of families' available income, representing little more than a third of the savings rate.

The reasons for this trend must be sought firstly in the fact that within the context of an expectation of economic cyclicity, the combination of risk and return offered by insurance and supplementary pension products was, overall, attractive in a period in which share markets went through a marked cycle of a strong rise and sudden fall.
Secondly, within the context of a longer-term or structural expectation, the demand for investments in such products was driven by a growing awareness by some families of the challenges posed by the ageing of the population and the need to provide adequately for oneself in old age.

This trend has been reinforced by recent reforms of compulsory public pension schemes which, in general, have reduced the generosity of the system by connecting the level of benefits to life expectancy and also, albeit to a lesser extent, by tax incentives and the greater emphasis on private pension plans.
Overall, one can predict that the role of financial brokerage for insurance and supplementary pension products will become even more important as families become aware of the need to make private pension provision.
The figures available to date show income down in the first 9 months of 2006 for Italian insurance companies: the premiums for the Life business sector show a fall of 6.4% compared with the first 9 months of 2005, with an amount of € 50,360m. The percentage impact on the total portfolio comes to around 65.9% compared with 67.9% for the same period in 2005.
The net slowdown in the Life Business is also evident from the figures supplied by ANIA [National Association for Insurance Companies] for new sector products.
In the first 10 months of 2006, new Life Business products accounted for less than 8.9% compared with those for the corresponding period in the previous year.
This involves a trend reversal compared with the growth in the sector recorded in recent years. The dynamics observed during October are the result of a recovery in bank counter business (+7% compared with October 2005) for income of 80% of total new products, which, in addition, encouraged an increase in the production of Class III products (unit- and index-linked products), with a rise of 34.2%.

On the other hand, the reduction continued in gross income flows of both Class I products (life assurance), with -13.8%, and Class V ones (pure capitalisation policies with a guaranteed rate of interest), with -61.8%. Amongst the other sales channels, we would point out the growth of 24% in agency income, which compares with a reduction of 19.5% for that of financial advisers.

There are still ample growth margins in the Life Business market. In premium terms, we are now at levels comparable with those of the leading European countries, but in terms of composition, there is still a lot of potential for growth: compared with our 25%, the ratio between technical reserves and GDP is 80% in the United Kingdom, 50% in France and Holland and 28% in Germany.

* * *

Alliance and cooperation project with Banca Popolare di Milano in the Bancassurance sector

On 14 June 2006, Banca Popolare di Milano (BPM) and Milano Assicurazioni executed the agreement to jointly and exclusively grow the BPM bancassurance business in the Life sector, signed on 21 December 2005.
This agreement provides for the implementation of a wider industrial alliance and cooperation project with BPM in the bancassurance sector, to be implemented in the non-Life and banking and financial services sectors, as well as in the Life sector.

Under the framework agreement, Milano initially purchased a 46% shareholding in Bipiemme Vita S.p.A.'s share capital from BPM and the subsidiary Banca di Legnano, with the option to transfer control of the latter from the BPM Group to Milano itself through the sale of a further two shareholdings amounting to 4% and 1% respectively, on two later dates, by 31 December 2006 and 30 June 2007 respectively, in exercise of put and call options, in two tranches, which the parties mutually granted to one another under specific conditions.

Moreover, BPM and Milano signed a shareholders' agreement containing Bipiemme Vita's rules of Corporate Governance, as well as industrial aspects of the partnership, specifying that Bipiemme Vita should continue to have access to BPM group distribution networks for a period of 5 years from the closing date, with the option to renew upon expiry for a further 5 years by mutual agreement between the parties.

The 46% purchase price for Bipiemme Vita, initially agreed at € 94.3m, was reduced – in agreement with forecasts in the contract of sale – to € 90.5m, mainly in respect of the changes in equity (distribution of dividends and capital increase) which occurred since the date of signing the agreement (December 2005).

The initially agreed price of € 94.3m was, in fact, to be taken as being a provisional price, arrived at on the basis of an "appraisal value" approach, the analysis taking into consideration all the value components relating to the Life business (e.g. embedded value as at 30 June 2005 and goodwill relating to the new products expected from 1 July 2005), to non-life business (e.g. TCM and Accident and Health classes), as well as to Bipiemme Vita's overheads.
The operation had received the permission of the Italian Monopolies and Mergers Commission and was authorised by ISVAP in April 2006.

On 18 October 2006, Milano Assicurazioni, exercised the first tranche of the aforementioned call option, purchasing 4% of Bipiemme Vita, thus bringing its shareholding to 50%. The purchase price, in accordance with contractual forecasts, was set at € 7.9m.
Following the exercise of this option, it achieved a governance comparable to Bipiemme Vita.

Bipiemme Vita is the BPM Group's insurance company and operates via approximately 700 of that Group's branches. The accounts as at 31 December 2006 (drawn up according to Italian principles) shows a premium income of € 761.5m and a net profit of € 15.2m. Net equity amounts to € 71.5m whilst total technical reserves come to € 3,500.3m.

The purchase price for the subsequent 1% shareholding in Bipiemme Vita (like that for the earlier purchase of the 4% stake) was contractually set in accordance with the final price paid for the 46% redetermined up to the date on which the options exercised at the reference rate are settled, net of any dividends distributed and plus any capital increases paid – both pro-rata – from the date of closing to the respective settlement date of the aforementioned option strike price.

The call option on the remaining 1% of Bipiemme Vita, with resulting acquisition of control and full consolidation by Milano, is exercisable by June 2007. Milano's right to exercise the call option will be subject to approval by a joint committee comprising four members (two per party) called upon to assess the performance and results of the agreement at each stage, and to authorisation from ISVAP.

In the current market, characterised by clients refocusing on traditional insurance products, the partnership will allow Bipiemme Vita to benefit from the technical and commercial know-how of a leading insurance

operator, fostering the development of new products and improving penetration in respect of BPM clients, and will allow Milano Assicurazioni to benefit from the BPM Group's expertise in commercial banking.
The agreement will make it possible for the BPM Group to obtain wider technical/managerial support in insurance services which is needed in order to pursue, via a product range which responds more effectively to the requirements of its own clients, significant objectives in terms of production volume growth. This support will also be needed in view of the role that banks and insurance companies can play for families and small- to medium-sized companies in anticipation of future growth in supplementary pensions.

The agreement is a further opportunity for the Milano Group to develop the Life sector. From an industrial perspective, the operation is perfectly in line with the current bancassurance agreements, which will continue to be strategic elements of the Group's growth policies.

Management Trends

Direct business premiums amount to € 641,070K (+ 9.34% compared with the previous financial year) and account for 18.8% of the overall portfolio. Added to this are premiums for € 105K relating to reinsurance acceptances.
The growth in the portfolio compared with the previous financial year derives essentially from Bipiemme Vita's contribution and, in particular, from the 50% proportional consolidation of the premiums written by Bipiemme Vita in the 4th quarter of the year. Proportional consolidation according to the terms referred to became applicable following the attainment by Milano Assicurazioni at the beginning of October, as stated earlier, of a 50% interest in Bipiemme Vita's share capital.
Based on a class-type analysis, the figures show growth in traditional-style products, which offer greater profitability and favour the write-up of the portfolio in the long term, as well as a still sustained demand for capitalisation products, including from institutional clients, who see in the group's products a good opportunity to invest their liquid assets. However, there is a downward trend in index- and unit-linked products, connected with investment funds and market indexes, in respect of which only one sales initiative was carried out in the last quarter of the financial year.

A breakdown of direct business premiums by class is given below:

(€K)	**31/12/2006**	**31/12/2005**	**% change**
Whole of life insurance	359,147	322,694	+11.30
Investment fund- and market index-related insurances	10,020	22,629	-55.72
Health insurance	72	89	-19.10
Capitalisation operations	271,831	240,880	+12.85
TOTAL	**641,070**	**586,292**	**+9.34**

Net of Bipiemme Vita's contribution, for € 68,092K, the Life business premiums amount to € 572,978K (-2.27 %). The fall compared with the 2005 financial year can be attributed to fewer issues relating to index-linked products, whilst the premiums relating to traditional-style products show an increase of 2.73%.

Financial-type contracts were also issued at a cost of € 60,555K. Of these, € 53,174K relates to Bipiemme Vita products for the 4th quarter of the year, consolidated at 50%. In line with IFRS 4 provisions, these contracts were posted according to the deposit accounting method, which provides for just the profit margins to be charged to the profit and loss account, under the Fees and Commissions received item.

Gross technical reserves amounted to € 4,717,223K (€ 4,143,201K in 2005).

Gross sums paid out amounted to € 557,636K (€ 485,740K in 2005), with an increase of 14.8%.

Purely for information purposes, premium income for new products, determined in line with Supervisory Authority requirements, are given below:

(€K)	2006	2005	% chg.
Class I	168,936	125,262	+ 34.9
Class III	60,412	24,386	+147.7
Class V	231,340	219,408	+5.4
TOTAL	**460,688**	**369,056**	**+24.8**

A summary of the main Segregated Internal Accounts is given below:

	2006	2005
Viva	4.40%	4.24%
Valuta Viva	5.59%	4.19%
Gepre	4.55%	4.45%
Geprecoll	4.71%	5.52%
3A	4.41%	4.29%
Bpm Gest (BPMVita)	3.42%	3.11%
Sicurgest (BPM Vita)	5.79%	6.40%

The pre-tax profit for the Life business sector amounts to € 96,077K, a significant improvement compared with the 2005 result, with a profit of € 63,214K.
Where the bases of consolidation are equal (i.e. excluding Bipiemme Vita's contribution for € 9,456K), the pre-tax profit comes to € 86,621K and maintains a significant increase compared with the previous financial year, following both higher profit margins as a result of the growth in the traditional-style portfolio and lower requirements for additional reserves, the dynamics of which benefited the from the rising trend in interest rates.

In the Individual Insurances sector, similarly to the previous financial year, the distribution networks' issue was largely directed towards products connected with Segregated Accounts, rated by clients as they are characterised by a minimum guaranteed yield and investment protection. Protection of the capital segment upon expiry of life and capitalisation policies was continued, by seizing the opportunities arising out of the possibility of offering the company's policyholders the range of listed new products capable of meeting the many insurance and supplementary pension requirements.

Also continued, via a set of sales initiatives carried out during the year, was the intention of improving the product mix, with a rise in the distribution of products with a periodic premium, characterised by high added value for the Company.
An index-linked product characterised by an indexing mechanism connected with four share indexes relating to Emerging Countries, all with interesting prospects for medium-term growth, was placed during the second half of the financial year.

With reference to the supplementary pension segment implemented via Individual Pension Forms, the necessary steps were undertaken in the last quarter of the year to obtain permission from the Supervisory Authorities for providing a PIP product, known as Più Pensione, in line with the provisions established by the reform arising out of Legislative Decree no. 252 of December 2005 and the innovations brought in under the 2007 Finance Act.

In the Corporate sector, the market trend continued for purchasing capitalisation products, especially on the part of Institutional Clients with extensive liquid assets to invest.
In parallel, with the gradual establishment of supplementary pension regulations, the sector's business also focused on protecting the pre-existing Pension Funds through interventions aimed at consolidating the

current portfolio as well as, during the last part of the year, organising sales initiatives designed to provide adequate advisory support on the various options granted by the reference regulations. The latter will also continue during 2007, when the supplementary pension reform will fully come into force.

In order to protect all the business areas typical of the Corporate segment, the new Plural Vita MUTUI product was launched in December. This follows the current trends in the credit market, which has recorded high levels of growth in both the property loan and the consumer credit sectors.

With regard to BPM Vita, the sales plan shared by the administrative organs of BPM, Gruppo Fonsai and Bipiemme Vita was initiated during the year. This will focus on marketing class I and III products.
From the beginning of April, the Group's networks were able to market the new "Duetto" Unit-linked policy, characterised by an insurance solution relating to the class I "BPM Consolida" Segregated Account combined with an class III "BPM Flex" flexible internal fund.
Again in April, marketing of the "Domani Sereno" Supplementary Pension Plan was resumed, having been revisited as a result of a lower loading and the guaranteed minimum in line with the new ISVAP provisions.

In mid-May, the placement of the Index-linked "Convergenza Annuale" policy was successfully concluded for € 89m, placed entirely by the Banca Popolare di Milano network, with a considerable contribution by the Banca di Legnano and Cassa di Risparmio di Alessandria networks.

At the beginning of August, the subscription of the Index-linked "Valuta Globale" policy closed for a total of € 103m. This issue, too, was placed by the Banca Popolare di Milano, Banca di Legnano and Cassa di Risparmio di Alessandria networks.

In November, marketing began of the Index-linked "Obiettivo Alpha" policy, the Group's third issue, which concluded in December according to a sales plan, with a total subscription of € 96m.

Reinsurance

Total premiums ceded in the life business classes amount to € 11,606K compared with € 10,855K recorded in the previous year. The reinsurance structure is unchanged in relation to 2005, with proportional cover in excess of loss and claims excess catastrophe cover.

Subsidiaries and joint ventures

In addition to Milano Assicurazioni, the subsidiaries Fondiprev and Bipiemme Vita – in which the parent company Milano Assicurazioni acquired a 50% share capital interest during the year – also operate in the Life insurance sector. Below is a brief comment on the operations performed by the said companies during the 2006 financial year.

BIPIEMME VITA S.p.A. – Milan (our direct shareholding 50%).

The accounts, drawn up according to Italian principles, show premiums written for € 761,543K compared with € 632,348K for the previous year (+20.43%). During the financial year, the company continued its activity aimed at rationalising the product portfolio, renewed in order to always keep the level of customer satisfaction high and, at the same time, to seize all sales opportunities the market has to offer.
The utmost attention was dedicated to financial management of the capital and guaranteed yield policies, highly rated by clients during 2006. It was not by chance that the Segregated Accounts managed by the Company were positioned amongst the best in the market.

As at 31 December 2006, the Life contracts in the portfolio number 274,031 compared with 258,270 for the previous year. The non-Life contract number 16,419 compared with 16,034 for 2005.
Careful financial management and the attention dedicated to containing management costs enabled the Company to cope efficiently with the negative effects of the trend in the financial markets and, in particular, the fall in bond prices, especially following the repeated monetary policy interventions adopted in the course of the financial year by the main central banks.

The profit and loss account closes with a net profit of € 15,197K compared with € 23,812K for the previous year.

FONDIPREV S.p.A. - Florence (our direct shareholding 60%)

The Company operates in the Life sector via the banking channel. New contracts are issued over the counter at branches of the Banca delle Alpi Marittime, whilst direct management of old contracts continues.
Gross premiums posted to the accounts in 2006 amount to € 328K compared with € 394K in 2005 (-16.91%).
The 2006 financial year closes with a net profit of € 179K compared with profit for the previous year of € 434K, which had, however, benefited from an extraordinary capital gain on disposal of holdings worth € 280K.

Property Sector

Between 2002 and 2005, the expansion in the housing market provided a strong drive to the growth of the United States' economy, both directly, through the increase in residential investments, and indirectly, by sustaining families' consumer spending.

Over 2006, the number of new houses built in the United States fell from the maximum level for the last 6 years (during January 2006) to the minimum level (last October): a net drop, brought into perspective again only by a bounce back at the end of the year. Sales of existing houses in the third quarter, according to the statistics of the National Association of Realtors, were down by 12.7% at annual level, equal to 6.27m property units.

It is, however, likely that investors are persuaded that the brick market has stabilised and that the much feared "speculative bubble" is already played out, however much it is still not possible to establish whether the negative phase of the US property market has reached rock-bottom.

The property market remains stable in Europe, judging by the rise in prices. House prices continued to rise in Spain and France during the second quarter of 2006. In Great Britain, too, after the movements at the start of 2005 had run their course, the first part of 2006 saw a new recovery in property prices.

In Italy, according to *Agenzia del Territorio* data, the number of sales (residential and otherwise) in the first six months were up by approximately 5% compared with the previous year. Recorded prices continue to show a rise, albeit more slowly. On average for the first six months of 2006, investment in the construction sector continued at rates similar to those for the previous six months (approximately 3% a year), though more slowly in the second quarter.

Faced with a general cycle of prices that is no longer rising, the market cycle, taken as being the total number of property units exchanged, proves to be still expanding.
Further expansion of 3.9% in transactions is expected, even if the residential sector, the sector's main segment, could see its growth slow to 2.2%.

Positive signs are, however, emerging from the non-residential building sector, which was limited last year: during the first half of 2006, growth was recorded at approximately 3%. The climate of trust by companies signals an optimistic upturn, including on the part of contractors in the sector.

The corporate market recovered buoyancy and vivacity towards the end of 2006. The large volume of liquid assets held by investors, increasingly inclined to pursue objectives of stable and safe returns rather than aim to maximise them, comes up against a chronic obstacle in the lack of quality assets.

Operating horizons spread to the strongly expanding segments, such as the hotel sector, large-scale retailing and logistics.

A territorial breakdown of the market shows how the trend towards its decentralisation is strengthening: in capital cities, transactions have already for some years taken on a profile of considerable stability (+0.7% in 2006), whilst in the smaller municipalities, the market is on an upward trend (+5.5 % in 2006).

Although moderate, the growth in the Italian property market still drives loans, a sign that Italian families retain their traditional trust in the sector. The average sums lent rose in 2006 to € 126,000 compared with € 116,000 in 2005 (+8.6%). The value of the flows distributed is also up, at € 45.2bn (+16.31% in third quarter of 2006 compared with the same period in 2005), with central Italy recording the highest increase (+12.8%).

There are a number of economic factors influencing the property market: on the one hand, the costs of loans and transactions are a burden, on the other, public housing policies and town planning regulations on which building permits depend also have an effect.

With regard to the costs for raising a property loan, Italy is amongst the most expensive countries, with costs of nearly 12% of the house price. In addition, the other transaction, assessment registration and commission costs which weigh upon Italian property owners are thought to contribute to families' reduced mobility after purchase.

The structure of the market is also changing. The rise in interest rates favours longer repayment terms: over 49% of loans have terms of more than 21 years, and a quarter of the total exceed 26 years. At the end of 2006, preset-rate (48.7%) loan applications exceeded the variable payment (46.2%) option, with a marginal share for the combined rate (5.1%). The new trend has been justified by the six consecutive rises at the official discount rate introduced by the Central European Bank from December 2005. The emotive factor, dictated by fear of further increases being announced, causing the payments for anyone who has taken out a variable loan to rise, and by the reform associated with the recent liberalisations which provide for the penalty for early settlement of the loan to be cancelled – this being a charge which banks impose above all on fixed-rate loans – has certainly contributed to this result.

The trend in the loan market is also explained by families' accounts. According to the a recent analysis carried out by the OECD (Organisation for Economic Cooperation and Development), co), Italy ranks second in Europe, behind Spain, in the classification of families' gross disposable wealth. It should be remembered that, on average, fewer Italian families are in debt compared with the rest of Europe – there is therefore still wealth available for investment in the property sector.

Forecasts for the forthcoming months are marked by considerable overall stability as far as the number of transactions are concerned, although in big urban areas, signs are already being perceived of an easing off, nevertheless counterbalanced by capacity in the smaller markets. Values should remain at current levels or, at most, continue to rise to a more contained extent.

The balance of expectations concerning prices and the number of sales for the first half of 2007 shows, however, considerable strengthening of negative opinions, most likely supported by macroeconomic-type factors, such as the rise in interest rates and uncertainties at regulatory and fiscal levels.

Finally, with reference to the share market, during 2006, the 16 companies listed on the Italian Stock Exchange, with total capitalisation hovering around € 10bn, enabled the property sector index to rise by 6.53% during the last month, by 35.56% from the start of 2006 and by 76.3% since 2005.

* * *

Garibaldi Repubblica Property Project

During the 2006 financial year, development continued on the property project relating to an area of Milan known as "Garibaldi Repubblica" in which Garibaldi S.c.s., of whose capital Milano Assicurazioni holds 47.95%, is involved. We would recall that Milano Assicurazioni was brought into the project following agreements signed in the first half of 2005 with the US property group HINES with the aim of establishing a joint venture with the Fondiaria-Sai Group – and, in respect of this, with Milano Assicurazioni in particular.

Within the scope of this project, it is expected that Garibaldi S.c.s. will be involved in developing approximately 95,000 square metres of building space, including approximately 50,000 square metres for office use, approximately 10,000 sq.m. for shops, approximately 15,000 sq.m. for residential properties and approximately 20,000 sq.m. for exhibition areas.

In 2006, amongst other things:
- the architects were named, through an international competition, who will design the areas for residential properties and exhibition areas;
- the Building Committee formally approved the plans for the main buildings and the area dedicated to the "*podium*";
- the planned demolition of a number of buildings in the area was completed.

Garibaldi S.c.s.'s accounts for the 2006 financial year close with a loss of € 253K, mainly in respect of the differential between the interest payable on the financing acquired and the interest earned on the financing granted to the Luxembourgian-law holding, controlling the Italian-law company vehicles which will develop the areas suitable for building.

As at 31 December 2006, the financing granted to Garibaldi S.c.s. by the parent company Milano Assicurazioni totals € 29,440K.

Subsidiaries

The 2005 trend for subsidiaries operating within the property sector can be summarised in the table below:

(€K)	value of production	% chg.	result	net equity excluding financial year result
Meridiano Eur	-	n.s.	730	112,233
Meridiano Orizzonti	2,051	-2.89	915	58,446
Campo Carlo Magno S.p.A.	1,250	-6.23	101	3,979

MERIDIANO EUR – Milan (our direct shareholding 100%)

The company holds the premises built in Assago, purchased from Milano Assicurazioni during the 2005 financial year and currently involved in a restructuring project.
The company also holds shares in the property investment fund "Tikal R.E. Fund", with a book value of € 76,506K deriving from the transfer to the said Fund, during 2004, of the owned premises located in Rome at Piazzale dell'Industria.
The 2005 accounts closes with a profit of € 730K for revenue relating to Tikal fund units which, moreover, recorded a current value of € 98,350K at year-end.

MERIDIANO ORIZZONTI – Milan (our direct shareholding 100%)

On 28 December 2004, the Company, founded in December 2003, purchased from Pirelli Real Estate-Morgan Stanley a property in Milan at Piazza S.M. Beltrade, 1 at a price of € 54,590K. The 2006 accounts close with a profit of € 915K compared with the previous year's profit of € 952K.

CAMPO CARLO MAGNO S.p.A. - Madonna di Campiglio (our direct shareholding 100%)

The company, purchased from Milano Assicurazioni in December 2005, owns a hotel complex in Madonna di Campiglio called the GOLF HOTEL and signed a company lease contract with Atahotels S.p.A. which stipulates rent of 20% of net annual revenue, with the provision, in any event, of a guaranteed minimum. The transaction guarantees the company an adequate return on the company business line leased in accordance with what is comparable on the market for similar transactions. Compared with a loss of € 457K for the 2005 financial year, the 2006 accounts close with a profit of € 101K which was, however, representative of the results relating to an eight month period as a result of the decision to have the company year (which previously ran from 1 May to 30 April) coincide with the solar year.

Other Business Sector

This sector includes companies of modest size which operate in the financial and diversified services fields, as shown in the table below:

(€K)	Value of production	% chg.	result	net equity excluding financial year result
Maa Finanziaria s.p.a.	-	n.s.	-15	939
Sogeint s.r.l.	3,268	129.33	-264	100
Campo Carlo Magno Sport S.r.l.	181	39.23	10	516

CAMPO CARLO MAGNO SPORT S.r.l - Madonna di Campiglio (our direct shareholding 100%)

The company, purchased by Milano Assicurazioni in December 2005, owns concessions for managing ski slopes, ski lifts and golf courses belonging to the Golf Hotel complex and signed a company lease contract with Atahotels S.p.A. which stipulates rent of 20% of net annual revenue, with the provision, in any event, of a guaranteed minimum. The transaction guarantees the company an adequate return on the company business line leased in accordance with what is comparable on the market for similar transactions.
Compared with a loss of € 21K for the 2005 financial year, the 2006 accounts close with a profit of € 10K which was, however, representative of the results relating to an eight month period as a result of the decision to have the company year (which previously ran from 1 May to 30 April) coincide with the solar year.
During January 2007, the respective General Meetings accepted the merger through incorporation of Campo Carlo Magno Sport S.r.l. into Campo Carlo Magno S.p.A.. The deed of merger will be signed after the legal term for any objections by creditors has elapsed.

MAA FINANZIARIA – Milan (our direct shareholding 100%)

The Company, originally active in the sector of financial leases on capital goods and corporate financing, currently limits itself to managing a number of existing portfolio finance contracts. The balance sheet for the financial year as at 31 December 2006 closes with a loss of € 15K.

SOGEINT – Milan (our direct shareholding 100%)

This Company operates in the sector of commercial assistance to agencies. The balance sheet for the financial year as at 31 December 2006 closes with a loss of € 264K.

Asset and financial management

As at 31/12/2006, the volume of investments amounted to € 11,291,660K compared with € 9,044,687K for the last financial year (+24.84%).

The table below shows investments as at 31/12/2006 compared with the corresponding figures as at 31/12/2005.

The table also shows tangible fixed assets due to the significance of the "property for direct use" component as well as available cash and because of the importance of these assets in ensuring accurate representation of the level of capitalisation in an insurance group.

(€K)	**31/12/2006**	**% comp.**	**31/12/2005**	**% comp.**	**% change**
INVESTMENTS					
Investment property	375,294	3.24	370,136	3.97	1.39
Holdings in subsidiaries, associate companies and joint ventures	13,469	0.12	4,820	0.05	179.44
Loans and receivables	148,619	1.28	212,874	2.29	-30.18
Investments held to maturity	-	-	-	-	-
Financial assets available for sale	8,836,179	76.29	7,580,602	81.41	16.56
Financial assets at fair value recognised through profit and loss	1,918,099	16.56	876,255	9.41	118.90
Total investments	**11,291,660**	**97.49**	**9,044,687**	**97.13**	**24.84**
Tangible fixed assets: property and other tangible fixed assets	154,077	1.33	110,625	1.19	39.28
Total non-current assets	**11,445,737**	**98.82**	**9,155,312**	**98.32**	**25.02**
Cash at bank at bank and equivalents	136,906	1.18	156.,49	1.68	-12.60
TOTAL non-current assets + cash at bank and in hand	**11,582,643**	**100.00**	**9,311,961**	**100.00**	**24.38**

Financial assets available for sale and financial assets at fair value recognised through profit or loss can be broken down as follows:

(€K)	**31/12/2006**	**31/12/2005**	**% change**
Financial assets available for sale	**8,836,179**	**7,580,602**	**16,56**
Capital securities and investment fund units	1,856,892	1,526,455	21,65
Debt securities	6,979,287	6,054,147	15,28
Financial assets at fair value recognised through profit and loss	**1,918,099**	**876,255**	**118,90**
Capital securities and investment fund units	629,384	111,971	462,10
Debt securities	1,286,366	757,891	69,73
Other financial instruments	2,349	6,393	-63,26

Financial assets available for sale comprise debt and capital securities not otherwise classified and are by far the largest category of financial instruments, in line with the characteristics and aims of the insurance business.

Financial assets at fair value recognised through profit or loss comprise:

- securities held for trading (shareholdings listed in the non-Life sector and structured bonds with a significant derived component).
- securities assigned to this category (designated), made up essentially of "Investments with risk payable by the life policyholder".

The table below highlights financial and property business results for the last two years:

(€K)	**31/12/2006**	**31/12/2005**	**% change**
Net income from financial instruments at fair value recognised through profit and loss	23,705	56,660	-58.16
Income from subsidiaries, associated companies and joint ventures	3,227	295	993.90
Income deriving from other financial instruments and investment property, including:	372,427	308,263	20.81
Interest received	241,554	200,656	20.38
Other income	58,363	34,277	70.27
Profits realised	72,510	73,330	-1.12
Valuation profits	-	-	-
Total income	**399,359**	**365,218**	**9.35**
Liabilities from holdings in subsidiaries, associated companies and joint ventures	49	3	1,533.33
deriving from other financial instruments and investment property, including:	42,397	28,089	50.94
Interest paid	12,483	6,591	89.39
Other charges	8,178	7,977	2.52
Losses realised	16,225	8,830	83.75
Valuation losses	5,511	4,691	17.48
Total charges and interest paid	**42,446**	**28,092**	**51.10**
TOTAL NET INCOME	**356,913**	**337,126**	**5.87**

In 2006, the financial asset management approach was to slowly but surely increase the duration of the Life Portfolio, whereas, in the Non-Life Portfolio, a slight shortening of the level of risk was favoured, especially during the first six months.

Early in 2006, in fact, the strong rise in the price of oil, the policy of the Fed and ECB of continually raising the reference rates and the continual growth in the economies of the "BRIC" (Brazil, Russia, India and China) countries led to a significant increase in rates over the entire reference curve, particularly marked on the shorter end.

In this context, the decision to maintain a short duration on the Non-Life Portfolio was offset, in terms of overall return, by a widespread variable, especially government, rate which, following the continual rise in short-term rates, was of benefit in setting future Treasury Certificate coupons.
From June, when the US Central Bank halted a series of rises in the discount rate, also following indications of weakness in economic growth, the market began to suffer for this application of the brakes, which was also accompanied by a sharp demarcation in the price of raw materials, especially oil.

The second half of the year, therefore, showed a recovery in the prices of fixed-rate bonds, with the aid of possible generalised economic restraint in the United States. In particular, the bursting of the residential property bubble led to fear of negative repercussions in other crucial sectors of the US production structure as well, with the risk of affecting the "wealth effect" generated by the whirling rise in private house quotes which occurred at the end of 2005, and of forcing the US consumer, heavily in debt to the system, to restore a significant positive savings rate.

The most recent economic figures for 2006 have, for now, belied supporters of the most pessimistic hypotheses and we have thus witnessed a moderate strengthening in short- and long-term rates in terms of fixed-income markets.

At European level, we saw a very positive year from the economic point of view, with recovery of leadership by Germany, where efforts to improve company productivity and employment reforms to make it more flexible, yielded consistent results.

The corporate world, supported by a year of excellent company results and still generous system liquidity, despite the monetary restrictions introduced in a great many countries and on several occasions during 2006, remained in good health, with default rates still at the minimum levels of the last 5 years and spreads in respect of government securities at historic minimum levels in many sectors.

With regard to the Life Business portfolio, the slight but constant rise in Duration, more marked in the second half of the year, was conducted with a view to optimising the correlation between assets and liabilities of the separate segregated accounts, achieving attractive returns compared with the guaranteed minimums and in relation to the comparison between the ordinary profitability of the individual assets and market expectations.

The investment in corporate securities belonging to the investment grade category was made with the aim, where the maturities are the same, of obtaining a return higher than the government asset class. At aggregate level, however, the year-end corporate share is below that at the end of 2005.

On the share front, in line with the positive world economic scenario, 2006 reported excellent final results. The main world markets were up, from plus 8% for the Nikkei to plus 16% for the S&P500; from plus 14% for the European reference market (Eurostoxx50) to plus 21% for our market (S&PMIB).
The fact of the Group strongly taking root at a local level was therefore rewarding, it having seen all the main financial shareholdings significantly revalued, including as a result of the inescapable phase of aggregations which the Italian financial system is experiencing.
It must be stressed how, due to the revaluation of the Euro in relation to all the main currencies, European over-performance, and that of Italy in particular, was even greater not taking denomination currencies into account.
In this environment, a share portfolio diversification strategy was carried forward through the increase in the non-capitalised component and the contemporaneous sterilisation (hedging through derivatives) of part of the strategic component, which was also reduced following the sale of the Swiss Life holding.
The objective of the selection of shares which were introduced to form part of the working portfolio was the medium-/long-term yield (moreover, rewarded by the markets in the short-term as well) and the geographic, albeit within the Euro area, and industry-wide diversification through a reduction in the weight of the financial securities.

With regard to BPM Vita, financial management favoured the bond sector. In particular, the main investment methodologies used can be summarised as follows:

- free equities – Dynamic management is used in respect of the share component, with a 12-month timeframe, which is made plain in a rebalancing of share exposure in the Euro area between a maximum of 30% of the portfolio and a minimum of 0. In respect of the bond component, partially discretionary management is used, which sets the objective of maximising the yield through the investment in medium-/long-term securities and money-market instruments, mainly by government issuers and denominated in Euro. Bond exposure may vary from a minimum of 70% to a maximum of 100% of the portfolio, and the duration of the whole portfolio may vary from 1 to 3 years;
- BPM Gest Lire –Management is balanced, in respect of the entire portfolio, between medium-/long-term bonds, shares and money-market instruments, with the objective of creating value for the portfolio and generating an income flow that makes it possible to achieve the average guaranteed yield, maintaining a duration in line with that of the liability. Maximum exposure for the share component is 12%;
- BPM Gest valute – Management is aimed at creating value for the portfolio and generating an income flow that makes it possible to achieve the average guaranteed yield, maintaining a duration in line with that of the liability. 100% of the portfolio is invested in bonds and money-market instruments;

- SICURGEST - Dynamic management is used in respect of the share component, with a 12-month timeframe, which is made plain in a rebalancing of share exposure in the Euro area between a maximum of 20% of the portfolio and a minimum of 0. In respect of the bond component, management sets the objective of creating value for the portfolio and generating an income flow that makes it possible to maximise the average yield, with a duration dependent upon that of the liability (ALM). The exposure in bonds and money-market instruments in the Euro area may vary from a minimum of 80% to a maximum of 100% of the portfolio.

Sale of the holding in Società Swiss Life Holding

On 11 January 2006, the parent company Milano Assicurazioni arranged to sell its entire holding in Società Swiss Life Holding to an institutional investor (UBS).
In particular, Milano Assicurazioni sold 828,709 Swiss Life Holding shares at a price of CHF 234.75 each. The price was set by applying a discount of 0.53% to the 11 January 2006 closing price for CHF.
The proceeds of the transaction totalled approximately CHF 194.5m, for a total book value of approximately CHF 193.2m. Taking into account the CHF/€ book exchange rate and the CHF/€ conversion exchange rate used to convert the sale payment, there was a capital gain of approximately € 336K.
During 2004, the Fondiaria-Sai Group had already determined, together with the Swiss Life Group, that the preconditions required for a prospective joint venture in the Italian life sector did not exist.
In view of the opportunity afforded by the stock-market performance of Swiss Life Holding securities, it was deemed to be of interest to the Company and its parent company Fondiaria-Sai and its affiliate Fondiaria Nederland to reach an agreement as soon as possible on the sale of the holding, contacting a number of institutional investors in this regard and inviting those interested to an auction market, with closed bids being placed.

The transaction allowed for increased diversification of the asset allocation and, in terms of expectations, enabled greater flexibility in the strategic investment sector.

Subordinated loan

During June, a subordinated financing agreement was signed between the parent company Fondiaria-Sai and Mediobanca for a total of € 300m, in which, within the framework of the possibilities provided for by the contract, Milano Assicurazioni took part in respect of half the total amount and, thus, for € 150m. The operation was approved in advance by ISVAP.

The financing granted to Milano Assicurazioni with a value date of 14 July 2006, provides for an interest rate equal to the 6-month Euribor + 180 basis points and is repayable in five equal annual instalments from the 16th anniversary of the drawdown date. There is also provision for an option for early repayment, including partial, to run from the expiry date of the 10th year from the drawdown date and subject to getting permission from the ISVAP.

All the financing will go to further improving the available solvency margin, taking into account the regulations in force on the matter, which allow loans of this type to be used up to 25% of the lesser value between the available margin and the required solvency margin.

Own and parent company shares

As at 31 December 2006, the group leader Milano Assicurazioni held own shares, shares in the direct parent company Fondiaria-Sai and shares in the indirect parent company Premafin as shown in the table below:

(€K)	**Number**	**Amount**
Own shares	**1,475,460**	**8,271**
Fondiaria-Sai shares	**6,802,557**	**246,593**
Premafin shares	**9,157,710**	**22,528**
GRAND TOTAL		**277,392**

The following transactions were carried out during the financial year:

- purchase of 1,440,000 Fondiaria-Sai shares, with an equivalent value of € 45,768K, by decision of the shareholders' meeting dated 26 April 2006 which, in accordance with art. 2359-bis of the Italian civil code, authorised the purchase of these shares, in one or more goes and for a period of twelve months from the decision date, for a maximum increase, taking into consideration any sales made in the meantime, of 1,500,000 shares, in any event, within the € 48m maximum.

- purchase of 1,360,000 own shares, with an equivalent value of € 7,897K, by decision of the shareholders' meeting dated 26 April 2006 which authorised, in accordance with arts. 2357 and 2357-ter of the Italian civil code, the purchase of these shares, in one or more goes and for a period of twelve months from the decision date, for a maximum increase, taking into consideration any sales made in the meantime, of 12,000,000 shares, in any event, within the € 80m maximum.

Other Information

Stock option plans relating to the parent company Fondiaria-Sai's shares

On 14 July 2006, the Board of Directors of Fondiaria-Sai resolved to assign the options referred to in the Fondiaria 2006-2011 Stock Option plans in favour of the executive directors and management of Fondiaria-Sai, its subsidiaries and the parent company, for the purchase of Fondiaria-Sai savings shares.

The Board's assignment implemented the decision of Fondiaria-Sai's Extraordinary Shareholders Meeting held on 28 April 2006.

The subscription price for the shares was set by the Board by applying the basis for determining the subscription price decided by the Meeting, at € 21,546 per share, equal to the arithmetic mean of the reference prices for the Fondiaria-Sai savings share on the market in the thirty days preceding the date of assigning the rights.

The options may not be exercised before the expiry of a vesting period as follows:
- 40% of the options may not be exercised earlier than 24 months from the assignment date;
- 30% of the options may not be exercised earlier than 36 months from the assignment date;
- 30% of the options may not be exercised earlier than 48 months from the assignment date.

On expiry of the vesting period, the beneficiaries will be able, by turns, to:
- maintain the options until they expire;
- exercise the options, by subscribing to the shares and holding them in the portfolio;
- exercise the options, by subscribing to the shares and disposing of them on the market.

Exercise of the options is, however, bound up with achieving the main objectives of the Fondiaria-Sai Group's 2006-2008 Industrial Plan.
In any event, options not exercised within 5 years of the date of the Meeting will automatically lapse.

Within this context, the stock options assigned to Milano Assicurazioni executive directors and managers number 2,872,920 for a total estimated value of € 8m, to be spread over the vesting periods for the various tranches. We would refer the reader to the Explanatory Notes below for the bases used for determining the value and, in particular, to what is stated in the section dedicated to the Accounting Standards.

Existing disputes

As at 31 December 2006, 25,592 legal actions were instituted in respect of claims, 19,127 of which related to Motor TPL business. Over the year 10,919 actions were settled, 9,274 of which relate to Motor TPL business.
The disputes constituted by civil actions brought by Company policyholders claiming partial reimbursement of the Motor TPL premium for alleged antitrust activities in Motor TPL in which Your Company may have been involved, in league with other major Companies within the insurance sectors, are still ongoing albeit at to a much lesser extent.

There was a drop in the number of cases both with the coming into force of Legislative Decree no. 18 of 8/2/2003 converted into Law no. 63 of 7/4/2003 which made this type of dispute to subject to the legal rules of process and due to ruling no. 2207/05 of the Court of Cassation United Sections, according to which the Appeal Courts rather than Justices of the Peace are deemed competent to rule on the aforementioned cases in execution of art. 33 of Law 287/1990. Following this decision, disputes brought before Justices of the Peace have been practically non-existent whilst some cases have been brought before Appeal Courts but this has been limited to certain geographical areas.

There were 1,986 cases pending as at 31 December 2006. The outlay incurred by the Company to date amounts to € 5,250K (on average € 880 per case).

Finally, we would recall that the United Sections of the Court of Cassation pronounced on the matter by refusing the appeals filed by Companies sanctioned and therefore rendering final the sanction issued by the Italian Competition Authority as well as the decisions given by Lazio regional administrative court and the Council of State which, in turn, refused the Companies appeals.

Milano Assicurazioni share performance

As at 31 December 2006, the share capital of the parent company, Milano Assicurazioni, is made up of 467,269,327 shares with a nominal value of € 0.52. Of these, 436,529,445 are ordinary shares and 30,739,882 savings shares. During 2006, the share capital was increased by € 4,405K with the subscription of 8,471,206 ordinary shares following the conversion of 21,178,015 Milano Assicurazioni 1998-2007 warrants.
As at 31 December 2006, a further 14,718 ordinary shares were subscribed following the conversion, by the holders concerned, of 36,795 Milano Assicurazioni 1998-2007 warrants. The new share capital, inclusive of the new shares subscribed, was deposited with the Register of Companies on 23 January 2007.

During 2006, the stock market listing fluctuated between a minimum of € 5,169 (21/07/06) and a maximum of € 6,594 (23/03/06) for ordinary shares and between a minimum of € 5,295 (28/07/06) and a maximum of € 6,611 (07/03/06) for savings shares.

The following stock market listings were recorded at year-end:

(Euro units)	**29/12/2006**	**30/12/2005**	**% change**
Milano Assicurazioni ord.	6.174	5.720	7.94
Milano Assicurazioni sav.	6.128	5.686	7.77

The corresponding stock market capitalisation at year-end amounted to € 2,883.5m (€ 2,623.3m as at 31/12/2005).

Stock market capitalisation, based on prices on 21 March 2007 of € 6.535 for ordinary shares and € 6.494 for savings shares, amounts to € 3,085m.

Business outlook

Within the scope of non-life business insurance management, the initiatives planned for the 2007 financial year will continue to pursue a risk assumption policy which makes it possible to achieve satisfactory profitability levels.

In the Motor business class, in particular, streamlining initiatives will be continued in geographic areas with a negative technical trend, as will the reduction in the fleet portfolio. At the same time, moreover, specific initiatives will be implemented to maintain and grow the portfolio in the profitable pricing areas and sectors. The price proposed will be increasingly marked by criteria for customising the tariff, with a view to seizing the opportunities offered by ever more correlation between reward and the policyholder's risk profile. In addition, the process of converging the prices offered by the various sales lines will continue, with the aim of achieving a single tariff. In light of these considerations, a contained increase in premiums written, accompanied by a noticeable recovery in profitability in terms of combined ratio, is therefore likely.

In the other non-life classes, the objective is to achieve more sustained growth, especially in the retail sector, which offers satisfactory profitability levels. To this end, specific sales drives and commercial initiatives will be promoted, during which the agency network will, amongst other things, be able to take advantage of special back-up from the management structures. Actions will also be continued to review contracts which, whilst not performing negatively, are much older in terms of when they were issued and thus offer the opportunity to adjust conditions and services to the current underwriting criteria.
In the corporate sector, priority will be given to safeguarding profit margins by adopting and, if necessary, strengthening the criteria aimed at maintaining a risk subscription policy based on strict technical criteria. In particular, the contracts with Hospital Trusts and Territorial Authorities will continue to be especially monitored, these having performed unsatisfactorily during the financial year just ended.

In the life sector, the aim remains that of continuing to grow the portfolio relating to traditional-style products with annual or recurrent premiums, capable of providing adequate levels of profitability and guaranteeing an increase in value in the portfolio in the long term.
Following Covip's approval of the relating Regulation, the placement of the Milano Assicurazioni Open-ended Pension Fund shares will begin during 2007, which will make it possible to complete the Company's offer in the Supplementary Pension sector. Attractive growth opportunities are expected from this sector over the next few years.
Initiatives to protect capital upon expiry will be intensified, by seizing the opportunities resulting from being able to offer clients the updated range of products in the company's list capable of meeting their many insurance and supplementary pension requirements.
Especial attention will continue to be paid to the requirements of institutional clients who see in the insurance sector a great opportunity for diversifying their investments and for using liquidity.
We will continue the commercial initiatives and training operations, above all with regard to sales outlets, which offer significant potential for growth.
In addition, the sector will benefit from development of the alliance and cooperation project with Banca Popolare di Milano in the Bancassurance sector. Moreover, the existing agreements provide for the potential to increase the shareholding to 51% by 30 June 2007.

Asset and financial management will be aimed at careful balancing of the risks and diversification of the investments in order to maximise ordinary returns by keeping the risk profile in line with the group's strategic objectives.
Very close monitoring will be conducted on the rates trend curve, the solidity of corporate issues and the relating movements in the spreads, the sustainability of the generous company dividend policy and the volatility of the diverse asset classes during a phase of the economic cycle which we judge to be in the midst of its expansion, and thus subject to sudden changes.

Tables - Consolidated Accounts

In accordance with IAS 1.8 (Presentation of Accounts) the Accounts comprise:

- Balance sheet
- Profit and loss account
- Table of changes in net equity
- Financial statement
- Explanatory notes containing, amongst other things, the main accounting standards and valuation criteria adopted.

The balance sheet, profit and loss account, table of changes in net equity and financial statement presented below have been prepared in accordance with models approved by ISVAP in Instruction No. 2404 of 22 December 2005.

The explanatory notes take into account the information explicitly requested by the aforementioned ISVAP Instruction and contain additional information that is considered best practice, particularly where this relates to illustrative examples contained in some IAS.

CONSOLIDATED ACCOUNTS AS AT 31 DECEMBER 2006

Amounts in €K

BALANCE SHEET - ASSETS

		2006	2005
1	**INTANGIBLE FIXED ASSETS**	**241,896**	**176,088**
1.1	Goodwill	195,926	175,338
1.2	Other intangible fixed assets	45,970	750
2	**TANGIBLE FIXED ASSETS**	**154,077**	**110,625**
2.1	Property	29,706	30,519
2.2	Other tangible fixed assets	124,371	80,106
3	**REINSURERS' SHARE OF TECHNICAL RESERVES**	**344,656**	**358,527**
4	**INVESTMENTS**	**11,291,660**	**9,044,687**
4.1	Property investments	375,294	370,136
4.2	Holdings in subsidiaries, associated companies and joint ventures	13,469	4,820
4.3	Investments held to maturity		
4.4	Loans and receivables	148,619	212,874
4.5	Other financial assets available for sale	8,836,179	7,580,602
4.6	Financial assets at fair value recognised through profit or loss	1,918,099	876,255
5	**SUNDRY RECEIVABLES**	**869,635**	**973,729**
5.1	Receivables deriving from direct insurance transactions	632,261	651,820
5.2	Receivables deriving from reinsurance transactions	41,893	68,095
5.3	Other receivables	195,481	253,814
6	**OTHER ASSETS**	**281,295**	**288,545**
6.1	Non-current assets or assets belonging to an HFS disposal group	772	1,416
6.2	Deferred acquisition costs	79,088	66,236
6.3	Deferred tax assets	26,841	36,353
6.4	Current tax assets	117,929	128,752
6.5	Other assets	56,665	55,788
7	**CASH AT BANK AND IN HAND AND EQUIVALENTS**	**136,906**	**156,649**
	TOTAL ASSETS	**13,320,125**	**11,108,850**

CONSOLIDATED ACCOUNTS AS AT 31 DECEMBER 2006			
Amounts in €K			
BALANCE SHEET - NET EQUITY AND LIABILITIES			
		2006	**2005**
1	**NET EQUITY**	**1,989,151**	**1,721,171**
1.1	**group profit (loss) for the financial year**	**1,985,504**	**1,717,584**
1.1.1	Share capital	242,981	238,575
1.1.2	Other financial instruments		
1.1.3	Capital reserves	360,041	325,145
1.1.4	Profit and other equity reserves	838,567	684,889
1.1.5	(Own shares)	-8,271	-374
1.1.6	Reserves for net exchange rate differences		
1.1.7	Profits or losses on financial assets available for sale	306,681	191,125
1.1.8	Other profits and losses recorded directly to equity	-2,349	-5,298
1.1.9	Group operating profit (loss) for the financial year	247,854	283,522
1.2	**minorities' share**	**3,647**	**3,587**
1.2.1	Minorities' capital and reserves	3,572	3,391
1.2.2	Profits or losses recorded directly to equity	-6	17
1.2.3	Minorities' operating profit (loss) for the financial year	81	179
2	**PROVISIONS**	**79,271**	**63,453**
3	**TECHNICAL RESERVES**	**9,081,110**	**8,468,790**
4	**PROVISIONS**	**1,547,796**	**244,431**
4.1	Financial liabilities at fair value recognised through profit or loss	1,233,285	84,488
4.2	Other financial liabilities	314,511	159,943
5	**PAYABLES**	**391,797**	**392,953**
5.1	Payables deriving from direct insurance transactions	73,429	89,036
5.2	Payables deriving from reinsurance transactions	14,278	13,272
5.3	Other payables	304,090	290,645
6	**OTHER LIABILITIES**	**231,000**	**218,052**
6.1	Liabilities belonging to an HFS disposal group	762	
6.2	Deferred tax liabilities	53,597	11,474
6.3	Current tax liabilities	1,474	131
6.4	Other liabilities	175,167	206,447
	TOTAL NET EQUITY AND LIABILITIES	**13,320,125**	**11,108,850**

CONSOLIDATED ACCOUNTS AS AT 31 DECEMBER 2006			
Amounts in €K			
PROFIT AND LOSS ACCOUNT			
		2006	**2005**
1.1	Net premiums	3,348,998	3,219,614
1.1.1	*Gross premiums for the period*	*3,447,881*	*3,291,125*
1.1.2	*Ceded reinsurance premiums for the period*	*-98,883*	*-71,511*
1.2	Fees and Commissions received	4,560	1,239
1.3	Income and expenditure deriving from financial instruments at fair value recognised through profit or loss	23,705	56,660
1.4	Income deriving from holdings in subsidiaries, associated companies and joint ventures	3,227	295
1.5	Income deriving from other financial instruments and property investments	372,427	308,263
1.5.1	*Interest received*	*241,554*	*200,656*
1.5.2	*Other income*	*58,363*	*34,277*
1.5.3	*Profits realised*	*72,510*	*73,330*
1.5.4	*Valuation profits*		
1.6	Other revenue	82,494	108,788
1	**TOTAL REVENUE AND INCOME**	**3,835,411**	**3,694,859**
2.1	Net charges relating to claims	2,668,448	2,599,816
2.1.2	*Amounts paid and changes in technical reserves*	*2,721,426*	*2,649,040*
2.1.3	*Reinsurers' shares*	*-52,978*	*-49,224*
2.2	Fees and Commissions payable	606	289
2.3	Charges deriving from holdings in subsidiaries, associated companies and joint ventures	49	3
2.4	Charges deriving from other financial instruments and property investments	42,397	28,089
2.4.1	*Interest paid*	*12,483*	*6,591*
2.4.2	*Other charges*	*8,178*	*7,977*
2.4.3	*Losses realised*	*16,225*	*8,830*
2.4.4	*Valuation losses*	*5,511*	*4,691*
2.5	Operating expenses	530,166	500,834
2.5.1	*Fees and Commissions and other acquisition costs*	*449,357*	*429,792*
2.5.2	*Investment management costs*	*6,565*	*2,800*
2.5.3	*Other administrative costs*	*74,244*	*68,242*
2.6	Other costs	203,407	169,209
2	**TOTAL COSTS AND CHARGES**	**3,445,073**	**3,298,240**
	PRE-TAX PROFIT (LOSS) FOR THE FINANCIAL YEAR	**390,338**	**396,619**
3	Taxes	142,403	119,361
	PROFIT (LOSS) FOR THE FINANCIAL YEAR NET OF TAXES	**247,935**	**277,258**
4	**PROFIT (LOS) ON DISCONTINUED OPERATING ACTIVITIES**		**6,443**
	CONSOLIDATED PROFIT (LOSS)	**247,935**	**283,701**
	group share	**247,854**	**283,522**
	minorities' share	**81**	**179**

Table of changes in consolidated Net Equity for the financial year ended 31 December 2006

With regard to the table of changes in net equity, the appendix to ISVAP Instruction No. 2404/05 which satisfies the directions given by IAS 1 is given below.

In particular, we show that the first column contains consolidated data as at 31/12/2004, compiled according to IAS/IFRS accounting standards applied from the transition date of 1 January 2004, whilst the second column shows the changes to the closing balances due to the introduction of IAS 39 and IFRS 4, applied as from 1 January 2005.

In particular, the *Profits or losses on financial assets available for sale* item shows the effects of the valuation of these financial instruments net of the amount attributable to policyholders and, therefore, posted to deferred liabilities in respect of policyholders.

The *allocations* column shows the profit allocations for the year, the profit for the previous year allocated to equity reserves, increases in capital and other reserves and changes in profits or losses recorded direct to equity.

The *transfers to profit and loss account* column shows profits or losses previously recorded directly to net equity in accordance with the provisions laid down by international accounting standards.

Other transfers shows the ordinary distribution of dividends and decreases in capital and other reserves, including the acquisition of own shares and the assignment to policyholders of the profits from the valuation of financial assets available for sale, posted to the insurance liabilities.

CONSOLIDATED ACCOUNTS AS AT 31 DECEMBER 2006

Amounts in €K

TABLE OF CHANGES IN NET EQUITY

			As at 31-12-04	Change in closing balances (1)	Allocations	Transfers to Profit & Loss Account	Other transfers	As at 31-12-05	Change in closing balances	Allocations	Transfers to Profit & Loss Account	Other transfers	As at 31-12-06
	Share capital		238,569		6			238,575		4,406			242,981
	Other financial instruments							0					0
	Capital reserves		324,966		179			325,145		34,896			360,041
	Profit and other equity reserves		546,558	-7,257	144,579		1,009	684,889		153,678			838,567
	(Own shares)		-374					-374				-7,897	-8,271
	Reserve for net exchange rate differences							0					0
	Profits or losses on financial assets available for sale			38,240	184,923	-32,038		191,125		83,250	-30,965	63,271	306,681
		Profits or losses on instruments for hedging a financial flow						0					0
		Profits or losses on instrum. for hedging a net investment in a foreign seg. acc.						0					0
		Reserve deriving from changes in participating interests' net equity						0					0
Group net equity	Other profits or losses recorded directly to equity	Revaluation reserve - intangible fixed assets						0					0

		Revaluation reserve - tangible fixed assets						0					0
		Income and expenditure relating to non-current assets or assets belonging to the HFS disposal group						0					0
		Other reserves	-2,294		-3,004			-5,298		2,949			-2,349
	Profit (loss) for the financial year		264,432		138,960		-119,870	283,522		95,747		-131,415	247,854
	Total group share		**1,371,857**	**30,983**	**465,643**	**-32,038**	**-118,861**	**1,717,584**	**0**	**374,926**	**-30,965**	**-76,041**	**1,985,504**
Minorities' net equity	Minorities' capital and reserves		14,418	-507	7		-10,527	3,391		181			3,572
	Profit (loss) recorded directly to equity			16	10	-9		17		-23			-6
	Profit (loss) for the financial year		632		172		-625	179		-98			81
	Total minorities' share		**15,050**	**-491**	**189**	**-9**	**-11,152**	**3,587**	**0**	**60**	**0**	**0**	**3,647**
Total			**1,386,907**	**30,492**	**465,832**	**-32,047**	**-130,013**	**1,721,171**	**0**	**374,986**	**-30,965**	**-76,041**	**1,989,151**

(1) Adjustments to comply with IAS/IFRS standards

CONSOLIDATED ACCOUNTS AS AT 31 DECEMBER 2006		
Amounts in €K		
FINANCIAL STATEMENT (indirect method)		
	2006	**2005**
Pre-tax profit (loss) for the financial year	**390,338**	**396,619**
Change in non-monetary items	**332,221**	**306,867**
Change in the non-life unearned premium reserve	-25,803	36,918
Change in the claims reserve and other non-life technical reserves	67,908	112,453
Change in the actuarial provisions and other life technical reserves	264,809	234,973
Change in the deferred acquisition costs	-30,140	-33,353
Change in provisions	15,818	-6,129
Non-monetary income and expenditure deriving from financial instruments, property investments and holdings	12,421	-10,536
Other Changes	27,208	-27,459
Change in receivables and payables generated by operating activity	**105,170**	**-32,303**
Change in receivables and payables deriving from direct insurance and reinsurance activities	33,426	66,188
Change in other receivables and payables	71,744	-98,491
Taxes paid	**-122,690**	**-121,456**
Net liquid assets generated/absorbed by monetary items relating to investment and financial activities	**97,809**	**-76,582**
Liabilities from financing contracts issued by insurance companies	-85,624	3,788
Due to banking and interbanking clients		
Banking and interbanking client loans and receivables		
Other financial instruments at fair value recognised through profit or loss	183,433	-80,370
TOTAL NET LIQUID ASSETS DERIVING FROM OPERATING ACTIVITY	**802,848**	**473,145**
Net liquid assets generated/absorbed by property investments	-10,664	-44,483
Net liquid assets generated/absorbed by holdings in subsidiaries, associated companies and joint ventures	-8,649	-2,208
Net liquid assets generated/absorbed by loans and receivables	63,046	100,847
Net liquid assets generated/absorbed by investments held to maturity		

Net liquid assets generated/absorbed by financial assets available for sale	-894,545	-261,949
Net liquid assets generated/absorbed by tangible and intangible fixed assets	-49,877	-342
Net liquid assets generated/absorbed by investment assets	1,406	-1,416
TOTAL NET LIQUID ASSETS DERIVING FROM INVESTMENT ACTIVITY	**-899,283**	**-209,551**
Net liquid assets generated/absorbed by group capital instruments	42,072	238
Net liquid assets generated/absorbed by own shares	-7,897	
Distribution of group dividends	-131,415	-119,870
Net liquid assets generated/absorbed by group capital and reserves	-22	-11,151
Net liquid assets generated/absorbed by subordinated liabilities and participatory financial instruments	162,505	
Net liquid assets generated/absorbed by sundry financial liabilities	-7,936	-128,991
TOTAL NET LIQUID ASSETS DERIVING FROM FINANCING ACTIVITY	**57,307**	**-259,774**
Effect of exchange rate differences on cash at bank and equivalents		
CASH AT BANK AND EQUIVALENTS AT THE START OF THE FINANCIAL YEAR	176,034	152,829
INCREASE (DECREASE) IN CASH AT BANK AND EQUIVALENTS	-39,128	3,820
CASH AT BANK AND EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	136,906	156,649
N.B.: 2006 financial statement compiled not taking basis of consolidation into account		

Explanatory Notes

Information on the group and its activities

Milano Assicurazioni S.p.A. is a leading insurance operator on the Italian market and is active in both the non-Life insurance sector and the Life insurance sector with premium income of approximately €3.4bn and a sales network made up of over 1,400 agencies operating nationally.

The registered office is in Milan at Via Senigallia 18/2.

Over the last few years, Milano Assicurazioni has also strengthened its position on the national market by means of company mergers. We would, in particular, recall the incorporation of Nuova Maa and Maa Vita in 2003; the incorporation of the Insurance company SIS in 2004 and, finally, the incorporation of First Life on 31 December 2005, which will make it possible for Milano Assicurazioni to operate direct in the open-ended pension fund sector.

During 2006, as part of the alliance and cooperation project with Banca Popolare di Milano in the bancassurance sector, Milano Assicurazioni purchased a 50% shareholding in Bipiemme Vita's capital. Moreover, the existing agreements provide for the option of purchasing a further 1% of the capital by 30 June 2007, thus achieving control of that company, which in 2006 recorded premium income of € 761.5m (under Italian accounting principles).

Milano Assicurazioni's parent company is Fondiaria-Sai, the Italian non-Life insurance market leader. The latter acts, amongst other things, as manager and coordinator for Milano Assicurazioni, in accordance with art. 2497-bis of the Italian civil code.

PART A - Accounting Policies

Section 1 – Declaration of compliance with IAS/IFRS accounting standards and general accounting principles

These consolidated accounts were prepared in accordance with IAS/IFRS international accounting standards issued by the IASB (International Accounting Standard Board), approved to date by the European Union and in terms of their interpretation, by official bodies.

The accounting tables are those contained in ISVAP Instruction No. 2404 of 22 December 2005, compiled on the basis of instructions appended to the aforementioned instruction.

They also contain some additional information considered to be best practice, particularly where this relates to the illustrative examples contained in some IAS.

The accounts were prepared in the expectation of business continuing. There were no uncertainties regarding events or conditions which might result in doubts arising over the ability to continue to operate as a functioning entity.

Section 2 – Basis and methods of consolidation

CONSOLIDATION PRINCIPLES

The consolidation procedure followed conforms to the provisions of IAS 27 (Consolidated and separate accounts), IAS 28 (Accounting for investments in associates) and IAS 31 (Shareholdings in joint venture).
The basis of consolidation includes all subsidiaries in addition to the Group leader. IAS 27 defines control as the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. For the purposes of ascertaining the existence of control, reference is made to the provisions of paragraph 13 of aforementioned IAS 27.

The data relating to Bipiemme Vita, of which the parent company Milano Assicurazioni purchased 46% of the share capital in June and a further 4% in October, are processed as follows:
- 50% proportional consolidation of the financial data as at 31 December 2006;
- valuation of the net equity interest based on the applicable share of the results achieved during the 3rd quarter;
- 50% proportional consolidation of the economic data relating to the 4th quarter of the financial year.

In accordance with the provisions of IAS 28, the net equity method is used when accounting for associate companies.

ACCOUNTS USED FOR THE CONSOLIDATION

Accounts approved by Shareholders' meetings of the respective Companies were used to prepare the Consolidated Accounts. Where the Accounts has not yet been approved, the draft accounts examined by the respective Boards of Directors were consolidated. Consolidated company accounts may have been adjusted due to consolidation requirements and to bring the latter into line with the Group leader's accounting standards.

CONSOLIDATION TECHNIQUES

Full consolidation

All subsidiaries were fully consolidated. The consolidated accounts therefore include the Parent company's accounts and those of companies in which Milano Assicurazioni S.p.A. holds, directly or indirectly, the majority of the voting rights exercisable at ordinary shareholders' meetings or in any event sufficient to exercise de facto control, in accordance with the provisions of IAS 27.13.
Under the full consolidation method, the book value of the holdings is eliminated against the related net equity, taking on all the assets and liabilities as well as the income and expenditure of the subsidiary companies.
Minority shareholders' share of the net equity and the economic result are posted to appropriate balance sheet and profit and loss account items.

Differences between the book value of the holdings and the respective net equity shares emerging on the date of acquisition of said holdings are allocated to equity assets where the higher cost reflects the actual higher value of the said assets, or to the Goodwill item in cases where the higher price paid reflects the prospective value of future economic results.

Proportional consolidation

In accordance with the provisions of IAS 31, holdings in joint ventures have been consolidated on a proportional basis. Under the proportional consolidation method, the book value of the holding is eliminated against the related net equity, taking on the assets, liabilities, income and expenditure of the participating interest, in proportion to the percentage of that interest.

Accounting using the net equity method

Associate companies or those over which the parent company exercises considerable influence, having the power to take part in determining the company's financial and operating policies, without, however, having control or joint control, were valued using the net equity method. Based on the provisions of IAS 28.6, significant influence is presumed when the partner owns, directly or indirectly, at least 20% of the voting rights exercisable at the shareholders' meeting of the participating interest.

Under the net equity method, the holding in an associate company is initially recorded at cost and the book value is increased or decreased to record the applicable share of the associate's profits or losses realised after the date of acquisition, posted to the partner's profit and loss account.
The consolidated accounts, therefore, only incorporate the relevant share of the associate's net book equity and result for the financial year, but not the values of the individual balance sheet items.

Consolidation adjustments

The following main adjustments were carried out in order for the consolidated accounts to be able to present group accounting information as if this information related to a single economic entity:

- dividends received by Companies consolidated or valued using the net equity method were eliminated;
- significant inter-group financial and economic transactions were eliminated, with the exception of those relating to operations with Companies valued using the net equity method;
- profits deriving from sale and purchase transactions between Group Companies were eliminated, even if valued using the net equity method. Likewise, any losses deriving from transactions carried out by Group Companies were eliminated, unless the latter reflect a permanent drop in the intrinsic value of the assets transferred.

Merger deficits generated following mergers between companies belonging to the group and posted to the Parent company's accounts, thereby increasing the asset items, were eliminated in the consolidated accounts, since in the latter consolidation differences deriving from the elimination of the book values of individual holdings incorporated against related net equity shares, posted to equity assets or entered under Goodwill, were maintained.
In fact, from a legal point of view, the merger transaction only produces what is already stated in the consolidated accounts. Failure to eliminate the said deficits would have essentially constituted a duplication of values already existing within the consolidated accounts.

Date of the consolidated accounts

The Consolidated Accounts closed on 31 December 2006, coinciding with the date of fully consolidated Companies' accounts.

Currency of account

These accounts are expressed in Euro (€) since this is the currency in which most of the Group's transactions are performed. A precise indication of all the amounts appearing in the accounts is given in thousands or millions of Euro. Where necessary, accounts expressed in currencies other than that of the Euro zone are converted by applying current exchange rates at the end of the financial year.

Section 3 – Accounting standards and valuation criteria

We summarise below the valuation criteria related to the main accounts items:

1. INTANGIBLE FIXED ASSETS

Goodwill

The item includes goodwill resulting from company aggregation operations. Based on what is permitted in appendix B of IFRS 1 (first-time adoption of IAS), the company took advantage of its right not to apply IFRS 3 to the business combinations occurring prior to the date of transition to the main IAS/IFRS standards. Goodwill arising from the accounts compiled according to Italian accounting principles has, therefore, been maintained in respect of the amount already posted, subject to an adequacy test on the value.

In particular, the amount includes:
- the goodwill posted following the merger through incorporation of Lloyd Internazionale S.p.A. in 1991;
- the goodwill posted in 1992 following acquisition of the Card S.p.A. insurance portfolio;
- goodwill deriving from the acquisition of the Latina Assicurazioni insurance portfolio in 1992;
- goodwill relating to the life portfolio of La Previdente Assicurazioni originally purchased from La Previdente Vita (formerly Latina Vita) in 1993;
- goodwill relating to the acquisition of Maa Assicurazioni S.p.A. insurance assets in 1995, and originating from the accounts of the incorporated company Nuova Maa;
- goodwill relating to the acquisition of the insurance contracts portfolio of Profilo Life in 2001 and originating from the accounts of the incorporated Maa Vita;
- the goodwill recorded in 2003 following the merger by incorporation of Maa Vita, corresponding to the difference between the book value of the holding and the value of the corresponding share of the net equity book value.

Based on the provisions of IAS 38 (Intangible assets), goodwill, as an asset with an undefined useful life, is no longer amortised systematically but is subject to an impairment test carried out at least annually for the purposes of identifying the existence of any loss in value.

In short, to this end:
- Cash Generating Units (CGU) relating to the goodwill posted have been identified;
- the recoverable value of the CGU, taken as being the greater of the fair value, less sale costs and the value in use, amounting to the current value of future financial flows relating to the CGU, has been identified;
- the book value of the CGU has been compared with the recoverable value to see if there is any loss in value.

The impairment tests carried out on the goodwill have confirmed the adequacy of the values posted, thus dispensing with the need to perform adjustments due to losses in value.

It should also be noted that, on the basis of the optional exemption provided for by IFRS 1, data relating to business combinations already recognised in the accounts prior to the date of transition to IAS (01/01/2004) have not been shown again, in accordance with IFRS 3 rules.

Other intangible fixed assets

These are assets with no physical substance and can be posted in accordance with IA3 38 insofar as their characteristic features are as follows:
- identifiability;
- resources monitored by the company;
- existence of future economic benefits.

In accordance with IAS 38, set-up and expansion costs and research and advertising costs cannot be entered under this item.
During initial posting, these assets are entered at cost, inclusive of direct allocation charges.

During subsequent recognition they are posted at cost, net of amortisation accumulated and any write-downs for reduction in value. Amortisation is calculated at constant rates, on the basis of the useful life estimated at 3 or 5 years.
Any assets with an indefinite useful life are not subject to amortisation but undergo annual impairment tests, in accordance with the provisions of IAS 36, so as to identify any impairment losses.

The item also includes the VOBA (value of business acquired) resulting from the acquisition, during the 2006 financial year, of 50% of Bipiemme Vita, which is amortised in line with the relating average maturity.

2. TANGIBLE FIXED ASSETS

Property

This item includes property used directly by the company as a tool for producing income. As provided for by IAS 16, the item also includes payments on account disbursed in regard to property under construction or development.

IAS 16 (Property, plant and equipment) lays down that, during initial entry, property for company use should be posted at cost. Subsequent recognitions can be made on the basis of the cost model (paragraph 30) or on the basis of the revaluation model (paragraph 31).

The Company has chosen to use cost as the valuation principle. During first-time application, as permitted by IFRS 1 (First-time adoption of International Financial Reporting Standards), the value restated on the basis of previous accounting principles was used instead of cost.
In particular, revaluations of property in previous years were not removed in the process of restating cost since they were deemed to contribute to determination of the depreciated cost in reflecting the variation in price indexes.

On the basis of the provisions of IAS 16, the value of the property is subject to an appropriate depreciation process, using differentiated rates according to its estimated useful life. With regard to wholly-owned buildings, depreciation is carried out on the values of the property net of the value of the land on which it is sited.

Property is subject to an impairment test which involves comparing the book value with the estimated fair value, determined by way of expert appraisals.

Other tangible fixed assets

The item includes property, plant, equipment and motor vehicles used directly by the company as tools for producing income.
They are entered at cost and subject to depreciation based on their estimated useful life. For the purposes of

quantifying depreciation, the residual value of the asset, or the value of the asset at the end of its useful life, is estimated at zero.

3. REINSURERS' SHARE OF TECHNICAL RESERVES

The reinsurers' share of technical reserves is calculated using the same criteria used for the allocation of direct business reserves, taking into account contractual reinsurance clauses.
The retrocessionaires' share of the reserves are determined using the criteria used for the formation of reserves for risks accepted and represent the latter's share of contractual liabilities.

4. INVESTMENTS

Investment property

IAS 40 (Investment property), which governs property held by the company for investment purposes, lays down that, at the time of acquisition, the property must be recorded at cost whilst, in subsequent valuations, the company may choose between valuation at cost and valuation at fair value.
Fair value is the price for which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction, i.e. what is commonly known as the market price.
The Company has chosen to use cost as the valuation principle for property held for investment purposes and, as such, intended for use by third parties.

During first-time application, as permitted by IFRS 1 (First-time adoption of International Financial Reporting Standards), the value restated on the basis of previous accounting principles was used instead of cost. In particular, revaluations of property carried out in previous years were not removed in the process of restating cost since they were deemed to contribute to determination of the depreciated cost in reflecting the variation in price indexes.

Based on the provisions of IAS 40, the value of the property is subject to an appropriate depreciation process, using differentiated rates according to its estimated useful life. With regard to wholly-owned buildings, depreciation is carried out on the values of the property net of the value of the land on which it is sited.
Investment property is subject to an impairment test which involves comparing the book value with the estimated fair value, determined by way of expert appraisals.

Holdings in subsidiaries, associated companies and joint ventures

The item includes non-consolidated holdings, defined and governed by IAS 27, 28 and 31, valued using the net equity method.

Loans and receivables

The item includes loans governed by IAS 39, excluding trade receivables, reinsurance deposits with ceding companies and receivables from successor agents for recoupment of claims paid to agents who have ceased trading.
During first-time recognition they are entered at fair value plus any directly attributable transaction costs. During subsequent valuations they are entered at amortised cost which is, in short, the amount at which the activity is valued initially plus or minus the amortisation, determined using the effective interest rate, of any difference between the initial value and the repayment value.

Investments held to maturity

This item includes non-derivative financial instruments, with fixed or determinable payments and fixed maturity, that the company intends and is able to hold until maturity.

Based on the provisions of IAS 39 (Financial instruments: recognition and measurement), initial recognition of these financial instruments must be at fair value plus transaction costs directly attributable to the purchase.
Fair value is the amount for which an asset could be exchanged between knowledgeable and expert counterparties who are not subject to any constraints and generally corresponds to the transaction price. Fair value is the amount for which an asset could be exchanged between knowledgeable and expert counterparties who are not subject to any constraints and generally corresponds to the transaction price.
During subsequent valuations, financial instruments entered under this category are valued at amortised cost, calculated using the effective interest method.
The amortised cost of a financial asset is the value at which this asset was measured at first-time recognition net of capital repayments, plus or minus total amortisation of the difference between the initial value and the value at maturity, calculated using the effective interest method.
The effective interest rate is the rate that equates with the current value of a financial asset to the contractual flow of future cash payments or receipts to maturity.
In essence, the logic of amortised cost is that of distributing economic components throughout the life of the contract which would otherwise have been recorded as income or expenditure at the time of receipt or payment.

Financial assets available for sale

Includes all financial assets not otherwise classified.
During first-time recognition, these assets are entered at fair value, which generally corresponds to the price paid for their purchase, plus directly attributable transaction costs.

Subsequently, financial instruments available for sale are valued at fair value, the difference compared to the initial value being posted to net equity. The fair value is determined on the basis of the following:
- for financial instruments listed on active markets: it is the current market price on the reference date;
- for unlisted financial instruments it is the price determined on the basis of appropriate valuation techniques.

Amounts relating to adjustment to fair value are maintained in net equity for as long as related financial assets remain in company equity and are posted to the profit and loss account at the time of sale. Value adjustments for impairment losses are also posted to the profit and loss account.

Financial assets at fair value recognised through profit or loss

This item includes financial assets held for short-term trading as well as financial assets designated to this category, within the constraints of IAS 39. This item includes, in particular, financial assets relating to index- and unit-linked-type insurance or investment contracts (with the exception of those referred to in IFRS 4.IG2) written by insurance companies.
During first-time recognition, these assets are entered at fair value, which generally corresponds to the price paid for their purchase.

Subsequently, financial instruments at fair value through profit or loss, as described by the name of the category itself, are valued at fair value, posting the difference between fair value and initial value to the profit and loss account.
For financial instruments listed on active markets, fair value is the current market price on the reference date whilst, for unlisted financial instruments, it is the price determined on the basis of appropriate valuation techniques.

During recognition of fair value on the date of transition to international accounting standards, IAS 39 requires the difference between fair value and the book value determined according to Italian principles to be posted to an appropriate net equity reserve.

5. RECEIVABLES

This item includes trade receivables, governed by IAS 39, which are shown at recoverable value.
For short-term trade receivables, IAS/IFRS accounting standards make provision for accounting management which is marked by some peculiarities. In particular, amortised cost is not applied, in the belief that the application of this criterion would prove to be very similar to valuation at historic cost and there is no discounting of financial flows in the determination of recoverable value, which would result in insignificant results.

6. OTHER ASSETS

Deferred acquisition costs

These comprise the share of commissions on multi-year policies still to be amortised. The amortisation process provides for:
in Life business, distribution based on the duration of each contract and, at any rate, over no longer than a 10-year period.
in non-Life business, allocation at cost according to the average duration of multi-year contracts, amounting to 7 years.

Current and deferred tax assets

Current tax assets relate to tax-type receivables defined and governed according to IAS 12. In particular, they comprise assets arising from the posting to the accounts of the tax referred to in art. 1, paragraph 2, of Legislative Decree 209/2002, as converted by art. 1 of Law No. 265/2002 and subsequent amendments (tax on mathematical reserves).

Deferred tax assets include the positive fiscal effect determined in relation to time differences between taxable amounts and those posted in accordance with IAS standards.

Posting of deferred tax assets (and deferred tax liabilities posted with other liabilities) makes it possible to maintain the correlation between the tax liability posted in the accounts and the pre-tax economic result, both in the financial year in which these differences arise and in future years in which these differences are cancelled out following, for example, the disposal of the assets to which they relate, recovery of same via amortisation or the extinction of liabilities.

Non-current assets or assets belonging to an HFS disposal group

This item includes assets defined and governed by IFRS 5.

Other assets

This item includes the interim accounts for reinsurance receivables, deferred commissions payable relating to contracts not falling within the scope of IFRS 4 and other residual assets which are not included in previous items.

Service contracts connected with financial-type polices

The index-linked and unit-linked products of a financial nature are subdivided into:
- a financing contract component (IAS 32 and 39)
- a service contract component (IAS 18)

With reference to the service component, IAS 18 stipulates that:
- revenues and costs related to the same transaction must be recognised simultaneously;

- the associated revenues and costs for a transaction which involves the provision of services must be recorded in relation to the transaction's stage of completion.

The stage of completion can be recorded using various methods and, in particular, when the services are provided through a non-specific number of actions over a specific period of time, revenues and costs are recorded on a straight-line basis, unless it is clear that other methods would more effectively represent the stage of completion.
The amortisable share of the costs incurred for financing contracts, posted to the "Other assets" item and the share not yet due of the revenues connected with these contracts, posted to the "Other Liabilities" item are determined according to these considerations.

7. CASH AT BANK AND IN HAND AND EQUIVALENTS

Liquid assets are represented by cash and demand deposits. Equivalents represent short-term financial investments with high liquidity which are readily convertible into cash and which are not subject to a petty risk of changes in value. Short-term financial investments are taken as those maturing three months or less from the date of acquisition.
IAS 39 and, in particular, the provisions in relation to financial assets available for sale, applies for the purposes of valuing the assets included in this category. Initial valuation is at fair value, generally corresponding to the price paid for the acquisition, including transaction costs. Subsequently, these assets are posted at fair value, which normally corresponds to the acquisition costs plus interest accrued, with any difference between this and the initial value being posted to net equity.

Net Equity and Liabilities

1. NET EQUITY

Capital

This item represents the share capital of the parent company, Milano Assicurazioni, recorded at the nominal value of the fully subscribed and paid up shares comprising the said capital.

Capital reserves

This item includes, in particular, the consolidating company's share premium reserve.

Profit and other equity reserves

This item includes, in particular, profits and losses deriving from the first-time application of international accounting standards (IFRS 1), catastrophe and equalisation reserves not included in technical liabilities in accordance with IFRS 4.14(a), reserves provided for by the Italian civil code and by special laws prior to the adoption of international accounting standards, as well as consolidation reserves.

Own shares

As laid down by IAS 32.33, the value of the shares in the company that prepares the consolidated accounts, owned by the said company and by consolidated companies, is recorded as a drop in net equity.

Profits or losses on financial assets available for sale

This item includes profits or losses deriving from the valuation of financial assets classified under the "available for sale" category, net of the part attributable to policyholders and allocated to insurance liabilities on the basis of the shadow accounting method, described in full in the note below on Technical Reserves.
The amount posted is the difference between the cost and fair value of the assets, represented by current listing on the reference date for financial instruments listed on active markets and by the price determined on the basis of appropriate valuation techniques for unlisted financial instruments, net of the aforementioned shadow accounting effect.

Other profits and losses recorded directly to equity

This item includes the recognition of actuarial profits and losses relating to the staff-leaving indemnity both for the part accrued on the date of transition to IAS/IFRS international accounting standards, and for the part accrued subsequently as permitted by EU Regulation No. 1910 published in the EUOJ of 24/11/2005.

Minorities' share of capital and reserves

This macroitem includes instruments and components which represent the minorities' share of capital and related equity reserves.

2. PROVISIONS

Under IAS 37 (Provisions, contingent liabilities and contingent assets), provisions are liabilities for uncertain amounts or maturity which are recognised when the following conditions occur at the same time:
- a current obligation on the reference date of the accounts exists as a result of a past event;
- it is likely that economic resources will need to be used to fulfil this obligation;
- a reliable estimate can be made of the amount needed to fulfil the obligations.

In particular, this item therefore includes provisions for future risks and charges of a fixed nature, reliably estimated on the basis of information available on the date on which the accounts are drawn up.

3. TECHNICAL RESERVES

Includes commitments arising from insurance contracts and from financial instruments governed by IFRS 4.2, gross of reinsurance cessions. Reserves set aside following the adequacy test on liabilities (IFRS 4.15), deferred liabilities to policyholders (IFRS 4.30,34) and the reserve for amounts payable, are also included.
In detail, the macroitem includes:

NON-LIFE BUSINESS

Premium reserve for direct insurance risks

Includes both the reserve for premium portions and, where the necessary prerequistes exist, the reserve for current risks determined in accordance with the provisions of art. 32 of Legislative Decree No. 173 of 26 May.
The reserve for premium portions was determined using the "pro-rata temporis" method applied analytically for each policy on the basis of gross premiums posted to the accounts.
The methodology provided for by ISVAP Instruction No. 1978-G of 4 December 2001 applies to the Bonds business class. The additions provided for by specific provisions on the matter were also applied to the bonds class.
The reserve for current risks, which essentially represents the adequacy test on insurance liabilities for non-Life business required by paragraph 15 of IFRS 4 (Insurance Contracts), is set aside on the basis of individual insurance classes where the anticipated experience of currently generated claims proved to be in excess of the premium portions reserve.
The amount is determined with reference to the ratio of losses to earned premiums relating to current generation, also taking into consideration premium instalments still due.
The overall amount set aside was judged to be adequate to cover commitments for current risks at the end of the financial year.

Claims reserve for direct insurance risks

Includes sums which, from a prudent valuation based on objective factors and separately for each claim procedure, prove to be necessary to pay for claims arising in the financial year or in previous financial years, and not yet paid, as well as related settlement costs.

The reserve is valued at final cost as referred to in point 5 of art. 37 of Legislative Decree 209/2005 (Insurance Code) and, therefore, takes into consideration all future foreseeable charges on the basis of historical and prospective data.
In order to determine the final cost of claims relating to the Motor TPL reserve (both current and previous generations) statistical methodologies were used which relate to trends in the cost of claims, based on historical and prospective data appropriately adapted to the specific characteristics of the company (methods falling within the scope of various Fisher-Lange typologies). In particular, in order to determine future hikes in the cost of losses covered by reserves, consideration was given to scheduled inflation and specific cost trends in the insurance industry.

For other non-life classes, the final cost is determined on the basis of adjusters' reserves, adjusted, if necessary, to take account of past experience regarding the reduction of claims pending.

The claims reserve includes an amount set aside to pay for claims relating to the financial year but not yet filed by the end of said year, estimated with reference to experiences of previous financial years.

Other technical reserves

These relate to the old age reserve in the Health business class, intended to compensate for the worsening risk due to the increasing age of policyholders. This reserve is determined using the method laid down by point 3 of art. 25 of Legislative Decree No. 175 of March 1995, (analytical method).

Premium reserves for indirect business risks

These are determined on the basis of notices received from ceding companies. Failing receipt of these notices, appropriate fixed rates are applied to premiums posted to the accounts and relating to risks still in existence at the end of the financial year, taking note of what is laid down by ministerial provisions for Bond and Deposit classes.

Claims reserves for accepted reinsurance risks

These are determined on the basis of notices received from ceding companies, possibly supplemented by objective factors and our own statistics. The amounts set aside were deemed to be sufficient to meet existing commitments at the end of the financial year.

LIFE BUSINESS

Technical reserves relating to direct insurance risks

These are calculated in accordance with actuarial technical procedures which satisfy current legislation and, in particular, the calculation principles established by art. 25 and the regulations contained in art. 119 of Legislative Decree No. 174/95. The calculation is made analytically for each contract on the basis of pure commitments without deductions for acquisition costs. The technical bases for the calculation (technical rates of interest, demographic hypotheses of eliminations for death or disability and default frequencies) are the same as those used to determine premiums for individual contracts. In any event, the mathematical reserves were not less than the surrender values.

This item also includes an additional reserve for technical bases and an additional reserve for guaranteed interest.

The additional provision for technical bases, set up in line with the provisions of ISVAP Instruction No. 1380-G of 21 December 1999, provides for the higher costs that the company will have to incur due to the increase in average human longevity for premiums in the form of life annuities or where there is the option of conversion to a predetermined return.
The additional provision for guaranteed interest, set up on the basis of the provisions of ISVAP Instruction No. 1801-G of 21 February 2001, provides for the higher cost that the company will have to incur for the difference between the interest rate guaranteed to policyholders and the yield performance forecast for segregated accounts calculated according to the provisions of the aforementioned ISVAP Instruction 1801-G.

For products with the characteristics stated in art. 30 paragraph 2 of Legislative Decree 174/95, where the investment risk is borne by policyholders, the calculation is made analytically on a contract by contract basis, adopting allocations approximating, as closely as possible, the value of the underlying assets.
In accordance with IFRS 4, mathematical reserves posted according to the said principles underwent a liability adequacy test which also confirmed their adequacy for IAS purposes.

This item also includes the adjustment of mathematical reserves relating to contracts included in Life business segregated accounts, made by applying accounting practices known as shadow accounting, referred to in paragraph 30 of IFRS 4. The aim of using this accounting procedure, which is an option for the company rather than an obligation, was to further contribute to the transparency and clarity of the data, correlating the value of the mathematical reserve relating to these contracts to the value of assets included in segregated accounts determined using IAS standards.
Securities contained in segregated life business accounts do, in fact, come under the "available for sale" category or the financial instruments valued at "fair value through profit or loss" category and, as such, were

valued at fair value, recognising the difference between fair value and value determined according to Italian principles as an increase in net equity or in the result for the period.
Moreover, as is known, the yield from securities included in segregated accounts determines the yield to be paid back to policyholders and, therefore, influences the amount of the mathematical reserve.
The amount of the mathematical reserve for contracts included in segregated accounts was, therefore, adjusted in line with the valuation of related assets, posting the difference between this and the reserve amount calculated according to Italian principles to equity or to the profit and loss account.
In essence, the difference in the mathematical reserve for these contracts compared with Italian principles accounts for the policyholders' share of latent capital gains and capital losses on securities included in segregated accounts which, on the basis of contractual terms and current legislation, will only be paid to policyholders if and when they are realised by the sale of the related assets but which in this context is clarified by the fact that the latent capital gains/losses on the said securities, were, as already stated, recognised as an increase (or decrease) in net equity or in the result for the period. The methodology for recognition adopted also takes account of the minimum guaranteed return contractually paid for each segregated account.

Technical reserves for accepted reinsurance risks

These are entered on the basis of notices supplied by ceding companies.

4. FINANCIAL LIABILITIES

Financial liabilities at fair value recognised through profit or loss

This item includes financial liabilities at fair value recognised through profit or loss defined and governed by IAS 39. This item includes, in particular, financial liabilities designated at fair value recognised through profit or loss, relating to index- or unit-linked type investment contracts not falling within the scope of application of IFRS 4, which are treated using the deposit accounting method which, essentially, provides for the allocation to profit and loss solely of profit margins and the posting to the liabilities of premiums written and yields accrued by policyholders. Moreover, this item includes the negative position on derived finance contracts.

Other financial liabilities

This item includes financial liabilities defined and governed by IAS 39, other than trade payables, and not included in the previous item.
In particular, this item includes:
- the subordinated liabilities;
- deposits received from reinsurers;
- investment contracts not falling within the scope of IFRS 4, other than index- and unit-linked type contracts.

During first-time recognition, these liabilities are posted at fair value and subsequently valued at amortised cost according to the effective interest method.

5. PAYABLES

This item includes trade payables as well as payables to employees for staff-leaving indemnity.

Staff-leaving indemnity and other deferred employee benefits

There is no equivalent to the staff-leaving indemnity in other countries. In line with prevailing opinion and in anticipation of specific guidelines from authorities, it was deemed appropriate to deal with staff-leaving indemnity under IAS 19 (employee benefits).
In particular, since this is a complex obligation, insofar as there is the guarantee of a fixed return on sums set aside which are not payable on the date of the accounts, the amount to be entered in accordance with IAS standards must be subject to an actuarial calculation using the procedure indicated in point 64 of IAS 19 (Defined benefit plan). Likewise, the effect of other deferred employee benefits falling within the scope of IAS 19 and following termination of employment, was calculated. In line with the option granted by IAS 19, as amended by EU Regulation No. 1910 published in the EUOJ on 24/11/2005, the Group decided to recognise

actuarial profits and losses direct to equity in the year in which they occur, without, therefore, taking advantage of the so-called "corridor method".

6. OTHER LIABILITIES

Current and deferred tax liabilities

These comprise:
- current tax liabilities limited to IRAP [regional tax on production activities]. Current tax liability with regard to IRES [corporation tax] is, on the other hand allocated as a payable to the parent company following the inclusion of the main companies in the Milano Assicurazioni group in the fiscal consolidation of the Fondiaria-Sai Group;
- deferred tax liabilities allocated, according to the provisions of IAS 12 (Income taxes), with reference to temporary taxation differences, for the purpose of maintaining a correlation between the tax liability and the profit shown in the accounts.

Other Liabilities

This item includes, amongst other things, liabilities relating to fixed and other long-term employee benefits (excluding provisions for staff-leaving indemnity, posted to payables), interim reinsurance accounts, and deferred fees and commissions receivable relating to contracts not falling within the scope of IFRS 4, determined according to the provisions of IAS 18.

Profit and Loss Account

Net premiums

This macroitem includes earned premiums relating to insurance contracts and financial instruments containing an element of discretionary participation, referred to in IFRS 4.2, net of reinsurance cessions.
Proceeds relating to policies which, although insurance contracts in legal terms, do not present a significant insurance risk and do not contain elements of discretionary participation are not, however, covered by this item. These contracts fall within the scope of IAS 39 (Financial instruments: recognition and measurement) and IAS 18 (Revenue) and are treated using the "deposit accounting" method which, in short, provides for the posting to the profit and loss account solely of explicit and implicit loadings entered under "fees and commissions receivable".
We would state that, on the basis of analyses carried out on policies in the portfolio, it was revealed that IFRS 4 was applicable to all non-life business contracts and all life business contracts with the exception of the prevalence of index-linked contracts and unit-linked contracts, which were, therefore, valued on the basis of the aforementioned IAS 39 and IAS 18 standards and treated using the "deposit accounting" method.
Contracts which, on the other hand, fall within the scope of IFRS 4 are treated according to principles applicable to statutory accounts. In particular, in accordance with art. 45 of Legislative Decree 173/1997 and the instructions contained in the ISVAP Instruction on charts of accounts for insurance companies, premiums include:
- cancellations justified by technical reversals of individual securities issued during the financial year;
- the cancellation of life business premiums for subsequent years falling due in previous years;
- contract changes with, or without, premium changes, made via substitutions or appendices;

whilst they do not include the following because they are allocated to technical charges, included in "Other costs":
- write-downs due to inability to recover receivables from policyholders for premiums for the year carried out at the end of that year;
- write-downs for receivables from policyholders for non-life premiums for previous years;
- write-downs of receivables from policyholders for life premiums for the first year of single premiums written in previous years.

Fees and Commissions receivable

This item includes commissions relating to investment contracts not falling within the scope of IFRS 4, such as explicit and implicit loadings on the contract and management commissions receivable.
As already stated in the note on the premiums item, these are commissions for the year relating to index-linked and unit-linked contracts.

INCOME FROM INVESTMENTS

Income and expenditure deriving from financial instruments fair value recognised through profit or loss

This item includes profits and losses realised and positive and negative changes in the value of financial assets and liabilities at fair value recognised through profit or loss. Changes in value are determined on the basis of the difference between fair value on the reference date and the initial value of financial instruments posted to that category.
For financial instruments listed on active markets, fair value is the current market price on the reference date whilst, for unlisted financial instruments, it is the price determined on the basis of appropriate valuation techniques.

Income deriving from holdings in subsidiaries, associated companies and joint ventures

Includes income deriving from holdings in associate companies posted to the corresponding item in the assets. In particular, this is the share of the profit for the period achieved by the said participating interests.

Income deriving from other financial instruments and investment property

This macroitem includes income deriving from investment property and financial instruments not valued at fair value through profit or loss and, in particular:

- interest received recorded using the effective interest method (IAS 18.30 (a));
- other income and, in particular, dividends relating to shareholdings and revenue deriving from the use, by third parties, of investment property;
- Profits realised following the disposal of financial assets and investment property or the elimination of financial liabilities;
- Valuation gains, deriving mainly, where this arises, from reversal of impairment.

Other revenue

This item includes:

- income deriving from the sale of assets, the provision of services other than those of a financial nature and from the use, by third parties, of tangible and intangible fixed assets and other assets belonging to the company;
- other technical net income relating to insurance contracts;
- exchange differences to be allocated to the profit and loss account as stated in IAS 21;
- profits realised and any value adjustments relating to tangible and intangible fixed assets.

Net charges relating to claims

This item includes:

- amounts paid, net of recoveries;
- changes in claims reserves and reserves for recoveries;
- changes in the reserve for sums payable, mathematical reserves and technical reserves where the investment risk is borne by policyholders;
- changes in other technical reserves relating to the insurance contracts and financial instruments referred to in IFRS 4.2, including deferred liabilities to policyholders relating to income and expenditure posted to the profit and loss account (e.g. shadow accounting reserve).

The amounts entered include settlement costs both paid and posted to the reserves, which include all expenses relating the investigation, assessment, valuation and settlement of claims.

Fees and Commissions payable

This item includes acquisition cots for investment contracts not falling within the scope of application of IFRS 4 written by insurance companies. These are, in particular, commissions paid to Agents in relation to the acquisition unit-linked and index-linked contracts.

Investment charges

Charges deriving from holdings in subsidiaries, associated companies and joint ventures

These include charges deriving from holdings in associate companies, posted to the corresponding item in the assets. In particular, this is the company’s share of the profit for the period achieved by the said participating interests.

Charges deriving from other financial instruments and investment property

This macroitem includes expenditure deriving from investment property and financial instruments not valued at fair value through profit and loss and, in particular:

- interest payable recorded using the effective interest method, including the interest relating to subordinated loans;
- other charges and, in particular, costs relating to investment property, such as joint-ownership costs and maintenance and repair costs not entered as an increase in the value of the investments;

- losses realised following the disposal of financial assets and investment property or the elimination of financial liabilities;
- valuation losses, deriving mainly from amortisation and, where this arises, from value adjustments (impairment).

Operating expenses

Fees and Commissions and other acquisition costs
This item includes acquisition costs relating to insurance contracts and financial instruments referred to in IFRS 4.2, net of reinsurance cessions.

Investment management costs
These relate to general and personnel costs for the management of financial instruments, investment property and holdings, as well as safekeeping and administration costs.

Other administrative costs
This item includes general and personnel costs not allocated to charges relating to claims, to acquisition costs for insurance contracts and to investment management costs. This item includes, in particular, general and personnel costs for companies conducting financial business other than insurance companies, which are not otherwise allocated, as well as general and personnel costs sustained for the acquisition and administration of investment contracts not falling within the scope of IFRS 4.

Other costs
This item includes:
- costs relating to the sale of assets other than those of a financial nature;
- other net technical charges relating to insurance contracts, for which please refer to the note on the premiums item;
- amounts set aside during the year;
- exchange differences to be allocated to the profit and loss account as stated in IAS 21;
- losses realised, any impairment losses and amortisation relating both to tangible assets, where not allocated to specific items, and to intangible fixed assets;
- the costs for the year relating to the stock option plans approved by the parent company Fondiaria-Sai, as described more fully below.

Stock options plans
As already stated in the first part of this report, in the "Other information" chapter, on 14 July 2006, the Fondiaria-Sai Board of Directors decided to resolved to assign the options referred to in the Fondiaria 2006-2011 Stock Option plans in favour of the executive directors and management of Fondiaria-Sai, its subsidiaries and the parent company, for the purchase of Fondiaria-Sai savings shares.
The Board's assignment occurred in implementation of the decision of Fondiaria-Sai's Extraordinary Shareholders Meeting on 28 April 2006.
Within this context, the stock options assigned to Milano Assicurazioni executive directors and managers number 2,872,920 for a total estimated value of € 8m, to be spread over the vesting periods for the various tranches.

Accounting standard IFRS 2 "Share-based payments" obligatorily provides for the implicit costs connected with the employee-directed share ownership plans to be posted to the profit and loss account. In the case of stock options, the regulation stipulates that the Company should record in the accounts the service received, that is, the working service provided by the beneficiaries of the stock options, and that it should be valued at the fair value of the shares/options made over. The result of this accounting approach is that the stock option plans must increase the labour cost recorded in the consolidated accounts. To this end, it is necessary to identify evaluative models capable of determining the fair value of the options and thus of the labour cost to be recorded in the accounts.

The fair value of the option has been calculated by recourse to the Black-Scholes-Merton model. This is the most widespread valuation model for European-type options, based on which the theoretical price (value) of a call option is an increasing function of the price of the underlying security, its volatility, the market interest rate and the time, whilst it is a decreasing function of the exercise price and the dividends expected. In other words, the value of an option is produced by the difference between two ranges:

- the current market value of the underlying security updated to a rate equal to the expected dividend;
- the exercise price of the underlying security (strike price), updated to a rate equal to use of the risk-free capital.

We state below the main information on which the fair value valuation is based:

- unit issue price: this is Euro 21.546, equal to the arithmetic mean of the reference prices for the Fondiaria-Sai savings share on the market in the thirty days preceding the date of assigning the rights;
- price of the share at the time of assignment was Euro 22.060;
- vesting period, which varies as follows:
- 40% of the options may not be exercised earlier than 24 months from the assignment date;
- 30% of the options may not be exercised earlier than 36 months from the assignment date;
- 30% of the options may not be exercised earlier than 48 months from the assignment date;
- the historic volatility of the share price in the most recent period, which is usually commensurate with the expected term of the option. In fact, a practical rule often adopted is that of having the time period in which the volatility is measured coincide with the time period to which it is applied. Due to value homogeneity requirements, it is in any case dated back to 1.1.2003, thus taking only the post-merger time into account.
- In our case, having three vesting periods, we calculated three different volatilities, based on the closing prices of the Fondiaria-Sai savings shares:

	2 years	**3 years**	**4 years**
% estimated volatility	**21.913**	**21.571**	**22.201**

- dividend yield: equal to the ratio between the value of the dividends and the price of the share at the time of issue. IFRS 2 (Appendix B, paragraph 35) stresses that the historical trend in dividend increases should be taken into account in these cases. As from when the stock option plan depends on achieving a number of the objectives of the 2006/2008 Industrial Plan, and there is provision for a dividend increase amongst these, the numerator was raised by 25%, in line with the increase in the payout provided for by the Plan. The dividend yield is thus:

	2 years	**3 years**	**4 years**
Dividend yield %	**5.678**	**5.678**	**5.678**

- risk-free interest rate: corresponds to the implicit yield currently available on zero-coupon government issues for the country in whose currency the exercise price is expressed, with a residual term equal to the expected term for the option to be valued (IFRS 2 – Appendix B, paragraph 37). In Fondiaria-SAI's case, three different Annual Euro Swaps were considered according to the vesting period:

	2 years	**3 years**	**4 years**
Risk-free rate %	**3.735**	**3.29**	**3.901**

The following table shows the results of the valuation carried out:

	no. options granted	Residual life	Option value	Total cost	2006 cost
Tranche A	1,149,168	2	2.792	3,208,903	746,257
Tranche B	861,876	3	2.708	2,333,718	361,982
Tranche C	861,876	4	2.809	2,420,730	281,673
TOTAL	**2,872,920**			**7,963,351**	**1,389,912**

The results arising out of the use of the model were also validated by applying alternative numerical procedures. In particular, recourse was made to the binomial and trinomial tree methodology as validation and control tools.

USE OF ESTIMATES

Preparation of the accounts in accordance with IAS/IFRS standards involves making estimates and valuations which produce effects on the assets, liabilities, costs and revenue posted as well as on the identification and quantification of potential assets and liabilities. Directors periodically check estimates and valuations made on the basis of historical experience and other factors considered reasonable at different times. Actual results may differ in comparison with estimates made under different operating conditions. The use of estimates and valuations mainly relates to the following items:

- Technical reserves;
- Employee benefits;
- Goodwill.

Please refer to the previous chapter on accounting principles and valuation criteria for detailed information on methodologies used to determine the items mentioned above and, in particular, for the valuation of technical reserves, for the performance of impairment tests on goodwill posted and for assumptions made as a basis for the determination of liabilities relating to employee benefits.

Group structure

CONSOLIDATED ACCOUNTS AS AT 31 DECEMBER 2006

Basis of consolidation

Company	State	Method (1)	Activity (2)	%age direct shareholding	%age total profit-sharing (3)	%age availability votes in ordinary general meeting (4)	%age consolidation
BIPIEMME VITA S.p.A.	ITALY	P	1	50.00	50.00	50.00	50.00
CAMPO CARLO MAGNO S.p.A.	ITALY	G	10	100.00	100.00	100.00	100.00
CAMPO CARLO MAGNO SPORT S.r.l.	ITALY	G	11	100.00	100.00	100.00	100.00
DIALOGO ASSICURAZIONI S.p.A.	ITALY	G	1	99.85	99.85	99.85	100.00
FONDIPREV S.p.A.	ITALY	G	1	60.00	60.00	60.00	100.00
MAA FINANZIARIA S.p.A.	ITALY	G	11	100.00	100.00	100.00	100.00
MERIDIANO EUR S.r.l.	ITALY	G	10	100.00	100.00	100.00	100.00
MERIDIANO ORIZZONTI S.r.l.	ITALY	G	10	100.00	100.00	100.00	100.00
NOVARA ASSICURA S.p.A.	ITALY	G	1	100.00	100.00	100.00	100.00
SOGEINT S.r.l.	ITALY	G	11	100.00	100.00	100.00	100.00
SYSTEMA COMPAGNIA DI ASSICURAZIONI S.p.A.	ITALY	G	1	100.00	100.00	100.00	100.00

(1) Consolidation method: Global integration=G, Proportional integration=P, Global integration for Unitary management=U
(2) 1=Italian ins cos; 2=EU ins cos; 3=third state ins cos; 4=insurance holdings; 5=EU reins co; 6=third state reins co; 7=banks; 8=Ass Man Co.; 9=sundry holdings; 10=property 11=other
(3) is the product of the shareholding ratios relating to all the companies which, located along the participatory chain, may be placed between the company drawing up the consolidated accounts and the company in question. If the latter is directly held by a number of subsidiaries, the separate products must be added together
(4) total percentage availability of votes in the ordinary general meeting if different from the direct or indirect shareholding

CONSOLIDATED ACCOUNTS AS AT 31 DECEMBER 2006							
Amounts in €K							
Breakdown of non-consolidated holdings							
Name	**State**	**Activity (1)**	**Type (2)**	**%age direct holding**	**%age total profit-sharing (3)**	**%age availability votes in ordinary general meeting (4)**	**Book value**
GARIBALDI S.C.S.	LUXEMBOURG	10	B	47.95	47.95	47.95	-256
SAI INVESTIMENTI S.G.R. S.p.A.	ITALY	8	B	40.00	40.00	40.00	2,242
SERVICE GRUPPO FONDIARIA-SAI S.r.l.	ITALY	11	B	30.00	30.00	30.00	221
SISTEMI SANITARI S.p.A.	ITALY	11	B	25.71	25.71	25.71	531
UNISERVIZI S.c.r.l.	ITALY	11	B	28.00	28.39	28.40	10,731

(1) 1=Italian ins cos; 2=EU ins cos; 3=third state ins cos; 4=insurance holdings; 5=EU reins co; 6=third state reins co; 7=banks; 8=Ass Man Co.; 9=sundry holdings; 10=property 11=other
(2) a=subsidiaries (IAS27) ; b=associated (IAS28); c=*joint ventures* (IAS 31); indicate with an asterisk (*) the companies classified as held for sale in compliance with IFRS 5 and state legend at foot of table
(3) is the product of the shareholding ratios relating to all the companies which, located along the participatory chain, may be placed between the company drawing up the consolidated accounts and the company in question. If the latter is directly held by a number of subsidiaries, the separate products must be added together
(4) total percentage availability of votes in the ordinary general meeting if different from the direct or indirect shareholding

Basis of consolidation

As at 31/12/2006, the Milano Group as a whole – including the parent company – comprises 12 companies, 11 of which are fully consolidated and 1 which is proportionally consolidated. 6 of these are insurance companies, 3 are property companies and the remaining 3 operate in diversified sectors.

With reference to the changes in the basis of consolidation, we would point out the entry of Bipiemme Vita S.p.A., proportionally consolidated, of which the parent company acquired 46% of the shareholding during June and a further 4% during October.

PART B – Notes to the Consolidated Balance Sheet

Details and additional explanatory notes relating to the figures given in the consolidated accounts are given below. Please note that further details are provided in the annexes issued by the Supervisory Authority with Regulation No. 2404/2005 and given at the end of these notes.

Balance Sheet - Assets

1. INTANGIBLE ASSETS

Comprising:

(€K)	**31/12/2006**	**31/12/2005**	**Variation**
Goodwill	195,926	175,338	20,588
Other intangible assets	45,970	750	45,220
TOTAL	**241,896**	**176,088**	**65,808**

Goodwill

The table below shows the movement over the financial year (IFRS 3.75)

(€K)	**2006**	**2005**
Value at the start of the financial year	**175,338**	**175,338**
Accumulated impairment losses (-)	-	-
Increases over the period	20,588	-
Amortisation over the period		
Reductions for disposals or registration as assets available for sale	-	-
Losses in value for the period	-	-
Other variations	-	-
Value at the end of the financial year	**195,926**	**175,338**

The increase over the period relates to the consolidation difference for Bipiemme Vita, in which Milano Assicurazioni purchased a 50% capital interest over the year.

The table below gives details of the goodwill item:

(€K)	31/12/2006	31/12/2005	Variation
Goodwill posted following the merger by incorporation into the parent company of Lloyd Intenazionale S.p.A. in 1991	17,002	17,002	-
Goodwill posted in 1992 following the acquisition by the parent company of the portfolio of Card S.p.A.	33,053	33,053	-
Goodwill deriving from the acquisition by the parent company of the portfolio of Latina Assicurazioni S.p.A., in 1992	34,522	34,522	-
Goodwill relating to the life portfolio of La Previdente Assicurazioni S.p.A. originally acquired from Previdente Vita (formerly Latina Vita) in 1993	16,463	16,463	-
Goodwill deriving from the acquisition, in 1995, of the portfolio of Maa Assicurazioni by Nuova Maa, incorporated in the parent company in 2003	65,134	65,134	-
Goodwill deriving from the acquisition, in 2001, of the Profilo Life portfolio by Maa Vita, incorporated in the parent company in 2003	1,052	1,052	-
Goodwill posted following the merger by incorporation into the parent company of Maa Vita, in 2003	4,636	4,636	-
Goodwill relating to the acquisition by SIS of the Ticino portfolio, in 1995	152	152	-
The consolidation difference deriving from the acquisition, in 1996, of La Previdente Vita (then incorporated into Milano Ass.) by La Previdente Assicurazioni (then incorporated into Milano Ass.)	3,275	3,275	-
The consolidation difference deriving from the acquisition of Dialogo Ass. by La Previdente Ass. in 1997	49	49	-
The consolidation difference deriving from the acquisition of a 50% interest in BPM Vita in 2006.	20,588	-	20,588
TOTAL	**195,926**	**175,338**	**20,588**

Based on what is laid down by IAS 38 (Intangible assets), goodwill, in so far as it is an asset with an undefined useful life, is no longer amortised systematically but is subject to an impairment test to be performed at least once a year using the procedures contained in IAS 36 (impairment of assets) for the purposes of identifying the existence of any loss in value. Impairment tests were carried out by comparing the book value and the recoverable value of the Cash Generating Units (CGU) referred to in the aforementioned IAS 36.

CGU book value

Two Cash Generating Units (CGU), were identified, represented by Life and non-Life business relating to the whole of the Milano Assicurazioni Group, taking into consideration the opportunity to also include CGUs deemed to have benefited from past business combination synergies to which the individual components of the goodwill item posted to the accounts relate.

Furthermore, this identification is consistent with the Group's management reporting in which the aforementioned CGUs represent the minimum level at which goodwill is monitored for the purposes of internal management audits. What's more, these CGUs are no greater than the segment definition based on primary segment reporting in accordance with what is laid down by IAS 14.

CGU book value was also calculated in line with the determination of financial flows required to identify their recoverable value i.e. if CGU future financial flows included inflows and outflows relating to specific assets and liabilities, the latter were included in the book value of said CGU.

CGU recoverable amount

The recoverable amount of CGUs is defined as the greater between the fair value, less sale costs and the value in use. The fair value of the CGU represents the amount obtainable from its sale in a bargained transaction between knowledgeable, willing parties, less disposal costs. Since the CGUs identified belong to a listed entity (Milano Assicurazioni), for which there is an active retail market, the Group considered it opportune, in this phase, to identify this value on a preliminary basis and to compare it with the book value of the CGU on which the goodwill was allocated.

The impairment test carried out using these procedures confirmed the adequacy of the values posted. No value adjustment was, therefore, posted in 2006.

Other intangible assets, which on 31.12.06 amounted to € 45,970K are made up, by type, of the following:

(€K)	**Gross book value**	**Accumulated amortisation and impairment**	**Net value**
Research and development expenditure	-	-	-
User rights	-	-	-
Other intangible assets	48,684	2,714	45,970
TOTAL	**48,684**	**2,714**	**45,970**

Intangible assets have a definite useful life and are, consequently, amortised over said life. None of the intangible assets proved to have been generated internally.

The movement of “Other intangible assets” over the year is shown below:

(€K)	Research and development expenditure		User rights		Other intangible assets		Total	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Book value at the start of the period	-	-	-	-	750	1,908	750	1,908
Increases:								
• generated internally								
• acquired							9	750	9	750
• deriving from acquisitions of holdings in joint-ventures					47,573		47,573	
Decreases for disposal or reclassification						-1,908		-1,908
Amortisation over the period					-2,480		-2,480	
Other variations					118		118	
Book value at the end of the period	**-**	**-**	**-**	**-**	**45,970**	**750**	**45,970**	**750**

The increase in other intangible assets essentially relates to the value of the Bipiemme Vita insurance portfolio, already in existence at the time of the acquisition by Milano Assicurazioni, which is amortised in line with the related average maturity. The amortisation quota for the year amounted to € 2,379K.
Please note that, subsequent to the tests carried out, no impairment loss was recorded over the financial year.

2. TANGIBLE ASSETS

These amount in total to € 154,077K (€ 110,625K as at 31/12/2005) and can be broken down as follows:

(€K)	Buildings		Land		Other tangible assets		Total	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Gross book value	33,010	33,204	7,748	7,748	164,064	156,442	204,822	197,394
Accumulated amortisation and impairment	-11,052	-10,433	-	-	-39,693	-76,336	-50,745	-86,769
Net Value	**21,958**	**22,771**	**7,748**	**7,748**	**124,371**	**80,106**	**154,077**	**110,625**

Movement over the period is shown below:

(€K)	**Buildings**		**Land**		**Other tangible assets**		**Total**	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Book value at the start of the period	22,771	37,661	7,748	17,884	80,106	56,240	110,625	111,785
Increases	1,042	1,211			45,506	24,474	46,548	25,685
Decreases for disposal or reclassification	-853	-14,369		-9,407	-380		-1,233	-23,776
Fixed assets arising from business combinations								
Impairment losses recorded over the period								
Write-ups recorded over the period								
Amortisation over the period	-1,002	-1,046			-879	-1,240	-1,881	-2,286
Other variations		-686		-729	18	632	18	-783
Book value at the end of the period	**21,958**	**22,771**	**7,748**	**7,748**	**124,371**	**80,106**	**154,077**	**110,625**

Properties appearing as tangible assets are those intended for company use (property for direct use). These properties are recorded at cost and are systematically amortised on the basis of their useful life solely for components subject to wear and tear.

No Group property appearing under this macroitem is subject to restrictions of title or ownership, nor has redress obtained for a drop in value, losses or damages been posted to the profit and loss account.

The Group instructs accredited independent experts to calculate the fair value of its own land and buildings on an annual basis. This practice responds, amongst other things, to specific Supervisory Authority provisions.
With reference to property intended for company use, it should be noted that the book value, at year end, was € 16,733K less than the valuation determined on the basis of market values.
Other tangible assets relate to 118,484K for advance payments for property transactions relating to the following areas - Milan, via Lancetti; Milan, via Confalonieri-via de Castillia (Lunetta dell'Isola) and Rome, via Fiorentini. We must remember that these transactions, implemented in previous financial years, resulted in the sale to third parties, by Milano Assicurazioni, of the aforementioned areas zoned for building and the purchase of the premises to be built on these areas by the purchasers of said land. The increase in value as at 31 December 2005 mainly relates to advance payments made over the year in relation to the aforementioned property transactions.

3. REINSURERS' SHARE OF TECHNICAL RESERVES

These amount, in total, to € 344,656K (€ 358,527K as at 31/12/2005) with a negative variation of € 13,871K. They are made up as follows:

(€K)	**31/12/2006**	**31/12/2005**	**Variation**
Reinsurers' share of non-life premiums	22,614	20,866	1,748
Reinsurers' share of non-life claims	181,749	187,584	-5,835
Reinsurers' share of other non-life claims	-	-	-
Reinsurers' share of mathematical reserves	139,542	149,152	-9,610
Reserve for amounts payable by reinsurers	750	923	-173
Reinsurers' share of Class D provisions	-	-	-
Reinsurers' share of other reserves	1	2	-1
TOTAL	**344,656**	**358,527**	**-13,871**

4. INVESTMENTS

Comprising:

(€K)	**31/12/2006**	**31/12/2005**	**Variation**
Investment property	375,294	370,136	5,158
Holdings in subsidiaries, associates and joint ventures	13,469	4,820	8,649
Investments held to maturity	-	-	-
Loans and receivables	148,619	212,874	-64,255
Financial assets available for sale	8,836,179	7,580,602	1,255,577
Financial assets at fair value recognised through profit or loss	1,918,099	876,255	1,041,844
TOTAL	**11,291,660**	**9,044,687**	**2,246,973**

Investment property

This item includes all Group-owned property intended for rental to third parties or held as an investment with the aim of increasing the value of said property over time.

Investment properties are shown at purchase cost in accordance with what is laid down by IAS 16 (to which IAS 40 refers in the event of adoption of the cost model). It follows that, for accounting purposes, the Group has made provision to unbundle the value of the land from the value of the property owned outright, since this component, having an indefinite useful life, has been deemed not to be subject to amortisation.

The land component was unbundled from the building component on the basis of an expert evaluation updated on the date of transition to international accounting standards (and, therefore, on 1/1/2004).
The part of the property relating to the building is systematically amortised in line with the useful life of the components characterising said building. In particular, it should be noted that the amortisation rate used is, on average, 2%.

The Group makes provision, on an annual basis, to calculate the fair value of investment property, determined on the basis of expert valuations carried out by independent experts offering specialist valuation services for these types of investment. In total, the book value of investment property as at 31.12.06 proved to be over € 190,011K lower than the expert valuation carried out by the above.

As at 31.12.06, capital gains of € 21.4m deriving from the acquisition, in 2005, of a 100% holding in the company Campo Carlo Magno S.p.A were allocated to property.

The composition of investment property and related movements is shown below.

	31/12/2006	31/12/2005
Gross book value	421,722	409,059
Accumulated amortisation and impairment	-46,428	-38,923
Net Value	**375,294**	**370,136**

(€K)	2006	2005
Book value at the start of the period	370,136	330,346
Increases:		
• for acquisitions		26,636
• for incremental expenditure	11,255	6,529
Property deriving from business combinations		
Decreases for disposal or reclassification	-1,444	-12,640
Amortisation over the period	-5,506	-4,692
Impairment losses/Write-ups recorded over the period		-
Variations due to exchange differences		-
Transfers to other categories	853	23,957
Other variations		-
Book value at the end of the period	**375,294**	**370,136**

Please note that, during the course of the financial year, income from investment property rentals amounted to € 14,538K.

There are no significant limits on the realisability of investment property due to legal or contractual restrictions or obligations of any other nature.

Holdings in subsidiaries, associates and joint ventures

Milano Assicurazioni fully, or proportionally, consolidates all the Group companies, including those that perform dissimilar activities. The amount posted relates to the following holdings in associate companies valued using the net equity method:

(€K)	31/12/2006	31/12/2005
Service Gruppo Fondiaria-Sai S.r.l.	221	227
Sai Investimenti SGR S.p.A.	2,242	1,874
Uniservizi S.c.r.l.	10,731	2,336
Sistemi Sanitari S.p.A.	531	518
Garibaldi S.c.S.	-256	-135
TOTAL	**13,469**	**4,820**

Bipiemme Vita was consolidated using the proportional method and the figures shown below correspond to those appearing in the consolidated accounts:

(€K)	**31/12/2006**
Investments	1,755,574
Other assets	87,226
Technical reserves	599,438
Other liabilities	1,205,834
Income	86,723
Expenditure	80,315

Loans and receivables

These amount to € 148,619K (€ 212,874K as at 31/12/2005) and are made up as follows:

(€K)	**31/12/2006**	**31/12/2005**	**Variation**
Unlisted debt securities	32,278	34,377	-2,099
Repurchase agreements	-	17,317	-17,317
Loans on life policies	25,631	24,250	1,381
Deposits with reinsurers	3,336	4,110	-774
Receivables from successor agents for recoupment of claims paid to agents who have ceased trading	56,470	59,611	-3,141
Other loans and receivables	30,904	73,209	-42,305
TOTAL	**148,619**	**212,874**	**-64,255**

The “debt securities” item includes the book value of some issues (in particular, securities from Ania special issues) for which a valuation at amortised cost rather than at fair value was deemed appropriate, in the absence of an active reference market. This is the only financial asset appearing in the consolidated accounts for which it is believed that the related fair value cannot be accurately calculated.
Receivables from successor agents for recoupment of claims paid to agents who have ceased trading are placed in this item both due to express provision of ISVAP with Instruction No. 2404/05, and in consideration of their interest-bearing nature in respect of the Group.
The item “other loans and receivables” includes € 29,440K for the loans granted to the associate company Garibaldi S.c.s., relating to the property development project for the area located at the northern boundary of the historic centre of Milan, known as “Garibaldi Repubblica”.

Financial assets available for sale

Financial assets available for sale comprise bonds and shares, as well as unit trusts, not classified separately. This is the category with the most financial instruments, in line with the characteristics and aims of the insurance business.

Breakdown by type is as follows:

(€K)	**31/12/2006**	**31/12/2005**	**Variation**
Listed capital securities at fair value	1,393,615	1,114,213	279,402
Unlisted capital securities at fair value	11,047	18,001	-6,954
Listed debt securities	6,957,401	6,022,244	935,157
Unlisted debt securities	21,886	31,903	-10,017
Unit trusts	452,230	394,241	57,989
TOTAL	**8,836,179**	**7,580,602**	**1,255,577**

The increase in “Listed debt securities” relates to € 537,978K for inclusion of Bipiemme Vita S.p.A. in the basis of consolidation.

Financial assets at fair value recognised through profit or loss

Comprising:

(€K)	**31/12/2006**	**31/12/2005**	**Variation**
Listed capital securities	101,600	55,072	46,528
Listed debt securities	910,707	701,752	208,955
Unlisted debt securities	375,659	56,139	319,520
Unit trusts	527,784	56,899	470,885
Other financial instruments	2,349	6,393	-4,044
TOTAL	**1,918,099**	**876,255**	**1,041,844**

Investment assets, the book values of which are shown above, comprise € 1,463,129K for “Investments where the risk is borne by life policyholders”. Their fair value was calculated by using stock market listings on the last day of December 2006 as a reference base. Increases compared with the previous year are mainly due to the inclusion of Bipiemme Vita in the basis of consolidation. In particular, this contribution comprises € 355,828K in “Listed debt securities”, € 316,305K in “Unlisted debt securities” and € 467,632K in “Unit trusts”.

5. OTHER RECEIVABLES

These are made up as follows:

(€K)	**31/12/2006**	**31/12/2005**	**Variation**
Receivables from direct insurance operations	632,261	651,820	-19,559
Receivables from reinsurance operations	41,893	68,095	-26,202
Other receivables	195,481	253,814	-58,333
TOTAL	**869,635**	**973,729**	**-104,094**

The Group believes that the book value of trade and other receivables approximate their fair value. Trade receivables do not bear interest and generally have a due date of less than 90 days.

In particular, receivables deriving from insurance operations include receivables from policyholders of € 329,003K, including € 310,142K for premiums for the financial year and € 18,861K for premiums for previous financial years.

In addition, € 239,942K of receivables from insurance brokers; € 15,411K of receivables from current account companies and € 47,905K of receivables from policyholders and third parties for sums to be recovered, are included.

Other receivables can be broken down as follows:

(€K)	**31/12/2006**	**31/12/2005**	**Variation**
Receivables from Fondiaria-Sai for advance tax payments and for tax receivables and withholding tax transferred following participation in fiscal consolidation	108,229	135,897	-27,668
Trade receivables	54,927	92,212	-37,285
Other receivables	32,325	25,705	6,620
TOTAL	**195,481**	**253,814**	**-58,333**

With reference to receivables from policyholders for premiums, from agents and other intermediaries as well as insurance and reinsurance companies, the Group does not present significant concentrations of credit risk, its credit exposure being divided between a large number of counterparties and clients.

6. OTHER ASSETS

In total, these amount to € 281,295K (€ 288,545K in 2005) with a drop of € 7,250K.

They comprise:

(€K)	**31/12/2006**	**31/12/2005**	**Variation**
Non-current assets or those held in a disposal group for sale	772	1,416	-644
Deferred acquisition costs	79,088	66,236	12,852
Deferred tax assets	26,841	36,353	-9,512
Current tax assets	117,929	128,752	-10,823
Other assets	56,665	55,788	877
TOTAL	**281,295**	**288,545**	**-7,250**

Non-current assets or assets held in a disposal group for sale

The sum of € 772K relates to the value of the line of business, constituted by personnel and hardware, transferred to Fondiaria-Sai Servizi Tecnologici S.r.l., a joint venture between the Fondiaria-Sai group and EDS to manage Fondiaria-Sai Group *Information Technology* (IT) infrastructures. This transfer was completed in February 2007.

Deferred acquisition costs

Deferred acquisition costs of € 79,088K (€ 66,236K as at 31.12.05) relate to purchase commissions on multi-year contracts which, in accordance with principles responding to matching concepts, are amortised in approximately seven years for Non-life business and on the basis of the life of each contract for Life business and, in any event, over no more than10 years for Life business.
The variation compared with the same date in 2005 amounts to € 12,852K. The table below shows the movement of these costs over the course of the financial year:

(€K)	31/12/2006			
	Non-life business	**Life Business**	**Total**	**31/12/2005**
Amount at the start of the period	59,739	6,497	66,236	46,525
Increases over the period	28,441	1,699	30,140	33,353
Amortisation over the period	-15,903	-1,385	-17,288	-13,642
Amount at the end of the period	**72,277**	**6,811**	**79,088**	**66,236**

Current tax assets

Current tax assets, amounting to € 117,929K (€ 128,752K as at 31/12/2005) relate to receivables from the Treasury for advance taxes, tax withholdings and income tax receivables. Also posted to this item are amounts paid for tax referred to in art. 1 paragraph 2 of Legislative Decree No. 209/02 as converted by art. 1 of law 265/2002 and subsequent amendments, this being in accordance with what is laid down by ISVAP Directive No. 2404/05. Where permitted by IAS 12, provision has been made to offset current tax assets and liabilities. This procedure was applied for the first time on 31/12/2006 and, with the aim of harmonising the comparison, offsetting was also performed on data as at 31 December 2005.

Deferred tax assets

These amount to € 26,841K (€ 36,353K in 2005) and are calculated on the total amount of temporary differences between the book value of balance sheet assets and liabilities and the respective taxable value according to the "balance sheet liability method" provided for by IAS 12 in relation to the likelihood of their recovery correlated with the capacity to continuously generate positive taxable income.
Deferred tax assets recognised direct under net equity amount to € 27,882K and, in the main, relate to the increase in Life technical reserves due to recognition under shadow accounting (€ 26,711K).
Where permitted by IAS 12, provision was made to offset deferred tax assets and liabilities. This procedure was applied for the first time on 31/12/2006 and, with the aim of harmonising the comparison, offsetting was also performed on data as at 31 December 2005.

Other assets

These amount to € 56,665K (€ 55,788K as at 31/12/2005) and include, amongst other things, tax on mathematical reserves ((€ 9,850K), claims paid to agents in anticipation of recoupments (€ 3,557K), retirement pension policies (€ 4,763K), deferred reinsurance accounts receivable (€ 47K) and deferred commission payable on contracts not falling within the scope of IFRS 4 (€ 18,823K).

7. CASH AT BANK AND IN HAND

These amount, in total, to € 136,906K (€ 156,649K as at 31/12/2005).
They include cash held by the Group and deposit and current bank accounts with a due date of less than 15 days. They also include € 28,636K in fixed-term bank deposits lodged as security against disputed claims and € 5,770K designated for claims payments.

Balance sheet - Liabilities

NET EQUITY AND LIABILITIES

1. NET EQUITY

The Consolidated net equity, amounting to € 1,989,151K, inclusive of the result for the year and minority interests, rose by € 267,980K against 2005.

The composition of equity reserves is given below:

(€K)	**2006**	**2005**	**Variation**
Group net equity	**1,985,504**	**1,717,584**	**267,920**
Capital	242,981	238,575	4,406
Other equity instruments	-	-	-
Capital reserves	360,041	325,145	34,896
Profit and other equity reserves	838,567	684,889	153,678
Own Shares	*-8,271*	*-374*	*-7,897*
Reserve for net exchange differences	-	-	-
Profits or losses on financial assets available for sale	306,681	191,125	115,556
Other profits and losses recognised direct under equity	-2,349	-5,298	2,949
Group profit (loss) for the financial year	247,854	283,522	-35,668
Minorities' net equity	**3,647**	**3,587**	**60**
Minorities' share of capital and reserves	3,572	3,391	181
Profits and losses recognised direct under equity	-6	17	-23
Minorities' profit (loss) for the financial year	81	179	-98
TOTAL	**1,989,151**	**1,721,171**	**267,980**

The information required by IAS 1.76a is given below:

	Ordinary 31/12/2006	**Savings 31/12/2006**	**Ordinary 31/12/2005**	**Savings 31/12/2005**
Number of shares issued	436,529,445	30,739,882	428,058,239	30,739,882

As at 31 December 2006, a further 14,718 ordinary shares were subscribed following the conversion, by related holders, of 36,795 Milano Assicurazioni 1998-2007 warrants. The new share capital, inclusive of the new shares subscribed, was deposited with the Register of Companies on 23.01.07.

	Ordinary	**Savings**	**Total**
Shares existing as at 01/01/2006	428,058,239	30,739,882	458,798,121
Own shares (-)	-115,460	-	-115,460
Shares in circulation: existing as at 01/01/2006	427,942,779	30,739,882	458,682,661
Increases:			
Sale of own shares	-	-	-
Exercise of warrants	8,471,206	-	8,471,206
Decreases:			
Purchase own shares	-1,360,000	-	-1,360,000
Shares in circulation: existing as at 31.12.06	**435,053,985**	**30,739,882**	**465,793,867**

Capital reserves amounting to € 360,041K, relate to the share issue premium reserve recorded in the Parent company's accounts.

Nature and purpose of other reserves

Profit and other equity reserves include other net equity reserves from the Parent company's accounts. Please refer to the notes to the Parent company's separate accounts for further information on same.

Profit and equity reserves also comprise:
- a consolidation reserve amounting to € 17,047K;
- the reserve for profits and losses deriving from first-time application of international accounting standards, which is € 40,880K in the red.

Minorities' net equity amounting to € 3,647K, showed an increase of € 60K.

For variations in consolidated net equity please refer to the relevant table.

Own Shares

These amount to € 8,271K (€ 374K as at 31/12/2005). This item includes the book value of instruments representing capital belonging to the Parent company Milano Assicurazioni and held by same.
This item is negative according to what is laid down by IAS 32.

Profits or losses on financial assets available for sale

This item, amounting to € 306,681K, includes profits or losses deriving from the valuation of financial assets available for sale. It is expressed net of the part attributable to policyholders and allocated to insurance liabilities.

Other profits and losses over the year recognised direct under equity

This item, negative to the tune of € 2,349K, includes the effect of charging profits and losses of an actuarial nature, direct to net equity, further to application of IAS 19.

Reconciliation tables for Parent company accounts and Consolidated accounts relating to the net equity and the profit for the year, are given below.

Reconciliation tables

PARENT COMPANY ACCOUNTS AND CONSOLIDATED ACCOUNTS		
(€K)	**Profit over the year**	
	2006	**2005**
Milano Assicurazioni S.p.A. accounts according to Italian accounting principles	**195,492**	**233,106**
Effects deriving from the application of IAS/IFRS standards on the Parent company:		
IAS 38 "Intangible assets"		
- Goodwill	23,992	23,992
- Other intangible assets	278	770
IAS 16-40 "Property and investment property"		
- Property	-3,509	-1,246
IAS 19 "Employee benefits"		
- Staff-leaving indemnity and other employee benefits	640	5,698
IAS 39 "Financial instruments"		
Financial assets:		
- Available for sale	24,187	14,206
- Fair value through profit or loss	-1,416	945
- Other financial assets	-258	5,266
- Financial liabilities	-675	
IFRS 4 "Insurance contracts"		
- Catastrophe and equalisation reserves	2,240	2,222
- Mathematical reserves	9,167	8,441
- Service component linked policies (IAS 18)	121	83
IFRS 2 "Share-based payments"		
- Other profit and equity reserves	-1,390	
Fiscal effect of IAS/IFRS adjustments	-20,952	-22,795
Consolidation adjustments:		
- Difference between the valuation and the pro-rata result of companies:		
Consolidated fully	12,565	4,610
Valued using the net equity method	282	-23
- Amortisation of difference charged to assets	-2,642	
- Application of different accounting principles	15,761	22,236
- Differences on asset disposals		87
- Elimination of effects of inter-company transactions:		
Dividends		-1,594
Reversal of capital gains realised		-7,888
- Fiscal effects of consolidation adjustments	-6,029	-4,594
Milano Assicurazioni group consolidated accounts according to IAS/IFRS international accounting standards (group interest)	**247,854**	**283,522**

PARENT COMPANY ACCOUNTS AND CONSOLIDATED ACCOUNTS		
(€K)	Net equity net of result	
	31/12/2006	31/12/2005
Milano Assicurazioni S.p.A. accounts according to Italian accounting principles	**1410,173**	**1,269,409**
Effects deriving from the application of IAS/IFRS standards on the Parent company:		
IAS 38 "Intangible assets"		
- Goodwill	48,136	24,144
- Other intangible assets	-944	-1,714
IAS 16-40 "Property and investment property"		
- Property	-33,436	-32,190
IAS 19 "Employee benefits"		
- Staff-leaving indemnity and other employee benefits	-10,097	-,698
IAS 1 "Presentation of financial statements"		
- Own shares	-8,271	-374
IAS 39 "Financial instruments"		
Financial assets:		
- Available for sale	392,891	355,006
- Fair value through profit or loss	10,493	9,546
- Other financial assets		-5,266
- Financial liabilities		
IFRS 4 "Insurance contracts"		
- Catastrophe and equalisation reserves	30,515	28,293
- Mathematical reserves	-66,401	-180,822
- Service component linked policies (IAS 18)	-208	-362
IFRS 2 "Share-based payments"		
- Other profit and equity reserves	1,390	
Fiscal effect of IAS/IFRS adjustments	-63,282	-22,638
Consolidation adjustments:		
- Difference between the valuation and the pro-rata result of companies:		
Consolidated fully	-64,398	-3,622
Valued using the net equity method	57	114
- Difference charged to assets	66,026	18,453
- Consolidation difference	23,911	3,308
- Application of different accounting principles	54,157	31,921
- Elimination of effects of inter-company transactions:		
Dividends		1,594
Reversal of goodwill deriving from merger deficit	-25,451	-25,451
Other inter-company transactions	-10,807	-2,919
- Fiscal effects of consolidation adjustments	-16,804	-12,210
Milano Assicurazioni group consolidated accounts according to IAS/IFRS international accounting standards (group interest)	**1,737,650**	**1,434,063**

2. PROVISIONS

These can be broken down into:

(€K)	**2006**	**2005**	**Variation**
Provisions relating to tax issues	77	77	-
Other provisions	79,194	63,376	15,818
TOTAL	**79,271**	**63,453**	**15,818**

Movement is shown below:

(€K)	**Provisions relating to tax issues**	**Other provisions**	**Total**
Book value at the start of the period	77	63,376	63,453
Increases over the period	-	22,637	22,637
Withdrawals over the period for costs incurred	-	-6,819	-6,819
Withdrawals transferred to the profit and loss account	-	-	-
Increases for financial charges falling due or for rate changes	-	-	-
Other variations	-	-	-
Book value at the end of the period	**77**	**79,194**	**79,271**

The item "other provisions" includes a reasonable valuation of future risks and charges existing at year end, also deriving from current disputes. In particular:

€ 61,361K for amounts allocated to the risks fund mainly relating to disputes with agency networks and current disputes.

€ 17,833K relates to allocations to the future charges fund.

3. TECHNICAL RESERVES

These amount to € 9,081,110K and were up by a total € 612,320K on the previous year, € 588,043K relating to the contribution made by mathematical reserves as a result of the inclusion of Bipiemme Vita in the basis of consolidation.

Details of the technical reserves appear below:

(€K)	31/12/2006	31/12/2005	Variation
NON-LIFE BUSINESS			
Premium reserve	958,933	982,854	-23,921
Claims reserve	3,402,204	3,340,652	61,552
Other	2,750	2,084	666
Total Non-life business	**4,363,887**	**4,325,590**	**38,297**
LIFE BUSINESS			
Mathematical reserves	4,337,552	3,660,931	676,621
Reserve for sums payable	35,687	6,313	29,374
Technical reserves where the investment risk is borne by policyholders and deriving from pension fund management	255,730	278,101	-22,371
Other	88,254	197,855	-109,601
Total Life business	**4,717,223**	**4,143,200**	**574,023**
TOTAL TECHNICAL RESERVES	**9,081,110**	**8,468,790**	**612,320**

The item "premium reserve" includes the reserve for direct business premium portions amounting to € 952,606K and the reserve for premiums relating to indirect business amounting to € 6,327K. Further to the favourable trend recorded over the year and assumptions regarding forecasts for the current year, the conditions required in order to set aside a reserve for current risks did not exist.

Other non-Life technical reserves relate entirely to the ageing reserve referred to in art. 25 of Legislative Decree 175/95.

The non-Life claims reserve includes the IBNR claims reserve (IFRS 4 IG22C) amounting to €367,786K.

Mathematical reserves include the additional financial risk reserve amounting to € 48,382K, as indicated in ISVAP Directive No. 1801-G of 21/02/2001.

Life business "other technical reserves" mainly comprise the reserve for future expenses as well as the reserve for deferred liabilities to policyholders, calculated by applying the accounting practice known as shadow accounting, referred to in paragraph 30 of IFRS 4. (€ 61,122K).

The table below shows the movement of technical reserves over the year:

	31/12/2006		
	Non-life business	**Life Business**	**Total**
Reserve at the start of the period	4,325,590	4,143,200	8,468,790
Increases over the period	1,300,991	621,129	1,922,120
Payments (-)	-1,264,303	-650,368	-1,914,671
Increases due to change in basis of consolidation	1,047	598,391	599,438
Reserves acquired or transferred to other insurers	-	-	-
Exchange differences	562	4,871	5,433
Reserve at the end of the period	**4,363,887**	**4,717,223**	**9,081,110**

With reference to financial liabilities relating to contracts with discretionary participation components, as defined by IFRS 4.2 b) these are classified within the technical reserves and their book value amounts to € 1,642,894, including € 432,626K deriving from the contribution made by Bipiemme Vita.

4. FINANCIAL LIABILITIES

(€K)	**31/12/2006**	**31/12/2005**	**Variation**
Financial liabilities at fair value recognised through profit or loss	1,233,285	84,488	1,148,797
Other financial liabilities	314,511	159,943	154,568
TOTAL	**1,547,796**	**244,431**	**1,303,365**

Financial liabilities at fair value recognised through profit or loss can be broken down into:

Financial liabilities held for trading

This item includes € 25,540K relating to derivative hedging contracts on portfolio equities.

Financial liabilities at Fair Value recognised through profit and loss

As governed by IAS 39, this item includes € 1,207,176K (including € 1,131,627K deriving from inclusion of Bipiemme Vita in the basis of consolidation) for life policies which, although insurance contracts in legal terms, do not present a significant insurance risk and, therefore, do not fall within the scope of application of IFRS 4.
There are no financial liabilities in the “Fair Value through profit or loss” segment for which the variation in fair value component should not be attributed to variations in the market reference parameter.

Other financial liabilities

This item includes the financial liabilities defined and governed by IAS 39 that are not included in the category “Financial liabilities at fair value recognised through profit or loss”. Included are deposits set up to guarantee risks ceded under reinsurance of € 147,763K and subordinated liabilities amounting to € 162,505K. The latter mainly relate to a loan granted during the year by Mediobanca to Milano Assicurazioni, amounting to € 154,294K This loan specified a 6-month Euribor interest rate + 180 basis points and is repayable in five equal annual instalments as of the 16th anniversary of the disbursement date. There is, in addition, an early repayment, or partial repayment, option, from the date of the 10th anniversary of the disbursement date and subject to prior authorisation from ISVAP. The subordination clause specifies that, in the event of the borrower being placed in liquidation, the loan shall only be repaid subject to payment of all non-subordinated payables existing on the date that the liquidation procedure is initiated.

5. PAYABLES

These amount to € 391,797K and are made up as follows:

(€K)	**2006**	**2005**	**Variation**
Payables deriving from direct insurance operations	73,429	89,036	-15,607
Payables deriving from reinsurance operations	14,278	13,272	1,006
Other payables	304,090	290,645	13,445
TOTAL	**391,797**	**392,953**	**-1,156**

Payables deriving from direct insurance operations include € 67,476K in respect of insurance brokers, € 4,875K of current account payables in respect of insurance companies, € 283K for policyholders' deposits and € 795K for guarantee funds for policyholders.
Payables deriving from reinsurance operations relate exclusively to reinsurance companies.

Details of "other payables" are given below:

(€K)	**2006**
For policyholders' share of taxes	27,547
For sundry tax liabilities	22,167
To social security and welfare institutions	9,250
Trade payables	71,622
Staff-leaving indemnity	38,218
Ires payable to Fondiaria–Sai further to participation in tax consolidation	97,305
Other	37,981
TOTAL	**304,090**

Staff-leaving indemnity

The tables below provide analytical information relating to movement of the staff-leaving indemnity fund, as well as the main demographical and financial hypotheses adopted for quantification of the Fund in line with the "Projected Unit Credit Method".

Variations in staff-leaving indemnities over the financial year:

(€K)

Value as at 31/12/2005	**43,699**
Cost of benefits relating to current work provisions	2,195
Financial liabilities	1,781
Actuarial losses	-4,400
Withdrawals for payments made	-4,426
Other variations	-631
Value as at 31.12.06	**38,218**

The main statistical/actuarial and financial assumptions used to determine staff leaving indemnity according to IAS 19 are shown below.

(*values expressed in %)*

	Discount rate	Anticipated wage-rise rate	Anticipated inflation rate	Turnover
MILANO ASSICURAZIONI	4.19	3.13	1.50	4.27
BIPIEMME VITA	4.00	2.50	1.50	3.50
DIALOGO	4.28	3.13	1.50	4.27
SYSTEMA	4.31	3.13	1.50	4.27

Please note that the average data appearing in the table represent indicative parameters, in so far as they are calculated with reasonable levels of aggregation and approximation. For this reason, the methodological choices made for the analytical definition of the main actuarial hypotheses are given below:

Discount rate: was determined with reference to yields on high-quality corporate bonds on the valuation date (use of risk-free rates curve relating to high-quality Euro market corporate securities as at 31 December 2006).

Anticipated wage-rise rate: analysis of historical movement of company wages between 2000 and 2004 and their adjustment on the basis of what is laid down by the industry-wide wage agreement and the projected inflationary scenario. Wage-rise hypotheses were differentiated by contractual rating and employee's length of service with the company.

Turnover: analysis of historical movement between 2000 and 2004 relating to the departure from the company of employees and their standardisation on the basis of any "extraordinary" phenomena occurring in the past. Turnover hypotheses were differentiated by contractual rating, age details and sex of the employee.

Rate of inflation: the inflationary scenario appearing in the current Economic and Financial Planning document on the valuation date.

6. OTHER LIABILITIES

Comprising:

(€K)	**2006**	**2005**	**Variation**
Current tax liabilities	1,474	131	1,343
Deferred tax liabilities	53,597	11,474	42,123
Liabilities for a group spin-off held for sale	762	-	762
Other liabilities	175,167	206,447	-31,280
TOTAL	**231,000**	**218,052**	**12,948**

Current tax liabilities

These amount to € 1,474K (€ 131K as at 31/12/2005) and relate to current Irap set aside by the Group at year-end, net of compensable current tax assets in accordance with IAS 12.

Deferred tax liabilities

Deferred tax liabilities, amounting to € 53,597K, include the tax impact of all temporary differences relating to balance sheet or profit and loss items, intended to be repaid in future years.
Deferred tax liabilities recorded direct under net equity amount to € 66,110K and relate to the valuation at fair value of financial assets available for sale.

The balances shown take offsetting with deferred tax assets, where permitted by IAS 12, into consideration.

Liabilities for a group spin-off held for sale

The sum of € 762K relates to the value of the line of business, constituted by personnel and hardware, assigned to Fondiaria-Sai Servizi Tecnologici S.r.l., a joint venture between the Fondiaria-Sai group and EDS to manage Fondiaria-Sai Group *Information Technology* (IT) infrastructures. This transfer was completed in February 2007.

Other liabilities

These amount to € 175,167K (€ 206,447K as at 31/12/2005) and comprise:

- commissions for premiums in the process of being collected of € 44,603K;
- reintegration of premium income from reinsurance treaties of € 9,096K;
- overcommission to be disbursed of € 11,535K;
- liabilities for payment of non-Life claims and Life business sums owing, in progress at year-end, of € 36,263K;
- future years' share of commissions collected for financial contracts, not governed by IFRS 4, of € 28,037K. The amount was determined by using a straight-line distribution method, as described in greater detail in the accounting standards which should be referred to for further information.

PART C – Notes to the consolidated profit and loss account

NET PREMIUMS

Consolidated net premiums amount to € 3,348,998K (€ 3,219,614K in 2005).
The Group's gross premium income amounts to € 3,447,881K, up 4.76% on 2005. This increase mainly derives from the inclusion of Bipiemme Vita in the basis of consolidation bringing in gross life premium income of € 68,092K.

(€K)	**2006**	**2005**	**Variation**
Life-business gross premiums	641,175	586,426	54,749
Non-Life business gross premiums	2,775,281	2,739,333	35,948
Variation in gross amount of premium reserve	31,425	-34,634	66,059
Total non-Life business	2,806,706	2,704,699	102,007
Gross earned premiums	**3,447,881**	**3.291.125**	**156,756**

(€K)	**2006**	**2005**	**Variation**
Life business premiums ceded	11,606	10,855	751
Non-Life business premiums ceded	88,621	63,686	24,935
Variation in reinsurers' share of the premium reserve	-1,344	-3,030	1,686
Total non-Life business	87,277	60,656	26,621
Earned reinsurance premiums	**98,883**	**71,511**	**27,372**

The "gross premiums recorded" item does not include the cancellation of securities issued in previous years, which have been posted to "Other costs".
For a breakdown of gross premiums recorded in the various classes of business in the accounts and the split between direct business and indirect business please refer to the tables contained in the Management Report.

Further information is given in the annex to these explanatory notes.

COMMISSIONS RECEIVABLE

Commissions receivable for 2006 amounted to € 4,560K, up by € 3,321K from 2005. Here again the increase mainly derives from the inclusion of Bipiemme Vita in the basis of consolidation, bringing in € 3,271K.

(€K)	**2006**	**2005**	**Variation**
Commissions receivable	4,560	1,239	3,321

These relate to explicit and implicit loadings for investment contracts and to internal fund management commissions.

NET INCOME DERIVING FROM FINANCIAL INSTRUMENTS AT FAIR VALUE RECOGNISED THROUGH PROFIT OR LOSS

These amount to € 23,705K, down € 32,955K on 2005.

(€K)	Net interest	Other net income	Profits	Losses	Capital gains on valua-ions and write-ups	Capital losses on valua-ions and write-downs	Total 2006	Total 2005	Variation
Result of investments deriving from:									
Financial assets held for trading	14,195	45,507	4,466	-46,511	10,679	-16,618	11,718	34,214	-22,496
Financial assets at fair value recognised through profit or loss	13,480	155	1,471	-1,403	29,405	-21,582	21,526	22,446	-920
Financial liabilities held for trading						-4,726	-4,726	-	-4,726
Financial liabilities at fair value recognised through profit or loss						-4,813	-4,813	-	-4,813
TOTAL	**27,675**	**45,662**	**5,937**	**-47,914**	**40,084**	**-47,739**	**23,705**	**56,660**	**-32,955**

INCOME AND EXPENDITURE FROM OTHER FINANCIAL INSTRUMENTS AND INVESTMENT PROPERTY

(€K)	Net interest	Other net income	Profits	Losses	Losses on valuations and write-downs	Total 2006	Total 2005	Variation
Result deriving from:								
Investment property		6,237	14,116		-5,511	14,842	19,985	-5,143
Holdings in subsidiaries, associates and joint ventures		3,178				3,178	292	2,886
Loans and receivables	8,914					8,914	10,241	-1,327
Financial assets available for sale	222,247	43,948	58,394	-16,225		308,364	256,423	51,941
Receivables	5,273					5,273		5,273
Cash at bank and in hand	5,120					5,120	115	5,005
Other financial liabilities	-10,884					-10,884	-6,591	-4,293
Payables	-1,599					-1,599		-1,599
TOTAL	**229,071**	**53,363**	**72,510**	**-16,225**	**-5,511**	**333,208**	**280,465**	**52,743**

The increase in net income from other financial instruments relates to € 10,113K brought in by Bipiemme Vita.

OTHER REVENUE

Other revenue amounted to € 82,494K (€ 108,788K in 2005) and mainly comprised

(€K)	2006	2005
Other technical income	13,121	23,889
Fund withdrawals	6,852	24,531
Exchange differences	9,792	5,844
Contingent assets	6,547	5,722
Profits realised on tangible assets	562	26
Recovery of administrative expenses and charges	38,007	38,271
Other revenue	7,613	10,505
TOTAL	**82,494**	**108,788**

Recovery of administrative expenses and charges, offset against other charges, mainly relates to charges to Fondiaria-Sai Group companies for their share, based on objective criteria, of costs relating to amalgamated functions and are, in the main, staff costs.

NET CHARGES RELATING TO CLAIMS

Claims paid, including Life business amounts and related expenses reached, net of units ceded to reinsurers, the sum of € 2,576,370K, up by 6.09 % over the previous year.

Claims-related charges, amounts paid and changes in the technical reserves

(€K)	**2006**	**2005**	**Variation**
Non-life business			
Amounts paid	2,018,734	1,942,785	75,949
Variation in recoveries	-63,325	-69,744	6,419
Variation in other technical reserves	664	-1,197	1,861
Variation in claims reserve	63,736	82,094	-18,358
Total Non-life business	**2,019,809**	**1,953,938**	**65,871**
Life Business			
Amounts paid	557,636	485,740	71,896
Variation in mathematical and other technical reserves	140,623	214,385	-73,762
Variation in technical reserves where the investment risk is borne by policyholders and arises from pension fund management	-24,776	7,195	-31,971
Variation in the reserve for payables	28,134	-12,218	40,352
Total Life	**701,617**	**695,102**	**6,515**
TOTAL NON-LIFE + LIFE	**2,721,426**	**2,649,040**	**72,386**
Amounts paid	2,576,370	2,428,525	147,845
Variation in reserves	145,056	220,515	-75,459

Life amounts paid and the variation in mathematical and other technical reserves for 2006 relate to the contribution made by Bipiemme Vita of € 11,913K and € 57,019K respectively.

Reinsurers' share of claims-related charges

(€K)	**2006**	**2005**	**Variation**
Non-life business			
Amounts paid	52,177	50,239	1,938
Variation in other technical reserves	-	-	-
Variation in recoveries	-	-	-
Variation in claims reserve	-10,014	-8,415	-1,599
Total Non-Life business	**42,163**	**41,824**	**339**
Life Business			
Amounts paid	21,322	27,480	-6,158
Variation in mathematical and other technical reserves	-10,329	-19,579	9,250
Variation in the reserve for payables	-178	-501	323
Total Life	**10,815**	**7,400**	**3,415**
TOTAL NON-LIFE + LIFE	**52,978**	**49,224**	**3,754**
Amounts paid	73,499	77,719	-4,220
Variation in reserves	-20,521	-28,495	7,974

COMMISSIONS PAYABLE

Commissions payable for 2006 amounted to € 606K, up by € 317K on 2006, mainly due to the contribution made by Bipiemme Vita. These are accounted for by commissions paid on financial contracts not covered by IFRS 4.

(€K)	**2006**	**2005**	**Variation**
Commissions payable	606	289	317

OPERATING EXPENSES

(€K)	2006	2005	Variation
Non-life business			
Purchase commissions and variations in deferred acquisition costs	350,874	335,035	15,839
Other acquisition costs	57,928	57,393	535
Collecting commissions	38,653	37,981	672
Commissions and profit shares received by reinsurers	-17,206	-15,623	-1,583
Total Non-Life business	**430,249**	**414,786**	**15,463**
Life Business			
Purchase commissions and variations in deferred acquisition costs	7,205	3,971	3,234
Other acquisition costs	7,555	5,364	2,191
Collecting commissions	6,635	7,057	-422
Commissions and profit shares received by reinsurers	-2,287	-1,385	-902
Total Life	**19,108**	**15,007**	**4,101**
Investment management costs	6,565	2,772	3,793
Other administration costs	73,394	67,930	5,464
TOTAL	**529,316**	**500,495**	**28,821**

Operating expenses rose by € 3,466K due to the inclusion of Bipiemme Vita in the basis of consolidation.

Acquisition costs accrued over the financial year amount to € 423,562K.

Details are given below:

(€K)	2006
Portion incurred and disbursed over the year	410,223
Portion arising from amortisation of capitalised costs	13,339
TOTAL acquisition costs	**423,562**

OTHER COSTS

Other costs amounted to € 203,407K (€ 169,209K in 2005) and comprise:

(€K)	**2006**	**2005**
Other technical charges	109,458	65,685
Provisions	22,586	14,415
Losses on receivables	3,585	28,775
Contingent liabilities	2,842	10,648
Amortisation tangible assets	2,104	2,283
Amortisation intangible assets	2,440	-
Exchange differences	11,495	1,908
Minorities' administrative charges and expenses	38,007	38,271
Other costs	10,890	7,224
TOTAL	**203,407**	**169,209**

"Other costs" includes € 1,390K set aside to cover the 2006 cost of options to purchase Fondiaria-Sai savings shares allocated to Milano Assicurazioni executive directors and managers, in execution of the decision taken by the Fondiaria-Sai extraordinary shareholders' meeting of 28 April 2006.
For further information on these stock option plans and on the criteria used to determine related costs please refer to the information contained in the management report and in the section relating to Accounting Policies.

As at 31 December 2006 there were 2,872,920 options in circulation, as can be seen from the table below:

in circulation at the start of the year	issued over the year	cancelled over the year	exercised over the year	expired over the year	in circulation at year-end	Exercisable at year-end
-	2,872,920	-	-	-	2,872,920	-

TAXES

(€K)	**2006**
Current taxes	122,690
Deferred taxes arising over the year	37,077
(-) Deferred taxes used over the year	-22,650
(-) Advance taxes arising over the year	-36,801
Advance taxes used over the year	42,087
TOTAL	**142,403**

Taxes for the financial year amount to € 142,403K (€ 119,361K in 2005) being the combined effect of current taxes of € 122,690K and net deferred taxes of € 19,713K.

Current taxes (Ires and Irap) are calculated by applying current nominal rates of 33% for Ires and 5.25% for Irap to basic taxable amounts on the accounting date.

With regard to deferred taxation, the latter resulted in a tax liability of € 19,713K. In particular, deferred tax liabilities showed a negative net balance of € 14,427K and, generally speaking, relate to all the taxable

temporary differences in tax liability arising, or amounts repaid, over the year. The overall amount of tax liabilities for deferred taxes recorded at the end of 2006 was € 53,597K.
Advance taxes arising over the year, net of those repaid, resulted in an increase in tax liability of € 5,286K. The latter were set aside according to the likelihood of repayment, less related temporary differences in subsequent years. Advance taxes for losses were not set aside in the current year.
At year end, advance taxes amounted to a total of € 26,841K.

The reconciliation between the tax liability posted to the accounts and the theoretical tax liability, calculated on the basis of the current IRES nominal rate for 2006 of 33%, is as follows:

(€K)	**2006**
Pre-tax result	390,338
Tax on theoretical income (excluding Irap)	128,811
Tax impact deriving from permanent changes in tax liability	-10,501
Other differences	-3,351
Income tax (excluding Irap)	114,959
Irap	27,444
TOTAL income taxes posted to the accounts	**142,403**

For the purposes of making the reconciliation easier to understand in terms of the actual balance sheet tax liability and the theoretical tax liability, the latter being calculated on the basis of a nominal tax rate of 33%, the effect of Irap was not taken into consideration since the taxable amount to which this tax relates is very different and, therefore, incomparable with the pre-tax result.
The positive effect of permanent tax changes was mainly linked to the prevalence of positive income components which, following the Ires reform as per Legislative Decree 344/2003, are subject to detaxation as, amongst other things, dividends allocated over the year are not subject to consolidation adjustment.

FURTHER INFORMATION

Earnings per share

The basic earnings per share is calculated by dividing the net profit for the year attributable to the Parent company's ordinary shareholders by the weighted average number of shares in circulation during the year. Please note that the weighted average shares in circulation was decreased by the weighted average of own shares possessed by the Milano Group.
Diluted earnings per share was calculated by dividing the net profit for the year attributable to the Parent company's ordinary shareholders by the weighted average number of shares in circulation during the year, adjusted for the diluting effects of Milano Assicurazioni warrant options in circulation and, therefore, of all potential shares.
In addition, please note that dividends intended for savings shareholders are deducted from the Group's consolidated net profit.

The results obtained are shown in the table below:

	2006	2005
Net profit attributable to the Parent company's ordinary shareholders (€K)	238,017	274,301
Weighted average number of ordinary shares for calculation of earnings per base share	433,953,609	427,937,303
Basic earnings per share (in Euro)	0.55	0.64
Dilution effect:		
Adjusted weighted average number of ordinary shares for the purposes of diluted earnings per share	452,081,921	452,411,177
Diluted earnings per share (in Euro)	0.53	0.61

Dividends paid and proposed

The information below is given in accordance with what is laid down by IAS 1.125a and 125b:

(€K)	2006	2005
Declared and paid over the year		
Dividends on ordinary shares	122,193	111,263
Dividends on savings shares	9,222	8,607
Proposals for approval by the Shareholders' meeting		
Dividends on ordinary shares	131,934	122,193
Dividends on savings shares	9,837	9,222

Please note that dividends proposed for approval by the Shareholders' meeting were not recorded as liabilities as at 31 December.

PART D – Segment information disclosures

According to what is laid down by IAS 14, business segment disclosures provide an additional tool to improve the reader's understanding of the Group's economic/financial performance.
The logic underlying the application of the standard is that by indicating how and where the Group's results are formed, it is then possible to obtain information on both the Group's overall operability and, more especially, areas where risks and returns are concentrated.

The Group's primary reporting is by business segment. Group companies are organised and managed separately on the basis of the nature of the products and services supplied, for each business segment representing a strategic business unit offering different products and services.
In order to identify primary segments, the Group conducted an analysis of the risk/return profile of these segments and took into consideration the internal disclosure structure whilst identification of the remaining segment was the result of a discretional valuation aimed at showing the primary source of risks and benefits to which the Group is exposed. Lastly, it should be considered that ISVAP, with Directive 2404/05, deemed it opportune to show the non-Life and Life segments as de minimis disclosure for the purposes of segment reporting.

The non-Life segment supplies insurance cover for the events indicated in art. 4 of Legislative Decree175/97.

The Life segment consists of insurances and operations indicated in point A of the table annexed to Legislative Decree 174/1995.

The Property segment includes the activities of subsidiary property companies actively operating in the investment property management and development market.

The Other Business segment, being of a residual nature, includes the business of subsidiaries operating in the financial and commercial assistance for agencies segment.

Transactions between segments are generally concluded under the same terms applied to third parties.

This section reports on the balance sheet and profit and loss account broken down by segment, prepared in accordance with models approved by ISVAP with Directive No. 2404 of 22 December 2005. Notes and further data on individual segments are given in the Management Report. Please refer to this report for further information.

CONSOLIDATED ACCOUNTS AS AT 31 DECEMBER 2006

Amounts in €K

Balance sheet by business segment

		Non-Life Business		Life Business		Property Sector		Other		Segmental overlap		Total	
		2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
1	**INTANGIBLE ASSETS**	**153,185**	**153,185**	**88,006**	**22,153**			**705**	**750**			**241,896**	**176,088**
2	**TANGIBLE ASSETS**	**150,162**	**106,342**	**118**	**135**	**2,193**	**2,469**	**1,604**	**1,679**			**154,077**	**110,625**
3	**REINSURERS' SHARE OF TECHNICAL RESERVES**	**204,363**	**208,451**	**140,293**	**150,076**							**344,656**	**358,527**
4	**INVESTMENTS**	**4,858,938**	**4,296,156**	**6,216,484**	**4,544,148**	**201,785**	**198,933**	**14,453**	**5,687**	**-**	**- 237**	**11,291,660**	**9,044,687**
4.1	Investment property	271,952	265,346			103,342	104,790					375,294	370,136
4.2	Shareholdings in subsidiaries, associates and joint ventures		-		-	-256	-135	13,725	4,955	-	-	13,469	4,820
4.3	Investments held to maturity											-	-
4.4	Loans and receivables	93,400	156,944	55,219	56,167						- 237	148,619	212,874
4.5	Financial assets available for sale	4,341,518	3,734,296	4,395,234	3,751,296	98,699	94,278	728	732			8,836,179	7,580,602
4.6	Financial assets at fair value through profit or loss	152,068	139,570	1,766,031	736,685							1,918,099	876,255
5	**SUNDRY RECEIVABLES**	**756,145**	**874,865**	**103,933**	**70,193**	**8,711**	**28,055**	**860**	**616**	**-14**		**869,635**	**973,729**
6	**OTHER ASSETS**	**213,046**	**238,489**	**147,150**	**86,208**	**1,252**	**613**	**140**	**180**	**- 80,293**	**- 36,945**	**281,295**	**288,545**
6.1	Deferred acquisition costs	72,277	59,739	6,811	6,497							79,088	66,236
6.2	Other assets	140,769	178,750	140,339	79,711	1,252	613	140	180	- 80,293	- 36,945	202,207	222,309
7	**CASH AT BANK AND**												

	IN HAND AND EQUIVALENTS	**90,951**	**108,549**	**42,593**	**45,537**	**934**	**1,159**	**2,428**	**1,404**			**136,906**	**156,649**
	TOTAL ASSETS	**6,426,790**	**5,986,037**	**6,738,577**	**4,918,450**	**214,875**	**231,229**	**20,190**	**10,316**	**- 80,307**	**- 37,182**	**13,320,125**	**11,108,850**
1	**NET EQUITY**											**1,989,151**	**1,721,171**
2	**PROVISIONS**	**73,787**	**58,529**	**5,329**	**4,847**	**77**		**78**	**77**			**79,271**	**63,453**
3	**TECHNICAL RESERVES**	**4,363,887**	**4,325,589**	**4,717,223**	**4,143,201**							**9,081,110**	**8,468,790**
4	**FINANCIAL LIABILITIES**	**157,514**	**23,793**	**1,386,111**	**216,520**	**3,653**	**3,362**	**518**	**756**	**-**	**-**	**1,547,796**	**244,431**
4.1	Financial liabilities at fair value through profit or loss	25,540	4,146	1,207,745	80,342							1,233,285	84,488
4.2	Other financial liabilities	131,974	19,647	178,366	136,178	3,653	3,362	518	756			314,511	159,943
5	**PAYABLES**	**303,623**	**347,733**	**82,844**	**40,827**	**2,140**	**2,417**	**3,204**	**2,213**	**- 14**	**- 237**	**391,797**	**392,953**
6	**OTHER LIABILITIES**	**241,244**	**154,596**	**59,943**	**88,880**	**9,747**	**11,426**	**359**	**95**	**- 80,293**	**- 36,945**	**231,000**	**218,052**
	TOTAL NET EQUITY AND LIABILITIES											**13,320,125**	**11,108,850**
		-	-	-	-	-	-	-	-	-	-	-	-

CONSOLIDATED ACCOUNTS AS AT 31 DECEMBER 2006

Amounts in €K

Profit and loss account by business segment

		Non-Life business		Life Business		Property Sector		Other		Segmental overlap		Total	
		2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
1.1	Net premiums	2,719,429	2,644,044	629,569	575,570	-	-	-	-	-	-	3,348,998	3,219,614
1.1.1	*Gross premiums for the period*	2,806,706	2,704,700	641,175	586,425							3,447,881	3,291,125
1.1.2	*Premiums ceded to reinsurers for the period*	- 87,277	-60,656	-11,606	-10,855							-98,883	-71,511
1.2	Commissions receivable	-		4,560	1,239							4,560	1,239
1.3	Income and charges resulting from financial instruments at fair value through profit or loss	15,154	27,357	8,551	29,303							23,705	56,660
1.4	Income from shareholdings in subsidiaries, associates and joint ventures	351		2,341		-121	-134	656	429			3,227	295
1.5	Income from other financial instruments and investment property	167,303	135,501	200,147	169,839	4,956	2,905	21	18			372,427	308,263
1.6	Other income	66,082	69,064	12,860	38,291	60	2	3,492	1,431			82,494	108,788
1	**TOTAL INCOME AND REVENUE**	**2,968,319**	**2,875,966**	**858,028**	**814,242**	**4,895**	**2,773**	**4,169**	**1,878**	**-**	**-**	**3,835,411**	**3,694,859**
2.1	Net charges relating to claims	1,977,647	1,912,113	690,801	687,703	-	-	-	-	-	-	2,668,448	2,599,816
2.1.2	*Amounts paid and variation in technical reserves*	2,019,810	1,953,937	701,616	695,103							2,721,426	2,649,040

2.1.3	*Reinsurers' share*	-42,163	-41,824	-10,815	-7,400							-52,978	-49,224
2.2	Commissions payable			606	289							606	289
2.3	Charges resulting from shareholdings in subsidiaries, associates and joint ventures		3	49								49	3
2.4	Charges resulting from other financial investments and investment property	18,260	16,386	21,032	10,027	3,077	1,676	28				42,397	28,089
2.5	Operating expenses	494,100	473,803	35,216	26,691	89	44	761	296			530,166	500,834
2.6	Other costs	185,618	141,401	14,247	26,318	430	73	3,112	1,417			203,407	169,209
2	**TOTAL COSTS AND CHARGES**	**2,675,625**	**2,543,706**	**761,951**	**751,028**	**3,596**	**1,793**	**3,901**	**1,713**	**-**	**-**	**3,445,073**	**3,298,240**
	PRE-TAX PROFIT (LOSS) FOR THE FINANCIAL YEAR	**292,694**	**332,260**	**96,077**	**63,214**	**1,299**	**980**	**268**	**165**	**-**	**-**	**390,338**	**396,619**
	TAXES											142,403	119,361
	PROFIT (LOSS) FROM DISCONTINUED OPERATIONS											-	6,443
	CONSOLIDATED PROFIT (LOSS)											**247,935**	**283,701**
	group interest											247,854	283,522
	minorities' interest											81	179
		-	-	-	-	-	-	-	-			-	-

PART E – Information on financial risks

Objectives and criteria

The Group's financial instruments mainly comprise debt and capital securities, represented by bonds and shares. Added to these are current bank accounts, bank deposits and receivables from policyholders, agents and other intermediaries, as well as insurance and reinsurance companies i.e. these are, in the case in point, financial instruments deriving from business operations which, as is known in the insurance industry, anticipate a major reversal of the monetary cycle.
With regard to the Group's insurance companies, whether within the non-Life or the Life segment, similar financial instruments are mainly intended to guarantee adherence to commitments to policyholders that have matured or are in the process of maturing. In particular, financial instruments represented by securities are mainly intended to hedge technical reserves in accordance with the criteria and procedures laid down by the Supervisory Authority with its own specific standards.
The main risks generated by financial instruments are: interest rate risk, liquidity risk, exchange risk and credit risk. Added to this is the market price risk (fair value) generated by financial instruments. The Parent company's Board of Directors reviews and approves policies to manage these risks.
Over the years, the Fondiaria-Sai Group has developed a plan for mapping and estimating financial risks. The plan was born of the need to supply appropriate support for management and financial choices, also in terms of asset allocation. From an operational point of view this monitoring is facilitated by the fact that the Finance Department operates on a centralised model.

Interest rate risk, market risk and V.a.R.

Exposure to market risk due to interest rate changes mainly relates to debt securities held and, in particular, long-term securities. From this perspective, a balanced mix of fixed and variable rate securities are used.
The Group's monitoring system provides for assessment of the risk of interest rate and share rate fluctuation, inherent in portfolios and measured by "Value at Risk" (V.a.R.). Using this measurement, the existing portfolio's loss in value can be estimated in the light of significant risk factors, interest rate and share market fluctuations, over a predetermined timeframe and with a predetermined level of probability of the event that is damaging for the portfolio occurring. The asset portfolio's risk profile is also determined by the structure of the liabilities being hedged by these securities. In particular, the sensitivity of the value of the Life reserves to interest rate changes is determined and then the hedged asset portfolio is structured so that its sensitivity is in line with said risk value.

As for assets hedging non-Life reserves, these are selected in line with the portfolio's asset allocation, giving priority to listed fixed income securities and, then, to unlisted fixed income securities, listed and unlisted equities, property and bonds.

Financial instruments AFS – Analysis of the sensitivities of the bond component by maturity band

	Composition %	Dur.	% rate VaR	% Exchange VaR	Rate sensitivity	Shift sensitivity
Government Euro	**88.74**	**3.94**	**0.56**	**-**	**(1.02)**	**0.04**
Variable rate	*15.74*	*0.52*	*0.08*	*-*	*(0.35)*	*0.00*
Fixed rate	*73.00*	*4.68*	*0.66*	*-*	*(1.16)*	*0.04*
0,0< <=1,5	23.23	0.76	0.24	-	(0.57)	0.01
1,5< <=3,0	13.31	1.92	0.65	-	(1.14)	0.02
3,0< <=5,5	12.31	3.33	0.86	-	(1.44)	0.03
5,5< <=7	0.41	5.44	0.95	-	(1.56)	0.05
>7	23.75	10.71	0.98	-	(1.60)	0.10
Corporate Euro	**8.89**	**4.48**	**0.70**	**-**	**(1.18)**	**0.04**
Variable rate	*1.56*	*0.16*	-	*-*	*(0.14)*	*0.00*
Fixed rate	*7.32*	*5.38*	*0.85*	*-*	*(1.40)*	*0.05*
0,0< <=1,5	0.68	0.82	0.27	-	(0.61)	0.01
1,5< <=3,0	1.79	2.25	0.72	-	(1.24)	0.02
3,0< <=5,5	1.05	4.06	0.92	-	(1.50)	0.04
5,5< <=7	1.40	5.45	0.97	-	(1.56)	0.05
>7	2.41	9.36	1.03	-	(1.60)	0.09
Euro income bond funds	**1.46**	**1.93**	**0.42**	**-**	**(0.83)**	**0.02**
Fixed rate	*1.46*	*1.93*	*0.42*	*-*	*(0.83)*	*0.02*
0,0< <=1,5	0.83	0.33	0.02	-	(0.28)	0.00
3,0< <=5,5	0.62	4.08	0.96	-	(1.56)	0.04
Government Non Euro	**0.54**	**3.20**	**0.28**	**2.39**	**(1.72)**	**0.03**
Fixed rate	*0.54*	*3.20*	*0.28*	*2.39*	*(1.72)*	*0.03*
0,0< <=1,5	0.22	0.46	0.01	2.13	(0.43)	0.00
1,5< <=3,0	0.14	1.69	0.08	3.36	(1.58)	0.02
3,0< <=5,5	0.06	3.38	0.60	1.38	(1.44)	0.03
>7	0.12	10.54	0.91	2.19	(4.60)	0.10
Corporate Non Euro	**0.37**	**2.10**		**2.13**	**(1.33)**	**0.02**

			0.35				
Variable rate	*0.07*	*0.08*		-	*3.08*	*(0.08)*	*0.00*
Fixed rate	*0.31*	*2.53*	*0.43*		*1.93*	*(1.61)*	*0.02*
0,0< <=1,5	0.05	1.38	0.38		1.29	(0.91)	0.01
1,5< <=3,0	0.17	2.00	0.38		1.92	(1.40)	0.02
3,0< <=5,5	0.09	4.11	0.53		2.26	(2.35)	0.04
SUM TOTAL	**100.00**	**3.95**	**0.57**		**0.02**	**(1.04)**	**0.04**

N.B.:

The Dur. Index is the Macaulay duration expressed in years.
The Sensitivity shift is calculated in reference to a standard shift of 1 b.p.
The Sensitivity index rate is the relative change in value for a variation of 100b.p. in the short-term rate.
The Value at Risk is calculated at a 99% level of probability, with a 10 working day unwinding period.

The table above shows the consolidated bond portfolio “Available for sale” (AFS) broken down by maturity band, distinguishing between government and “corporate” securities. Securities in foreign currency are aggregated in a “non Euro” segment.
As shown by the table, 89% of the bond portfolio is made up of government securities, mainly issued by the Italian government and marginally by other the OECD states.
The financial duration of the securities exposed, as well as the VaR (Value at Risk) is shown. The VaR shows the maximum loss to which the portfolio could be exposed, with a 10 day timeframe, with a 99% level of probability. For securities in foreign currency, the component of risk appertaining to exchange is shown in the Exchange VaR field.

The rate sensitivity measurement shows the drop in price in percentage terms in the event of an increase in short-term rates of 100 base points. The variation right the way along the rates structure is calculated using a stochastic model and reduces when the maturity timescale increases.
The risky nature of interest rate fluctuations is also represented by the percentage variation in bond quotes for a standard shift of one base point over the entire curve due to interest rate expiry.
An analysis by investment category is given below, which shows that a 50 b.p. rate drop would have a positive impact on the portfolio’s overall fair value totalling € 125.6m. This rises to € 259.1m with a rate drop of 100.b.p.
In contrast, a rate rise of 50 b.p. would have a negative effect of € 118.3m. The negative effect rises to € 230.0m with a rate rise of 100 b.p.

Interest rate risk

	Composition %	**50 b.p increase**	**50 b.p decrease**	**100 b.p increase**	**100 b.p decrease**
Corporate Euro and Euro Income Bond Funds	10.34	(13.0)	13.7	(25.5)	28.0
Government Euro	88.74	(104.5)	111.1	(203.0)	229.4
Non Euro	0.92	(0.8)	0.8	(1.5)	1.6
TOTAL	**100.00**	**(118.3)**	**125.6**	**(230.0)**	**259.1**

Financial instruments AFS – Analysis of Values and Value at Risk

Type	Currency	Composition %	Rate/price VaR %	Exchange Var %	Total VaR %
Shares	Swedish Corona	0.00	12.28	1.86	14.14
	American Dollar	0.05	5.69	3.46	9,16
	Euro	16.40	5.71	0.00	5.71
	Swiss Franc	0.05	6.49	1.29	7.78
	English Sterling	0.15	6.63	1.96	8.59
	Japanese Yen	0.01	9.37	3.13	12.50
Total Listed Shares		16.67	4.89	0.04	4.92
Income bond funds	Euro	1.32	0.46	0.00	0.46
Bonds	American Dollar	0.33	0.20	3.54	3.74
	Euro	78.08	0.58	0.00	0.58
	Swiss Franc	0.40	0.39	1.31	1.70
Total Securities		80.13	0.57	0.02	0.60
Shares	Euro	3.20	5.45	0.00	5.44
Total Non-listed Shares		3.20	5.45	0.00	5.45
TOTAL		**100.00**	**1.45**	**0.02**	**1.47**

N.B.:
The Value at Risk is calculated at a 99% level of probability, with a 10 working day unwinding period.
The total VaR percentage is calculated in accordance with the listed value as is.
The r/p VaR expresses the VaR rate for the bond segment and the VaR price for the share segment.

The table above analyses the AFS portfolio broken down by type of asset, shares, listed and unlisted bonds.

For the purposes of providing a measurement of the total exposure to bond and share risk, the portfolio's VaR is calculated, using the same parameters used in the table "Analysis of bond component sensitivity". In this report the risk level of an Italian listed share index (Mibtel) was prudently attributed to unlisted shares. Please remember that operations to hedge shares via derivatives are summarised in the report and reduce the overall riskiness of the share portfolio.

Exchange risk

The Group has no significant exposure to exchange risk. In fact, most of the investments in financial instruments are denominated and/or redeemable in Euro which is both the functional currency and the currency of account.

With regard to financial instruments denominated in currencies other than within the Euro zone, the Group mainly invests in dollars, Swiss francs and English sterling. In this respect, there is a good balance between assets denominated in foreign currency and related liabilities, in turn, denominated in the same currency, since for the most part, these investments are intended to hedge commitments to life policyholders (relating, in particular, to segregated accounts in foreign currency).
In any event, the Group monitors exposure in foreign currency at least once a month in order to detect criticality or situations that require any corrective intervention in good time, including the stipulation of any hedge contracts.
What's more, with the sale, which took place in January 2006, of the interest in Swiss Life Holding, denominated in Swiss francs, the Group's exposure to exchange risk was considerably reduced.

Credit risk

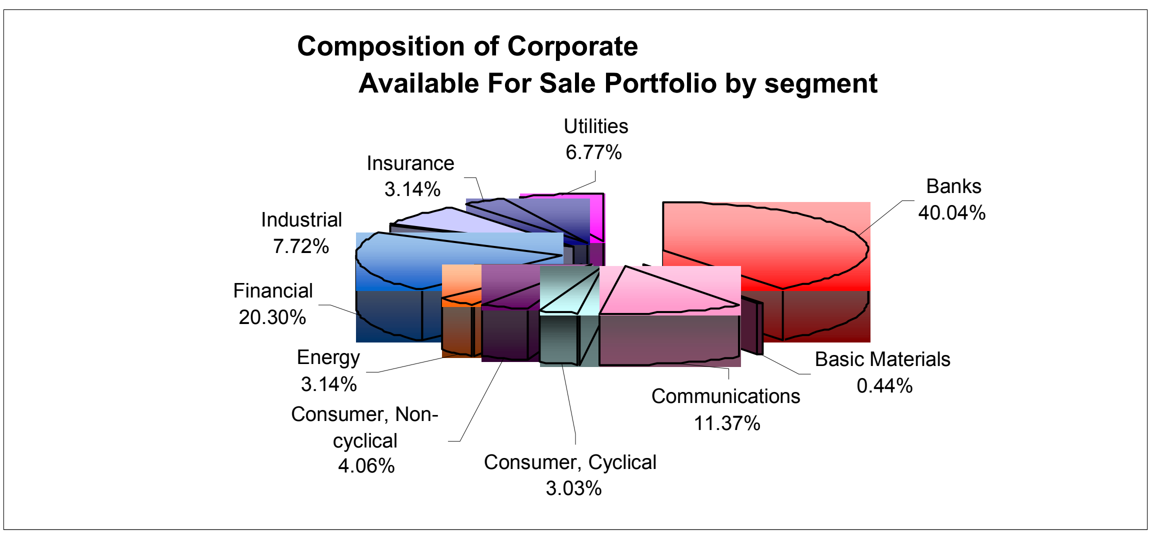
The credit risk, arising from holding bonds, was estimated on the basis of models for valuing the portfolio's loss of value following fluctuations in bond quotes and possible failures of the issuers of said securities.
As shown by the table, "Bond component sensitivity analysis", around 89% of the bond portfolio is made up of government securities, mainly issued by the Italian government and marginally by other the OECD states.

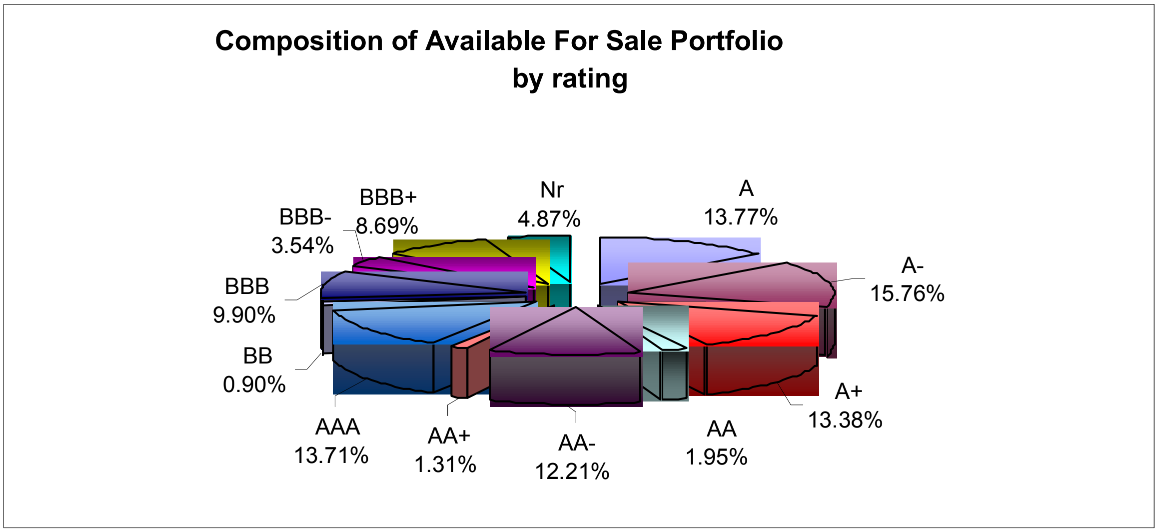
With reference to receivables from policyholders for premiums, receivables from agents and other intermediaries as well as insurance and reinsurance companies, the Group does not present significant concentrations of credit risk, its credit exposure being divided between a large number of counterparties and clients. What's more, the balance of receivables is constantly monitored throughout the year so as to minimise the amount of exposure to losses.

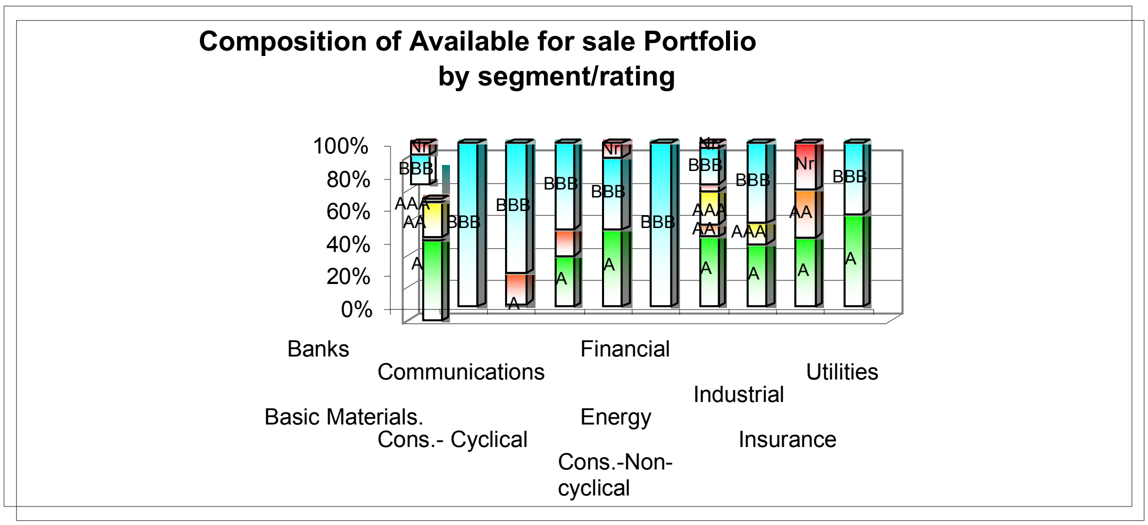
Finally, with reference to the property sector, following credit risk assessments, guarantees were requested from tenants or purchasers as sureties or deposits in property transactions.

Composition of the corporate portfolio

The graphs appearing below show the composition of the Available For Sale corporate portfolio. Featured are both a breakdown by the commodity sector to which the issuing entity belongs and an analysis of the corporate portfolio by rating level of the issuing entity. Government securities, which represent about 89% of the portfolio, are excluded from the analysis. A view of both portfolios analysed is given using graphs and histograms, in which the fundamental risks (in terms of exposure) are identified for major issuers in the largest sectors. Please remember that exposure means the estimated loss in the event of insolvency of the issuer, taking into consideration the "recovery rate" quota estimated for each rating.







Liquidity risk

The liquidity risk is the risk that the Group may have difficulty finding the funds to meet its own financial commitments.
The Group's objective is to maintain a balance between keeping a monetary reserve that is capable of covering, in good time, any unforeseen liabilities in respect of policyholders and suppliers and the opportunity to set aside excess liquidity for more profitable investment operations.

Liquidity risk management is supported on an organisational level by centralised financial resource management using the Group Treasury model and by using cash pooling techniques and tools.
Given the nature of the business transacted by Group companies and in view of Treasury management procedures, the liquidity risk is controlled by means of scheduling financial flow management using what is essentially a decadal system, in an attempt to make the most significant outflows coincide with agency remittances and by making excess funds with regard to cash flow requirements available, on a daily basis, to the Finance Department.

Excess liquidity in respect of what is not used by the Finance department is used by the Treasury in 24 hour deposits (so-called "time deposits") and consequently liquidatable with 48 hours prior notice. As a further safeguard, in the event of particular emergencies due to unforeseen and urgent needs, requiring the liquidation of particularly large amounts of funds with less than 48 hours notice, the Treasury holds funds at the Group's Bank that are available to perform urgent operations.

Derivatives

The Group makes a limited use of derivatives. In fact, the characteristics and peculiarities of the insurance business, consequently mean that the use of derivatives is regulated in relevant operational framework decisions provided for by the Supervisory Authority with its own Directive No. 297/1996.
In particular, the Directive model lays down that operating in derivatives for the purpose of so-called effective management should be kept within a tolerable quota of the available solvency margin.

In this context, operations in derivatives are mainly aimed at hedging, via the formation of combined options (put purchases – call sales), on 10,500,000 Capitalia shares, 3,250,000 RCS Mediagroup shares and 1,250,000 Mediobanca shares, all classified as available for sale. These assets were re-valued, for variations in fair value attributable to the risk hedged, with an offset in the profit and loss account of € 20,430K. € 20,430K of losses deriving from the valuation of hedge derivatives were also posted to the profit and loss account. The impact on the profit and loss account was, therefore, nil since capital losses of the same amount as the net appreciation of the financial instruments hedged was recorded for hedge derivatives.

These operations were conducted entirely in accordance with the framework decision taken by the Board of Directors on 23 June 2004 on the use of derivatives and structured financial instruments by making use of existing corporate auditing and monitoring tools, including preventative measures, capable of checking both the consistency of the transactions with the strategy determined beforehand and the efficacy of the hedging transactions in respect of the limits adopted. Related "Hedging Relationship Documentation", required by the aforementioned decision and in accordance with what is laid down on the subject by international accounting standards, was compiled for each hedge transaction.

In addition, as at 31 December 2006 the following additional transactions were initiated:

- a range accrual swap on a notional amount of € 10,000,000 with JP Morgan with an expiry date of 16 November 2007. With this contract, the counterparty again collects the Euribor 3 month rate and pays the Euribor 3 month rate plus 110 bps only for the days on which the difference between the Euribor 12 month rate and the Euribor 3 month rate is positive. The flow is quarterly. The fair value of this contract as at 31/12/2006 amounted to € 76K.
- a credit default swap on a nominal amount of € 32,500,000 with Morgan Stanley and € 15,000,000 with JP Morgan. Both contracts expire on 20 September 2009, at a cost of 47 bps per years and are intended to hedge the risk generated by the issuer Telecom Italia.
- a call option on 1% of Bipiemme Vita capital which, on the basis of existing agreements and subject to the necessary authorisation, may be exercised until 30 June 2007.

Derivatives operations closed during the year relate to 2 Credit Default Swaps, stipulated to protect a financial instrument purchased during the year against the risk of insolvency of an issuer. These transactions involved a cost of € 131K, posted to the profit and loss account. In addition, please note that the issuer of the financial instrument subscribed is a leading financial operator with a Standard & Poor's A+ rating.

The Group does not stipulate foreign currency derivatives contracts since exposure to exchange risk is, generally speaking, absolutely immaterial.

PART F – Amounts, timescales and level of uncertainty of financial statements relating to insurance contracts

With reference to what is laid down by paragraphs 38 and 39 of IFRS 4 the following information is given separately for non-Life and Life business.

NON-LIFE BUSINESS

Introduction

The objective in this segment, in line with the Fondiaria-Sai group strategic plan, is to develop the portfolio in all classes of non-Life business in a balanced and technically cost-effective manner.
In particular, elements of risk implicit in Non-life sector business relate both to underwriting risk (inability of premiums to cover claims and expenses), and reserve risk (reserves not sufficient to meet commitments to policyholders).

With regard to underwriting risks, risk-taking procedures differ from segment to segment, distinguishing between mass risks, corporate risks and special risks.
Mass risks, such as, for example, motor TPL, Land Vehicles and all those relating to the individual (Accident and Health), the family (Accommodation and Third Party Liability) and small companies (businesses, trades) account for around 90% of the total number of premiums underwritten. These risks are covered with standard predetermined conditions which are set by central Fondiaria-Sai group technical offices on the basis of existing standards, the experience of the Insurance market and the Group's specific experience.

Motor TPL

In the Motor TPL segment, the sizeable mass of statistical data held makes it possible to draw up sophisticated customised tariffs which take account of a great number of subjective and objective risk factors.
What's more, the gradual convergence of Nuova MAA and Milano tariffs is almost at an end via a final harmonisation stage, and is to be completed in 2007. The first standardised product is planned for early 2008.
Tariffs are monitored on a monthly basis and reviewed periodically. The portfolio is also the subject of continual attention with the aim of identifying any anomalous situations, both at a geographical level and with regard to remaining risk factors so as to make timely corrective interventions possible, also in the light of any changes in technical performance that may result from the introduction of the new direct compensation system.
Similar attention has been paid to the best Clients whose loyalty is built up with incentivising initiatives not just in respect of existing contracts but also with initiatives aimed at acquiring niche markets.

Land vehicles

In the Land Vehicles class, which traditionally represents a very significant area of business, tariffs were set, in the case of Fire and Theft, according to geographical area, the types of vehicles insured and the extent of the cover given. The price of comprehensive cover is, on the other hand, also set on the basis of No-claims bonus together with the age of the owner and the vehicle insured. The Client can, in addition, choose between various exposures and minimums which permit him/her to modulate, even slightly, the prices of the various covers.

Non-vehicle

In addition, for mass risks with non-vehicle classes, underwriting and price setting principles are also strictly correlated with the statistical experience of the portfolio acquired which is sufficiently broad and stable to make it possible to set cover and prices that are appropriate for various types of risk
In particular, in the Health class, risk assumption is accompanied by, and subject to, the evaluation of an anamnestic questionnaire to adjust the cover to the terms of the insuring party.

Generally speaking, with mass risks and, in any event, all those risks where there are predetermined standard conditions and tariffs, the risk is taken on using relevant IT procedures used by the various Agency networks set up for this purpose. Within predetermined parameters, sales networks can avail themselves of centrally monitored price flexibility. In cases where the requirements of a specific Client mean that changes have to be made to fixed terms, any exemptions allowed are assessed and authorised by the Company's Technical Departments.

With regard to corporate risks and special risks, which due, for one thing, to their size, cannot be covered using standard regulatory or price terms, the procedures used are more flexible i.e. the branch networks have limited autonomy in terms of value and typology, when it comes to taking on risk. In excess of these values or for different typologies, assistance is given by an appropriately trained network of Technicians who evaluate the risk and fix the terms on a case by case basis.

For more complex cases either in terms of size or the cover required, risks are only taken on by the Group's centralised specialist technical departments.

In some classes such as, for example, bonds, transport and aviation, the intervention of specialist departments is permanent and sometimes exclusive.

Bonds

With particular reference to the Bonds class, risk analysis hinges on prior and accurate risk selection which is made by means of a dual examination:

- from an objective point of view, examination of the nature and specific characteristics of the initial report, which determined the request for the guarantee to be provided, aims, in the first instance, to trace back the transactions being examined to the categories of risk covered by the Class on the basis of standards governing their operation. In the second instance, particular attention is reserved for checking the characteristics of the guarantee contract which must always respect the principle of accessoriness in respect of the principal obligation;
- from a subjective point of view, the examination consists of valuing the extent of the assets as well as all those factors pertaining to morality, professional ability and solvency of the Contracting party/principal..

Both the objective and subjective components are closely evaluated via the acquisition of specific asset disclosure documentation (accounts, memorandum of association and articles, Chamber of Commerce registration certificates, Unique Shareholder model agreements etc.) forwarded by the Agencies to Technicians in the field or to Management.. This documentation is supplemented with relevant information concerning commercial updates via specialist companies and with further investigations relating to the "historicity" of the relationship with the Client, compiled from Class databases, also for the purpose of checking total exposure in respect of the named parties.
The aforementioned activity is aimed at quantifying an overall "underwriting limit" on said name, requested, within precise and contained limits, from individual Technicians; over these limits, practices are subject to a collective decision taken within the Class, represented by the "Comitato Fidi" [Guarantee committee].
The guarantee policies are then written by Agencies, using a computer program which checks overall exposure in advance, to see that the underwriting limits agreed are not exceeded.
All guarantee policies written by the class are appropriately protected by 50% placement in a "proportional" reinsurance treaty. In addition, further cover is planned via a "claims excess" treaty over € 2.5, to protect individual contracts.
Also, for the purposes of guaranteeing an appropriate distribution of risk and limiting points of exposure, the Group uses Coinsurance on a recurrent basis, making use of a system of reciprocal treatment solely with Companies adopting risk taking policies that are similarly marked by principles of caution and careful risk selection.

Risk Management activities in the non-Life sector and catastrophic exposure cover

Within the scope of Risk Management activities it is necessary to show the processes adopted by the Group to optimise control over exposure to catastrophic risks.
Particular attention is paid to concentrations of risk peculiar to some classes, by using, in accordance with specific characteristics, appropriate methods of calculation.

The Fire class is the one which, due to the greater volumes involved, requires special and individual attention, above all, in relation to risks of earthquakes and floods. To this end, concentration is assessed on a geographical, seismic, and, although not in as much depth, hydro-geological basis.
Exposure concentrations by seismic zone are updated during the year and subsequently remodelled using two products universally adopted by the international market: RMS RiskLink DLM and EQECAT WorldCAT.

The results obtained are then analysed with the help of international operators, to finally arrive at a level of protection adjusted between the two benchmarks used. In this case, a return time per catastrophic claim of approximately 250 years was adopted.

The flood risk is considered with greater reference to the existing portfolio, in so far as at the moment there are no suitable models capable of supplying an objective appraisal. As is known, the insurance and reinsurance industries are in the process of equipping themselves with a specific tool, known as SIGRA, which will be available from 2007.
Land Vehicle business has lots of similarities with Fire business and because of this, benefits from the same reinsurance cover per event.
Technological Risks, because of the specific proportional programmes used, give no particular cause for concern, in so far as the risks are protected on the basis of the year of underwriting.
The potential concentration of risk following the failure of an individual policyholder/designated party in the Bonds Class is protected due to a claims excess programme which guarantees all the approvals given during all past underwriting years.

The group's portfolio can be considered to be stable and not subject to significant fluctuations likely to impact on future forecasts, also due to the extent of the Motor business.
Motor products were recently reviewed with a view to standardisation at Group level and are the most up-to-date that the Market has to offer. The Motor TPL sector, due to its particular characteristics, does not present any particular concentrations of risk. Individual events of particular seriousness can occur but the dimensions of the portfolio, geographically distributed uniformly throughout the national territory, are such that they can absorb these events without significant repercussions on results.
In any event, for events of extreme and unforeseen severity, the Group is protected by adequate reinsurance cover with leading Reinsurers.
As for the Land Vehicles portfolio, concentrations of risk are possible, mainly in the case of atmospheric events of extreme intensity or natural disasters (floods, earthquakes, storms or hailstorms). These concentrations are calculated on a geographical basis and are then covered by the same reinsurance cover as fire business.
The Group is active in all non-Motor non-Life classes with the sole exception of credit business which is only underwritten sporadically.

Coinsurance

As with the rest of the market, the Group uses the institution of coinsurance, i.e. sharing risks with other companies, both for commercial reasons at local level and to limit exposure in the event of major risks.

Over the last few years, the percentage of risks co-insured, especially by delegation to other companies, has dropped consistently, in so far as preference has been given to having direct control of the risk with possible use of reinsurance.
One of the reasons for the gradual drop in coinsurance, in addition to the Group's greater underwriting capacity, is the unsatisfactory trend in information flows on claims delegated elsewhere which, in the last few years, has resulted in the need for adjustments to reserves..

With regard to delegated claims, in 2006, the percentage of premiums collected for non-Motor non-Life business, was 7%, whilst claims amounted to 9%.

Claims trends

With reference to the second component of non-Life business insurance risk, i.e the reserve risk, this relates to uncertainty linked to a drop in claims reserves.
With reference to what is laid down by IFRS 4 paragraph 39, some information relating to the growth in Third Party business claims is given.

The tables below are compiled from official data taken from the forms supplied to the Supervisory Authorities (forms 29 and annex 1 of module 29).
Each piece of data appearing on the "triangle" represents a snapshot of the cost of generation as at 31 December of the observation year, represented summarily by the sum of the following components:

- Total amount paid from the event year to 31/12 of the observation year.
- Reserved for claims opened, reported as at 31/12 of the observation year.
- Late claims estimate for the event year recorded as at 31/12 of the observation year.

The "Estimated final cost", the "Payments made" and the "Amount in reserve" relate to the most recent observation year, i.e. to the largest diagonal of the triangle.
It was deemed appropriate to represent the claims trend solely for Third Party business (Motor and TPL) in so far as these are the classes that are most representative of the Group i.e. around 78% of claims paid can be attributed to these two classes of business.

General TPL business, in particular, is characterised by a slow drop and by a high number of late claims. These peculiarities cause objective difficulties in determining the cost of generation, above all, in the first year of observation. This phenomenon, whilst common to all classes, is particularly marked for General TPL.

CLASSES 10 + 12

(€K)	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**Total**
Estimated cost							
At the end of the event year	1,020,976	1,143,563	1,287,075	1,355,037	1,408,791	1,383,837	
After one year	1,044,898	1,141,511	1,234,207	1,288,249	1,325,352		
After two years	1,067,376	1,206,178	1,264,948	1,280,753			
After three years	1,077,587	1,205,017	1,291,952				
After four years	1,087,364	1,227,790					
After five years	1,118,747						
Estimated final cost	1,118,747	1,227,790	1,291,952	1,280,753	1,325,352	1,383,837	7,628,431
Payments	1,003,624	1,084,546	1,090,560	1,059,547	950,552	458,475	5,647,304
Amount in reserve	115,123	143,244	201,392	221,206	374,800	925,362	1,981,127

CLASS 13

(€K)	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**Total**
Estimated cost							
At the end of the event year	97,548	104,155	122,593	128,207	131,230	150,501	
After one year	92,786	92,157	104,982	118,886	125,533		
After two years	92,573	100,008	112,670	133,140			
After three years	97,326	100,291	118,193				
After four years	100,336	104,796					
After five years	104,038						
Estimated final cost	104,038	104,796	118,193	133,140	125,533	150,501	736,201
Payments	58,282	59,740	62,651	64,458	49,495	21,026	315,652
Amount in reserve	45,756	45,056	55,542	68,682	76,038	129,475	420,549

PLEASE NOTE:

Each amount in the triangle is made up of:
total amount paid in the event year
(from the event year to the observation year)
+ amount reserved relating to the event year for known claims
in the observation year
+ amount reserved relating to the event year for late claims
in the observation year
"estimated final cost" is the cost of the final observation year
"payments" is the total payments for the event year in the final observation year
"amount in reserve" is the reserve relating to the event year in the final observation year

The table below summarises claims still open on 31 December 2006 and as a percentage of claims filed:

Generation	Claims filed	No. claims open	% of claims filed
1998	428,081	562	0.13
1999	385,580	893	0.23
2000	403,984	1,239	0.31
2001	406,939	2,034	0.50
2002	408,882	3,214	0.79
2003	420,507	5,270	1.25
2004	416,908	8,791	2.11
2005	425,863	20,587	4.83
2006	424,201	99,448	23.44

(OVERALL NUMBER OF DELEGATIONS ELSEWHERE AND EXPRESSED AS A COINSURANCE PERCENTAGE)

Adequacy tests on liabilities

The reserve for unexpired risks is intended, as stated by art. 32 Legislative Decree 173/97 to hedge risks incumbent upon the company after year end for all costs relating to claims that could impact on contracts that have given rise to the formation of reserves for premium portions.
The calculation procedure used for the allocation of this reserve mirrors the empirical method suggested by the Supervisory Authority in its circular no. 360/D of 21/1/99. This last reserve is in line with the adequacy test for Non-life business technical reserves required by IFRS 4 (known as LAT).
It was also decided that current procedures for determining claims reserves according to final cost criterion were methodologically appropriate to represent future portfolio cash flows relating to existing contracts.

LIFE BUSINESS

In the Individual policies segment, the risks typically insured by the Group are those relating to temporary cover in the event of death, stipulated both in stand alone format, via annual or single premiums and with constant or decreasing capital, or as an add-on to other types of policy.
To set the tariff for these types of products, the Group uses tariff formats specifically determined on the basis of the portfolio's experience of the mortality of its own policyholders.
The products currently distributed provide for cost customisation for policyholders ready to undergo a medical examination, irrespective of the capital to be covered. On the other hand, there is no price differentiation or discount dependent on whether or not the Policyholder is a smoker.
The amount insured is agreed on the basis of fixed and predetermined rules, known as the "risk-assumption grid". This grid is structured on the basis of the various tiers of capital insured, for which there are various types of health-related assessments in line with "International Guidelines" within the medical field.
Additional premium loading occurs if the professional or sporting activities performed by the policyholder and/or their state of health are considered such as to involve an aggravated risk.
Over a certain level of capital insured, the Group also obtains a series of pieces of information of a financial nature for the purposes of assessing the Client's economic and financial position.

In any event, above a certain specific threshold of capital insured, a health assessment performed on the basis of predetermined medical documentation is always required.
It should, in addition, be pointed out that for amounts in excess of a certain threshold, the assumption of the risk is subject to explicit approval from the reinsurer.
What's more, following the medical assessment, the assumption of risk may sometimes involve additional premium loading on the grounds of health agreed beforehand with the reinsurer.
The technical trend borne out by the portfolio confirms – tendentially – the extent to which this has been applied historically in terms of customisation of the statistical database used compared to the generic ISTAT database.
To date, the risk of longevity has proved to be marginal – typically connected to portfolios relating to life annuities supplied – due to the almost total absence of this type of contract in the portfolio.

In the corporate sector, risks typically insured are those relating to cover known conventionally as "assistential" and, therefore, with particular reference to the event of death and disability to which has recently been added the risk of loss of independence (LTC)
In consideration of the tariff structures used for this type of contract, the demand for insurance cover has to emerge from objective situations such as a legal obligation or corporate regulations involving, in a uniform manner, a whole group of subjects. All requests for insurance cover made on the basis of the requirements of individuals are, therefore, methodically excluded so as to eliminate, right from the start, any form of risk antiselection.
This basic rule governing risk assumption is supplemented by further restrictions consisting of the fact that the determination of the capital or amount insured must also be the result of an external rule so as to, once again, prevent the individual from having any input when it comes to determining the amount.
The amount insured is taken on the basis of predetermined rules (insurance grid) which also vary according to the type of contracting party/policyholder and the size of the group of number of individuals. In any event – over a specific threshold of capital/amount insured – a health assessment performed on the basis of predetermined medical documentation is always required.
It should, in addition, be pointed out that, again in this case, for amounts exceeding a certain threshold, the assumption of the risk is subject to explicit approval by a reinsurer.
Finally, it should be remembered that, following the medical assessment, the assumption of risk may sometimes involve additional premium loading on the grounds of health agreed beforehand with the reinsurer.

Particular attention is paid during risk assumption to accumulation risk (multiple events) normally regulated by means of the application of a clause limiting the amount payable by the insurer for death due to an event of a catastrophic nature.
The use by the companies of specific tariff formats – determined not only on the basis of the experience of the generic mortality/disability of the Italian population, but specifically adjusted to the experience of the company's portfolio – involves recurrent monitoring of trends both of the entire portfolio acquired and of individual policies deemed to be sensitive in terms of overall or per capita exposure.
The technical trend borne out by the portfolio confirms – tendentially – the extent to which this has been applied historically in terms of customisation of the statistical database used compared to the generic ISTAT database.

The risk of longevity – typically connected to portfolios relating to life annuities supplied – has proved to be marginal once again for this family of risk due to the almost total absence of this type of contract in the Company's portfolio.
This risk is, however, present in the company's portfolio – down the line and to quite a considerable extent – for deferred life annuities distributed to Pension Funds or to individual Companies that have implemented a specific in-house pension fund scheme for employees.

On this front, the Group has, for some time now, implemented a distribution policy which focuses on compiling tariff formats that use decreasing guaranteed financial returns and the most up-to-date statistical databases.
With regard to the overall portfolio trend, this was marked by a substantial number of policies dedicated to covering the risk of death/disability and by policies for corporate reserves regulated by law (staff-leaving indemnity etc.) and supplementary benefits (pension funds) due to advice given by our sales network, with an upward trend related to the upturn in salaries.

On the other hand, the portfolio relating to corporate liquidity management is made up of specific policies of financial capitalisation of the premium paid by the contracting party under the system of guaranteed minimum return and annual performance consolidation.
On this front, particular attention is given to the concentration of commitments to individual contracting parties so as to avoid negative impacts on the company accounts in the event of early redemption which, tendentially, could be the case under certain economic conditions with a consequently negative effect for the insurer.
This phenomenon is limited by internal regulations which involve, on the one hand, having no more than one percent of this type of contract determined by investments of segregated accounts to which said contracts are linked and, on the other, the application of penalties for early redemption and adequate notice periods for exercising said redemption.

Classification of Life business insurance risks

The Group's portfolio can be classified in three macro groups which are uniform in terms of technical characteristics and product range:
- risk products, for which the range consists of products to protect the individual and his/her family and guaranteeing a certain standard of living in the light of unforeseen circumstances;
- pure investment products, mainly intended to meet requests for solutions to the cash flow requirements of small and medium-sized companies as an alternative to products offered by the financial market;
- products aimed at medium to long-term savings and at providing social benefits.

As for traditional products, the first category includes all contracts with a sizeable risk component in the event of death, such as temporary life cover and mixed contracts, the second category including contracts with a high financial component such as capitalisations and the third mainly annuities and deferred capital.
In addition to traditional contracts the portfolio contains unit and index-linked contracts, the former linked to internal funds and the others to mutual fund baskets, share or stock market indices.
A Life contract is classed as an insurance contract if the insurance risk is significant, i.e. if an insured event may lead the insurer to make significant additional payments. By additional payments we mean amounts payable upon the occasion of an event that exceeds those amounts that would be payable if the insured event had not occurred.

Alternatively, a Life Business contract is considered to be an insurance contract if:
- payments exceed, under the terms of the contract and with a certain persistence, 5% of the amounts payable if the event had not occurred;
- it involves a yield entitlement;
- it contains a conversion option with a guaranteed return.

A non-insurance Life contract is a financial or investment contract.
Classification was made by tariff level. As a consequence, there are products that are definitely insurance products (e.g. temporary life cover), products that are definitely financial products (e.g. capitalisations) and, in addition, residual products for which, for classification purposes, it is necessary to make assessments on a contract by contract basis.

Adequacy tests on liabilities

For the purposes of evaluating the adequacy of the reserves posted to the accounts using GAAP criteria, Milano Assicurazioni used a model capable of performing the LAT (Liability Adequacy Test), which generates prospective annual flows. In reference to the Bipiemme Vita portfolio, a model developed within said Company but, in any event, constructed using the same Parent company criteria, was used.
The valuation was conducted using different procedures for the traditional policy portfolio and the index-linked policy portfolio.

With regard to traditional policies, firstly, the portfolio in question was divided into standard groups according to the product's technical characteristics, such as capitalisation, risk, savings and welfare benefit contracts. Appropriate model points were subsequently created with regard to standardisation constraints relating to characteristic contractual parameters.
Aggregation was, therefore, by tariff, duration, residual duration, sex and guaranteed minimum rate of return.

With regard to Bipiemme Vita, portfolio tariff characteristics suggested a simple aggregation by tariff and year of generation (and, therefore, implicitly also by guaranteed minimum return).
The table below quantifies the model points created using the aforementioned criteria.

Traditional portfolio - Number of policies and model points created as at 31.12.06

Division		Capitalisation	Risk products	Savings and social welfare	Total
Milano Ass.ni:	Number of policies	17,489	115,107	91,886	224,482
	Mod. points constructed	8,697	44,275	25,218	78,190
Bipiemme Vita	Number of policies	484	609	74,007	75,100
	Mod. points constructed	11	78	4,313	4,402
Total	**Number of policies**	**17,973**	**115,716**	**165,893**	**299,582**
	Mod. points constructed	**8,708**	**44,353**	**29,531**	**82,592**

The tariffs modelled for the purposes of calculating LAT covered practically the entire portfolio of traditional contracts governed by IFRS4 at the time of valuation. In particular, with regard to the Parent company, a reserve of € 3,231,545K was formed against a total reserve of € 3,631,545. The results obtained in the portfolio under consideration, in accordance with the methodologies described below, were then proportionally extended to the entire portfolio. With regard to Bipiemme Vita, the higher level of aggregation in the generation of model points made it possible to monitor 100% of the reserves in question.

For index-linked policies classified as insurance policies (IFRS4) only appearing in the Parent company's portfolio, given the different characteristics compared with traditional products, it is not possible to use the same model. A simpler approach was, therefore, taken by comparing, direct by tariff, the current value of prospective performance and counterperformance flows with the reserves posted to the balance sheet.

From the perspective of developing calculations, both for traditional products and for index-linked products, posting was based on the development of future cash flows to be generated by contracts. For each model point, prospective performance and counterperformance flows are generated, which take into account demographical hypotheses, expiry and ancillary costs, for the purposes of evaluating, on an annual basis, the economic magnitudes that are useful for calculating the requirement, assuming that the corresponding capital is liquidated upon expiry or at the end of the deferral.

Performances and premiums were developed, where stated, in consideration of the guaranteed minimum return and a risk-free market curve on the reference date was used for time-discounting.
In estimates of amounts liquidated following premature expiry of contracts, in addition to hypotheses linked to mortality and probability of redemptions, each tariff's specific penalties were taken into consideration.

In defining hypotheses for future commissions payable to networks for premiums collected, reference was made to the corresponding premium loading which mirrors current trade agreements.

Time-discounting of the prospective flows described above, has made it possible to determine the Company's commitments on the basis of a "best estimate" at the time of valuation. This amount is defined as the "LAT Reserve" in the tables below.

With regard to hypotheses, reference was made where possible to corporate experience or to the context of the Italian insurance market, as well as to financial and economic scenarios on the valuation date.

In particular:

- Write-up of performances: in line with guaranteed minimums. The minimum guaranteed rate of return represents the company's contractual financial commitment, including technical rate.
- Inflation 2.50%. The parameter is used, within the scope of the valuation, as the rate of increase in expenditure for contract management, and is considered, from a long-term perspective, to be sufficiently prudent.
- Discount rate: EuroSwap Curve on the valuation date.
- Mortality: mortality quotient taken from 2002 SIM/SIF tables, discounted by 20%
- Management costs: here costs likely to be incurred for managing the existing portfolio are estimated.

The amounts were considered on the basis of what is shown in the tables below:

Milano Assicurazioni	
Individuals with a single premium	€ 21
Individuals with an annual premium	€ 36
Joint	€ 35
Bipiemme Vita	
Class 1	€ 4 plus 0.24% of the Mathematical reserve
Class 5	€ 4 plus 0.05% of the Mathematical reserve

Forfeitures: with regard to redemptions and, more generally speaking, early forfeitures, elimination frequencies taken from the Company's direct experience in terms of claims duration were adopted, as shown in the table below.

Claims duration	**Frequency of elimination** Milano	**Frequency of elimination** Bipiemme Vita
0	3.200%	0.000%
1	5.700%	2.540%
2	3.250%	2.540%
3	2.500%	5.200%
4	2.350%	5.200%
5	5.500%	5.200%
6	5.700%	1.420%
7	4.600%	1.420%
8	4.250%	1.420%
9	3.500%	1.420%
10	3.750%	1.420%
11	3.600%	10.000%
12	3.200%	10.000%
13	2.700%	10.000%
14	2.200%	10.000%
15	2.250%	10.000%
16	2.150%	20.000%
17	1.750%	20.000%
18	1.450%	20.000%
19 or more	1.150%	20.000%

Results obtained – Traditional Portfolio

Application of the Liability Adequacy Test model supplied the results given below. These results were compared with the reserves posted to the accounts and, in particular, with the mathematical reserves, reserves for future expenses, additional reserves for guaranteed interest rates, net of commissions to be amortised, for the groupings described above.

LAT valuation as at 31/12/2006 (in €K)

Division		**Capitalisation**	**Risk products**	**Savings and social welfare**	**Total**
Milano Ass.ni:	LAT reserve	829,432	956,693	1,637,036	3,423,162
	Balance sheet total	885,615	1,039,787	1,764,765	3,690,166
	Balance sheet reserve	*879,397*	*1,020,358*	*1,731,789*	*3,631,545*
	Additional reserve	*2,137*	*16,873*	*28,638*	*47,648*
	Cost reserve	*4,080*	*5,081*	*8,624*	*17,785*
	DAC	*-*	*2,525*	*4,286*	*6,811*
Bipiemme Vita	LAT reserve	199,279	457	883,970	1,083,706
	Balance sheet total	288,873	477	888,772	1,178,122
	Balance sheet reserve	*288,127*	*475*	*880,827*	*1,169,429*
	Additional reserve	*25*	*-*	*1,330*	*1,355*
	Cost reserve	*721*	*2*	*6,615*	*7,338*
	DAC	*-*	*-*	*-*	*-*

LAT Valuation – Index-Linked policies

The valuation relates to policies classified as insurance policies (IFRS 4), for which it is necessary to check the adequacy of the balance sheet reserves in relation to the risks assumed and future costs.

LAT valuation as at 31/12/2006 (in €K)

Division		**TOTAL**
Milano Ass.ni:	LAT reserve	255,598
	Balance sheet total	258,262
	Class D reserve	255,730
	Additional reserve	71
	Cost reserve	2,461

Reserves with a guaranteed return

With reference to commitments made to policyholders, the disaggregation of Life reserves below shows that approximately 45,9% (€ 2,106.9m) relate to policies with a guaranteed rate of return of between 1% and 3%, whilst approximately 47.1% (€ 2,160.9m) relate to policies with a guaranteed rate of return of between 3% and 4%. Reserves relating to contracts with a guaranteed rate of interest to maturity amount to € 255.7m.

Life segment insurance reserves: guaranteed return (*)

(€m)	**Gross direct business**
Reserves with guaranteed annual rate of interest	4,335.4
Including:	
from 0% to 1%	67.6
from over 1% to 3%	2,106.9
from over 3% to 4%	2,160.9
Reserves with guaranteed interest rate to maturity	255.7
TOTAL	**4,591.1**

(*) inclusive of technical reserves where the investment risk is borne by the policyholders

PART H - Information on related party transactions

Transactions between the Parent company and its subsidiaries, which are entities related to said Parent company, were eliminated in the consolidated accounts and are not, therefore, shown in these notes.

Details of transactions between the Group and other related entities are shown below.

Transactions of a commercial and financial nature

(€K)	**Income** **Year ending on 31/12/2006**	**Expenditure** **Year ending on 31/12/2006**
Parent company	32,594	32,345
Associates	1,539	45
Affiliated companies	105,511	147,771
Other participating interests	132	-
Other related parties	-	-

(€K)	**Assets** **Year ending on 31/12/2006**	**Liabilities** **Year ending on 31/12/2006**
Parent company	245,525	175,093
Associates	30,886	-
Affiliated companies	145,135	45,379
Other participating interests	4,619	-
Other related parties	118,484	-

Please note that the transactions shown above mainly relate to:

- transactions linked to reinsurance business, all conducted at market prices;
- income, expenditure and resultant credits/debits resulting from the Fondiaria-SAI Group share of the cost of standardised services at group level.
- credits/debits deriving from Milano Assicurazioni's participation in the fiscal consolidation of the Fondiaria-Sai Group.

These were all concluded under normal market conditions. Credit amounts posted to the assets are not guaranteed and will be paid in cash. No amounts have been set aside over the year for any losses on receivables from related companies.

Below is a summary of significant relations with other related parties, as defined by International Accounting Standard 24 (Disclosure of related party transactions) to which art. 2, point h) of Consob decision 11971 of 14 May 1999, introduced by Consob decision 14990 of 14 April 2005 relates.

The item "land and buildings" comprises:

- the advance payment of a total of € 28,227K made by Milano Assicurazioni this year and in previous years, to IM.CO. S.p.A. in relation to the property transaction relating to the land situated in Milan at Via Gonfalonieri-Via de Castillia (Lunetta dell'Isola). Please remember that this transaction, which took place in 2005, had determined the sale of the land to IM.CO S.p.A. and the purchase by said IM.CO. S.p.A. of a property adapted for service sector use which will be built by the latter on the land in question at a price of € 93,700K;
- advance payments of € 24,062K in total paid over the current year and in previous years by Milano Assicurazioni to IM.CO. S.p.A. in relation to the area of Milan at Via Lancetti. Please remember that

this transaction, which took place in 2003, had determined the sale of the land to IM.CO S.p.A. and the purchase by said IM.CO. of the finished building complex which will be built by the latter on the land in question at a price of € 36,400K;

- advance payments of € 66,195K in total, paid over the current year and in previous years by Milano Assicurazioni, to Avvenimenti e Sviluppo Alberghiero s.r.l. in relation to the area of Rome at Via Fiorentini. Please remember that this transaction, which took place in 2003, had determined the sale of the land to Avvenimenti e Sviluppo Alberghiero s.r.l. and the purchase by said Avvenimenti e Sviluppo Alberghiero s.r.l. of the finished building complex which will be built by the latter on the land in question at a price of € 96,200K.

Financial flows occurring in 2006 in relation to the aforementioned transactions amounted to € 45,048K of outgoings for advance payments made by the Parent company.

Considering that the shareholder composition of the counterparty companies in the aforementioned transactions makes these companies related parties of Milano Assicurazioni, as well as of the parent company Fondiaria-SAI, appropriate fairness and legal opinions were obtained from independent experts. The fairness opinions confirmed the adequacy both of the sale prices of the areas of land and the purchase prices of the properties.

Wages for directors and chief executives

Wages paid during the year to directors and chief executives are as follows:

(€K)	**31/12/2006**	**31/12/2005**
Wages	1,211	1,201
Bonuses and other incentives	-	750
Non-cash benefits	-	-
TOTAL	**1,211**	**1,951**

Wages paid to directors and chief executives are set according to average market wage levels, whilst bonuses and other incentives are, as a rule, determined ex-post in relation to results achieved by managing and/or completing particular and relevant operations.

Please note, in addition, that on 14 July 2006, the Fondiaria-Sai Board of Directors decided on a Stock Option plan for executive directors and management of said Fondiaria-Sai, of its subsidiaries and parent company, to purchase Fondiaria-Sai savings shares. For more detailed information please refer to the “Other information” chapter of the management report and to the Accounting Policies section of the Notes to the Accounts.

PART I – Information relating to events occurring after the date the accounts are closed

Joint Venture with the EDS Group for management of the Fondiaria-Sai Group's Information Technology infrastructures

A project has been launched to entrust management of the Fondiaria-SAI Group's Information Technology (IT) infrastructures to a joint venture set up with a partner with a proven track record and capability in the IT industry, EDS Italia S.p.A. (hereinafter EDS). This project also involves Milano Assicurazioni, as detailed below.

Considering the growth in competition levels forecast within the insurance market, one of the key factors for achieving the objectives contained in the Fondiara-SAI Group's 2006-2008 Industrial Plan is, in fact, thought to be constituted by the completion of a project to modify the Group's IT infrastructures with the aim of improving the competitiveness of the Group itself with, in addition, a corresponding cost saving.

Very briefly, the project implementation outline provides for the performance of IT infrastructure management activities in performance of a multi-year service contract stipulated, as required, between, on the one hand, the company Fondiaria-SAI Servizi Tecnologici S.r.l. (hereinafter FonSAI ST), jointly owned by EDS and by a Fondiaria-SAI Group company and to which these companies – including Milano Assicurazioni - have transferred personnel and/or hardware and software in accordance with the legal framework for the transfer of a line of company business and, on the other hand, Uniservizi S.c.r.l., the Fondiaria-SAI Group consortium (in which said Milano also has a direct interest) which will act as collector and distributor of the services on behalf of Fondiaria-SAI Group companies, including non-transferors. FonSAI ST works exclusively for the Fondiaria-SAI Group.
All the agreements were negotiated with the help of a legal and technical advisor.

FonSAI ST was formed in December 2006 with initial share capital of € 10,000, divided between Fondiaria-SAI and EDS with respective interests of 51% and 49%.

Although Fondiaria-Sai has a 51% capital interest in FonSAI ST, based on the governance agreement as a whole, operational control of the company is still assigned to EDS, this being a necessary requirement to guarantee that the Fondiaria-SAI Group benefits from the operation in terms of cost reduction.

Subsequently, on 1 February last year, the FonSAI ST shareholders' meeting decided to increase the capital from € 10,000 to € 120,000, subscribed and fully paid up on the same date as follows:

- by EDS, with a cash payment of an amount such as to retain a 49% capital interest in FonSAI ST;
- by the Fondiaria-SAI Group, with the transfer of lines of company business from, in addition to said Fondiaria-SAI, Milano Assicurazioni, Starvox S.p.A and Uniservizi. These lines of business are constituted by personnel and/or hardware and software attributable to the activities for which management has been entrusted to EDS.

The value of the lines of business transferred is taken from related balance sheets for said lines of business on 31 October 2006, like those annexed to the expert's surveys, prepared, in accordance with art. 2465 of the Italian Civil Code, by an expert listed in the register of auditors.

In particular, Milano Assicurazioni transferred hardware, almost fully amortised, and personnel, for the value of the related staff-leaving indemnity fund of around € 0.7m. The Company also made a cash payment to even up the balance sheet for the business transferred, taking into consideration the impact of said fund. As a result of the aforementioned items, the line of business transferred by Milano Assicurazioni presented a slight positive imbalance, which made it possible for the Company to acquire a capital interest, albeit a reduced one, in FonSAI ST, of less than 1%.

The line of business transferred by the Company included 35 employees, with regard to whom, in accordance with the law, union proceedings were instituted, concluding with the signing of an appropriate agreement.

In March 2007, Milano Assicurazioni and the other transferors sold Fondiaria-SAI their respective interests in FonSAI ST, with the aim of reuniting the holding in the corporate vehicle in said Fondiaria-SAI, without prejudice to the fact that the supply of IT services covered by the service contract between FonSAI ST and Uniservizi will, in any event, also involve Milano Assicurazioni and Fondiaria-SAI Group companies, other than the transferors.

The Decree Law of 31 January 2007, No. 7 "Urgent consumer protection measures, to encourage competition, economic growth and the formation of new companies".

Of the many innovations brought in the decree in question please note, in particular, the measure adopted for competition and consumer protection in insurance services (ref. art. 5):

- in the non-Life sector, the abolition of monomandatory agency contracts between insurance companies and sales agents. From 2008, the agent may, however, offer policies from different companies (as already laid down for Motor TPL). In addition, in the event of multi-year policies, the policyholder may withdraw from the contract on an annual basis without charge by giving sixty days prior notice.

- in the Motor TPL sector, the transparency of the tariffs available on the market and the insurance company's duty to maintain the risk category shown on the last no-claims certificate, for clients stipulating a new contract for a second car, or following an interruption in insurance cover.

All this will have an economic impact which is currently unquantifiable. Group Companies have initiated the procedures needed to conform to this legislation.

Project to merge Campo Carlo Magno Sport S.r.l. by incorporation into Campo Carlo Magno S.p.A.

In January, the project to merge Carlo Magno Sport S.r.l. by incorporation into Campo Carlo Magno S.p.A. was approved by respective shareholders' meetings. The deed of merger will be stipulated once the legal deadline for any objections to be raised by creditors has passed.

PART L – Other Information

Staffing levels

On 31 December 2006, the Parent company and consolidated companies had 1,658 employees (1,680 on 31/12/2005) broken down by category as follows:

	31/12/2006	31/12/2005
Executives	28	23
White collar workers and professionals	1,625	1,652
Concierges	5	5
	1,658	**1,680**

Exchange

The exchange rates for the main currencies used to convert balance sheet items are shown below:

	2006	2005
United States Dollar	1.317	1.1797
British Sterling	0.6715	0.6853
Japanese Yen	156.93	138.9
Swiss Franc	1.6069	1.5551

Group solvency margin

Please note that the percentage excess of constituting items over correct solvency margin requirements is over 180 %.

* * * *

Finally, in accordance with Consob Communication No. DEM/6064293 of 28 July 2006, please note that no positions or transactions deriving from atypical and/or unusual transactions were noted.

Milan, 22 March 2007

MILANO ASSICURAZIONI S.p.A.
Board of Directors

Attachments

CONSOLIDATED ACCOUNTS AT 31 DECEMBER 2006

Amounts in €K

Details of tangible and intangible assets

	At cost	At restated or fair value	Total book value
Investment property	375,294		375,294
Other property	29,706		29,706
Other tangible assets	124,371		124,371
Other intangible assets	45,970		45,970

CONSOLIDATED ACCOUNTS AS AT 31 DECEMBER 2006

Amounts in €K

Details of reinsurers' share of technical reserves

	Direct business		Indirect business		Total book value	
	31/12/2006	31/12/2005	31/12/2006	31/12/2005	31/12/2006	31/12/2005
Non-Life business	***204,353***	***208,452***	***10***	***-1***	***204,363***	***208,451***
Premium reserve	22,609	20,866	5		22,614	20,866
Claims reserve	181,744	187,586	5	-1	181,749	187,585
Other reserves					0	0
Life reserves	***138,695***	***148,103***	***1,598***	***1,973***	***140,293***	***150,076***
Reserve for amounts payable	750	923			750	923
Mathematical reserves	137,944	147,178	1,598	1,973	139,542	149,151
Technical reserves where the investment risk is borne by policyholders and reserves arising from pension fund management					0	0
Other reserves	1	2			1	2
Reinsurers' total share of technical reserves	***343,048***	***356,555***	***1,608***	***1,972***	***344,656***	***358,527***

CONSOLIDATED ACCOUNTS AS AT 31 DECEMBER 2006

Amounts in €K

Details of financial assets

	Investments held to maturity		Loans and receivables		Financial assets available for sale		Financial assets at fair value recognised through profit or loss				Total book value	
							Financial assets held for trading		Financial assets at fair value recognised through profit or loss			
	31/12/2006	**31/12/2005**	**31/12/2006**	**31/12/2005**	**31/12/2006**	**31/12/2005**	**31/12/2006**	**31/12/2005**	**31/12/2006**	**31/12/2005**	**31/12/2006**	**31/12/2005**
Capital securities and derivatives valued at cost											0	0
Capital securities at fair value					1,404,662	1,132,214	101,485	55,072	115		1,506,262	1,187,286
including listed securities					*1,393,615*	*1,114,213*	*101,485*	*55,072*	*115*		*1,495,215*	*1,169,285*
Debt securities			32,278	34,377	6,979,287	6,054,147	329,573	424,135	956,793	333,756	8,297,931	6,846,415
including listed securities					*6,957,401*	*6,022,244*	*328,165*	*423,245*	*582,542*	*278,507*	*7,868,108*	*6,723,996*
Unit trusts					452,230	394,241			527,784	56,899	980,014	451,140
Loans and receivables from client banks											0	0
Inter-bank loans and receivables											0	0
Deposits with ceding companies			3,336	4,110							3,336	4,110
Financial asset components of insurance contracts											0	0
Other loans and receivables			113,005	154,930							113,005	154,930
Non-hedge derivatives									69	736	69	736
Hedge derivatives									513		513	0
Other financial investments				19,457					1,767	5,657	1,767	25,114
Total	**0**	**0**	**148,619**	**212,874**	**8,836,179**	**7,580,602**	**431,058**	**479,207**	**1,487,041**	**397,048**	**10,902,897**	**8,669,731**

CONSOLIDATED ACCOUNTS AS AT 31 DECEMBER 2006

Amounts in €K

Details of assets and liabilities relating to contracts issued by insurance companies where the investment risk is borne by customers and arising out of pension fund management

	Performances linked to Investment funds and market indices		Performances linked to pension fund management		Total	
	31/12/2006	31/12/2005	31/12/2006	31/12/2005	31/12/2006	31/12/2005
Book value of assets	1,463,129	358,254	0	0	1,463,129	358,254
Inter-company assets *			0	0	0	0
Total Assets	**1,463,129**	**358,254**	**0**	**0**	**1,463,129**	**358,254**
Book value of financial liabilities	1,207,176	80,151	0	0	1,207,176	80,151
Book value of technical reserves	255,730	278,101	0	0	255,730	278,101
Inter-company liabilities *			0	0	0	0
Total Liabilities	**1,462,906**	**358,252**	**0**	**0**	**1,462,906**	**358,252**

* Assets and liabilities cancelled out in the consolidation process

CONSOLIDATED ACCOUNTS AS AT 31 DECEMBER 2006

Amounts in €K

Details of technical reserves

	Direct business		Indirect business		Total book value	
	31/12/2006	**31/12/2005**	**31/12/2006**	**31/12/2005**	**31/12/2006**	**31/12/2005**
Non-life reserves	***4,338,802***	***4,307,374***	***25,085***	***18,215***	***4,363,887***	***4,325,589***
Premium reserve	952,606	981,541	6,327	1,313	958,933	982,854
Claims reserve	3,383,446	3,323,749	18,758	16,902	3,402,204	3,340,651
Other reserves	2,750	2,084			2,750	2,084
including reserves posted following liability adequacy tests		*0*			*0*	*0*
Life reserves	***4,714,996***	***4,140,434***	***2,227***	***2,767***	***4,717,223***	***4,143,201***
Reserve for amounts payable	35,650	6,269	37	44	35,687	6,313
Mathematical reserves	4,335,362	3,658,209	2,190	2,723	4,337,552	3,660,932
Technical reserves where the investment risk is borne by policyholders and arising out of pension fund management	255,730	278,101			255,730	278,101
Other reserves	88,254	197,855			88,254	197,855
including reserves posted following liability adequacy tests	*0*	*0*			*0*	*0*
including deferred liabilities in respect of policyholders	*61,122*	*172,891*			*61,122*	*172,891*
Total Technical Reserves	***9,053,798***	***8,447,808***	***27,312***	***20,982***	***9,081,110***	***8,468,790***

CONSOLIDATED ACCOUNTS AS AT 31 DECEMBER 2006

Amounts in €K

Details of financial liabilities

	Financial liabilities at fair value recognised through profit or loss				Other financial liabilities		Total book value	
	Financial liabilities held for trading		Financial liabilities at fair value recognised through profit or loss					
	31/12/2006	31/12/2005	31/12/2006	31/12/2005	31/12/2006	31/12/2005	31/12/2006	31/12/2005
Equity financial instruments								
Subordinated liabilities					162,505		162,505	
Liabilities from financial contracts issued by insurance companies deriving			1,207,176	80,151	72	69	1,207,248	80,220
From contracts for which the investment risk is borne by policyholders			*1,207,176*	*80,151*			*1,207,176*	*80,151*
From pension fund management								
From other contracts					*72*	*69*	*72*	*69*
Deposits received from reinsurers					147,763	155,756	147,763	155,756
Financial liability components of insurance contracts								
Debt securities issued								
Loans from client banks								
Inter-bank loans								
Other finance obtained								
Non-hedge derivatives								
Hedge derivatives	25,540	4,146					25,540	4,146
Sundry financial liabilities			569	191	4,171	4,118	4,740	4,309
Total	**25,540**	**4,146**	**1,207,745**	**80,342**	**314,511**	**159,943**	**1,547,796**	**244,431**

CONSOLIDATED ACCOUNTS AS AT 31 DECEMBER 2006

Amounts in €K

Details of insurance technical items

		2006 financial year			2005 financial year		
		Gross amount	Reinsurers' share	Net amount	Gross amount	Reinsurers' share	Net amount
Non-Life business							
	NET PREMIUMS	2,806,706	87,277	2,719,429	2,704,700	60,656	2,644,044
a	Premiums posted to the accounts	2,775,281	88,621	2,686,660	2,739,332	63,686	2,675,646
b	Variation in premium reserve	31,425	-1,344	32,769	-34,632	-3,030	-31,602
	NET CLAIMS-RELATED CHARGES	2,019,810	42,163	1,977,647	1,953,937	41,824	1,912,113
a	Amounts paid	2,018,734	52,177	1,966,557	1,942,785	50,239	1,892,546
b	Variation in claims reserve	63,736	-10,014	73,750	82,094	-8,415	90,509
c	Variation in recoveries	-63,325		-63,325	-69,744		-69,744
d	Variation in other technical reserves	665		665	-1,198		-1,198
Life business							
	NET PREMIUMS	641,175	11,606	629,569	586,425	10,855	575,570
	NET CLAIMS-RELATED CHARGES	701,616	10,815	690,801	695,103	7,400	687,703
a	Amounts paid	557,636	21,322	536,314	485,740	27,480	458,260
b	Variation in the reserve for amounts payable	28,133	-178	28,311	-12,217	-501	-11,716
c	Variation in mathematical reserves	151,598	-10,796	162,394	224,499	-19,579	244,078
d	Variation in technical reserves where the investment risk is borne by policyholders and arising out of pension fund management	-24,776		-24,776	7,195		7,195
e	Variation in other technical reserves	-10,975	467	-11,442	-10,114		-10,114

CONSOLIDATED ACCOUNTS AS AT 31 DECEMBER 2006

Amounts in €K

Financial and investment income and expenditure

		Interest	Other income	Other expenditure	Profits	Losses	Total income and expenditure	Valuation profits		Valuation losses		Total unrealised income and expenditure	Total income and expenditure 2006	Total income and expenditure 2005
								Valuation gains	Write-ups	Valuation losses	Write-downs			
Investment results		**258,836**	**107,859**	**8,834**	**78,447**	**64,139**	**372,169**	**40,084**	**0**	**43,711**	**0**	**-3,627**	**368,542**	**343,602**
a	From investment property		14,356	8,119	14,116		**20,353**			5,511		**-5,511**	**14,842**	**19,985**
b	From holdings in subsidiaries, associates and joint ventures		3,227	49			**3,178**					**0**	**3,178**	**292**
c	From investments held to maturity						**0**					**0**	**0**	**0**
d	From loans and receivables	8,914					**8,914**					**0**	**8,914**	**10,241**
e	From financial assets available for sale	222,247	44,007	59	58,394	16,225	**308,364**					**0**	**308,364**	**256,424**
f	From financial assets held for trading	14,195	45,868	361	4,466	46,511	**17,657**	10,679		16,618		**-5,939**	**11,718**	**34,215**
g	From financial assets at fair value recognised through profit or loss	13,480	401	246	1,471	1,403	**13,703**	29,405		21,582		**7,823**	**21,526**	**22,445**
Result for sundry receivables		**5,273**					**5,273**					**0**	**5,273**	**0**
Result for cash at bank and in hand and equivalents		**5,120**					**5,120**					**0**	**5,120**	**115**
Result for financial liabilities		**-10,884**	**0**	**0**	**0**	**0**	**-10,884**	**0**	**0**	**9,539**	**0**	**-9,539**	**-20,423**	**-6,591**
a	From financial liabilities held for trading						**0**			4,726		**-4,726**	**-4,726**	**0**
b	From financial liabilities at fair value recognised through profit or loss						**0**			4,813		**-4,813**	**-4,813**	**0**
c	From other financial liabilities	-10,884					**-10,884**					**0**	**-10,884**	**-6,591**
Result for payables		**-1,599**					**-1,599**					**0**	**-1,599**	**0**
Total		**256,746**	**107,859**	**8,834**	**78,447**	**64,139**	**370,079**	**40,084**	**0**	**53,250**	**0**	**-13,166**	**356,913**	**337,126**

CONSOLIDATED ACCOUNTS AS AT 31 DECEMBER 2006

Amounts in €K

Details of insurance management costs

		Non-Life Business		Life Business	
		2006	2005	2006	2005
Gross commissions and other acquisition costs		447,455	430,409	21,395	16,392
a	Purchase commissions	363,412	353,353	7,519	5,364
b	Other acquisition costs	57,928	57,393	7,555	5,364
c	Variation in deferred acquisition costs	-12,538	-18,318	-314	-1,393
d	Collecting commissions	38,653	37,981	6,635	7,057
Commissions and profit shares received from reinsurers		-17,206	-15,623	-2,287	-1,385
Investment management costs		2,925	1,667	3,640	1,105
Other administration costs		60,926	57,350	12,468	10,579
Total		**494,100**	**473,803**	**35,216**	**26,691**

External Auditors' Report

DELOITTE

Deloitte & Touche S.p.A.
Via Tortona, 25
20144 Milan
Italy

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AUDITOR'S REPORT
PURSUANT TO ART. 156 OF LEGISLATIVE DECREE NO. 58 OF 24.2.1998 AND ART. 102 OF LEGISLATIVE DECREE NO. 209 OF 7.9.2005

To the Shareholders
of MILANO ASSICURAZIONI S.p.A.

1. We have audited the consolidated accounts, comprising the balance sheet, the profit and loss account, the statement of variations in net equity, the financial statements and related explanatory notes to the accounts, of Milano Assicurazioni S.p.A. and its subsidiaries ("Gruppo Milano Assicurazioni") for the year ending on 31 December 2006. Milano Assicurazioni S.p.A. directors are responsible for preparing the accounts. We are responsible for the professional opinion expressed on the accounts and based on the audit that we have carried out.

2. Our examination was conducted in accordance with the accounting principles and criteria recommended by CONSOB. In accordance with the aforementioned principles and criteria, the audit was planned and carried out with the am of acquiring all the necessary information to ascertain whether the consolidated accounts are marred by significant errors and whether the results, in their entirety, are reliable. The audit process includes the study, upon a sample-based audit, of the probative elements supporting the balances and information contained in the accounts, as well as an assessment of the adequacy and accuracy of the accounting criteria used and the reasonableness of the estimates made by the directors. We believe that the work carried out provides a reasonable basis for the expression of our professional opinion.

Please refer to the report issued by a separate auditor on 11 April 2006 for an opinion of the consolidated accounts for the previous year, data for which is given for comparative purposes.

3. In our opinion, the Milano Assicurazioni S.p.A. consolidated accounts as at 31 December 2006, conform to the International Financial Reporting Standards adopted by the European Union, as well as to the implementing regulations of art. 9 of Legislative Decree No. 38/2005. The accounts are, therefore, clearly compiled and give a truthful and accurate picture of Milano Assicurazioni S.p.A.'s net equity and financial position, profit and loss, variations in net equity and cash flows for the year ending on that date.

DELOITTE & TOUCHE S.p.A.

Enrico Ciai
(Shareholder)

Milan, 5 April 2007

Ancona, Bari, Bergamo, Bologna, Brescia, Cagliari, Florence, Genoa, Milan, Naples, Padua, Parma, Perugia, Rome, Turin, Treviso, Verona

Registered office: Via Tortona, 25 – 20144 Milan – Fully paid up share capital EUR 10,328,220.00
VAT registration number/Tax Code/Milan Register of trade and companies No. 03049560166 – Milan Economic and Administrative Index No. 1720239

Graphical representation of the Group

GRAPHICAL REPRESENTATION OF THE GROUP AS AT DECEMBER 2006