CONSOLIDATED ACCOUNTS
2006 FINANCIAL YEAR

FONDIARIA-SAI S.p.A.

FONDIARIA-SAI S.P.A. - REGISTERED OFFICE IN FLORENCE - PIAZZA DELLA LIBERTÀ 6 - REGISTERED OFFICE IN TURING - CORSO G. GALILEI, 12 – SHARE CAPITAL € 168,482,219 FULLY PAID-UP – TAX REFERENCE, VAT REGISTRATION NUMBER AND ENTRY NUMBER IN THE FLORENCE REGISTER OF COMPANIES 00818570012 – COMPANY AUTHORISED TO CARRY OUT INSURANCE BUSINESS IN ACCORDANCE WITH ART. 65 OF ROYAL DECREE LAW NO. 966 OF 29 APRIL 1923 AS CONVERTED INTO LAW NO. 473 OF 17 APRIL 1925.

CORPORATE MISSION
VISION AND VALUES

Our objective is, like all companies, to create value for shareholders and stakeholders alike, facing the challenges created by the market, both now and in a wider and more durable context.
The Fondiaria-SAI Group is aware of its role in society and sees the insurance sector as a fascinating factory of people and knowledge, which has a key role to play in the financial system and provides a service to society by responding to the need for security of individuals and communities.

Insurance theory has taught us that responding to the need for security of individuals and companies is the primary objective of an insurance policy. Experience has widened this perspective, showing us that this objective is also the primary social value of an insurance company.
In the full conviction that a company could not sustain durable development if it were dedicated entirely to generating profit, we have focused not only on the quantity we produce but also on how and when this production takes place, in full compliance with one of the fundamental precepts of corporate economic doctrine.

Responsibility, team spirit, innovation and communication are values that systematically guide our actions in respect of the wide range of legitimate stakeholders involved in the internal and external operational processes of the Fondiaria-SAI Group.

Responsibility

We believe that responsibility means acting with the awareness of belonging to a community, respecting rules in our relations with all stakeholders, seeing ourselves as a part of a system and dealing with the consequences of actions taken in the context of our operations.
The good of the company is in close symbiosis with the good of the whole community to which it belongs.

Communication

Communication is a two-way channel that requires an ability to listen and an ability to convey the appropriate information. Knowing how to listen to the requirements expressed by the people we speak to, and how to perceive unspoken nuances, is a decisive aspect of our relations with all the company's internal and external stakeholders, although we are aware that change cannot always be achieved immediately.
Following the merger of the two major companies Fondiaria and SAI, the Group has developed a new corporate identity that represents a single and integrated entity. The values set out are the guiding principles that must inspire all of Fondiaria-SAI's resources in their daily work, from its employees to its external associates.

Team spirit

Care and respect for individuals are central to the company's operations, because we are convinced that the creativity and intelligence of individuals are decisive for the success of our work and the achievement of our objectives.
But in addition to the individual there is the team: a harmonious combination of the various abilities.
The team encompasses and amplifies the skills of its members exponentially, thus allowing excellence to be achieved in the quality of the service provided.

Innovation

Corporate tradition and culture are the bedrock of our Group. In the light of the merger between Fondiaria and SAI (2002), which has characterised the life of the Group, we believe that we have been able to innovate and integrate our culture, benefiting from the economies of scale offered in organisational terms and acquiring the wealth of experience and values of both.
Innovation means knowing how to face the future while maintaining the roots of your origins firm, anticipating and managing change by seizing the opportunities it offers.

PRINCIPAL EVENTS IN 2006

Significant financial transactions

Swiss Life Holding S.A.
In early January, the entire shareholding held by the Fondiaria-SAI Group in Swiss Life Holding was sold.

Capitalia S.p.A. share syndication agreement
On 11 January 2006, the parent company declared that it was willing to increase its total share held in CAPITALIA and contributed to the share syndication agreement, directly and through Milano Assicurazioni, from the current 2.57% to 3.50%.

Banca Leonardo S.p.A.
During April 2006, Fondiaria-SAI acquired, through the wholly-owned subsidiary Saifin-Saifinanziaria S.p.A. and subject to authorisation from the Bank of Italy, a share in the capital of Banca Leonardo amounting to approximately 4.5%, and subscribed to a share of 5.15% of the capital increase of the Bank itself, thus allowing the acquisition – following the capital increase – of a shareholding of 5%.

Liguria Assicurazioni S.p.A.
During May, Fondiaria-SAI signed a definitive purchase and sale contract with Gaula Consultadoria e Investimentos LDA for the entire shareholding in Liguria Assicurazioni owned by the seller and amounting to 99.97% of the share capital.

Capitalia Assicurazioni S.p.A.
During June, the Capitalia Group and the Fondiaria-SAI Group reached a multiannual agreement for development of the non-life bancassurance business in the non-marine classes. The operation led to the purchase by Fondiaria-SAI S.p.A. of a 51% share in the capital of Fineco Assicurazioni S.p.A. for a total of € 56m.
Fineco Assicurazioni will distribute insurance products relating to non-marine classes, on an exclusive basis, through the current networks of the Capitalia Group, which consist of 2,000 branches covering the whole country, in addition to around 1,300 financial advisors, amounting to a total potential of well over 4 million clients.

Banca Gesfid S.A.
During December 2006, the Group implemented the agreements reached on 22 September of the same year, completing the sale by Fondiaria-SAI of 60% of the capital of Banca Gesfid, a Swiss lending establishment fully controlled by Rinascita Holding, a holding company wholly owned by Meliorbanca, for CHF 54m. The agreement also provides for a mutual option relating, respectively, to the purchase and sale of the remaining 40% of the capital of Banca Gesfid, to be exercised between 1 November and 31 December 2008, for a price that will primarily be based on the evolution of the company's net equity.

Real Estate

Ex Varesine
During the first few months of 2006, negotiations were completed with the US real estate group Hines

for the establishment of a joint venture with the Fondiaria-SAI Group aimed at implementing a property development project in the area of Milan known as “EX VARESINE”, adjacent to the area known as “GARIBALDI REPUBBLICA”, which was the subject of a similar agreement signed the previous year by the subsidiary Milano Assicurazioni with the same leading US group.

Principi di Piemonte
During January, a leasing contract was signed with Atahotels for the hotel and conference centre complex known as “Principi di Piemonte”, which allowed it to be opened to the public from the “Turin 2006” olympic event onwards.

Bancassurance

Cassa di Risparmio di Parma & Piacenza
Fondiaria-SAI and Cassa di Risparmio di Parma e Piacenza announce that on 27 December 2007 they signed an agreement that provides for the extension of the shareholders’, distribution and service agreements relating to the bancassurance company PO VITA, owned in equal parts by the two companies, for a period of at least twelve months.

Bipiemme Vita S.p.A.
On 14/06/2006, Banca Popolare di Milano (BPM) and Milano Assicurazioni executed an agreement for the joint development, on an exclusive basis, of the bancassurance activities of Gruppo Bipiemme Group in the life business, signed on 21/12/2005. This agreement provides for the implementation of a wider business alliance and co-operation project with BPM in the bancassurance sector, to be implemented in the life classes, non-life classes and in banking and financial services. Bipiemme Vita is the insurance company of the BPM Group that operates through the Group’s approximately 700 branches. For further details, please refer to the section entitled “Alliance and co-operation with Banca Popolare di Milano in the Bancassurance sector” on page 78.

Other events

2006-2008 Business Plan
On 11 April 2006, during a meeting with the financial community, the Group’s Business Plan for 2006-2008 was made public. The aim of the new plan is to increase value for shareholders by acting on the following levers: increasing business diversification by reducing risk, creating new development options and increasing profitability.

Resolution to annul own shares in the portfolio
The extraordinary shareholders’ meeting of Fondiaria-SAI, held in Florence on 4 December 2006, resolved to reduce the share capital from € 177,680,822 to € 168,190,610, for the purpose of optimising the company’s equity structure, by annulling all the 9,490,212 own shares held in the portfolio. The operation is part of the process of achieving the aims of the Fondiaria-SAI Group’s business plan for 2006-2008, presented to the financial community last April.

Fondiaria-SAI wins the Oscar di Bilancio 2006
On 29 November 2006, at the offices of Borsa Italiana in Milan, the parent company was awarded the Oscar di Bilancio 2006 for the “Insurance Companies” category by Prof. Angelo Provasoli, Rector of the Bocconi University. The award is promoted by FERPI (the Italian public relations federation) to reward companies that draw up their accounts in a transparent and comprehensive way, paying particu-

lar attention to communication.

For an insurance company like Fondiaria-SAI, receiving this major award serves to enhance its role in the Italian economic scenario by offering a dynamic and transparent image of the company and by demonstrating that it puts financial communication at the centre of its operations. It is particularly important to note that this award was conferred during the first year of application of the new IAS/IFRS principles, a testimony to the great effort made by the company in managing the transition to the new accounting and disclosure standards.

Text of the citation

"The annual report is of excellent quality as regards transparency in accounting, legibility, completeness of data and use of graphics. The group's business and financial information and documentation is presented with clarity and effectiveness. The CSR report is worthy of particular praise for its structure and contents. Also noteworthy are: the production process, which involves students from Turin University; the table showing the objectives and how far these have been achieved; and the in-depth analytical data on the social value in respect of the stakeholders. The sections on risk analysis and international accounting principles are excellent."

Oscar di Bilancio
Imprese di Assicurazioni
2006

WINNER

Fondiaria Sai S.p.A

Il bilancio è di ottima qualità sia per quanto riguarda la trasparenza contabile,
sia per la leggibilità, la completezza dei dati e l'analisi grafica.
L'informazione economico-finanziaria del gruppo e la documentazione
è espressa in un editing chiaro ed efficace.
Di particolare pregio per struttura e contenuti, il rendiconto sociale.
Degni di nota, il processo di trasparenza, che ha coinvolto gli studenti dell'Università di Torino,
la tabella degli obiettivi dichiarati e del grado di conseguimento,
e i dati analitici di approfondimento sul valore sociale verso gli stakeholder.
Eccellenti le sezioni sull'analisi dei rischi e sui principi contabili internazionali.

sotto l'Alto Patronato
del Presidente
della Repubblica
Italiana

Andrea Pennisi
Presidente Ferpi

Angelo Pennisi
Presidente della Giuria del Premio

FERPI
Federazione Relazioni Pubbliche Italiane

Best Market Performer
For the second year running, Fondiaria-SAI was also judged the best market performer by the Deloitte insurance industry survey regarding the distribution network control function.

Standard & Poor's Rating
On 20 September 2006, the rating agency Standard & Poor's confirmed the "BBB" rating already assigned to the Fondiaria-SAI Group, simultaneously improving its outlook from stable to positive. The outlook review reflects a more prudential investment strategy and an improved capitalisation, as well as the strong competitive position achieved by the Group on the market and its significant operational performance.

NEW INSURANCE AND FINANCIAL PRODUCTS

Non-Life Insurance Business

Fondiaria-SAI S.p.A.

- The NUOVA 1ª GLOBAL insurance product offers an innovative opportunity for motor vehicles and particularly for insuring two-wheeled vehicles (with reference to Presidential Decree no. 153/06 on the system for registering and issuing registration documents for mopeds), offering a considerable choice of different types of cover that can be combined with one another in different ways. Furthermore, the product offers real concessions to customers who already own a car (or one of a number of other types of vehicles) and want to insure a two-wheeled vehicle (newly registered or re-registered) for the first time, because the previous rate of claims on the risk statement for the vehicle already insured is taken into account when the new policy is drawn up.

Fondiaria-SAI Group

- The new LA MIA ASSICURAZIONE FABBRICATI Group policy insures the property assets of building owners, the civil liability arising from the ownership and running of these buildings and the civil liability of the building administrators. Given that unfortunate events which compromise the building may also affect people, property or buildings in the vicinity, the owners of buildings, who have civil liability under the law, are required to pay compensation for damage caused accidentally. The product also includes cover for the administrators of buildings to cover them in the performance of their professional activities. The big innovation introduced by this policy is however the support service, which provides policyholders with 24-hour access to an operational centre all year round. LA MIA ASSICURAZIONE FABBRICATI provides a stable support for covering the cost of unforeseen damage, thanks to a modular insurance system providing flexible and personalised cover.

- Launch of the new LA MIA ASSICURAZIONE CASA product, the new multirisk cover to protect homes and families. LA MIA ASSICURAZIONE CASA is a policy dedicated to protecting your home and the people who live or work in it, helping them with the unforeseen events of daily life, whether they occur in or outside the home. Modular, flexible and comprehensive, LA MIA ASSICURAZIONE CASA has been created to fulfil the insurance requirements of modern life, allowing people to set up a personalised insurance plan according to their requirements. Providing 6 main types of cover (Fire and other material damage, Glass, Theft and Robbery, Civil Liability, Legal Protection, Assistance), LA MIA ASSICURAZIONE CASA always includes the assistance of tradesmen, doctors or professionals in the event of an emergency, 24 hours a day, 365 days a week.

- Launch of the new LA MIA ASSICURAZIONE INFORTUNI product, the policy which, in the event of an accident, provides the whole family with effective financial support, protecting customers in the most serious situations. LA MIA ASSICURAZIONE INFORTUNI is a highly customisable product to suit various requirements (relating to work and home life) and fulfils the welfare requirements of individuals and the family as a whole in the event of an accident or illness.

  LA MIA ASSICURAZIONE INFORTUNI offers:
    - protection from accidents that may affect the policyholder and his/her family, reducing the financial damage caused to them;
    - an assessment system for cases of invalidity exceeding 30%;
    - additional compensation for insured minors in the event of serious invalidity;
    - cover for the main types of sport played at amateur level.

- Launch of LA MIA ASSICURAZIONE BASIC, designed for customers who only hold a motor policy with Fondiaria-SAI and its networks and have a low "propensity to insure", aimed at initiating a process of greater commercial penetration in accordance with the business plan for 2006-2008.

- With reference to law 210 of 02/08/2004, delegating the Government to protect the patrimonial rights of the purchasers of properties to be built and requiring builders to arrange for the buyer to be provided with a guarantee, the new CAUZ210 product has been launched in the Guarantees Class.

- Furthermore, a new Property Leasing product has been launched and work has been completed on a new policy to cover Collective Accident Risks, which will be marketed from the beginning of 2007.

- In September, the Milano Assicurazioni Group launched the new LA MIA ASSICURAZIONE MULTIRISCHI product, designed to introduce the world of insurance to customers who have not yet shown an interest in protecting their assets, and who therefore have no other policy than their motor insurance, because it is required by law.

Liguria Assicurazioni S.p.A.

The following products were developed during the second half of 2006:

- The "Valore salute" policy, which offers health cover that is consistent with the standards of the main competitors and the services of the widespread network of healthcare establishments which have agreements with the Fondiaria-SAI group. This product extends the service provided to customers and is part of a plan to modernise the product catalogue.
- The "Primo valore" policy, aimed at retail customers, which is characterised by a modular and streamlined cover. This is an over-the-counter product, easy to illustrate and understand, which fulfils the main requirements of the target customer.

Liguria Vita S.p.A.

The following products were developed during 2006:

- the "Valore continuo" policy, which extends the service provided to customers and is part of a plan to modernise the product catalogue, aimed at recovering expiring policies;
- the "Valore rivalutati" policy, which is characterised by low loadings, modular and streamlined cover, and has received an excellent response from customers and the distribution network.

Bipiemme Vita S.p.A.

From the beginning of April, the Group's networks have been able to market the new Unit Linked "Duetto" policy, which combines a Class I "BPM Consolida" Separate Management insurance produce with an internal flexible Class III "BPM Flex" fund.

Life Pension Fund and Managed Savings Business

- The Group's DEDICATA A CHI AMI policy has been created to fulfil the needs of people who want to protect their own future and that of their loved ones. Available in four different formulas, this new Life product guarantees peace of mind and security in the future by paying out an insured amount of capital or covering the cost of a loan.

In particular:

- DEDICATA CERTIFICATA: is the ideal formula for people who want to insure capital of over € 150,000 or are over 60 years old.
- DEDICATA MUTUI: is the solution designed for the needs of people who want to protect their loved ones when taking out a loan, for capital amounts of over € 150,000.
- DEDICATA LIGHT: provides a simple and immediate insurance solution for people under the age of 60 who are not involved in risky occupations and don't practise a dangerous sport, up to a maximum of € 100,000.
- DEDICATA ATTIVA: is designed for people who want even wider protection or prefer to be protected against the risks inherent in their occupation or arising from dangerous sports, up to a maximum of € 150,000. The product also allows special additional cover to be added, which allow the insured capital to be increased or for the cover to be extended to the spouse.

Flexible and customisable, the new product can be taken out at any age and covers a wide range of events: a diversified offering that satisfies individuals and families and allows customers to look to the future with confidence and optimism.

Po Vita Compagnia di Assicurazione S.p.A.

The new unit lines launched by Po Vita during 2006:

- PO VITA UNIT RE 2006;
- PO VITA UNIT MI 2006;
- PO VITA UNIT FA 2006;
- PO VITA UNIT SOL 2006.

These are deferred capital insurance policies expressed in units of an internal fund, with a special counter-insurance. They are single-premium policies (Po Vita Unit RE 2006) and supplementary premium policies (Po Vita Unit MI 2006, FA 2006, SOL 2006) aimed at increasing value over time by means of an investment policy aimed at ensuring a portfolio that is geographically diversified (Po Vita Unit RE 2006 e MI 2006) or concentrated in Europe (Po Vita Unit FA 2006) or concentrated in the Far East (Po Vita Unit SOL 2006), mainly using undertakings for collective investment of savings in equities and bonds/currency.

BANCASAI S.p.A.
Current accounts

New range of current accounts designed for the specific requirements of tradesmen, self-employed people and medium to large sized companies. An innovative and flexible range, distinguished by an even greater and more comprehensive range of services. In particular:

- "EASY BUSINESS[1]" and "EASY BUSINESS[2]" are aimed specifically at tradesmen, self-employed people and small businesses and are aimed respectively at current account holders with low and medium levels of operation;
- EASY CORPORATE is instead aimed at current account holders with a high level of operation and therefore medium to large sized companies.

The EASY BUSINESS and EASY CORPORATE accounts also allow account holders to pay cash and cheques into, and to withdraw money from their current account at any branch of Banca Intesa Sanpaolo.

Other services

The innovative services offered by BANCASAI also include the option for retailers to apply to have a POS terminal installed and enter into agreements with the main national and international payment systems.

SIGNIFICANT EVENTS THAT OCCURRED AFTER THE END OF THE FINANCIAL YEAR

Bersani Bis Decree Law

Decree Law no. 7 of 31.01.2007, known as "Bersani Bis", containing urgent measures for the protection of consumers, the promotion of competition, the development of economic activities and the creation of new companies has been published.
The decree contains a number of provisions relating to insurance, the most important of which, in the context of motor civil liability, relate to maintaining and developing the *classe di merito* [risk category] and the "portability" of the *attestato di rischio* [risk certificate]. The economic impact of this is not quantifiable at the present time. The Company has initiated the procedures needed to comply with the legislation.

Joint Venture with the EDS Group for the management of the Fondiaria-SAI Group's Information Technology infrastructure

A project has been launched which provides for the management of the Fondiaria-SAI Group's IT infrastructure to be entrusted to a joint venture consisting of a partner with proven ability and experience in the IT sector, identified as EDS Italia S.p.A. (hereinafter EDS).

Considering the increase in competition that is forecast in the insurance market, the company has decided that one of key ways of achieving the objectives set out in the Fondiaria-SAI Group's Business Plan for 2006-2008 is to set up an IT project to adapt the Group's IT systems and allow the Group to improve its competitiveness as well as save costs.

Purchase by the subsidiary Immobiliare Lombarda of a shareholding in the company IGLI

On 27 February 2007, the real estate subsidiary Immobiliare Lombarda purchased a total share of 33.3% in the capital of IGLI S.p.A.
IGLI is a holding company whose only asset is a share of approximately 29.9% in Impregilo.
The purchase of this shareholding lays the foundations for Immobiliare Lombarda, during in a delicate phase in the restructuring of IGLI's shareholding structure, to assume a greater role among the holding company's shareholders, consistent with its intention to develop business synergies connected with the core business of Immobiliare Lombarda.
Following the termination of the shareholders' agreement originally signed between the founding shareholders of IGLI in June 2005, Immobiliare Lombarda has therefore signed a new shareholders' agreement with Argo Finanziaria and Autostrade per l'Italia aimed at regulating the governance of IGLI and the rights resulting from the shareholding in Impregilo held by IGLI itself.
Immobiliare Lombarda covered the overall investment partly by the sale of property and partly by recourse to loans.

The governance of the Group will be shared equally between the three shareholders. The agreement also establishes a lock-up on the shares held by the three shareholders for its entire duration: this procedure allows a dissenting shareholder to depart it it disagrees with specific resolutions made by the Board of Directors of Impregilo.
The IGLI shareholders' agreement will remain in force until 12 June 2008.

Meridiano Secondo and Tikal R.E. Fund

During February, the subsidiary Meridiano Secondo purchased volumetric rights for accommodation and hotel use in the Garibaldi-Repubblica area of Milan for € 17,700,000. With this purchase, the company completed the preparatory acquisitions required to build a very high quality hotel complex in Milan.
Also during February, the Tikal fund sold the property portions owned in Turin, at Via Lagrange, for € 13.7m excluding VAT.

IT agreement for Non-Life Bancassurance

During March 2007, Rgi – a company listed in the Espandi segment and operating in the Information Technology sector for the world of insurance and banking – signed a contract with the Fondiaria-SAI Group to the supply the Information System for the management of Non-Life Bancassurance.
The project will support the sale of insurance products through the 3,000 or so bank branches throughout the country.
The value of the contract, which will be in force for three years, is € 3.7m.

CONSOLIDATED ACCOUNTS
2006 FINANCIAL YEAR

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

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

BOARD OF DIRECTORS

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

BOARD OF AUDITORS

Benito Giovanni Marino	*Chairman*
Giancarlo Mantovani	*Regular auditor*
Marco Spadacini	*Regular auditor*
Maria Luisa Mosconi	*Alternate auditor*
Pierino Rosati	*Alternate auditor*
Alessandro Malerba	*Alternate auditor*

INDEPENDENT AUDITORS

DELOITTE & TOUCHE S.p.A.

COMMON REPRESENTATIVE OF THE SAVINGS SHAREHOLDERS

Sandro Quagliotti

CHIEF EXECUTIVE OFFICER

Fausto Marchionni

** Members of the Executive Committee*

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

- transfer and/or purchase of real estate with a value greater than € 15m per transaction;
- transfer and/or purchase of shareholdings with a value greater than € 30m per transaction and controlling shareholdings;
- taking on loans for an amount greater than € 50m per transaction;
- issuing of non-insurance guarantees in favour of third parties.

The Chairman and Managing Director are required to report to the Executive Committee or the Board of Directors at all meetings on the performance of the duties assigned to them as above, particularly with regard to atypical and unusual transactions and to transactions with related parties (unless reserved for the Board) and, more generally, the more important transactions.

All the powers not already vested in the Chairman and Managing Director are conferred upon the Executive Committee, with the exception of those expressly reserved for the Board by law or the articles of association and without prejudice to the Board's exclusive competence – pursuant to the code of conduct regarding transactions with related parties approved by the Board of Directors at its meeting on 16 February 2005 - for all resolutions concerning transactions with related parties which, in view of their subject, value, method or timescale may have an effect on the net equity of the company or on the completeness and accuracy of the information, of an accounting nature or otherwise, relating to the issuer, excluding transactions carried out between subsidiary companies or by subsidiary companies with associated companies. The Committee reports to the Board of Directors at all appropriate meetings on the exercise of its powers.

The Board of Directors was appointed by the general meeting held on 28 April 2006.

The Board's term will end at the same time as that of the Board of Auditors at the meeting to approve the accounts for the financial year 2008.

SUBSIDIARY AND ASSOCIATED COMPANIES AND OTHER SIGNIFICANT SHAREHOLDINGS

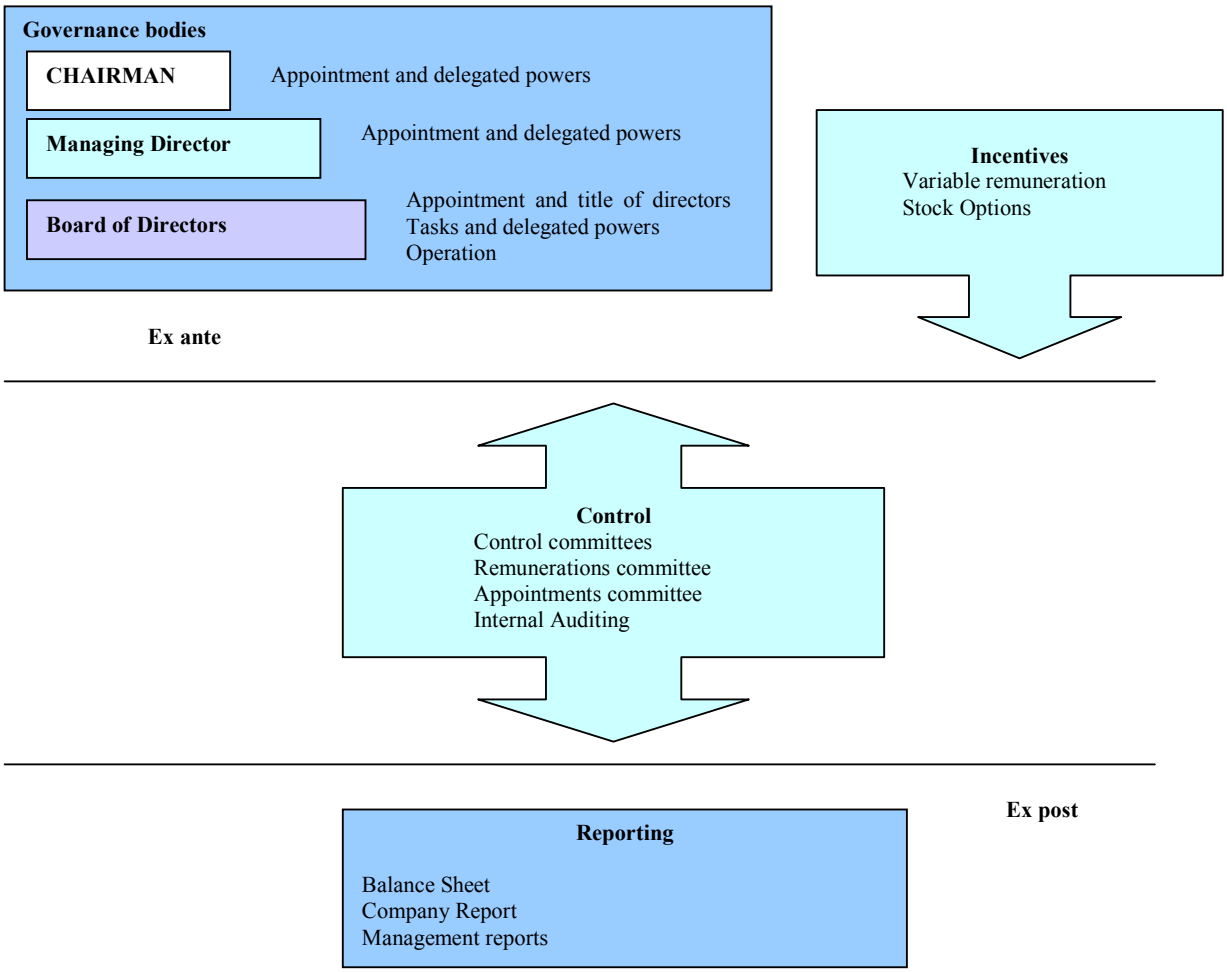
(2 TABLES)

Corporate Governance

Foreword

The expression "Corporate Governance" refers, in a strict sense, to the set of rules and principles (both legal and technical) aimed at ensuring that the governance of a company is efficient as well as being honest in respect of all the parties involved in the life of the company itself and able to pursue the objectives of the company, with particular attention being paid to safeguarding the interests of minority shareholders.
In a wider sense, Corporate Governance also covers the conditions that arise in the economic system in which companies find themselves operating. Many international surveys have in fact demonstrated how important Corporate Governance rules are in determining the development of financial markets, the efficiency of companies and the growth of the economy as a whole.
Growing awareness of the need for good corporate governance and recent financial scandals have led industry operators and scholars to shift their attention from the structure and operation of the Board of Directors to those of the Corporate Governance system as a whole. It is believed in fact that ensuring efficient Corporate Governance does not lie solely in providing ex ante guidance for the actions of management. It also has to include ex post assessment of the results achieved by management by means of periodic reporting.

Figure 1 – Model for the analysis of Corporate Governance systems



Source: SDA Bocconi

Following the reform of Italian company law, which came into force in January 2004, European integration and the wider phenomenon of economic and financial globalisation have pushed companies to search for increasingly efficient systems of Corporate Governance to maximise their value and achieve a level of competitiveness that will ensure their attractiveness to investors. In fact, according to a definition laid down by the economist Clarke at the end of the 1990s, these systems strive to achieve satisfactory balances between the various categories of interests that converge in the company, regulating the exercise of economic governance prerogatives and incentives for the various categories of stakeholders, with the aim of ensuring the achievement of efficient results in management processes.

Financial communication and effectiveness of Corporate Governance systems

In recent years, a gap has developed between the information that companies are required to publish and the requirements expressed by stakeholders, accentuated by the effects on the community of the bankruptcy of well-known companies that were highly structured and subject to more stringent regulations because they were listed on the financial markets. In this context, the transparency of information, which is essential for the competitiveness of companies, requires the effective operation of Corporate Governance systems and above all control procedures. These must be accompanied by appropriate legislation regarding external disclosure.
Therefore, financial communication, in its various compulsory and voluntary components, is a critical element of the financial governance of companies because it influences the relations established with the various categories of stakeholders, both within the organisation and in the relevant environment.

The disclosure requirements are not satisfied merely by providing financial information. Other elements are required, including information about the company's mission and general strategy, the competitive dynamics, the structure of its ownership and governance bodies and the rights of shareholders, in line with a vision of communication that is increasingly extended to governance and management activities and aimed at winning the support of stakeholders not exclusively on the basis of the results achieved but also of the methods used to pursue the company's ends.

As an example, we only need to recall how the information provided in balance sheets was for a long time conditioned not only by the technical nature of its content, which made it essential for the reader to have the skills required to interpret the values expressed in the summary tables correctly, but also by a tendency on the part of the person drafting the balance sheets to guard confidentiality and restrict the amount of information disclosed. The circulation of information outside the company was regarded as potentially damaging to the favourable performance of the business and the restrictive attitude was supported by regulations on disclosure requirements, which did not impose particularly stringent rules in defining minimum content.

The approach to communication has of necessity changed in recent years, both in overall terms and with regard to the annual accounts in particular, both because it has been recognised that the interests of the various stakeholders involved in the operation of companies have widened and because of the pressure exerted by the surrounding environment regarding the responsibilities that companies must assume.

A higher level of financial communication allows the company to achieve a competitive advantage in the capital market by reducing the cost of financing, in terms of both risk and loan. Empirical evidence found by a number of economists at the end of the 1990s in fact shows that financiers have greater expectations of a return on investments when the quality of communication is perceived as reducing the asymmetry of information and consequently the degree of risk involved in the investment of resources.

RISK MANAGEMENT

With the approval of the 2006-2008 Business Plan in 2006, the company has drawn the route to be taken by the Fondiaria-SAI Group for the next three years, which will allow the Corporate Governance system to pursue the pre-established objectives.

Corporate Governance is defined as "the set of processes, procedures, rules and bodies pertaining to the methods by which companies are managed, administered and controlled". The definition is also applicable to the Italian context where, particularly in the insurance sector, evolution has to be seen in the light of important changes, such as:

- the increased awareness-building carried out by the supervisory body with the coming into force of Circular 577/D issued by ISVAP on 30/12/2005 and containing "Provisions regarding internal control systems and risk management". This clarifies (in article 1) that "the solvency of insurance companies, the need to ensure their healthy and prudent management, and with them the stability of the insurance sector, must go hand-in-hand with solid corporate governance and efficient operation of the internal control and risk control system".
- The future changes that will be introduced by Solvency II, given that the major effort to be made in this field is to align the economic capital of insurance companies with the requirements of the supervisory authority to safeguard the stability of the sector, objectives which are often disassociated from one another because profitability targets are not always weighted according to the underlying risks.
- Opportunities for strategic/operational improvement in risk management. Risk assessment metrics that allow the cost of capital to the company to be assessed essentially serve to achieve three objectives: the first is to understand whether value is truly being created, the second is to assess whether the business carried out is risky, the third is to understand whether the financial markets are being given signals about the greater or lesser solidity of the business.

Integrated risk management is therefore assuming increasing strategic importance in insurance companies, with a view not only to creating value for stakeholders but also to safeguarding the assets of the company to confront the risks it assumes.

A contradictory aspect that emerged during a round table organised by PricewaterhouseCoopers Advisory and MIB School of Management last June, dedicated specifically to Enterprise Wide Risk Management in the insurance sectors, is that at international level 64% of companies believe that risk management is fundamentally important but only 5% integrate it into their decision-making processes for actual management.

From Risk Management to Enterprise Risk Management

Insurance companies are by their very nature operators that assume risks and do not operate in a deterministic scenario but find themselves operating in a risk culture and having to manage uncertain situations on a daily basis. This is even more true in the current context, in which, as a result of the technological innovation processes and of the globalisation and market concentration phenomena, the extent and speed of changes are increasing all the time.
ISVAP circular 577/D is one of the fundamental steps towards establishing not only a change in relations with the supervisory body but also a risk culture, a greater "risk sensitivity" and a greater transparency towards the market in companies.

Figure 2 – Risk culture

Risk Management is a Corporate Governance tool and is evolving into a concept of Enterprise Risk Management (ERM).
The Corporate Governance system therefore has to be expanded by the addition of a new component, which is Enterprise Risk Management, a continuous process (not merely a one-off initiative) implemented by involving people at all levels of the organisation and able to support the definition of corporate strategies, designed to identify events that may influence the business and manage these events in a way that is consistent with the company's risk profile, that can therefore provide an assurance to senior management (with a "reasonable" degree of certainty) that the objectives of each individual organisation unit will be achieved.

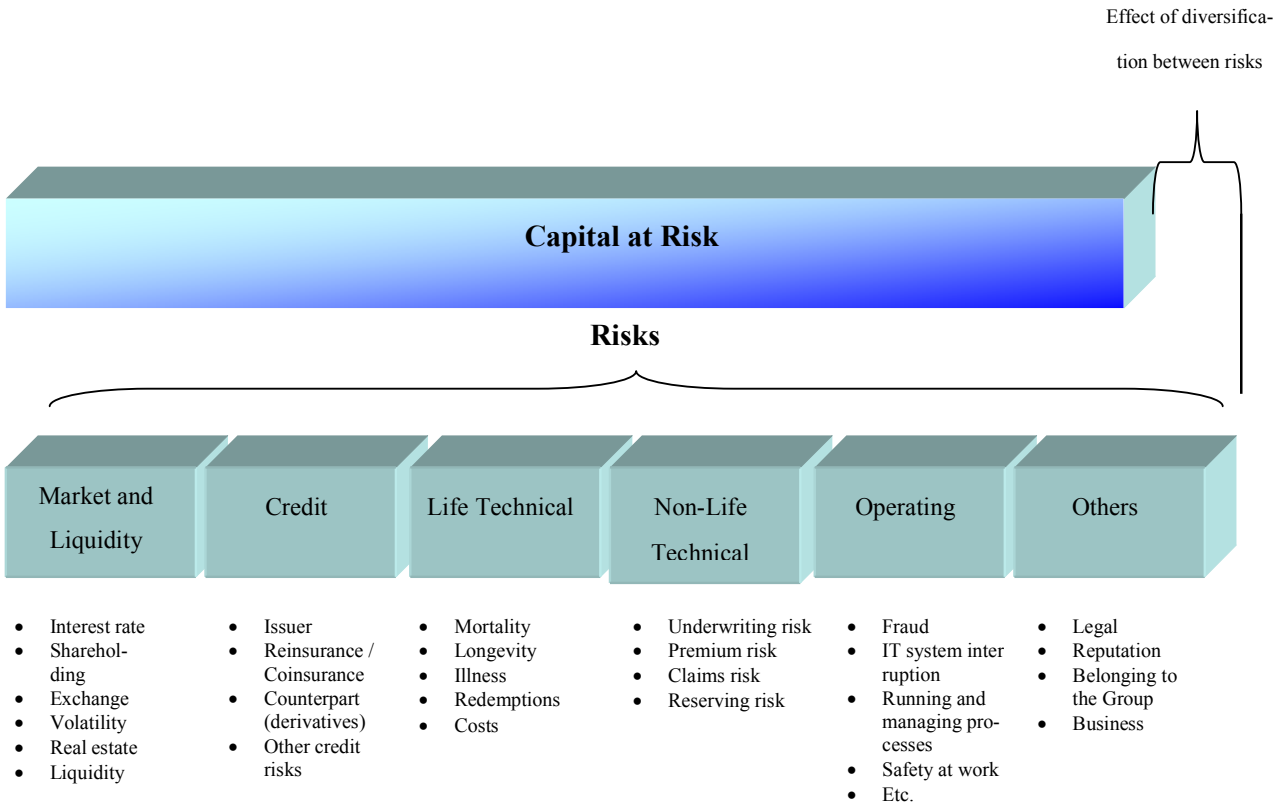
This subject is particularly delicate for the world of insurance, because it is necessary for qualitative requirements relating to management, which will ensure appropriate governance, effective and efficient systems for internal control and for identifying, assessing and controlling risks, to be added to the prudential instruments of the quantitative kind that are already used by insurance companies.

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

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

Part IV of ISVAP Circular 577/D is dedicated to "Risk management". In particular it specifies (in article 14) that "Companies are required to have an adequate risk management system which is commensurate with the size and complexity of the activities carried out, and which allows the identification, assessment and control of the most significant risks, meaning risks that have consequences which may undermine the solvency of the company and constitute a serious obstacle to achievement of the company's objectives. The ultimate objective of the risks management system is to maintain the risks that have been identified and assessed at an acceptable level, which is consistent with the company's assets."

Figure 3 – Types of risks



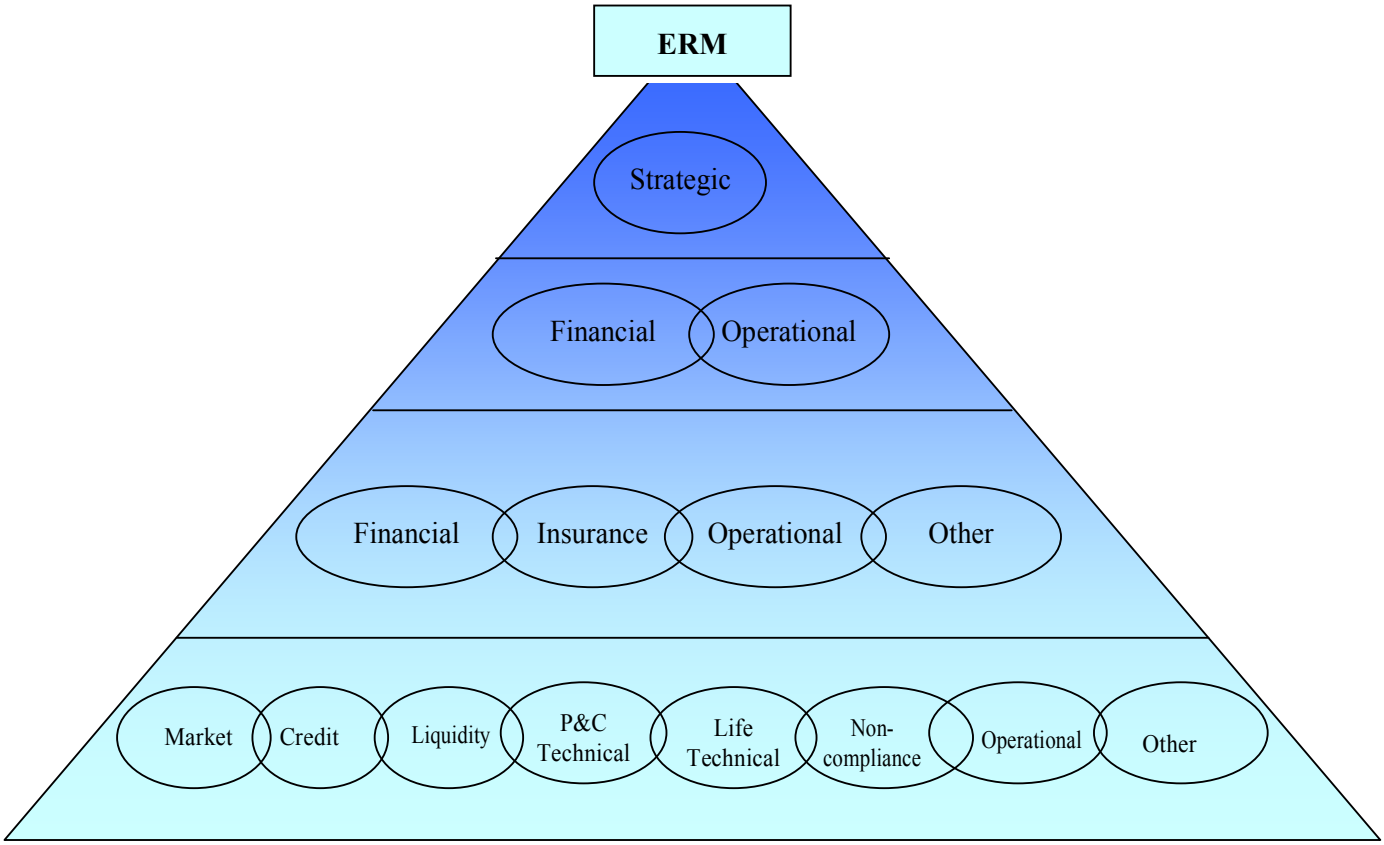
While each company is free to categorise risks in the most suitable way (risk mapping) according to its specific requirements, the main risk categories to be analysed can be summarised as follows:

- *underwriting risk*, i.e. the typical risk faced by insurance companies, which arises from the underwriting of insurance contracts and is associated with the events covered, the processes followed for rating and selecting risks, unfavourable performance of loss ratio compared to the estimated ratio;
- *provisioning risk*, associated with an insufficient quantification of the technical reserves compared to the risks assumed in respect of policy holders and parties incurring losses;
- *market risk*, which is the risk of making losses as a result of variations in interest rates, share prices, exchange rates and property prices;
- *credit risk*, associated with breaches of contract by issuers of financial instruments, reinsurers, intermediaries and other counterparts;
- *liquidity risk*, which is the risk of being unable to fulfil obligations towards policy holders and other creditors owing to difficulties in converting investments into cash without incurring losses;
- *operating risk*, caused by potential losses resulting from inefficiencies of people, processes and systems, including the ones used for remote selling, or from external events, such as fraud or the activities of outsourcers;
- *risk associated with belonging to the group*, which is the risk of "infection" resulting from transactions with related parties, etc.;
- *legal risk*, resulting from non-compliance with laws, regulations or measures issued by the supervisory authorities or from unfavourable changes to the legislative framework, or risk associated with changes in jurisprudential scenarios;
- *reputation risk*, which is the deterioration of the company's image due inter alia to a reduction in the quality of the services offered, to the sale of inadequate policies or to the conduct of the sales network.

The establishment of a specific department for this purpose, the location of which within the organisation is left to the discretion of the individual companies, is therefore aimed at ensuring, with a reasonable degree of certainty, that the company will be able to achieve the objectives set in a stochastic framework, considering all the potentially verifiable scenarios and not only the pre-defined ones, ensuring with a certain confidence level (corresponding to the rating to which the company aspires) that any divergence from the objectives will be maintained within the maximum risk limits defined by the Board of Directors.

In fact, the Board of Directors defines the risk tolerance threshold on the basis of both the specific degree of propensity to risk and of the available capital, bearing in mind that a certain degree of uncertainty is an inherent element of entrepreneurial activity and that there is a trade-off between risk and performance.

Figure 4 – Risks underlying the ERM function



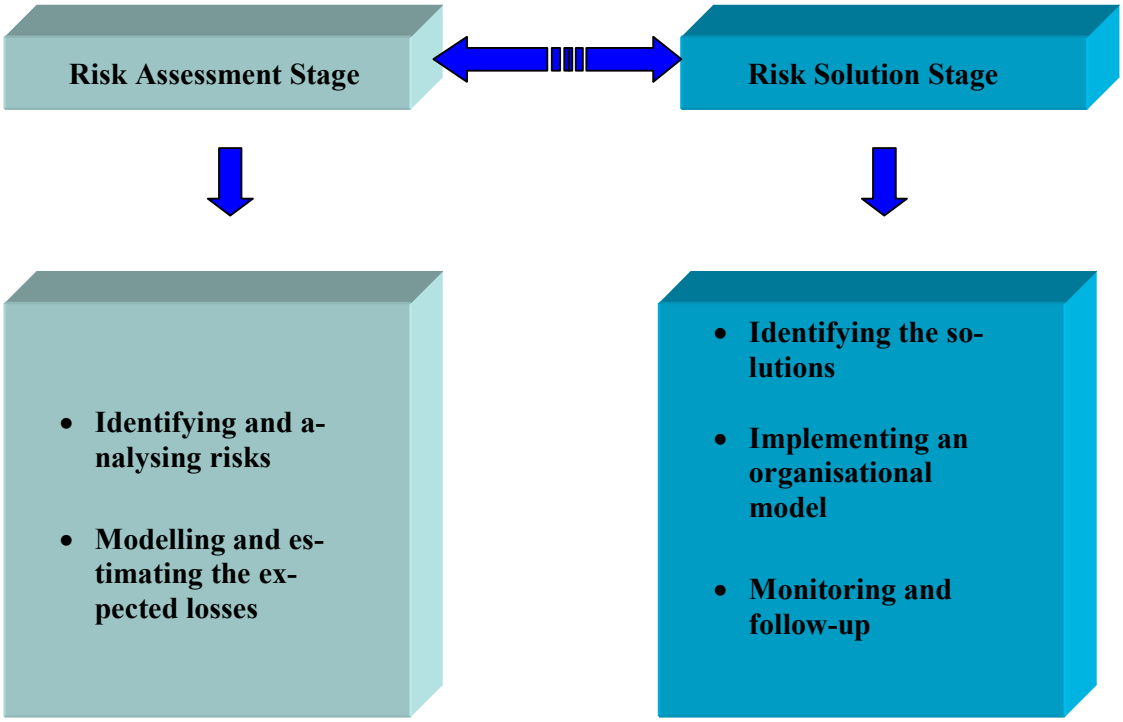
Minimising risk involves costs for the company, both explicit, in terms of the cost of providing insurance cover (the premium paid to take out the insurance policy), and implicit, in terms of lower performance (e.g. a government security presents a lower credit risk than a corporate bond, offering a lower coupon rate, just as a general bond involves a lower market risk than an equity, but offers a lower return).

With the development of Enterprise Risk Management, Risk Management becomes one of the essential elements for achieving an effective and efficient Corporate Governance model, provided that:

1. it is perceived by the people who use it as a further opportunity for growth, which is able to increase the level of customer satisfaction;
2. it has no tasks of an operational nature;
3. it is independent of the operational areas, in both functional and hierarchical terms;
4. the potential for reducing company's loss ratio is recognised.

The ERM process can be subdivided into two correlated fases, as shown in the following diagram.

Figure 5 – ERM process



The macro activities included in the Risk Assessment stage consist essentially of the following:

- Identifying the internal and external risks of the company (market, liquidity, credit, operational, compliance, etc.);
- creating the "risk map" according to a "severity of risk / probability of occurrence" matrix, which allows the most important risks to be identified and is share with the individual operational areas;
- analysis, starting from the highest risks shown on the aforesaid "risk map", of the gap between inherent risk and existing controls.

The macro activities included in the Risk Solution stage instead relate to:

- planning the organisational activities need to confront the major risks identified during the assessment stage according to the priorities identified;
- developing key risk indicators;
- monitoring risks and the actions planned, follow-ups and new assessment activities.

Economic requirements and regulatory requirements

Supervisory authorities and rating agencies are also becoming increasingly aware of how the size of the risk is important in assessing the prospective solvency of an insurance company and how any judgement must include an analysis of its risk profile and its ERM system.
Therefore, for the purposes of the solvency margin and the rating calculation, among other things, provision has been made for the future use of internal models for assessing risks and estimating capital absorbed which, thanks to their personalised nature, are tailored to the specific risk profile of the company and, compared to standard models, allow greater account to be taken of the ability to reduce the risks and the effects of the correlation between the various risk factors, between the different classes and areas of business, consequently optimising the capital.

The Fondiaria-SAI Group's ERM plan

In order to fulfil both the internal strategic purposes of optimum capital allocation and the minimum asset requirements imposed by the supervisory authorities and rating agencies, the Fondiaria-SAI Group is proceeding with the construction of an ERM system that will allow the integrated management of risks at Parent Company and Group level, assessing the impacts of trade-offs and correlations using an Asset Liability Management approach. Diversification, which is one of the main tools for reducing risks, is also one of the cornerstones of the 2006-2008 Business Plan.
By means of the ERM system, the Group will therefore be able to monitor the beneficial effects over time, ensuring at the same time that growth and value creation within the Fondiaria-Sai Group are stable and lasting, less vulnerable to market volatility.

CORPORATE GOVERNANCE REPORT

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

Information is provided below on the governance structure of the Company and on the implementation of the principles and recommendations contained in the Code of Self-discipline of Listed Companies drawn up by the Corporate Governance Committee set up for this purpose by Borsa Italiana S.p.A. (hereinafter: the "Code").

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

In accordance with the content of the joint communication issued in November 2006 by Borsa Italiana and Assonime, this report provides information regarding the state of adaptation of the Company's corporate governance system to the recommendations of the new Code, describing the actions already implemented during 2006 and up to the date of the report itself, and those planned for the purpose of applying these recommendations. Reasons are given in the event of non-compliance with the recommendationsof the Code.

Board of Directors and Executive Committee

The Board of Directors is responsible for establishing the strategic and organisational direction taken by the Company and the Group, as well as for verifying that the necessary controls exist to monitor the performance of the Company and its subsidiaries.
Directors cannot be appointed for a period of more than three financial years and are re-electable.
During the general meeting called to approve the accounts for the financial year 2006, the amendments to the articles of association that are needed in order to implement the rule introduced by law no. 262 of 28 December 2005 (hereinafter: "Savings Law") will be submitted for examination and approval. This rule provides for a list voting mechanism to be introduced for the appointment of the Board of Directors, so as to guarantee that one Director can be elected by the minority.
While awaiting promulgation of the regulation required by article 147(v) of Legislative Decree no. 58/98 (hereinafter referred to as the "Finance Consolidation Act"), as introduced by the Savings Law and containing requirements for the honourability of directors, the latter must satisfy the requirements for their post established by the special rules applicable to insurance companies (Ministerial Decree 186/1997).
The Board of Directors has delegated its tasks to an Executive Committee, excluding those that the Board has reserved exclusively for itself and those which cannot be delegated by law.
Under the terms of article 14 of its by-laws, with the exception of matters that are reserved for the shareholders' meeting or the board of directors by law, the Board is permitted to delegate its responsibilities to the Chairman, the Vice Chairmen and/or one or more of its members, determining the content, limits and any procedures for exercising the delegated responsibilities.
Under the terms of this clause of the by-laws, the Board has assigned specific powers to the Chairman and to the Managing Director.

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

Board of Auditors

The Board of Auditors performs the tasks assigned to it by Legislative Decree no. 58/98.
Auditors remain in office for three financial years. The procedure for appointing them, under the terms

of the law and the by-laws, is suited to ensuring that one regular member and one alternative member can be elected by the minority.
While awaiting promulgation of the regulation required by articles 148, paragraph 4, and 148(ii) of the Finance Consolidation Act, as amended and/or supplemented by the Savings Law, the honourability and professionalism requirements of auditors are established by Ministerial Decree no. 162/2000, implementing Legislative Decree no. 58/98, and by the company by-laws, which also established the limits to be placed on the number of tasks assigned to auditors. In particular, under the terms of the by-laws, auditors who are in incompatibility situations described in the law and the by-laws, as well as any that hold the position of regular auditor in more than ten insurance companies with registered offices in Italy or companies issuing financial instruments quoted in Italian regulated markets, to the exclusion of the parent companies, their subsidiaries and associated companies of FONDIARIA-SAI, may not be appointed and, if elected, will lose office.
This provision of the by-laws will be amended in light of the contents of the regulation to be issued by Consob regarding restrictions on the number of posts that may be held by Auditors. Amendments will also be made to the rules contained in the by-laws on the method for appointing the Board of Auditors, having regard to the legal provisions and to the regulatory provisions that Consob will issue – pursuant to article 148, paragraph 2, Legislative Decree no. 58.98 – in its own regulations regarding the methods for electing the Board of Auditors by list voting.

Shareholders' meeting and shareholdings

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

Management and coordination

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

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

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

Role of the Board of Directors and its composition

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

- it examines and approves the strategic, business and financial plans of the Company and of the Group to which it belongs, the corporate governance system of the Company itself and the structure of the Group; in compliance with the responsibilities assigned to the administrative bodies of the individual subsidiaries, the Board of Diectors determines the Group's industrial strategies on a proposal from the Managing Director;
- it periodically checks the adequacy of the internal control system, assisted in this work by the Internal Control Committee described in greater detail further on;
- it assesses, on the basis of the information and reports received from the delegated bodies, the adequacy of the organisational, administrative and accounting structure of the Company and the Group, with particular reference to the internal control system and to the management of conflicts of interest, as well as the general performance of management; it also approved the company's organisational structure;
- it assigns and revokes delegated powers to directors and to the Executive Committee, defining the restrictions and procedures for exercising the delegated powers themselves;
- it determines, with the favourable opinion of the Board of Auditors, the remuneration of managing directors and of people who hold particular posts or to whom specific tasks have been assigned, as well as the subdivision of the overall consideration payable to the Board of Directors and the Executive Committee; in this respect, further information is provided later on regarding the appointment by the Board of Directors of the Remunerations Committee on 27 march 2007;
- it examines and approves, normally in advance, the operations of the Company and its subsidiaries, when these operations are of significant strategic, economic, equity-related or financial importance for the issuer itself, paying particular attention to situations in which one or more directors have an interest of their own or on behalf of third parties and, more generally, to operations with related parties, in respect of which we refer you to the specific details provided later on in this document.

The Board also establishes the guidelines for the internal control system, so that the principal risks are correctly identified and properly measured, managed and monitored.

In its circular no. 577/D of 30 December 2005 (further details of which are provided later on), ISVAP issued provisions aimed at increasing the strategic role played by the Board of Directors in defining the organisation structure, decision-making processes, procedures for assigning powers, recruitment policies and risk management, in accordance with the provisions of the Savings Law and the Code of Self-Discipline of listed companies.

As recommended by the new Code, the Board of Directors will examine the ways in which it can proceed, once a year, with an assessment of the size, make-up and operation of the Board itself and its committees, if necessary expressing an opinion on the professionals whose presence on the Board is considered to be appropriate.

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

Without prejudice to the exclusive responsibility of the Board for the above matters, there are no exclusive responsibilities assigned to the Executive Committee with regard to specific types of operations or expenditure limits. The Executive Committee meets whenever a joint decision is required on one or more matters in cases of necessity or urgency, in order to avoid having to wait for the longer time required to convene the whole Board of Directors. Because of its nature, the Executive Committee does not meet frequently enough to imply that its members are involved in the day-to-day management of the Company.

The resolutions of the Executive Committee are made known to the Board during the next available meeting, together with an update on the evolution of the operation resolved.

Further on in this report, information is provided on the number of meetings of the Board and of the Executive Committee that were held during the financial year and on the attendance record of each director.

The membership of the Board of Directors, which remains unchanged since 31 December 2006 and consists of 19 members, is shown elsewhere in this document. The current mandate will expire at the time of the shareholders' meeting held to approve the accounts as at 31 December 2008.

A resolution for the appointment of the Directors was passed on 28 April 2006 on a proposal from the shareholders.

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

As stated elsewhere in the accounts document, the Executive Committee currently consists of 7 members, including the Chairman, the three Vice Chairmen and the Managing Director. The current composition has remained unchanged since 31 December 2006.

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

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

The Board of Directors has currently delegated all powers of ordinary and extraordinary administration to the Chairman and Managing Director, to be exercised by sole signature and with the power to grant mandates and powers of attorney, with the exception of the following powers exclusively:

- transfer and/or purchase of real estate with a value greater than € 15m per transaction;
- transfer and/or purchase of shareholdings with a value greater than € 25m per transaction and controlling shareholdings;
- taking on loans for an amount greater than € 50m per transaction;
- issuing of non-insurance guarantees in favour of third parties.

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

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

In any case, the Board receives comprehensive information from the Executive Committee or the executive directors regarding operations carried out by the Company or its subsidiaries that are considered significant, in terms of dimensions or characteristics. These delegated persons also report on

the general performance and outlook for management operations, in accordance with article 2381 of the Italian Civil Code. The same information is also supplied to auditors, on the occasion of Board meetings, in accordance with article 150 of the Finance Consolidation Act, with regard to operations in which directors have an interest.

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

We inform you that during 2006:
the Board of Directors met 11 times;
the Executive Committee met 5 times.

A similar frequency of meetings can be expected in the 2007 financial year.

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

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

Also in accordance with the definitions contained in the Code, the independent non-executive directors are: Avv. Andrea Broggini, Prof. Maurizio Comoli, Prof. Francesco Corsi, Dott. Enzo Mei, Prof. Giuseppe Morbidelli, Avv. Cosimo Rucellai, Dott. Ezio Toselli and Ing. Oscar Zannoni. These directors are not in fact in the situations stated in the new Code as being incompatible with the position of independent directors.

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

In February 2007, within less than a year of their appointment, the Board of Directors proceeded with a periodic verification of the independence of its non-executive members with reference to the information supplied in writing, at the specific request of the Company, by each director based on the parameters specified in the criteria contained in the new Code. The Board also jointly examined the individual position of directors who, in view of uncertainties regarding their position as independent directors, submitted this assessment to the judgement of the Board itself.

The Board carried out a similar assessment regarding the independence requirement stated in article 147-iii of the Finance Consolidation Act introduced by the Savings Law.

The Board of Auditors verified the correct application of the criteria and of the procedures used by the Board to assess the independence of its members.

In general, directors accept their post when they believe that they can dedicate the necessary time to diligently performing their role, considering, among other things, the posts they may hold in other companies. Directors are required to understand the tasks and responsibilities that are inherent to

their post. Both the Chairman and the Managing Director work to ensure that the Board is informed about the main legislative and regulatory innovations affecting the Company and its management bodies.

In accordance with the code of self-discipline for listed companies, we now provide a list of the Director or Auditor posts held as at 27 March 2007 by the directors of the Company in other companies listed on Italian or foreign regulated markets, in financial, banking, insurance companies or in companies of a significant size.

Jonella LIGRESTI

Chairman of:	SAI HOLDING ITALIA S.p.A.
Vice Chairman of:	GILLI S.r.l.
	PREMAFIN FINANZIARIA S.p.A.
Director of:	ASSONIME Associazione fra le società italiane per azioni
	FINADIN S.p.A. Finanziaria di Investimenti
	MEDIOBANCA S.p.A.
	MILANO ASSICURAZIONI S.p.A.
	RCS MediaGroup S.p.A.

Giulia Maria LIGRESTI

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

Massimo PINI

Vice Chairman of:	SASA Assicurazioni Riassicurazioni S.p.A.
	IMMOBILIARE LOMBARDA S.p.A.
Director of:	CAPITALIA S.p.A.
	FINADIN S.p.A. Finanziaria di Investimenti
	LEONARDO S.r.l.
	MILANO ASSICURAZIONI S.p.A.

Antonio TALARICO

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

Fausto MARCHIONNI

Chairman and Managing Director of:	MILANO ASSICURAZIONI S.p.A.
	LIGURIA Società di Assicurazioni S.p.A.
	LIGURIA VITA S.p.A.
	SIAT S.p.A.
Chairman of:	BANCA SAI S.p.A.
	BIM VITA S.p.A.
	NOVARA ASSICURA S.p.A.
	PRONTO ASSISTANCE SERVIZI S.p.A.
	SAI INVESTIMENTI SGR S.p.A.
	SAI-SISTEMI ASSICURATIVI S.r.l.
	SASA Assicurazioni Riassicurazioni S.p.A.
Vice Chairman of:	IMMOBILIARE LOMBARDA S.p.A.
	NOVARA VITA S.p.A.
Director of:	ANIA (responsible for Welfare)
	ASSONIME Associazione fra le società italiane per azioni
	GRUPPO BANCA LEONARDO S.p.A.
	IRSA

Andrea BROGGINI

Director of:	BANCA EUROMOBILIARE (Suisse) S.A.
	FEDERAZIONE DELLE COOP. MIGROS
	GENERALI (Schweiz) HOLDING
	GESTIONI LOMBARDA (Suisse) S.A.
	KIEGER AG
	KNORR-BREMSE Systeme für Schienenfahrzeuge GmbH
	MARCH LIMITED

Mariella CERUTTI MAROCCO

Chairman of:	CERFIN S.p.A.
Director of:	OFFICINE MECCANICHE GIOVANNI CERUTTI S.p.A.

Maurizio COMOLI

Chairman of:	ALETTI GESTIELLE S.p.A.
Vice Chairman of:	BANCO POPOLARE DI VERONA E NOVARA Scarl
Director of:	BANCA POPOLARE DI NOVARA S.p.A.
Chairman of the Board of Auditors of:	BASTOGI S.p.A.
	BRIOSCHI FINANZIARIA S.p.A.
	MIRATO S.p.A.
Regular auditor of:	FASTWEB S.p.A.
	LORO PIANA S.p.A.

Francesco CORSI

Regular auditor of:	BIEFFE 5 S.p.A.
	FINDOMESTIC BANCA S.p.A.
	FINDOMESTIC NETWORK S.p.A.

Carlo d'URSO

Vice Chairman of:	IMMSI S.p.A.
Director of:	AEDES S.p.A.
	AREA GIOCHI HOLDING S.p.A.
	AVVENIRE SIM S.p.A.
	BANCA BSI ITALIA S.p.A.
	GRUPPO BANCA LEONARDO S.p.A.
	BANCA SAI S.p.A.
	F.C.INTERNAZIONALE MILANO S.p.A.

FONSAI MB&A S.p.A.
G.I.M. - Generale Industrie Metallurgiche S.p.A.
GIOCHI HOLDING S.p.A.
LAURO OTTO S.p.A.
MICOS BANCA S.p.A.
PREMAFIN FINANZIARIA S.p.A.
SISAL S.p.A.
STILO IMMOBILIARE FINANZIARIA S.r.l.

Vincenzo LA RUSSA

Director of: IMMOBILIARE LOMBARDA S.p.A.

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

Gioacchino Paolo LIGRESTI

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

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

Director of: FINSAI INTERNATIONAL S.A.
FONSAI MB&A S.p.A.
GILLI S.r.l.
MILAN A.C.
SAILUX S.A.
SAINTERNATIONAL S.A.
TIM ITALIA S.p.A.

Lia LO VECCHIO

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

Enzo MEI

Chairman of: SOCIETÀ GESTIONE CAPANNELLE S.p.A.

Managing Director of:
GENERAL SERVICE ITALIA S.p.A.

Director of: BANCA GALILEO S.p.A.
DATA SERVICE S.p.A.
LA MAGONA S.r.l.

Giuseppe MORBIDELLI

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

Cosimo RUCELLAI

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

Salvatore SPINIELLO

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

	SIAT S.p.A.
Chairman of the Board of Auditors of:	ATAHOTELS S.p.A. GRANDI LAVORI FINCOSIT S.p.A. LAZARD INVESTIMENTI S.p.A. UNICREDIT Banca per la Casa S.p.A.
Regular auditor of:	EDISON S.p.A. EMITTENTI TITOLI S.p.A. PRO Mac S.p.A. TELECOM ITALIA S.p.A. TELECOM ITALIA MEDIA S.p.A. UNICREDIT BANCA S.p.A.

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

Oscar ZANNONI

Chairman of:	GRUPPO CERAMICHE RICCHETTI S.p.A. ARCA S.p.A. FINCISA S.p.A. SIC S.p.A.
Director of:	AFIN S.p.A. FIN-ANZ S.p.A. FINANZIARIA NORDICA S.p.A. HERMES INVESTIMENTI S.p.A.

As things stand, the Board believes that the number of director and/or auditor posts held by the Directors in other companies is compatible with effective performance of their role in the Board of Directors of FONDIARIA-SAI, considering the nature and size of the companies in which they hold these posts and, in some cases, the fact that these companies belong to the Group. The Board will be called upon to express its opinion on the maximum number of posts held by Directors in other companies that can be considered compatible with effective performance of their role of director.

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

Marco SPADACINI

Director of:	A. MONDADORI EDITORE S.p.A.
Chairman of the Board of Auditors of:	AUTOSTRADE S.p.A. SORIN S.p.A.
Regular auditor of:	IMMSI S.p.A. SNIA S.p.A.

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

Chairman of the Board of Directors

The Chairman of the Board of Directors convenes and runs the meetings of the Board of Directors and Executive Board. The Chairman endeavours to ensure that the directors and members of the Committee are provided with the documentation and information they need in advance of the meeting, unless there are particular requirements and emergencies regarding the nature of the resolutions to be approved, any confidentiality requirements and the promptness with which the Board or Executive Committee are required to take certain decisions. With the agreement of the persons attending the meeting, the Chairman may invite people who are external to these bodies to take part in

meetings of the Board of Directors and Executive Committee, to listen to the debate and/or act as advisors. The Chairman of the Board of Directors also chairs and runs the Shareholders' Meeting. As explained, the Chairman also has the powers granted to him by the Board, as specified above. The Chairman normally only exercises these powers in situations of necessity or urgency, in the case of absence or impediment of the Managing Director, or when required by particular circumstances.

Processing of confidential information

The Company has for a long time had a consolidated practice which establishes rules of conduct for the management and processing of confidential information and for the disclosure of company documents and information, particularly as regards so-called price-sensitive information.
The responsibility for managing confidential information regarding the Company and its subsidiaries generally lies with the Managing Director. The executives and employees of the Company and its subsidiaries have a duty to guard the secrecy of the confidential information that may come to their knowledge.
All contacts with the press and other communication media (or with financial analysts and professional investors) aimed at disclosing documents and information of a corporate nature, must be expressly authorised by the Managing Director. The Company is a member of the Network Information System circuit, organised and managed by Borsa Italiana S.p.A. electronically to distribute information that must be supplied to the market.
The procedure is intended to prevent these communications been sent selectively (giving priority to certain recipients over others), later than required or in an incomplete or inadequate form.
In accordance with the regulatory provisions issued by Borsa Italiana S.p.A., the Company has adopted an appropriate code of conduct regarding so-called internal dealing, aimed at establishing the duties of disclosure regarding transactions on financial instruments carried out by so-called "relevant persons", meaning those who have access to relevant information because of the post they hold. The Company has also informed the relevant persons of their duties and responsibilities relating to the operations that are the subject of the code of conduct.
The code is available on the Company's website.
Also as regards the legal and regulatory provisions mentioned above, the Company has established an appropriate register of people who, because of their working and professional activity, or because of the functions they perform, have access to so-called "privileged" information.

Under the terms of legislation regarding offences of insider trading and market rigging, an appropriate procedure has been established, aimed at all sections of the company and intended to reduce the risk that, when carrying out activities involving the management of its own portfolio and that of its Group companies, the Company may act in a way that does not comply with current legislation This procedure relates in particular to:

- transactions involving its own shares, shares in the parent company and shares in listed subsidiaries;
- transactions involving specific financial instruments;
- counterparties with whom the Company operates.

Appointment of Directors

During the 2006 financial year, there continued to be no need for a committee to be set up within the Board of Directors to make proposals for appointments to the post of director, given that the ownership of the Company is sufficiently concentrated and shareholders have never encountered any difficulty in making such appointment proposals, preceded by the shortlisting of candidates.
When directors are appointed, shareholders who intend to put forward names are recommended to present their proposal at the registered office before the shareholders' meeting is held, together with the curriculum vitae of each candidate.

On the occasion of the shareholders' meeting of 28 April 2006, a single proposal was submitted by shareholders prior to the meeting, accompanied by the CVs of the candidates, distributed to the participants. The applications were accompanied by details of the suitability of the candidates to define themselves as independent. These details were relayed to the attendees at the meeting before the voting.

During the general meeting called to approve the accounts for the financial year 2006, the amendments to the articles of association that are needed in order to implement the rule introduced by the Savings Law will be submitted for examination and approval. This rule provides for a list voting mechanism to be introduced for the appointment of the Board of Directors, so as to guarantee that one Director can be elected by the minority. The new rules contained in the articles of association will also fix a term within which the lists must be deposited at the registered office, in line with the recommendations of the new Code.

Remuneration of directors and senior management

In the 2006 financial year, the Board of Directors did not set up a specific committee within the Board to establish the remuneration of directors holding specific posts or of the Company's senior management.
The remuneration of directors was established in accordance with article 2389 of the Italian Civil Code, with the favourable opinion of the Board of Auditors and the abstention of the person in question.
The Board has normally determined the remuneration of directors to whom specific posts are assigned at the time of appointment. This remuneration has been determined as a fixed amount, without an incentive component, because it refers to an ordinary activity associated with the post. Where the Board has then resolved to assign these same directors, or other directors, the responsibility for overseeing and/or carrying out specific operations, the Board has assessed the results achieved, normally afterwards, and if necessary determined a special remuneration, in agreement with the Board of Auditors, of a fixed amount commensurate with the importance of the operation or of the results achieved.
The remuneration thus allocated to directors during 2006 is shown in the appropriate table of the notes to the accounts.
On 14 July 2006, the Board of Directors of Fondiaria-SAI resolved to allocate the options in the 2006-2011 stock option plans to the executive directors and management of Fondiaria-SAI, its subsidiaries and the parent company Premafin Finanziaria, for the purchase of savings shares in Fondiaria-SAI itself.

The assignment by the Board took place in accordance with the resolution of the Fondiaria-SAI AGM of 28 April 2006. As regards the executive directors, the total of 8,700,000 options were assigned to the persons and in the quantities resolved during the aforesaid AGM. As regards the management, however, the stock option plan relates to 75% of the Group's serving executives, for a total of 6,300,000 options. The number of options assigned to the individual beneficiares takes into account the level of responsibility assigned and the impact of the function performed on the activity of the company and its results. The options cannot be exercised until a vesting period of at least 24 months has elapsed from the aforesaid date of assignment.
The Board also resolved to make exercising the options conditional upon the achievement of the objectives of the Group's Business Plan for 2006-2008.

As regards the executive directors, the intention has been to use this system to structure their remuneration appropriately, as a suitable instrument for aligning their interests with the pursuit of the priority objective, which is to create value for shareholdings in the medium to long term by achieving the objectives of the 2006-2008 Business Plan of the Fondiaria-SAI Group, presented to the financial community in April 2006. In so doing, the decision has also been taken to comply with the recommendation contained in the Code to link part of the remuneration of the executive directors to the financial results of the Company and the Group.

The use of the instrument in question in respect of executives will contribute to incentivising them and increasing their loyalty, promoting the creation of appropriate conditions for achieving the objectives of the Plan.
In view of the adoption of the aforesaid stock options, the Board of Directors of Fondiaria-SAI decided, during its meeting of 27 March 2007, to appoint a Remuneration Committee, to which the following functions have been assigned in respect of the Company and its subsidiaries:

- to submit proposals to the Board for the remuneration of executive directors and the other directors that hold specific posts, linking this remuneration to the financial results of the

Company and/or specific pre-established objectives or not and subsequently monitoring the decisions taken by the Board itself;

- periodically assessing the criteria adopted for the remuneration of executives with strategic responsibilities, supervising their application on the basis of information supplied by the Managing Director and making general recommendations to the Board in this respect;
- supervising the implementation of the stock option plans, making proposals to the Board for any amendments to the plans that may be required.

The Remuneration Committee consists of the Managing Director and two independent non-executive directors: Mr Enzo Mei and Mr Oscar Zannoni.

Internal control

Current legislation requires insurance companies to adopt appropriate internal control procedures. Since 1999, and most recently by means of circular no. 577/D of 30 December 2005, ISVAP has defined the internal control system of companies and the respective operational procedures, providing information intended to promote, while respecting entrepreneurial independence, the creation of the appropriate risk control and risk management system which all companies must develop in accordance with their dimensional and operational characteristics and their risk profile.

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

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

Under the terms of the aforesaid circular 577/D, companies are required to have an adequate risk management system which is commensurate with the size and complexity of the activities carried out, and which allows the identification, assessment and control of the most significant risks, meaning risks that have consequences which may undermine the solvency of the company and constitute a serious obstacle to achievement of the company's objectives. The ultimate objective of the risks management system is to maintain the risks that have been identified and assessed at an acceptable level, which is consistent with the company's assets.
Where necessary, therefore, the Company has set up an organisational process of adaptation to the requirements of the aforesaid circular 577/D, in compliance with the timetable provided by the circular itself.

Within the Fondiaria-SAI Group, company activities and the respective procedures are now subject to controls implemented by the individual operating units (so-called "line control") and by the managers of these same units.
Verification of the appropriateness, effectiveness and efficiency of the procedures adopted and, generally speaking, of the internal control system, is entrusted to the Internal Group Audit function, which comes within the responsibilities of the Managing Director's staff, and whose activities are also aimed at ensuring the correct identification and management of company risks. The Internal Audit activity therefore covers all the company processes of Fondiaria-SAI and its Group companies, and specifies the corrective actions that are considered necessary, as well as being responsible for carrying out follow-up activities to check whether the corrective action has been taken and whether the changes made have been effective.
The Board of Directors is responsible for the Company's internal control system and periodically checks its adequacy and operation, with the assistance of the Internal Control Committee. The Managing Director has the task of establishing the general direction of the internal control system, identifying company risks and overseeing the planning, management and monitoring of the internal control system, appointing the people responsible for implementing it.
The Board of Directors approves the annual work plan of the Group's Internal Audit Function. This

function has the means required to implement the system and carries out its activities independently and autonomously. Its manager is not answerable to any person in charge of operational areas. This function also coordinates with the Internal Control Committee, to which it reports on its activities, with the Board of Auditors and with the Company's auditing company.
The managers of the company's operational areas are required to ensure that the Internal Audit function has free access to all the documentation relating to the company's activities that are subject to control. The Internal Audit function has organisational links with all the Company's departments and the Group companies, and its manager has the authority required to ensure its independence.
In particular, following the assignment to a specific Internal Control Committee of the functions assigned to it by the Code and specified later on, and considering that these functions include assessment of the work plans drawn up by the Group's Internal Audit function and receipt of the respective periodic reports, the Audit Functions has drawn up these reports and submitted them for examination by the Internal Control Committee. The latter has in turn submitted its opinion on the Internal Audit Function's work plan and on the appropriateness of the internal control system to the Board of Directors.

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

Pursuant to the aforementioned ISVAP Circular no. 577/D, the Board has examined and approved the following documents, which were subsequently forwarded to ISVAP:

- an assessment report on the internal control system and the risk management system;
- the company's organisational structure, specifying the tasks assigned to the individual units of the company and indicating the persons responsible for them;
- the structure of delegated powers within the company;
- the structure of the Internal Audit function and the number of people dedicated to carrying out its activities, as well as their characteristics and technical and professional experience;
- the strategic information and communication technology plan aimed at ensure the existence and maintenance of a system architecture that is highly integrated in terms of applications and technology and suited to the requirements of the company.

An appropriate Risk Management function has also been created with the task of:

- managing the activities aimed at completing the risk capital models for the implementation of an effective and efficient Enterprise Risk Management system;
- defining and maintaining the map of company risks, with the respective control procedures;
- carrying out recurrent monitoring of risks, informing the Internal Audit function of the results;
- drawing up reports for the Board of Directors, the Internal Control Committee and the managers of the operational departments in respect of the evolution of risks and any anomalies;
- carrying out ongoing control of activities carried out by the various departments of the company to implement procedures to resolve the issues raised;
- forwarding the periodic reports to ISVAP in co-operation with the Internal Audit function.

The Risk Management function also carries out appropriate periodic stress tests in relation to the main sources of risks and reports the results to the Board of Directors.
The Risk Management manager reports directly to the Managing Director.

Internal Control Committee

The Board of Directors has set up a specific Internal Control Committee within it which supports the Board of Directors itself and is entrusted with the task of examining major issues relating to the control of company activities. It has specific functions which involve giving advice and making proposals, while the authority to make all decisions lies exclusively with the Board of Directors.

The Internal Control Committee currently consists of three non-executive directors, the majority of whom are independent. They are specifically Mr Enzo Mei, Mr Salvatore Spiniello and Mr Ezio

Toselli. The latter also acts as the lead coordinator of the Committee. The members of the Committee guarantee the professionalism and experience suited to performing the task. The Board has decided to allocate a specific remuneration to these directors for the work they carry out.

All auditors are invited to take part in the meetings of the Internal Control Committee. The meetings of the Committee are recorded in minutes.

The Internal Control Committee is specifically entrusted with the following tasks:

- assisting the Board of Directors in periodically checking the appropriateness and actual operation of the internal control system;
- assisting the Board of Directors in identifying and managing the principal company risks for which there is a significant possibility of occurrence;
- assessing the work plan drawn up by the persons assigned to implement internal control and receiving the periodic reports they prepare;
- assessing, together with the Company's administration managers and auditors, the appropriateness of the accounting principles used and their uniformity for the purposes of the consolidated accounts;
- assessing the bids made by the auditing company for the respective work to be assigned to them, as well as the work plan drawn up for the audit and the results set out in the report and in any letter of procedural suggestions;
- exercising, in the context of the management of relations with external auditors, general supervision over the auditing process carried out by the auditing company;
- supervising compliance and periodic updating of the corporate governance rules adopted by the Company and its subsidiaries.

The Committee reports to the Board of Directors, at least every six months, at the time of the approval of the half-yearly accounts and report, on the activities carried out and on the appropriateness of the internal control system.
The Committee has an active role to play in assessing the work plan of the Internal Audit function, and the periodic reports it draws up, and making proposals.
The Board of Directors has also approved the rules of the Internal Control Committee, aimed at formalising the essential procedures for its operation. The Board of Directors has also earmarked an amount of money to allow the Internal Control Committee, if necessary, to make recourse to external professionals to analyse specific issues of particular complexity or risk for the Company.
During 2006, the Committee met to perform the functions in question on five occasions.
In particular, on the occasion of the meeting held prior to the Board of Directors' meeting called to approve the draft accounts as at 31 December 2005, the Committee expressed a favourable opinion on the Internal Audit function's plan and considered the Company's internal control system suitable in its present state. The Committee also expressed the following opinions:

- that it was appropriate, in agreement with the same committee of the subsidiary Milano Assicurazioni, for the latter to proceed with entrusting the auditing task to the company Deloitte & Touche S.p.A., considering inter alia the percentage distribution of assignments between the principal auditor and the secondary auditor adopted by the main groups with listed issuers;
- that the proposals made by Deloitte & Touche S.p.A. to obtain the assignment of the auditing tasks from Fondiaria-SAI and Milano Assicurazioni were to be considered acceptable;
- that, for prudence, the Company should refrain from assigning consultancy tasks to Deloitte & Touche S.p.A.;
- that the accounting principles used, having heard the opinion of the Company's administrative managers and of the auditing company Deloitte & Touche S.p.A., based on the checks carried out by the latter, should be considered appropriate and standardised for the purposes of the consolidated accounts;
- that to the best of the Committee's knowledge, the governance rules adopted by the Company should be considered as having been observed, and that the updating report drawn up in accor-

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

During a subsequent meeting held prior to the Board of Directors' meeting called to approved the half-yearly accounts as at 30 June 2006, the Internal Control Committee confirmed its assessment on the appropriateness of the internal control system.

Social Report

During the month of September 2006, the Social Report on the activities of the Fondiaria-SAI Group during the 2005 financial year was presented.

The document is a new development for the Group and examines the impact of the Group's activities, from a qualitative and quantitative point of view, on the various stakeholders, including shareholders, who have varying degrees of interest in the Company and the Group.

The Company worked with the Faculty of Economics of the University of Turin to produce the Social Report.

The Social Report is available on the Company's website.

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

The Board of Directors of the Company has decided to equip itself with an Organisation, Management and Control Model suited to preventing the offences described in Legislative Decree no. 231 of 8 June 2001, which – as is well known – contains the rules on the administrative responsibility of legal persons, companies and associations, with or without legal status, under the terms of article 11 of Law no. 300 of 29 September 2000", which introduced the criminal responsibility of companies into Italian law for the first time, this being additional to the responsibility of the natural person who physically perpetrated the offence.

The Board believes that, even though it is not compulsory, adoption of the Organisation, Management and Control Model provided for by Legislative Decree no. 231/2001 may be an effective way of building awareness among all the employees of Fondiaria-SAI, and everyone who has an interest in the company, of the need to perform their activities in a proper and straightforward manner, so as to avoid the risk of committing the offences defined in the decree.

Pursuant to the provisions of the Decree, the Model approved by the Board of Directors on 16 February 2005 respects the following principles:

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

- providing the Supervisory Body with adequate resources to support it in performing the tasks entrusted to it and achieving the results that can reasonably be achieved;
- verifying the operation of the Model with consequent periodic updating (ex-post control);
- implementing awareness-building and dissemination measures at all levels of the company in respect of the rules established.

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

Significant transactions with related parties

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

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

Transactions with related parties
As regards transactions with related parties we would like to point out the following:

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

- according to the rules for insurance companies under specific legislation applicable to the industry, inter-group transactions in which at least one of the parties is an insurance company – where these transactions are significant based on the quantitative parameters established by legislation applicable to the sector – are in any case subject to prior authorisation by ISVAP and only carried out after authorisation has been given by the Supervisory Body;
- inter-group transactions between two subsidiaries that are not insurance companies are subject to the duty to inform the parent company, if the prerequisites are fulfilled, and require specific resolutions to be passed by the Board of Directors or the Executive Committee in accordance with the rules of conduct referred to in the last paragraph of the first section above.

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

Relations with institutional investors and other shareholders

The Company has always attached due importance to establishing an ongoing dialogue with all shareholders and institutional investors in particular, based on an understanding of reciprocal roles and complying with the internal procedure for external dissemination of documents and information relating to the Company. The Chairman and the Managing Director both endeavour to achieve this aim.

The Company has identified the Group's Investor Relations Departments as the structure in charge of liaising with institutional investors, assisted in this work by the various departments of the Group and company involved. The Group's Investor Relations Department is also in charge of liaising with shareholders in general, with the support of the Shareholders' Office.
The Investor Relations Department is in charge of providing online information via the Company's website, disseminating provisional information, liaising with rating agencies and with institutional investors in general. Together with the Press Office, it is also in charge of disseminating press releases and comments relating to market rumours.
The Investor Relations Department can be contacted on telephone number 011/6657.642 and/or at the following email address: investorrelations@fondiaria-sai.it.
In order to further promote dialogue with shareholders, a Group website containing constantly updated information has been created and made operational.

Shareholders' Meetings

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

principles he intends to abide by in exercising his statutory functions, establishing the rules for the running of the Meeting in advance.

Common representative of savings shareholders

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

Auditors

Following the amendments made to the articles of association as a result of the Finance Consolidation Act regarding the procedure for appointing auditors, the transparency of this procedure is now guaranteed by ensuring that one regular member of the Board of Auditors can be elected by the minority.
During the shareholders' meeting held to approve the accounts for the financial year 2006, amendments will be made to the rules contained in the by-laws on the method for appointing the Board of Auditors, having regard to the legal provisions and to the regulatory provisions that Consob will issue – pursuant to article 148, paragraph 2, Legislative Decree no. 58.98 – in its own regulations regarding the methods for electing the Board of Auditors by list voting.
The current Board of Auditors consists of three regular auditors and three alternate auditors, the names of whom are shown elsewhere in this booklet. They were appointed by the Shareholders' Meeting of 28 April 2006, when a single list was presented by shareholders within the term prior to the meeting that is established by the by-laws. This list obtained a majority of the votes at the shareholders' meeting.

Auditing Company

The ordinary meeting of shareholders of 28 April 2006 entrusted the auditing company Deloitte & Touche S.p.A. with the task of auditing the statutory accounts and consolidated accounts for the financial years 2006 to 2011 and to carry out a limited audit of the half-year accounts as at 30 June 2006 to 2011 inclusive. This assignment will be completed at the time of the Shareholders' Meeting held to approve the accounts as at 31 December 2011.

Within the Group, the task of auditing the accounts has been entrusted by some subsidiaries, including Immobiliare Lombarda, to the auditing company Reconta Ernst & Young S.p.A..

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

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

Management Report
as at 31 December 2006

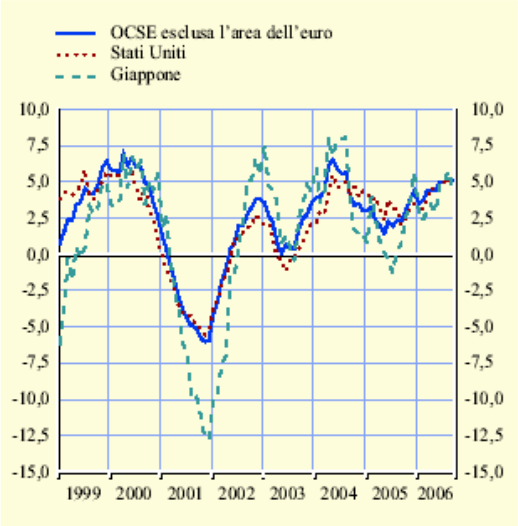
MACROECONOMIC SCENARIO AND INSURANCE MARKET IN 2006

International macroeconomic scenario

2006 ended with a strong increase in world GDP (of around 5%) and trade, thanks above all to the performance of a number of emerging economies, which have grown at particularly steady rates over the past few years.
Among the emerging countries, the driving forces of China, India, Russia and Brazil contributed significantly to the development of the world economy: China and India in particular grew at rates of nearly 10% thanks to the commercial and financial links established with other world economies.

During the latter part of the year, however, we saw the first signs of weakening in the positive cycle of economic growth. According to IMF estimates, there is little probability that the slowdown, driven by the US economy as a result of the correction of property sector quotations and the fall in the value of the dollar (which has thus far resulted in a slowdown of activities in the residential construction sector) will result in a sudden halt in world growth, which will remain sustained throughout 2007 (+4.9% growth is forecast), without showing signs of a recession.

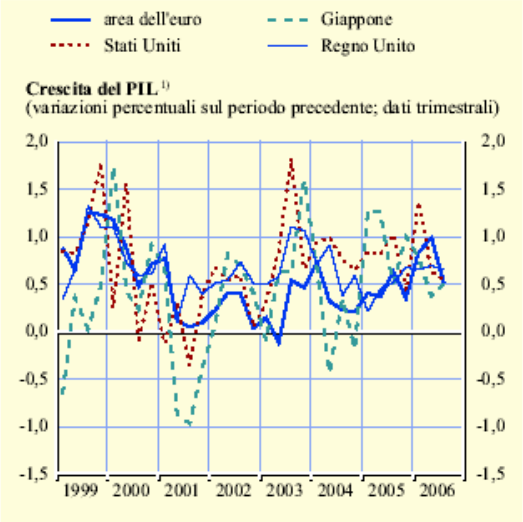
Figure 6 – Industrial production



[blue line] OECD excluding the Euro area
[red dotted] United States
[green dashed] Japan

Source: processing by the European Central Bank based on OECD data.
Note: the latest observations relate to September 2006 (% variations over 12 months, monthly data).

Figure 7 – Performance of GDP



[blue line] Euro area
[red dotted] United States
[green dashed] Japan
[blue thin] United Kingdom

Growth in GDP
(percentage variations on the previous period; quarterly data).

Source: produced by the European Central Bank based on Eurostat data for the Euro Area and the United Kingdom and on data from national sources for the United States and Japan.

The growth estimates for the various countries are summarised in the international economic context table shown below.

Table 1 – The international economic context

	2005	2006	2007	2008	2009	2010	2011
GDP							
Industrialised countries	2.7	3.1	2.7	2.8	2.8	2.8	2.8
United States	3.5	3.4	2.9	3.1	3.0	3.0	3.0
Japan	2.7	2.7	2.1	2.0	1.8	1.6	1.6
EMU (12 countries)	1.3	2.3	2.1	2.3	2.2	2.1	2.1
France	1.4	2.4	2.3	2.5	2.1	2.0	2.0
Germany	0.9	2.0	1.3	1.8	2.1	2.0	2.0
United Kingdom	1.8	2.7	2.7	2.7	2.5	2.5	2.5
Spain	3.4	3.4	3.0	2.8	2.7	2.5	2.5
World excluding EU	5.5	5.6	5.4	4.7	4.6	4.6	4.6
World	4.7	5.0	4.8	4.2	4.2	4.2	4.2
World trade	7.3	8.9	7.6	8.0	7.5	7.5	7.5

Source: processing by the Ministry of the Economy and Finance of IMF, OECD and EU data.

The medium term scenario may be favourable for the world economy, but recent developments underline the critical nature of a number of factors, including the following:

- The recent slump in the US property sector, which will presumably have repercussions on growth in North America, with a resulting fall in demand and expenditure by US households, will also reflect on the performance of the world economy as a whole.
- The considerable risks from the price of raw materials and oil in particular. Prices slowed down significantly during the second half of the year but still remain high compared to historic levels, as shown in the following table.

Table 2 – International prices in Dollars

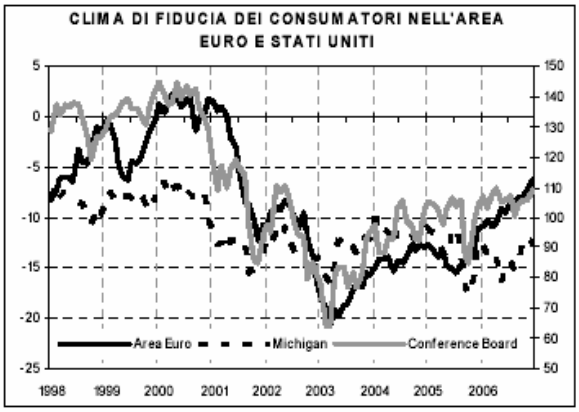
	2005	2006	2007	2008	2009	2010	2011
CIF Oil (dollars/barrel)	54.7	70.0	69.0	69.0	69.0	69.0	69.0
Non-energy raw materials	1.6	10.0	2.8	1.4	1.4	1.3	1.3
Manufactured goods	3.5	1.3	2.6	2.1	1.6	1.6	1.6

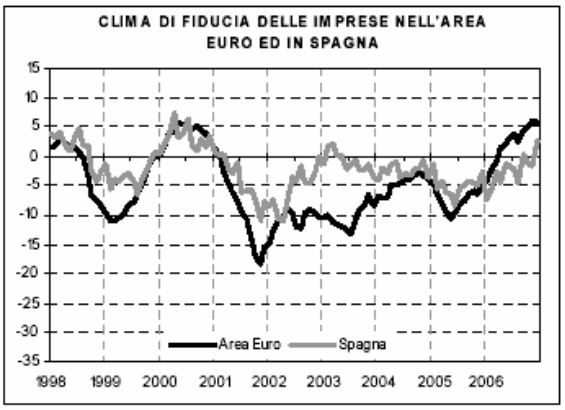
Source: processing by the Ministry of the Economy and Finance of IMF, OECD and EU data.

Euro Area

In the Euro area, economic indicators signal the potential of a further consolidation of growth, despite the difficult situation of the US economy. However, tensions remain in internal demand owing to the effects of the recent rises in interest rates and of the restrictive tax policy foreseen particularly for Italy and Germany over the coming year.
The most recent information however shows that there are confident expectations with regard to the future performance of European economic activity, pointing to a positive evolution of the manufacturing industry and retail sales and to internal demand remaining strong, thus allowing Europe to consolidate the economic improvement recorded during the first half of 2006.

Figure 9 – Climate of trust





CLIMATE OF TRUST AMONG CONSUMERS IN THE EURO AREA AND THE UNITED STATES

CLIMATE OF TRUST AMONG COMPANIES IN THE EURO AREA AND SPAIN

Source: ISAE – Istituto di Studi e Analisi Economica [Institute of Economic Study and Analysis]

The growth in GDP in the Euro area slowed down slightly during the last quarter, following the robust performance recorded during the first half of 2006. Over the year, European GDP grew in any case by 2.7%, maintaining short-term expectations positive.
Industrial production, which grew during the second and third quarters of 2006 by 1.2% and 0.8% respectively should continue to expand, albeit at lower rates than in the past, thanks to the primary support for European GDP which should come from internal demand.

The manufacturing sector recorded high rates of growth in the main economies, confirming the signs of expansion emerging from business confidence surveys: during the first six months of the year, the added value of industry grew on an annual basis by 2.5% in Germany, 2.1% in France and 1.3% in Spain, remaining stationary in Italy. Furthermore, the favourable evolution of household opinion indicators suggests that there are positive prospects with regard to the economic situation as a whole, the future opportunity for savings and the performance of the labour market, which recorded a moderate fall in the unemployment rate from the beginning of the year, standing at 7.8% at the end of July.

The European vehicle registrations market recorded a substantial alignment of sales during the month of December, with 1,068,553 units sold compared to 1,071,423 units sold during the same month of 2005 (-0.3%).

In overall terms, during 2006, the data recorded show a slight growth in the market, with 15,364,997 units sold, compared to 15,254,593 units sold as at 31/12/2005 (+0.7%). Among the main countries of the European Union, Germany achieved an annual growth of 3.8%, Italy a growth of +3.7%, while Great Britain recorded a fall (-3.9%), as did France (-3.3%) and Spain (-2.0%).

For more information in this respect, see the following table.

Table 3 – Car registrations in Europe

CAR REGISTRATIONS IN EUROPE						
	December 2006	**December 2005**	**% var. 2006/2005**	**Jan-Dec**	**Jan-Dec**	**% var. 2006/2005**
FRANCE	150,749	169,369	(11.0)	2,000,549	2,067,789	(3.3)
GERMANY	303,416	257,761	17.7	3,467,961	3,342,122	3.8
ITALY	139,172	142,819	(2.6)	2,321,099	2,237,444	3.7
SPAIN	122,697	129,770	(5.5)	1,499,032	1,528,877	(2.0)
UNITED KINGDOM	133,810	156,866	(14.7)	2,344,864	2,439,717	(3.9)
OTHER COUNTRIES	123,457	121,746	1.4	2,595,523	2,520,906	3.0
EUROPEAN UNION (EU15)	**973,301**	**978,331**	**(0.5)**	**14,229,028**	**14,136,855**	**0.7**
EFTA*	33,814	32,338	4.6	395,187	392,908	0.6
EU (New Members)**	61,439	60,754	1.1	740,782	724,830	2.2
TOTAL EUROPE (EU+EFTA)* **	**1,068,554**	**1,071,423**	**(0.3)**	**15,364,997**	**15,254,593**	**0.7**

Source: reprocessing of estimates by ACEA – Associations des Constructeurs Européens d'Automobiles
(*) European Free Trade Association: Iceland, Norway, Switzerland
(**) Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia
(***) EU23 – Data for Malta and Cyprus are no currently available

According to Eurostat estimates, consumer prices in the Euro area remained stable in December 2006 compared to November, recording an annual increase of 1.9%. Fluctuations in oil prices are reflected in retail price lists: fuels and energy products are the most volatile components. Italy is above the European average with an increase of 2.1%.

At the time of writing, the European Central Bank has increased the interest rate to 3.75%, a further increase following the recent increases of 25 base points that took place in October and December. Further rate increases cannot be ruled out over the coming months owing to the abundant liquidity that normally develops during periods of economic recovery and to the confidence of companies and consumers being close to maximum. The reason for the prudence shown by the central banks is the rapid drop in the price of oil and the uncertainties regarding a possible slowdown in economic growth.
The European Central Bank's monetary policy is expected to remain accommodating, despite the inflationary effects of the increase in VAT in Germany (from January 2007) and the probable acceleration in wage dynamics driven by upcoming wage increases. Operators are expecting further restrictions in the coming months to follow the increase that took place in March.

The Italian market

Italian recovery, which began in 2005, was confirmed in 2006, thanks to the contribution of net e-

xports and internal demand.

Industrial production has shown a growth trend over the past 12 months. The expansion has involved both products destined for the internal market and sectors more devoted to exports, the dynamics of which had been particularly negative in recent years.

Compared to December 2005, the index of industrial production, corrected for working days, recorded positive variations for capital goods (+9.3%), intermediate goods (+7.0%) and consumables (+5.6% for non-durable goods, +4.7% for durable goods). The energy sector, however, recorded a negative variation of 5.1%.

Figure 9 – Industrial production

Seasonally adjusted index

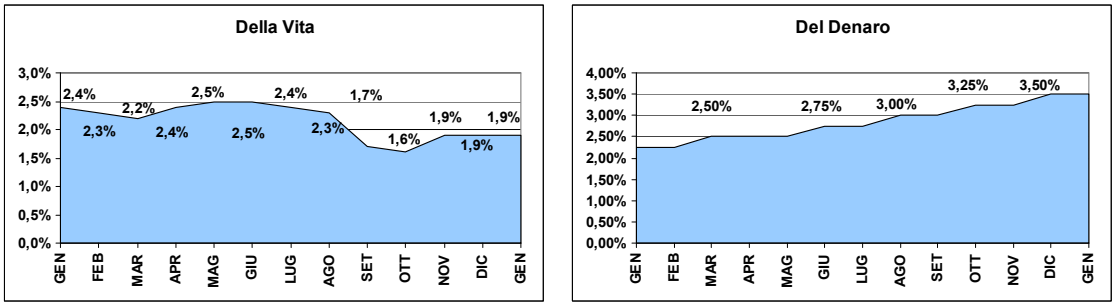
Source: ISTAT and quick economic survey by Centro Studi Confindustria.
The shaded area is the data processed by CSC for the months of November and December.

There was also sustained growth in 2006 in the turnover and orders of car producers.
The sector, which includes the segment of commercial cars and vehicles, recorded an increase of 24.5% in turnover (+20.7% on the national market and +31.6% on the overseas market) and a growth of 13.8% in orders (+8.7% in the national market and +23.4% in the international market). Cars are increasingly the main item of expenditure for Italian households, with a huge impact on the national economic system: just consider that 79.5% of households now own a car.

As regards private consumption, the expenditure of households in the first six months of the year increased by approximately 2%: the consumption of semi-durable goods and services increased in particular. After the slight drop recorded at the end of 2005, spending increased vigorously during the first quarter of this year and then slowed down in the spring.

The average annual growth in prices in 2006, calculated by ISTAT, was 2.1%, a small increase compared to the 1.9% recorded in 2005. The “oil effect” continues to weigh on Italian inflation, particularly because of the delay (and graduality) with which price changes are fed through to the end goods. For 2007, inflation is expected gradually to settle at under 2%, aided by the continuing weakness in consumer spending among Italian households. Inflation prospects for the coming months are however uncertain because of the uncertainty over oil prices.

Figure 10 – Costs in Italy



Cost of living *Cost of money*
JAN / FEB / MAR / APR / MAY / JUN / JUL / AUG / SEP / OCT / NOV / DEC / JAN

Source: Eurostat and Central European Bank

Prometeia estimates that, with a modest interruption, expansion will be limited during 2007 owing to the slowdown in the international economic cycle, which is associated with a weakening of the dollar that will not be favourable to exports. The Italian economy is expected to grow at an average rate of 1.5%, in line with the growth in potential income.
While this scenario should be viewed positively compared to the experience of the past few years it remains unsatisfactory considering the need to overcome the structural shortcomings that have emerged. The process of restructuring of the industrial infrastructure has been launched but has not yet reached a stage that allows the prospects for potential growth of the Italian economy to be improved.

Table 4 – Macro summary table 2007-2011

	2006	2007	2008	2009	2010	2011
MACRO ITALY (VOLUMES)						
GDP	1.6	1.3	1.5	1.6	1.7	1.7
Imports	5.0	3.5	3.4	3.5	3.4	3.3
Household consumption	1.6	1.2	1.5	1.6	1.7	1.6
Investments	2.8	2.3	2.8	3.0	3.1	3.0
Exports	5.3	4.2	3.5	3.4	3.4	3.5
Current balance of payments as a % of GDP	**(2.4)**	**(2.1)**	**(2.0)**	**(2.0)**	**(2.0)**	**(1.9)**

Source: Ministry of Economy and Finance

The insurance sector

The European insurance market is going through a period of radical change, both on the demand side and on the supply side. On the demand side, the clearest signal is the evolution of the client/product/channel relationship, which has led to a process of diversification of distribution channels in all European countries. On the supply side, the economic/financial dynamics, the opening-up of European markets, the globalisation of the world economy, have created new challenges for effi-

ciency and productivity.

The insurance sector, with its Non-Life and Life components, is now an integral part of the welfare system of countries, contributing to reconcile three different requirements of public administrations that will converge in the long term but which are difficult to harmonise in the short term: development of the economy, balance of public accounts, adequate level of fairness and safety for citizenes, particularly in sectors (such as health) in which the demands of tax payers are increasing. Companies in the insurance sector provide insurance for their customers, with appropriate and personalised levels of protection against risks, but also use the financial resources collected (insurance premiums) to make specific financial investments that allow them to perform their insurance duties appropriately.

Therefore, the insurance sector allows the vulnerability of society and the national production sector to be reduced, making it possible for households and companies profitably to invest resources which, in the absence of an efficient allocation of risk among the various economic playes, would remain immobilised.

In view of this multiplicity of roles and functions, the weight of the insurance sector in the economic system is growing everywhere, particularly in emerging economies.

Despite the probable short-term persistence of uncertainties resulting from the performance of interest rates at world level and geopolitical tensions, the prospects for growth in the insurance sector in 2006 and 2007 remain solid.

In particular, during 2006, investment bank Citigroup increased its rating for the European insurance sector, taking it to “positive”. According to the merchant bank, the market is underestimating the available capital of companies in the sector. Based on the estimates produced by Citigroup, the sector should in fact record profits of around € 94bn over the next two years, of which approximately € 23bn are expected to be used for investments. Over the past 6 months, the value of shares in Italian, British and German insurance companies has grown by around 20%, for French companies the increase has been close to 30%, particularly thanks to the strong acceleration recorded at the beginning of this year. Progress as regards US shares has been slower. After growing in the second half of 2006, they stabilised in December at values around 15% higher than in the previous month of July.

However, there continues to be a significant difference between the development of the insurance sector in Italy and its development in the main European countries: the Italian insurance market continues to be underinsured.
The United Kingdom, France and Germany are ahead of our country, both in terms of the ratio between premiums and GDP, and in terms of their contribution to total premium income in Europe. These markets are in fact more mature, for economic and historical reasons, the most important one of which is the lower level of public cover.

A further consideration: the number of British, French and German companies is much higher than the number of companies in Italy. Italian companies however record a productivity per employee that is four times the level recorded in Germany and double the level recorded in France. The index of concentration by groups in the Life Class is particularly high in the United Kingdom and sufficiently uniform in the other countries, including Italy, while in the Non-Life Class it is Italy, with its lower level of development, that holds the record. According to a survey carried out by ANIA, companies and households buy less insurance in Italy than in other European countries.
Excluding Motor TPL from the comparison, because it is compulsory everywhere, the incidence on GDP of Non-Life premiums is just over 1.3%, a value lower than in Spain (2.0%), France (2.6%), Germany (4.3%) and the UK (5.3%).

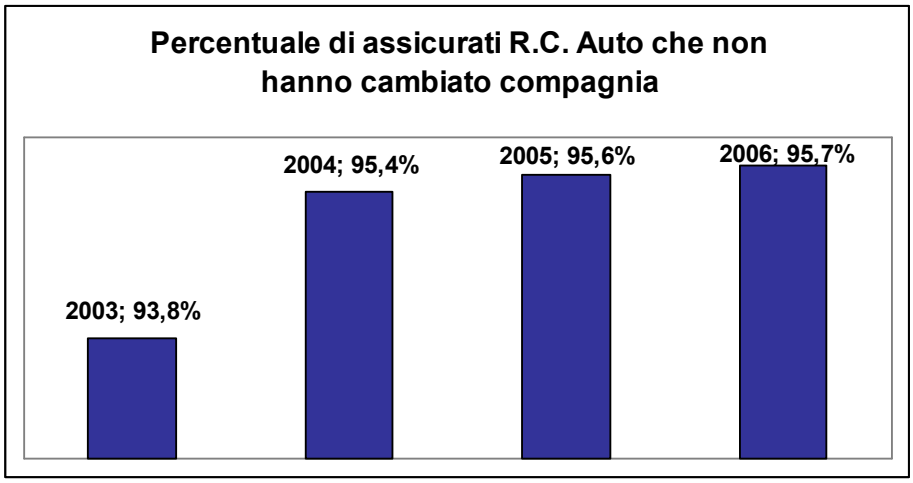
It is worth pointing out that, according to ISVAP data, between 2000 and 2005 the number of insurance companies operating in the Motor TPL sector fell from 85 to 70, a considerable reduction that will have consequences in the future not only for free competition but also for hyper-concentration of the market. At the end of 2005, the top 10 groups held a cumulative share of 88.9%, with 66.2% concentrated among the top five.

ANIA has also forecast that the growth in premiums from direct business in Italy for 2006 will be lower than the level recorded in 2005: around 3%, compared to 8.7%. In the Non-Life classes, growth is expected to be in line with 2005 (2.5%). The growth is influenced by the Motor TPL Class, which is expected to grow again to a limited extent in 2006 (by around 1.0%), as a result of tariff increases, which should be small, thanks to the improvement in technical results for the sector recorded in recent years.

Growth in the Life Class is expected to reached 3.5%, with premium income of over € 76bn. The growth might benefit from the modest increase in available income but may also suffer from any increase in inflation and interest rates. In any case, the growth expected is consistent with substantial stability of the level of premiums collected through bank branches.

It is worth pointing out that, according to a survey carried out by Databank in the Motor TPL sector, over 95% of policy holders have remained loyal to their company over the past three years (for more details see the diagram below): Only 2.9% of clients state that they will not renew the contract on expiry, compared to 4.5% in 2002.
The level of loyalty is particularly high for the biggest companies in the market and it has increased in recent years, despite the fact that operators have at the same time increased their activities aimed at winning new customers and market shares.
The Motor TPL market is therefore rather static. According the Databank figures, the share of director distribution channels and of alternative channels to traditional agencies has slowed down if not actually fallen.

Figure 11 – Loyalty index



Percentage of Motor TPL policy holders who have not switched to another company

Source: Il Sole24Ore, Databank, Bicsi – Motor TPL

The analysis of mature insurance markets carried out by the Moody's rating agency shows that one of the main challenges to be faced by European insurance companies in the near future will be to understand what consumers want, adapting products to their new requirements. In particular, the Life sector in particular will need to modify its offer, in the light of increasing longevity and of the growth in competition from other financial services resulting from welfare changes in individual countries.
Moody's highlights potential risks for the Non-Life sector as well, caused by competition on tariffs of legislative changes, climate changes and natural disasters, in a context of constantly falling margins.

Legislative changes

The intense legislative activity recently recorded is profoundly changing the context in which Italian insurance companies operate.
In order to sustain growth in the insurance market, while ensuring stability and competitiveness, it is essential to be able to rely on a legislative framework that can keep up with the development of the business nationally and at European and international level.

The objective of creating a single, integrated, competitive and efficient market, with low costs, high stability and protection for consumers is important and can be shared by all. Its achievement will however require a considerable effort to be made by companies to adapt themselves, particularly considering that in addition to the legislative changes there are other developments in both the national and the European context.

The following are the main legislative changes which have involved the Italian insurance market in recent months and will have inevitable repercussions on the insurance business in the coming years.

Insurance Code

The new Code (Decree Law no. 209 of 7 September 2005), in force since 01/01/2006, simplifies and tidies up insurance legislation. In particular, it governs access to the insurance business and its operation, contracts, transparency of operation and supervision of companies, compensation and penalty systems, provisions regarding the balance sheets, accounting books and records of insurance companies.

As part of the work being done to implement the Code, the new "Rules for insurance mediation" have been issued to govern the activities of anyone providing insurance and reinsurance mediation services. In particular, the rules bring order to the wide range of parties involved in the mediation business, primarily with a view to protecting the consumer, identifying intermediaries and governing aspects such as:

- requirements for access to the single register of insurance and reinsurance mediators *[Registro Unico degli Intermediari assicurativi e riassicurativi – RUI]*
- the rules of conduct, inspired by honesty and transparency, with which mediators must comply in their relations with clients;
- the civil liability policy for professional risks arising from the running of the business;
- the professional training needed to guarantee the constant updating of operators.

Therefore, from 1 February 2007, the Register implemented by Directive 2002/92/EC on insurance mediation and governed by ISVAP Regulation no. 5 of 16/10/2006 has been in force. Based on this regulation, mediation activity is reserved for organisations included in the Register. The Register thus provides consumers with a complete snapshot of organisations operating in the insurance and reinsurance mediation business.

The Register is divided into 5 sections:

- section A: agents;
- section B: brokers;
- section C: direct producers of insurance companies;
- section D: banks, financial intermediaries pursuant to article 107 of the consolidation act on banks, stock brokers and the Italian post office – postal bank services division;
- section E: associates of the mediators registered in sections A, B and D, who operate outside the premises of these mediators.

We should point out that no mediator may be registered simultaneously in more than one section of the Register, with the exception of mediators registered in sections A and E but only for distribution

tasks relating to the Motor TPL Class.

With its Regulation no. 5, published in the Official Journal of the Italian State no. 247 of 23/10/2006, ISVAP issued a measure which, with reference to article 183 of the Private Insurance Code, sets out specific provisions relating to the rules of conduct of companies and their staff in respect of the appropriateness of the insurance products sold to the risk profile of customers.

Direct compensation

The direct compensation introduced by the reform of the Insurance Code is the new insurance refund procedure which will allow compensation to be paid directly by their insurer to victims of road accidents who are not at fault, or only partially at fault. It will apply in the case of accidents between two motor vehicles, both registered in Italy, which are identified and properly insured. It will be activated by submitting the report, using the blue "agreed statement" form, and the claim for compensation to one's insurance company which, having verified its policy holder's total or partial justification, will send him/her an offer of compensation for the damage suffered.

If the compensation claim contains all the information required for the damage to be assessed, the insurance company will be required to respond:

- within 30 days for damage to the vehicle and property if the blue form has been signed by both the drivers or policy holders of the vehicles involved;
- within 60 days for damage to the vehicle and property in the absence of a blue form bearing both signatures;
- within 90 days for damage suffered by the driver, making an offer of compensation or explaining why the company is not required to pay compensation for the damage.

After notification has been sent of the sum offered, the company must proceed with payment within the following 15 days.

Compensation will be paid for:

- damage to the vehicle and any damage connected with its use (e.g. technical unusability, towing, etc.);
- any minor injuries suffered by the driver (up to 9% invalidity);
- any damage to items transported and belonging to the owner or driver.

This revolution may be a first step towards reducing Motor TPL tariffs, as intended by legislators, in the conviction that a closer relationship between the policy holder and his/her insurance company will lead to a reduction in fraud and, consequently, to a reduction in the cost of Motor TPL, although a reduction in tariffs cannot be taken for granted in the short term.

In fact, in the event of an accident, each company will be free to compensate its damaged clients with the amount it considers most appropriate, but will be refunded (by an organisation that has just been set up to settle debits and credits between companies, called *stanza di compensazione*) a pre-established amount, the value of which, respectively of € 1,800, € 2,000 and € 2,300 (and € 3,250 for serious injury to people up to a maximum of 9% invalidity) refers to the geographical bands into which Italian provinces have been divided.

Therefore, the legislative rigidity that establishes the fixed amounts that companies will receive to offset their payments presents insurance companies with a new restriction that may generate operational inefficiencies.
While on the one hand the opportunity of having full control over the compensation cycle will push companies to compete with one another (in the choice of bodywork, replacement parts and contract personalisation) on the other hand companies that primarily cover large engine size cars (normally the most expensive to repair) may tend to select customers more keenly, in order to rebalance costs.

ANIA is currently carrying out a national advertising campaign to inform policy holders about the new

method for dealing with direct compensation, encouraging potential agreements between the victims of accidents.

Codice della Strada (rules of the road)

On 14 July 2006, the new system came into force for registering mopeds and issuing their registration documents (Presidential Decree no. 153/06). The rules implement the provisions of articles 97 and 170 of the *Codice della Strada* which were not yet operational. The new system relates to mopeds put on the road from 14 July 2006. For vehicles registered before that date, the system is purely optional, subject to a few exceptions. The owner of an "old" moped can subscribe to the new system, if he/she believes it would be appropriate, by submitting a request to the vehicle registration office or to private driving schools. For policy holders there are two advantages to subscribing to the new system: passengers may only be carried if the suitability of the vehicle is confirmed on the new registration certificate and, in future, the direct compensation procedure (provided for in the new Insurance Code) will only be available for unequivocally identified mopeds, i.e. mopeds with standard number plates rather than the *targhino* (mini number plate) currently used on older vehicles.

Complementary welfare

The *Legge Finanziaria* [State budget] for 2007 has brought forward the implementation of Legislative Decree 252/2005 by one year, thus allowing the employees of companies with over 50 workers to allocate the severance pay payable as at 1 January 2007 to complementary welfare schemes.
From 1 January 2007, all employees will therefore have six months within which to decided how to allocate their severance pay: based on the "silence equals agreement" rule, anyone who does not specify a choice will have their severance pay paid into the relevant contractual fund for the industry (or company fund, if there is one) or into an alternative complementary fund managed by INPS.

The reform is a step forward in the development of complementary pensions but, as repeatedly pointed out by the industry association (ANIA), the critical aspects of this early start-up are:

- the timescale allowed for operators to adapt to the requirements is too short;
- workers might be deprived of the opportunity to compare the alternatives available to them based on equal supervision and transparency rules; therefore, speeding up the implementation of the reform means that only products that are ready and have been used for a long time (such as contractual funds) will be facilitated;
- in terms of complementary welfare in general, the Government has no particular interest in promoting pension funds. In fact, the aspect that is often neglected when analysing the Italian welfare system is that the reform planned does not facilitate the move from the current pay-as-you-go system, in which people who are currently in work pay with their contributions for the pensions of people who have already retired, to the fully-funded system, in which workers set aside a fund by means of direct withholdings from their salary, which can be used at the time of retirement from the work force. Any forced transfer of severance pay to INPS does not assist the successful launch of complementary welfare because it removes valuable resources from the construction of an initial pillar in the development of a fully-funded system.

The new liberalisations (Decree Law 223 of 4/7/2006 converted into Law 248 of 11/8/2006)

The insurance product distribution system which, with over 200,000 employees working in the sector, is a decisive element in the development of our industry, is going through a period of radical regulatory changes. Consumers can now choose from a wide range of alternatives to fulfil their insurance protection requirements: tied agents, multiple brand agents, brokers, banks and post offices, financial advisors, direct, telephone and online sales. The diversification of distribution channels that is already strong feature of the Life Classes is beginning to take hold in Non-Life insurance sector.

The regulatory framework recently introduced by the Insurance Code, which transposed the specific European Directive, has specifically defined this pluralist model. The distinction between the various intermediaries is a guarantee of transparency, because the consumer has to know whether the person offering an insurance contract is an agent operating for and on behalf of insurance companies or a broker, i.e. an advisor who doesn't represent any company and offers clients the product he/she believes to be the most suitable from among the ones available on the market.

The new liberalisation implemented by the decree presents the figure of the *agente plurimandatario* [multiple agent]. The decree abolishes the exclusivity link in the contract between companies and agents for all Non-Life Classes, as was already the case for the Motor TPL sector under the terms of the Bersani Decree of July, with aim of providing the consumer with a wider selection of products thanks to a greater differentiation between services and prices. However, according to organisations in the sector, this new form of organisation introduces rigidities which only risk weakening the consumer, removing that unequivocal identification between the seller and the product sold that was guaranteed by the single agent and allowed information on the reliability of the service to be gathered more effectively. It is worth underlining that in all other European countries the choice of the preferred distribution channel is left to the free dynamics of the market.

Furthermore, the decree also allows people taking out a new Motor TPL policy (or who are buying a second car or have had a period of interruption in cover) to retain the risk category shown on the latest risk certificate. Following a claim, insurance companies will no longer be able to demote the policy holder to a lower risk category until they have ascertained the policy holder's responsibility. Essentially, the decree introduces the principle that the last risk category held is retained.

Finally, in the case of multiannual policies with a fixed ten-year term, as required by the Civil Code, the decree grants policy holders the freedom to withdraw from the contract, in any year and without charges, if they should find more advantageous policies, by simply giving 60 days notice. For this purpose, provision is made for the Ministry of Economic Development to provide an information service on the prices of policies available in the market that can also be consulted online.

Decree Law no. 7 of 31/01/2007, published in the Official Journal of the Italian State on 01/02/2007, the so-called "Bersani bis" decree, introduced a new provision in the liberalisation package, on a proposal from the Ministry of Economic Development, for the purpose of opening up the market for the benefit and protection of consumers.

The many innovations planned include, in particular, measures adopted for competition and the protection of consumers of insurance services (see article 5):

- in the Non-Life Damage sector, the abolition of single agent contracts between insurance companies and sales agents; As of 2008, agents will therefore be able to offer policies from different companies (as is already the case for Motor TPL policies). Furthermore, if the policy is a multiannual policy, the policy holder will be able to withdraw from the policy every year, without charges, and giving sixty days notice. At the time of writing, the production activities committee of the Italian parliament has in fact approved an amendment that postpones from 04/07/2006 to 01/01/2008 the extension of the ban initially imposed on Motor TPL policies by the decree law of last July.
- In the Motor TPL segment, the transparency of tariffs available on the market and the duty for the insurance company to retain the same risk category stated in the latest risk certificate for clients taking out a new policy for a second car or buying a policy after an interruption in cover.

Internal control and risk management

Starting in 2006, with the measure introduced on 30/12/2005, ISVAP has revolutionised the system of internal controls and risk management of insurance companies Companies now have to equip themselves with a purpose-built technological system, integrated with other company processes, in order to report to ISVAP on the actual risk situation, moving from a deterministic management to a stochastic measurement of these phenomena. The purpose is correctly to estimate the assets of the

company that are absorbed by the theoretical future distribution of budgetary commitments.

Solvency II

The most significant legislative innovations being planned for the sector include the new solvency framework known as “Solvency II”.

The current company accounting system is in fact limited by the fact that it does not reflect the risk profile of the company which is the subject of the calculations. The new solvency system should instead allow supervisors to have the appropriate tools to assess the overall solvency of an insurance company, because it would take into account both a series of quantitative and strictly numerical information (ratios and indicators) as well as the qualitative aspects that influence company operations, which are often neglected. For example: management quality, internal risk control procedures, market competition, etc.

Just as the “Basel 2” project set out the objectives for risk assessment in the banking system, so “Solvency II” is expected to operate in our sector for the purpose of promoting the standardisation of calculations at sector level (particularly banking, finance, insurance) as well as standardisation at European level.
In order to introduce a new supervisory system, known as Solvency II, the European Commission has instructed the *Committee of European Insurance and Occupational Pension Supervisors* (CEIOPS) to advise it on the introduction of new prudential standards. The main objectives of the new system will be to establish a capital requirement that is commensurate with the risks assumed.
For this purpose, the CEIOPS has decided to carry out a series of studies aimed at analysing the impact of the new standards on European companies. The first Quantitative Impact Study (QIS1) was carried out at the end of 2005 and focused on analysing technical reserves.
QIS2, which was completed in July 2006, carried out a detailed examination of all the most significant areas of risk for insurance companies and began to outline the future system of solvency capital requirements (SCR) by determining assessment principles, models, formulas and coefficients. Fondiaria-SAI was one of the first companies to play an active part in QIS2, working actively with ANIA and ISVAP to bring the specific features of the Italian insurance sector to the attention of the European authorities.
Direct involvement in the study also allowed the Fondiaria-SAI Group to verify how consistent the internal model being developed was with the criteria and requirements being defined at European level for determining the new solvency margin.

On 22 January 2007, CEIOPS published its work programme for 2007, stressing the priority that will be given to the Solvency II project among its activities.
As regards the first pillar, it has been confirmed that QIS3 will soon be launched and that it will test the design that is the basis for the Solvency Capital Requirement (SCR) and Minimum Capital Required (MCR) formulas, as well as calibrating the respective parameters and assumptions (implementing measures), increasingly refining many of the aspects of the new European supervision system that is expected to come into force in 2010.

QIS3 will be followed in the autumn by a Consultation Paper on capital requirements in which the CEIOPS will present a draft advice on the design and on the parameters for the SCR and MCR formulas, to then proceed with publication of the final advice in the spring of 2008.
During the preparatory work, the organisation has signalled its preference for a single set of principles that can be used both for supervisory purposes and for accounting purposes, with minor adjustments, as well as the need for consistency between the disclosure required by the accounting principles and the disclosure required by the 3rd pillar of Solvency II.

BUSINESS TRENDS

Pursuant to Consob Communication no. DEM/6064293 of 28/07/06 and the aforementioned recommendation of the CESR regarding alternative performance indicators (CESR/05-178b), we confirm that the principal indicators used in this report are in line with standard market practice and the main academic theories, as well as standard practice in financial analysis. Where indicators that do not conform to the above principles are used, the necessary information is provided to understand the basis used for the calculations.

The 2006 financial year confirmed the technical excellence and profitability objectives of the Fondiaria-SAI Group already set in the previous financial year, despite the persistent cooling-down of price dynamics in the Motor sector

These results are in line with the business plan that was presented to the financial community last April, considering the substantial stability and, in some cases improvement, of the main performance indicators.
Various factors have contributed to the good results achieved, including the high level of efficiency achieved in the business, now characterised by a wide customer base, an extremely competitive portfolio of group products, unequivocal risk underwriting policies and optimisation of the management of claims through a widespread settlement network.

Premiums

Consolidated premium income was € 9,975.2m. Compared to € 9,505.2m for 2005, there was therefore a 4.94% increase

(€m)	31/12/2006	31/12/2005	Variation
DIRECT BUSINESS			
Non-Life Classes	7,294.8	7,133.7	2.26
Life Classes	2,658.5	2,350.7	13.09
Total direct business	9,953.2	9,484.4	4.94
INDIRECT BUSINESS			
Non-Life Classes	10.0	10.6	(5.66)
Life Classes	12.0	10.2	17.65
Total indirect business	22.0	20.8	5.77
GRAND TOTAL	9,975.3	9,505.2	4.94
of which:			
Non-Life Classes	7,304.8	7,144.3	2.25
Life Classes	2,670.5	2,360.9	13.11

For the first time the data includes, as of the date on which control was acquired, the premium income of Liguria Assicurazioni, Liguria Vita, Capitalia Assicurazioni and 50% of the premiums of BPM Vita: in uniform data terms, the increase would have been 0.7% in the Non-Life Classes, 9.8% in the Life Classes and 2.9% overall.

The Consolidated Profit and Loss Account

The excellent operating result reported in the parent company's balance sheet is confirmed at consolidated level as well. In fact the positive results recorded by the parent company in the technical Life and Non-Life sectors are confirmed in the contributions to these results from the Group's various insurance companies.
We should point out, however, that the result for last year was boosted by the sum of € 51m, recorded as an extraordinary item, resulting from the end of the transitional system introduced by article 4 of Legislative Decree no. 344/03, which allowed the release of funds for deferred tax liabilities that had previously been set aside in respect of write downs of shareholdings which fulfilled the requirements for the partial exemption granted by article 87 of the consolidation act on income tax and had been deducted in the 2003 financial year.

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

(€K)	**31/12/2006**	**31/12/2005**	**% variation**
Net premiums	9,649,838	9,096,307	553,531
Net charges relating to claims	7,833,827	7,480,620	353,207
Net commissions	36,745	22,616	14,129
Net income from investments	986,153	888,315	97,838
Net income from financial instruments at fair value through profit or loss	80,267	126,561	(46,294)
Operating expenses	1,633,816	1,528,127	105,689
Operating expenses on investments and interest payable	98,559	124,600	(26,041)
Other net income and charges	(277,917)	(169,324)	(108,593)
Profit (loss) in the financial year before tax	**908,884**	**831,128**	**77,756**
Income tax	308,116	244,778	63,338
Profit (loss) in the financial year net of tax	**600,768**	**586,350**	**14,418**
Profit (loss) on operating activities ceased	**-**	**-**	**-**
Consolidated profit (loss)	**600,768**	**586,350**	**14,418**
Third party profit (loss) in the financial year	**119,564**	**121,067**	**(1,503)**
Group profit (loss) in the financial year	**481,204**	**465,283**	**15,921**

The essential elements of the consolidated result are the following:

- the consolidated profit was € 601m, of which € 481m consisted of the Group profit and € 120m represented the third party share. The result is all the the more significant when you consider that the 2005 financial year was influenced by the extraordinary posting stated above. In uniform terms, the growth in profits amounts to approximately € 66m (+12.3%).
- the overall technical performance of the insurance sectors was characterised by stability of premium income in the Non-Life sector (+2.3%) and by a signficant increase in the Life sector (+13.1%), thanks among other things to the widening of the consolidation scope resulting from the entry of Liguria Assicurazioni, Capitalia Assicurazioni and Bipiemme Vita.
- activity in the Non-Life insurance sector has confirmed the traditionally good results recorded in the Motor and Non-Marine Classes, thanks to the good performance of current claims and the positive dismantling of claims reserves from previous financial years. A number of critical situations however emerged during this financial year in respect of the General Civil Liability Class, as

a result of a generalised increased in claims in the latter part of the year on policies relating to the Public and Corporate sectors.
The technical balance for the sector, which has been measured using the traditional rendering of account techniques and applying the new international accounting principles, shows a positive balance of € 422m, compared to the € 530m recorded in the last financial year. The earnings before tax for the sector were positive in the amount of € 685m (€ 730m in 2005).

- The Life sector recorded a profit before tax of over € 191m (€ 128m in 2005) as a result of the higher income from investments and the higher margins recorded during the period. We should point out that the improvement is attributable, among other things, to application of the shadow accounting technique, which has allowed the value adjustments of policy holders to be shown, in compliance with the guaranteed minimums, as counter-entries for the liabilities insured. The figure for the 2006 financial year includes the contribution of € 9m relating to Bipiemme Vita in which the subsidiary Milano Assicurazioni purchased a 50% share during the financial year.
  Net of this contribution, the profit before tax for 2006 is therefore € 183m and is significantly higher than the previous financial year as a result not only of the higher profit margins resulting from the growth in the traditional portfolio but also of the lower requirement for additional reserves, the dynamics of which have benefited from the upward trend in interest rates.
- The Property sector recorded a profit before tax of nearly € 19m compared to the loss of € 8m recorded at the end of the previous financial year, which was however affected by the extraordinary effects of the acquisition of the Immobiliare Lombarda Group. During 2006, the property business performed fairly well in terms of both profitability and increasing the value of its portfolio.
- The Other Activities sector, which includes companies operating in the financial and managed savings sector, recorded a profit before tax of approximately € 13m, compared to the loss of € 18m recorded in 2005. Despite the fact that a number of problems remain, which are gradually being overcome, regarding the companies in the banking and asset management sector, associated with the high incidence of costs on income, the financial companies are performing well and some of them achieved attractive capital gains from trading during the financial year. The prospects are good with regard, among other things, to the contribution that may come from the newly acquired Banca Gesfid S.A., a company that operates in private banking and was taken over at the end of 2006.
- Gross technical reserves amount to € 26,927m (€ 25,360m in 2005). The ratio between total technical reserves and total premiums written is 269.9% (266.8% in 2005). This ratio is 159.6% in the Non-Life sector (160.3% in 2005).
- Total operating costs amount to € 1,644m (€ 1,603m in 2005). In the Non-Life sector, these costs, net of those strictly connected with the management of investments, were € 1,427m and represented 19.5% of premiums (18,9% in 2005), while in the Life Classes the total amount of costs was € 150m and accounted for 5.6% of premiums (6.3% in 2005).
- Net commissions on financial services provided and received were positive by approximately € 37m, compared to € 23m in 2005.

- The contribution of net proceeds from financial instruments at fair value through profit or loss was positive by approximately € 80m (€ 127m as at 31/12/2005). This item includes both the net income from financial assets with risks borne by the insured and resulting from the management of pension funds, as well as a significant amount of dividends on shares classified to be traded in the non-life sector.
  The fall is essentially due to the repeated monetary policy actions taken by the leading Central Banks during the financial year to confront the danger of a return of the inflationary trend. This action had a negative effect on the price of bonds, particularly the fixed rate and longer term ones, with a negative impact on the adjustment of book values to market prices at the end of the year, although this impact was not as great as the peaks recorded at the end of the first half of the year.
- Excluding the contribution of net proceeds from financial instruments at fair value through profit or loss, the total net income from investments, including the proceeds from shareholdings in subsidiaries, associated companies and joint ventures amounting to € 20m, reached € 986m (€ 888m in 2005). Interest receivable of € 711m, other net proceeds of € 151m, net profits from the realisa-

tion of assets of € 142m and valuation losses, net of the respective revaluations, of approximately € 37m, al contributed to this figure.

- Investment management costs and interest payable amounted to € 99m (€ 125m in 2005), of which € 88m related to interest payable on the Group's financial debts.
- The balance of other revenue and costs was negative by € 278m (€ 169m in 2005). This item was affected by depreciation of tangible and intangible assets amounting to € 50m.
- The income tax burden amounts to € 308m, having returned to a normal level from the tax burden in the last financial year which, as stated in the introduction, benefited from the extraordinary withdrawal of funds for deferred tax liabilities.
  During the current financial year, furthermore, the higher amount of dividends recorded are irrelevant for tax purposes (such as, for example, those connected with capital gains and capital losses both on valuations and on sales relating to tax-exempt shareholdings), and also irrelevant are the positive effects of joining the national tax consolidation which are partly reabsorbed by recent tax changes that took place during the year, amongst which we should point out the higher taxes on buildings and the irrelevance of the capital losses on the sale of shares set against the pre-existing payment of dividends.
- Net equity amounts to € 5,055m (€ 4,509m in 2005) and the Group share amounts to € 3,897m (€ 3,460m in 2005). -
- The Group ROE, calculated on the average of its net equity, minus the dividends resolved and the third party shares, amounts to 13.7% (16.02% in 2005). The total ROE, therefore including third party earnings and share of equity, amounts to 13.2% (15.9% in 2005). The fall is attributable primarily to the increase in net equity.

The next page shows the business trends in the financial year by sector of business.

Balance sheet by sector of business

(€K)

		Non-life business		Life business		Property		Other business		Intersegmental overlap		Totals	
		2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
1	**INTANGIBLE ASSETS**	**816,298**	**663,501**	**297,028**	**229,032**	**7,334**	**12,486**	**52,827**	**21,506**		**0**	**1,173,487**	**926,525**
2	**TANGIBLE ASSETS**	**314,622**	**257,810**	**14,583**	**8,431**	**745,237**	**752,268**	**90,204**	**67,626**	**-26**	**0**	**1,164,620**	**1,086,135**
3	**REINSURERS' SHARE OF TECHNICAL RESERVES**	**684,509**	**698,736**	**211,194**	**198,212**		**0**		**0**		**0**	**895,703**	**896,948**
4	**INVESTMENTS**	**10,899,244**	**9,786,105**	**20,500,486**	**17,803,065**	**1,201,865**	**1,018,404**	**1,577,319**	**1,804,106**	**-366,438**	**-346,660**	**33,812,476**	**30,065,020**
4.1	Investment property	1,088,553	1,096,308	33,990	10,281	978,477	909,223	24,608	25,909		0	2,125,628	2,041,721
4.2	Shareholdings in subsidiaries, associates and joint ventures	1,706	33,063	-1,656	-417	49,312	7,719	106,559	31,310		0	155,921	71,675
4.3	Investments held to maturity		0		0		0		0		0	0	0
4.4	Loans and receivables	406,888	482,263	229,056	231,980	23,029	13,474	1,002,244	1,016,789	-355,354	-335,849	1,305,863	1,408,657
4.5	Financial assets available for sale	9,036,148	7,823,564	13,556,309	12,434,584	147,576	87,988	327,578	626,132		-156	23,067,611	20,972,112
4.6	Financial assets at fair value through profit or loss	365,949	350,907	6,682,787	5,126,637	3,471	0	116,330	103,966	-11,084	-10,655	7,157,453	5,570,855
5	**SUNDRY RECEIVABLES**	**2,308,617**	**2,366,449**	**249,040**	**247,146**	**112,959**	**136,159**	**130,295**	**144,111**	**-154,183**	**-82,822**	**2,646,728**	**2,811,043**
6	**OTHER ASSETS**	**632,823**	**1,162,495**	**677,000**	**736,772**	**20,894**	**14,861**	**32,937**	**34,014**	**-556,328**	**-280,166**	**807,326**	**1,667,976**
6.1	Deferred acquisition costs	301,350	284,521	19,622	22,433		0		0		0	320,972	306,954
6.2	Other assets	331,473	877,974	657,378	714,339	20,894	14,861	32,936	34,014	-556,328	-280,166	486,353	1,361,022
7	**CASH AT BANK AND IN HAND AND EQUIVALENTS**	**253,680**	**371,966**	**312,498**	**142,345**	**75,897**	**111,943**	**218,348**	**141,870**	**-137,391**	**-241,619**	**723,032**	**526,505**
	TOTAL ASSETS	**15,909,793**	**15,307,062**	**22,261,829**	**19,365,003**	**2,164,186**	**2,046,121**	**2,101,930**	**2,213,233**	**-1,214,366**	**-951,267**	**41,223,372**	**37,980,152**
1	**NET EQUITY**				**0**		**0**		**0**		**0**	**5,054,542**	**4,508,889**
2	**PROVISIONS**	**207,054**	**198,151**	**13,599**	**13,106**	**11,193**	**14,858**	**4,830**	**2,960**		**0**	**236,676**	**229,075**
3	**TECHNICAL RESERVES**	**11,661,887**	**11,451,467**	**15,275,790**	**13,918,791**		**0**		**0**	**-11,084**	**-10,655**	**26,926,593**	**25,359,603**

4	**FINANCIAL LIABILITIES**	**1,072,113**	**667,564**	**5,204,752**	**3,626,713**	**380,731**	**401,166**	**906,824**	**1,051,193**	**-484,525**	**-574,258**	**7,079,895**	**5,172,378**
4.1	Financial liabilities at fair value through profit or loss	153,503	27,857	4,624,354	3,114,059		0	64,175	89,942		0	4,842,032	3,231,858
4.2	Other financial liabilities	918,610	639,707	580,398	512,654	380,731	401,166	842,649	961,251	-484,525	-574,258	2,237,863	1,940,520
5	**PAYABLES**	**731,629**	**785,775**	**189,902**	**159,943**	**83,748**	**81,047**	**227,871**	**164,137**	**-163,731**	**-90,322**	**1,069,419**	**1,100,580**
6	**OTHER LIABILITIES**	**918,396**	**1,274,995**	**419,209**	**499,864**	**36,582**	**44,937**	**37,060**	**65,863**	**-555,000**	**-276,032**	**856,247**	**1,609,627**
	TOTAL NET EQUITY AND LIABILITIES	0	0	0	0	0	0	0	0	0	0	**41,223,372**	**37,980,152**

Profit and loss account by sector of business

(€K)

		Non-life business		Life business		Property		Other business		Intersegmental overlap		Totals	
		2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
1.1	Net premiums	7,003,653	6,749,227	2,646,185	2,347,079	0	0	0	0	0	0	9,649,838	9,096,306
1.1.1	*Gross premiums for the period*	7,316,233	6,980,859	2,670,473	2,360,942		0		0		0	9,986,706	9,341,801
1.1.2	*Premiums ceded to reinsurers for the period*	-312,580	-231,632	-24,288	-13,863		0		0		0	-336,868	-245,495
1.2	Commissions receivable		-1,085	50,528	34,481		0	26,434	20,479	-463	-422	76,499	53,453
1.3	Income and charges resulting from financial instruments at fair value through profit or loss	45,117	43,922	32,176	78,930	15	0	3,388	3,709	-429	0	80,267	126,561
1.4	Income from shareholdings in subsidiaries, associates and joint ventures	-310	23,719	12,826	14,342	2,541	-134	4,443	8,911		0	19,500	46,838
1.5	Income from other financial instruments and investment property	404,446	360,891	640,057	548,363	59,271	42,557	81,664	61,734	-49,041	-20,449	1,136,397	993,096
1.6	Other income	172,405	180,369	18,616	68,056	92,427	38,269	287,845	263,686	-170,347	-156,786	400,946	393,594
1	**TOTAL INCOME AND REVENUE**	**7,625,311**	**7,357,043**	**3,400,388**	**3,091,251**	**154,254**	**80,692**	**403,774**	**358,519**	**-220,280**	**-177,657**	**11,363,447**	**10,709,848**
2.1	Net charges relating to claims	4,936,188	4,780,392	2,898,068	2,700,228	0	0	0	0	-429	0	7,833,827	7,480,620

2.1.2	*Amounts paid and variation in technical reserves*	5,096,273	4,950,850	2,922,330	2,712,629		0		0	-429	0	8,018,174	7,663,479
2.1.3	*Reinsurers' share*	-160,085	-170,458	-24,262	-12,401		0		0		0	-184,347	-182,859
2.2	Commissions payable		0	28,782	21,096		0	10,978	9,815	-6	-74	39,754	30,837
2.3	Charges resulting from shareholdings in subsidiaries, associates and joint ventures		3	49	0	5	2,970		3		0	54	2,976
2.4	Charges resulting from other financial investments and investment property	129,608	85,089	82,206	49,538	50,168	23,447	40,831	61,026	-45,026	-20,380	257,787	198,719
2.5	Operating expenses	1,431,051	1,351,687	155,480	151,380	266	48,871	57,614	54,758	-133	-4,047	1,644,278	1,602,648
2.6	Other costs	443,208	410,280	44,897	41,321	84,507	13,658	280,937	250,815	-174,686	-153,156	678,863	562,919
2	**TOTAL COSTS AND CHARGES**	**6,940,055**	**6,627,451**	**3,209,482**	**2,963,563**	**134,946**	**88,946**	**390,360**	**376,417**	**-220,280**	**-177,657**	**10,454,563**	**9,878,719**
	PRE-TAX PROFT (LOSS) FOR THE FINANCIAL YEAR	**685,256**	**729,592**	**190,906**	**127,688**	**19,308**	**-8,254**	**13,414**	**-17,898**	**0**	**0**	**908,884**	**831,129**

Non-Life Insurance Sector

THE NON-LIFE INSURANCE MARKET

ISTAT data show that over the last three years, between June 2003 and May 2006, TPL tariffs increased in total by 4.4%, while consumer prices in general increased by 6.5%. The survey carried out does not however consider the fact that every year over 90% of policy holders cause no accidents, and therefore benefit from the “bonus” effect, nor does it consider the discounts that insurance companies often apply to the published tariffs. The costs actually incurred by Italians to purchase the obligatory Motor TPL cover, measured on the basis of the premium income compared to the number of vehicles on the road, therefore amounted to just 2% over the three period between 2003 and 2005; during 2005, for the first time, the average cost per vehicle actually fell (-1.5%).

The amounts paid and set aside by companies in respect of insurance losses reached almost € 15bn. The introduction of the compulsory direct compensation system, under the terms of the Insurance Code, should therefore be beneficial in terms of the quality of service provided to policy holders. The primary objective of direct compensation, in the primary interest of policy holders, must be to eliminate the improper costs weighing on the settlement of claims. These include legal costs and accident support and are not justified where claims are settled within the legally established term and in the absence of any dispute.

With regard to the gross premiums recorded in the Non-Life sector at the end of the third quarter of 2006, the Non-Life portfolio grew by 2.3% to € 26,004m, accounting for 34% of the total in 2006, up from 32.1% the previous year. Premium income in the Motor Classes was € 15,894m (+1.2% compared to the third quarter of 2005), accounting for 61.1% of total Non-Life premiums (61,8% in the same period of 2005). For the other Non-Motor Classes, in the third quarter of 2006, the Non-Life business accounted for a substantially stable percentage compared to the same period of 2005: +38.9% as at 30/09/2006 (with premium income of € 10,110m) compared to 38.3% as at 30.09.2005 (with premium income of € 9,719m).

In particular, gross premiums recorded as at the third quarter of 2006 in the Accidents and Health Classes were up by 4.4% (€ 3,241m) compared to the same period of 2005, gross premiums in the General TPL Classes were up by 3% (€ 1,993m) while gross premiums in the Credit and Bonds Classes were up by 4.3% (€ 575m).

Agencies with mandates continue to be the primary distribution channel. During the first six months of 2006, they accounted for 85.3% of Non-Life premium income and 91.1% of motor insurance income, compared respectively to 84.6% and 91.2% in the first half of 2005. In second place were the brokers, with 6.6% of the total Non-Life premiums and 2% of Motor TPL. The indirect channel, which includes telephone and Internet sales, accounted for 3.9% of the total and 4.8% of Motor TPL premiums.

For the Fondiaria-SAI Group as a whole, premiums amounted to € 7,304.8m compared to € 7,144.3m in 2005, an increase of 2.3%.
Direct premium income amounts to € 7,294.7m, compared to € 7,133.7m in 2005, an increase of 2.26%.

The premium income of Liguria Assicurazioni made a contribution of € 100.1m while that of Capitalia Assicurazioni amounted to € 12.5m.
The production of the subsidiaries Liguria Assicurazioni and Capitalia Assicurazioni has been included since control of the companies was acquired. In uniform terms, the increase would have been 0.7%.

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

(€m)				% distribution	
	2006	**2005**	**% var.**	**2006**	**2005**
Accident and Health	672.0	663.4	1.3	9.2	9.3
Marine, aircraft and goods in transit	196.0	218.1	(10.1)	2.7	3.1
Fire and other Damage to Property	751.1	703.4	6.8	10.3	9.8
General TPL	499.9	481.3	3.9	6.8	6.7
Credit and Bonds	72.0	70.4	2.3	1.0	1.0
Sundry pecuniary losses	26.5	28.5	(7.0)	0.4	0.4
Legal protection	15.7	15.8	(0.6)	0.2	0.2
Assistance	34.9	32.3	8.0	0.5	0.5
Total Non-Motor Classes	**2,268.1**	**2,213.2**	**2.5**	**31.1**	**31.0**
Land Vehicle TPL	4,307.0	4,210.5	2.3	58.9	58.9
Motor insurance other Classes	729.7	720.6	1.3	10.0	10.1
Total Motor Classes	**5,036.7**	**4,931.1**	**2.1**	**68.9**	**69.0**
GRAND TOTAL	**7,304.8**	**7,144.3**	**2.2**	**100.0**	**100.0**

The gross technical reserves reached € 11,662m (€ 11,451m in 2005) and the ratio to premiums written was 159.6% (160.3% in 2005). Of these, € 251m referred to the newly acquired Liguria Assicurazioni and Capitalia Assicurazioni.

Operating costs, excluding those strictly related to the management of investments, amounted in total to € 1,427m (€ 1,329m in 2005), marking an increase of approximately 7.4%. The achievement of this figure was helped by the contributions from the newly consolidated companies Liguria and Capitalia Assicurazioni. In uniform terms, excluding the contribution from the newly acquired companies in the consolidation scope, the increase in premium income would be approximately 5.5%.

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

	Claims paid (€K)			Claims advised (Number)		
	2006	**2005**	**% var.**	**2006**	**2005**	**% var.**
Accidents	205,307	203,961	0.66	97,431	96,593	0.87
Health	179,754	166,940	7.68	191,280	183,005	4.52
Railway hulls	10	3	214.26	1	1	0.00
Aircraft hulls	1,751	25,094	(93.02)	44	57	(22.81)
Marine, lake and river hulls	12,634	20,755	(39.13)	574	676	(15.09)
Goods in transit	23,478	23,148	1.43	4,024	4,741	(15.12)
Fire and other natural elements	192,856	193,757	(0.47)	75,124	77,391	(2.93)
Other damage to goods	218,163	193,415	12.80	133,548	129,111	3.44
Aircraft TPL	459	1,210	(62.05)	161	73	120.55
Marine, lake and river TPL	586	1,810	(67.60)	122	140	(12.86)
General TPL	331,686	327,022	1.43	103,754	103,495	0.25
Credit	1,202	2,999	(59.92)	7	173	(95.95)
Bonds	50,052	42,876	16.74	1,253	1,025	22.24
Pecuniary losses	5,478	7,143	(23.31)	5,131	10,917	(53.00)
Legal protection	1,540	1,539	0.06	1,848	3,110	(40.58)
Assistance	13,901	61,512	(77.40)	79,242	76,831	3.14
TOTAL NON-MOTOR CLASSES	**1,238,857**	**1,273,193**	**(2.70)**	**693,544**	**687,339**	**0.90**
Motor TPL	3,354,913	3,341,832	0.39	991,961	1,002,662	(1.07)
Land vehicle hulls	352,782	328,686	7.33	264,394	245,246	7.81
TOTAL MOTOR CLASSES	**3,707,695**	**3,670,518**	**1.01**	**1,256,355**	**1,247,908**	**0.68**
TOTAL NON-LIFE CLASSES	**4,946,552**	**4,943,711**	**0.06**	**1,949,899**	**1,935,247**	**0.76**

In order to ensure uniformity of comparison, the claims paid and reported in 2005 also include the amounts and figures relating to Liguria Assicurazioni.

The ratio of claims to earned premiums for the period was 70.5% (70.8% as at 31 December 2005): this ratio continuing to be substantially in line with the figure for the previous year. The substantial stability in the ratio during 2006 was a result of the favourable trend of current claims in the Motor Classes, but this in turn was partly offset by the fact that the average cost of the payout exceeded the rate of inflation and the impact of claims for personal injury continued to be negative.

The combined ratio was 93.97% (92.2% in 2005). This ratio continues to demonstrate the strong managerial efficiency of insurance processes, both in terms of premiums written and in terms of the management and settlement of claims.
As shown in the half-year report, the ratio has improved slightly in terms of the rate of claims but worsened slightly in terms of the level of management costs and greater pressure of the balance of other technical charges.

As regards the Motor TPL business, the fall in claims advised is confirmed at Group level as well (-1.07% compared to 2005). There was also a further slight reduction in the frequency of claims.

The speed of settlement of insurance claims continues to increase, with regard to both the current year's claims and claims from previous years.

Consequently we should point out that at Group level the average cost of provisions, which has already increased in the Parent Company, both for the current generation and for past generations, has increased significantly (and in any case at rates higher than the average cost of payments), thus confirming, among other things, the customary rigorous provisioning policy.

As regards the new products issued in the Non-Life Classes, sales of the NUOVA 1ª GLOBAL product, which offers an innovative opportunity for insuring two-wheeled vehicles, continued in 2006. The year also saw the launch of the Group's new policies: LA MIA ASSICURAZIONE FABBRICATI, which insures the property assets of building owners, the civil liability arising from the ownership and running of the buildings and the civil liability of the building administrators; LA MIA ASSICURAZIONE CASA, which is the new multirisk cover to protect houses and families, dedicated to protecting the home and the people who live or work in it, helping them with the unforeseen events of everyday life, even outside the home; LA MIA ASSICURAZIONE INFORTUNI, a policy that provides valid financial support to the whole family in the event of accident, protecting the client in the most serious situations. LA MIA ASSICURAZIONE INFORTUNI is a highly customisable product to suit various requirements (relating to work and home life) and fulfils the welfare requirements of individuals and the family as a whole in the event of an accident or illness.
With reference to law 210 of 02/08/2004, delegating the Government to protect the patrimonial rights of the purchasers of properties to be built and requiring builders to arrange for the buyer to be provided with a guarantee, the new CAUZ210 product has been launched in the Guarantees Class. Furthermore, a new property leasing product has been launched and work has been completed on a new policy to cover collective accident risks, which will be marketed from the beginning of 2007.

For further information regarding the Group's new products, see the introductory section entitled "Main Events in 2006".

The following table shows the consolidated technical balance of direct business in Italy in the main classes.

(€K)	**2006**	**2005**	**Variation**
Motor TPL	189,657	149,882	39,775
Land vehicle hulls	185,883	219,361	(33,478)
Other non-life classes	127,374	207,868	(80,494)
TOTAL NON-LIFE CLASSES	**502,914**	**577,111**	**(74,197)**

The Motor TPL Class continues to perform positively, with an increase of approximately € 40m compared to the financial year 2005. Considering the negative contribution to the technical balance of the subsidiary Liguria Assicurazione, of approximately € 9m, the improvement in uniform terms is close to € 50m. The factors that have contributed to this result are the improvement regarding current claims and the effect of the actions planned to restructure geographical areas and tariff sectors that were performing negatively, particularly by reducing the size of the fleets portfolio.

The fall in the Land Vehicle Hulls Class is associated with the greater competition that arose during 2006 in a class that continues however to be profitable.

Less brilliant, however, was the performance of the Non-Marine Classes. Despite the positive performance in almost all classes, a critical situation developed in the General TPL Class, marked by a generalised increase in claim rates in the Companies sector (particularly Health Care Companies and Local Public Authorities), with the consequent need to increase the reserve for delayed claims, in addition to which both the number and value of serious losses increased.
The remaining Non-Motor Classes performed positively, now that the restructuring action launched in the previous three-year period is fully bearing fruit.

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

TECHNICAL INDEXES (%)	2002	2003	2004	2005 IAS	2006 IAS
Combined ratio(*)	91.6	91.5	92.4	92.2	93.9
Claims/premiums in the year	70.6	70.7	70.6	70.8	70.5
Reserve ratio (**)	164.0	164.3	164.0	160.3	159.6

(*) The combined ratio can be subdivided into its 3 elementary components: claims ratio 70.5%; expense ratio 20.4%; other items ratio 3.0% (respectively equal in 2005 to: claims ratio 70.83%; expense ratio 19.69%; other items ratio 1.63%).
(**) Gross technical reserves/premiums

The main technical indexes, calculated on the basis of international accounting principles, do not differ significantly from the same indexes calculated using local criteria. Therefore, a comparison between the values for 2004 and the 2005 and 2006 IAS values can be considered reliable, even though it may not be perfectly homogenous.

Acquisition of Liguria Assicurazioni S.p.A.

As a result of the procedure launched by vendor to select the best offer for the purchase of a controlling share in the capital of Liguria Assicurazioni S.p.A., which ended with the acceptance of the bid submitted by Fondiaria-SAI, the definitive contract was signed for the purchase and sale of the entire shareholding owned by the vendor in Liguria Assicurazioni, amounting to 99.97% of the capital, for € 148.1m.

The transaction received the prior approval of the Italian competition authority and the authorisation from ISVAP. The aforesaid price of € 148.1m corresponds to the price agreed when the preliminary contract was signed of € 144.5m, increased – as agreed – by an amount corresponding to the net profit achieved by Liguria Assicurazioni and its subsidiary Liguria Vita during the second half of 2005, as recorded in the accounts as at 31/12/2005.

The vendors set up a suitable guarantee of their undertakings in respect of the purchaser.

The price paid should however be considered as a provisional price and will be subject to subsequent review in the light of claims reported after the date of transfer of the shares and technical reserves of Liguria Assicurazioni and Liguria Vita, which will take place with reference to the accounts of the latter companies as at 31/12/2010.

The Non-Life Classes account for approximately 90% of the total business of the Liguria Group. Premium income is concentrated in small municipalities of central and norther Italy (67% of premiums). The company operates through a network of 219 branches and 118 employees. 60% of the branches are based in municipalities with fewer than 50,000 inhabitants.

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

- increased volume of business for the Fondiaria-SAI Group;
- development of the commercial penetration of Fondiaria-SAI by means of the expansion of its distribution network resulting from the acquisition of the network of branches of the Liguria Group, which are concentrated in small to medium sized urban centres.
- increasing the value of Liguria Assicurazioni and Liguria Vita by using the skills developed by Fondiaria-SAI in the management of claims, settlement of claims and underwriting of policies, as well a generally improving financial management.

Acquisition of 51% of the capital of Capitalia Assicurazioni S.p.A.

As a result of the achievement of a multiannual agreement between the Capitalia Group and the Fondiaria-SAI Group for the development of the bancassurance business relating to Non-Life Non-Marine Classes, on 07/09/2006 Fondiaria-SAI completed the purchase from Capitalia of a 51% share in the capital of Capitalia Assicurazioni S.p.A. for a total amount of € 56m, corresponding to a total valuation of Fineco Assicurazioni of approximately € 110m.

Capitalia and Fondiaria-SAI also signed a shareholders' agreement containing the corporate governance rules of Capitalia Assicurazioni, as well as the business management aspects of the partnership. This agreement also provides for Capitalia Assicurazioni to continue having access to the distribution networks of Capitalia until 2016, with an opportunity to renew this on expiry by mutual agreement between the parties.
Mechanisms are provided for the price to be reviewed in accordance with the achievement, or non-achievement, in the period between 01/01/2007 and 31/12/2011, of specific cumulative volumes of actual gross premiums. The transaction received prior authorisation from ISVAP. Capitalia Assicurazioni is the Non-Life Classes insurance company that operates through the distribution network (approximately 2,000 branches and 1,300 financial advisors, with a potential of 4 million clients) of Banca di Roma, Banco di Sicilia, Bipop Carire and FinecoBank, the 4 retail banks of the Capitalia Group. The business plan drawn up by the parties provides for significant growth in premium income for the company over the next five years (CAGR of approximately 40%) with a net profitability when full operation is achieved of over 10% of premiums.

In the current market context, the partnership will allow Capitalia to benefit from the technical and commercial know-how of the Fondiaria-SAI Group, the Italian leader in the non-life insurance sector, promoting the development of new products and improving penetration among the Group's 4 million plus clients. This agreement will also allow Capitalia to access the widespread settlement network of the Fondiaria-SAI Group, an essential factor in being able to offer clients an efficient service.
For Fondiaria-SAI, the agreement is a further opportunity to develop in the Non-Life sector and a confirmation of the strategy of expanding the range of products offered through complementary distribution channels to the network of branches, benefiting the distribution force of the country's fourth largest banking Group. From a business point of view, the transaction integrates perfectly with the current bancassurance agreements of the Fondiaria-SAI Group, which will continue to be strategic in the context of its growth policies.

Other Non-Life Bancassurance agreements

In the context of the alliance and co-operation project between the Fondiaria-SAI Group and the Banca Popolare di Milano Group in the bancassurance sector, during the month of March, BPM began to market the insurance policies of Systema, a company controlled by Milano Assicurazioni.
The new range of insurance services offered was inaugurated with the multiprotection policy created to confront the risks arising from the accidental events that can hit the home and the family unit.

Business also continued in the subsidiary Novara Assicura, a company that sells its insurance products through the branches of Banca Popolare di Novara, a subsidiary of Banco Popolare di Verona e Novara. Premium income began to flow into the company in January and reached € 1,472K, including € 1,099K in the Motor Classes. The profit and loss account for 2006 is still affected by the setup costs, which were not counterbalanced by a sufficient volume of business, and closed with a loss of € 918K.

Some of the essential figures relating to the 2006 financial year are provided below for the main companies of the Group.

The performance of the subsidiaries in 2006 is summarised in the following table:

(€K)	GROSS PREMIUMS IAS/IFRS	% VAR.	EARNINGS	NET EQUITY excluding net earnings for the year
NON-LIFE INSURANCE SECTOR				
CAPITALIA ASSICURAZIONI S.p.A.	12,532	32.20	896	9,379
DIALOGO ASSICURAZIONI S.p.A.	12,626	(28.25)	2,560	8,120
EUROPA TUTELA GIUDIZIARIA S.p.A.	1,644	(20.08)	150	6,466
LIGURIA ASSICURAZIONI S.p.A.	100,146	8.81	(3,913)	52,558
MILANO ASSICURAZIONI S.p.A.*	2,774,231	1.25	247,854	1,737,650
PRONTO ASSISTANCE S.p.A.	29,897	4.40	1,126	5,714
SASA S.p.A.	379,522	4.23	14,738	67,128
SIAT S.p.A.	189,004	10.84	1,853	43,529
THE LAWRENCE RE LTD	167,879	18.29	42,796	52,189

* consolidated data according to IAS/IFRS criteria

CAPITALIA ASSICURAZIONI S.p.A.
Share capital € 5,200,000
(Direct shareholding 51%)

The 2006 accounts closed with earnings of € 896K, significantly higher than the profit recorded in the previous financial year of € 468K.
The gross premiums recorded amounted to € 37,595K (€ 28,467K as at 31 December 2005), an increase of 32.1%, primarily due to a large number of risks associated with loans disbursed by banking institutions being taken on by the company. The company's products are marketed, individually or by means of cumulative policies, primarily through branches of the banking establishments of the Capitalia Group.
At the end of the year, the gross technical reserves had reached € 36,113K (€ 20,280K as at 31 December 2005), an increase of 78.1%, as a result of the increase in the premiums reserve carried out in the financial year.
Within the equity structure, we should point out in particular the investments, which grew from € 24,461K in the previous financial year to € 40,922 as at 31 December 2006, consisting primarily of net available cash amounting to € 14,408K (€ 4,310K as at 31 December 2005).
We should also point out the significant increase in proceeds from investments net of charges. These proceeds amounted to € 794K (€ 415K as at 31 December 2005), an increase of 91.3%.
The technical account result presented a positive balance of € 1,202K (€ 556K as at 31 December 2005): the increase is attributable primarily to the Fire Class as a result of the allocation to the technical account for the class of financial proceeds of € 524K.
Considering the limited size of the company and of its premium portfolio, a decision was taken to maintain a low level of withholding for 2006, as in previous financial years, amounting to less than € 300,000 per individual risk, with the exception of a few specific cases. The passive reinsurance result remained favourable to reinsurers in the amount of € 525K (€ 587K in 2005).
During 2007, the work which began in 2006 to define the company's new product catalogue, to be distributed exclusively through the Capital Group's banks, will be completed.

DIALOGO ASSICURAZIONI S.p.A.
Share capital € 8,831,774
(Indirect shareholding 99.85%)

The Company operates primarily in the sale of Motor products by telephone and via the Internet.

During the financial year, the company launched the experimental phase of a new advertising campaign intended to relaunch the Dialogo brand, which will begin during the first few months of 2007.

Gross premiums recorded amounted to € 12,626K, compared to € 17,596K in the previous financial year (-28.25%).
Despite the drop in premium income, the lower incidence of claim charges, and particularly the positive evolution of claims from previous financial year, already recorded in the reserves, allowed a profit of € 2,669K to be achieved, compared to the profit of € 761K recorded as at 31 December 2005.

LIGURIA ASSICURAZIONI S.p.A.
Share capital € 23,000,000
(Direct shareholding 99.97%)

The balance sheet as at 31 December 2006 closed with negative earnings of € 3,913K (positive earnings of € 12,176K as at 31 December 2005). It is important to bear in mind, however, that performance during the 2006 financial year was negatively affected by the initiatives taken by the previous shareholder, the effects of which lasted throughout the first half of 2006, thus influencing the earnings for the financial year.

Premium income reached € 171,678K compared to € 157,777K the previous year, corresponding to an increase of 8.8%. The ratio of claims to premiums for direct business in the non-life classes reached 77.5% compared to 68.3% in 2005, corresponding to gross technical earnings of € 1,850K, compared to € 18,606K in 2005. Significant results in premium growth were achieved in the Motor TPL Class (+8.4%), in which the most significant portion of the portfolio is concentrated (64.7%). The main non-life classes also recorded positive variations, including the Accidents (+12.1%), Health (+11.3%), Land Vehicle Hulls (+9.5%), Fire (+7.6%), General TPL (+37.1%). The Bonds Class fell by 9.4% in view of the cautious underwriting policies adopted and as a result of the reorganisation of management technical services.

Financial proceeds amount to € 4,454K (€ 2,257K as at 31 December 2005), an increase of 93.3%, due partly to the increase in active rates recorded by financial markets and partly to a more dynamic management activity implemented by the parent company, to whose dedicated facilities the activities previously carried out by external managers have been entrusted.

As it has been in the past, the company's investment policy is oriented towards the purchase of low risk bonds and government securities.

The reinsurance policy was characterised by prudential criteria that took into account the size of the company. In view of the new expansion plans and with the assistance of the parent group, a new reinsurance plan has been set up which improves and widens the company's cover as of the next financial year.

The following products were developed during the second half of 2006:

- The "Valore salute" policy, which offers health cover that is consistent with the standards of the main competitors and the services of the widespread network of healthcare establishments which have agreements with the Fondiaria-SAI group. This product extends the service provided to customers and is part of a plan to modernise the product catalogue.

- The “Primo valore” policy, aimed at retail customers, which is characterised by a modular and streamlined cover. This is an over-the-counter product, easy to illustrate and understand, which fulfils the main requirements of the target customer.

During the first few months of 2007, development was steady and in line with the final months of the last financial year. In the motor sector in particular, there has been a growth in premiums of around 9%, while in the non-marine classes there has been an increase of around 13%. As regards the performance of claims, the first few months of 2007 indicate that the frequency of claims is in line with last year. The company’s objective is to maintain a high speed of settlement, to contain average costs and reduce disputes.

MILANO ASSICURAZIONI S.P.A.
Share capital € 242,980,050
(Direct shareholding 57.21%, Group interest 60.10%)

Based on the figures reported in the consolidated accounts, the 2006 financial year closed with a net profit of € 247,854K compared to € 283,522K in the previous financial year. In comparing the results, it is important to bear in mind that the profit for the 2005 financial year benefited from a particularly low tax burden following the withdrawal from the deferred tax fund of an amount equal to the tax burden relating to the no longer taxable part of the value adjustment carried out in the 2004 financial year on the General shares held in the portfolio.
The main aspects that characterised the result achieved in the 2006 financial year can be summarised as follows

- The Non-Life sector closed with a profit before tax of € 292,694K, compared to a profit before tax of € 332,260K recorded at the end of the previous financial year. The fall is primarily due to an increase in the level of claims in the General TPL Class, particularly with regard to policies taken out by Hospitals and Local Authorities, and to a different financial impact of passive reinsurance which had allowed a particularly favourable result to be achieved during the previous financial year.
  Performance in the Motor Vehicle TPL Class was however better as it benefited from the planned restructuring in tariff sectors and geographical areas that presented unsatisfactory technical performance. Performance was significantly positive in the Land Vehicle Hulls Class, which continues to contribute significant profitability.
- The Life Sector produced a profit before tax of € 96,077K, a significant improvement compared to the profit for 2005, which was € 63,214K.
  The figure for the 2006 financial year includes the contribution of € 19,572K relating to Bipiemme Vita in which the subsidiary Milano Assicurazioni purchased a 50% share during the financial year, as explained in greater detail in the subsequent chapter dedicated specifically to the Life Sector.
  Net of this contribution, the profit before tax for 2006 is therefore € 76,505K and is significantly higher than the previous financial year as a result not only of the higher profit margins resulting from the growth in the traditional portfolio but also of the lower requirement for additional reserves, the dynamics of which have benefited from the upward trend in interest rates.
- asset and financial management allowed net proceeds to be achieved from financial instruments and property investments of € 356,913K, an increase of 5.3% on the previous financial year (+2.1% with the same consolidation scope, i.e. excluding the proceeds referable to Bipiemme Vita, in which a 50% stake was acquired during the financial year)
  In particular, the proceeds from other financial instruments and property investments amount to € 330,030 (+11.8%), while net proceeds from financial instruments at fair value through profit or loss amount to € 23,705K, compared to € 56,660K at the end of 2005. The fall is essentially due to the repeated monetary policy actions taken by the main Central Banks during the financial year to confront the danger of a return of the inflationary trend. These actions had a negative effect on the price of bonds, particularly the fixed rate and longer term ones, with a negative impact on the adjustment of book values to market prices at the end of the year, although this impact was not

as great as the peaks recorded at the end of the first half of the year.

- Taxes for the current financial year amount to € 142,403K and represent 35.9% of the gross profit, compared to the figure of 30.1% in 2005. The tax rate is lower compared to the nominal one, primarily as a result of the dividends received, which are almost entirely exempt from tax. The 2005 tax rate also benefited from the withdrawal from the deferred tax fund of € 31,507K, equal to the tax burden on the no longer taxable portion of the value adjustment carried out during the financial year 2004 by the parent company Milano Assicurazioni on the Generali shares in held in its portfolio.

Based on the figures reported in the parent company's consolidated accounts, the 2006 financial year closed with a net profit of € 195,492K compared to € 233,106K in the previous financial year. When comparing the results, it is important to bear in mind that the profit for 2005 benefited from the particularly small tax burden as stated above.
The main aspects that characterised the result achieved in the 2006 financial year can be summarised as follows

- The Life Classes technical account shows a profit of € 52,088K, a significant increase compared to the earnings achieved during the previous financial year of € 24,755K. The improvement is attributable not only to the higher profit margins resulting from the growth in the traditional portfolio, but also to a favourable evolution in additional reserves and, in particular, of the additional interest guarantee reserve, which benefited from the increase in rates.
- The Non-Life Classes technical balance closed with a profit of € 142,039K, compared to the profit of € 182,271K recorded for the previous financial year, a fall primarily referable to an increase in claim rates in the General TPL Class and to a different impact of passive reinsurance which, in the previous financial year, had recorded a positive result following a number of claims for which there was excess loss cover.
  Asset and financial management allowed income from investments to be achieved of € 323,192K, compared to € 287,850K in the previous financial year (+12.3%). The value adjustments recorded in the balance sheet, net of the respective writebacks, amount to € 45,485K. This result is not as good as the peaks recorded during the year (€ 71,353 in June) but its impact is in any case better compared to the 2005 financial year, which saw the level of value adjustments reach € 26,594K.

- Administration costs, net of the allocations to technical and equity items, amount to € 69,972K and represent 2.1% of premiums, similar to the level recorded during the previous financial year.

Direct and indirect business premiums and accessories amount to € 3,330,153K in total, an increase of 0.79% compared to the previous year.

The structure of investments as at 31/12/2006 consisted primarily of bonds and other fixed rate securities, accounting for 79% of the total portfolio, with a duration of approximately 3.72. The equities component represented 13.2% of the total portfolio and mutual funds accounted for the rest. The greater increases recorded during the financial year on the 2005 data related to bonds and other fixed rate securities (+6.68%) and shares and units of Group companies (+30.94).

SASA ASSICURAZIONI E RIASSICURAZIONI S.p.A.
Share capital € 52,000,000
(Direct shareholding 99.99%)

During the 2006 financial year, the company achieved a profit of € 12,113K (€ 10,319K in 2005). The net earnings are primarily attributable to a positive technical account result of € 12.8m, despite the increases in the Motor TPL Class reserves, which amounted to € 5.8m gross of reinsurance.

In 2006, premium income for the company amounted to € 379.5m compared to € 364.1m in 2005 (+4.2%): the greatest contribution came from the Motor TPL Class with € 221.3m (+9.8%) while in the

other Non-Life Classes there was a fall in the Marine Classes (-44.3%), following the repositioning of the company in this sector.
The attractive results achieved are undoubtedly influenced by the attractiveness of the Company, which continues to present itself on the market as the multiagent brand of one of the leading national groups, and which benefits from considerable Group synergies, from information systems to the claim settlement network.
In the Marine and Aviation Classes, SASA maintained its traditionally ample recourse to optional reinsurance protection on cover with a high and very high concentration of risk.

In all classes other than motor there was a 22.1% fall in the number of claims advised during the year (net of claims expired). Motor TPL however recorded an increase in the number of claims, although it was lower than the increase in the number of vehicles for the year. Consequently, the frequency of claims in this class fell again, thus consolidating the positive trend.
The almost static tariffs and, more generally, the strong competition encountered in the market, together with the increase in the average cost of claims, led to a deterioration however in the claims to premium ratio in the Motor TPL sector, despite the aforementioned improvement in frequency.
The speed of settlement, calculated on the number of claims advised, net of claims expired, was significantly higher in all classes and particularly in the Motor TPL class.

The gross technical reserves amount to € 570,724K (€ 544,481K in 2005) and consist of the premium reserve of € 157,505K, the claims reserve of € 412,800K and the equalisation reserve.
The claims reserve is considered to be sufficient based on all the future foreseeable charges in the context of the new settlement policy adopted by the company and of the initiatives taken at operational level, which include the decision to outsource the settlement of claims to the settlement structure of the Fondiaria-SAI Group.

As at 31 December 2006, the investments made by the parent company amounted to € 437m (€ 367m as at 31/12/2005), having increased by 19.1% on the previous financial year. Investments in securities, focused mainly on bonds, increased by € 46m.
Property activities consisted primarily of ensuring an efficient level of maintenance in properties leased to third parties. The increase in assets related to investments is a consequence of the cash flow generated by current business.

Following on from the profit for the financial year, the net equity stands at € 81,878K and easily covers the minimum capital requirement resulting from calculation of the solvency margin, the constituent elements of which, including the usable share of the subordinate loan, amount to € 91,857K, compared to the minimum of € 52,931K.

The work undertaken to develop the sales network continued during the financial year. Despite this development activity, 12 agency contracts and 28 broker contracts were ended with a view to achieving the selective development that is the basis for the company's development plan.

As regards the outlook for 2007, we believe that the company's improved image on the market will allow further points of sale to be opened, using good quality mediators often operating in geographical areas or client niches where performance is good.
Furthermore, thanks to this activity, the company is confident of being able to expand premiums in the "personal" sector, which is normally characterised by a more positive technical performance.
The initiatives already taken (rigorous and generalised review of the portfolio, careful selection of the sales network and risks, etc.) have already produced an appreciable and consolidated overall profitability.
The company is also pursuing an intense programme of activities aimed at achieving greater management efficiency, which will inevitably translate into greater competitiveness in the market.

SIAT SOCIETA' ITALIANA ASSICURAZIONI E RIASSICURAZIONI S.p.A.
Share capital € 38,000,000
(Indirect shareholding 88.33%)

During 2006, the company confirmed its position as a leading player in the “Transport” insurance sector, in which it has continued to be a constant benchmark provider
The company ended the 2006 financial year with a profit before tax of € 3,229K, an appreciable improvement on the figure of € 2,086K recorded in 2005.
The net earnings stand at € 1,440K, compared to € 1,013K for the previous financial year
The aforesaid profit confirms the increasing positiveness of the technical result, which appears to have improved significantly on the previous financial year and has also benefited from the increased profitability in the “Transport” sector classes.

The recent creation within the company of the “Transport Hub” also contributed to this improvement. The Group’s business relating to Transport risks has gradually begun to flow towards the Company (in terms of direct and indirect business) and the concentration of the Group’s technical business relating to the risks in question has begun. With the creation of the aforesaid “Transport Hub”, the Fondiaria-SAI Group has confirmed its intention to focus the Siat company on the Marine sector. At the same time, with a view to specialising the business managed by the Company, a gradual withdrawal from the Motor and Non-Marine sectors began during the year.
The non-technical sector however recorded a significant deterioration in the balance of the financial component and a consideration increase in the level of other net charges. Just as in 2005, the balance of extraordinary items was not significant.

Generally speaking, total production during the 2006 financial year of € 189,004K shows a significant increase (approximately 11%) compared to the previous financial year (€ 170,516K). In direct Italian business, the distribution of production among the various sectors shows a further increase in the Transport sector. In fact, 83.1% of production is attributable to this sector (76.4% in 2005), with 9.5% attributable to the Motor Classes (12.1% in 2005) and the remaining 7.4% to the Non-Marine Classes (11.5% in 2005).

As regards claims paid in 2006, there was a significant overall drop in respect of direct business compared to the corresponding figure for the previous financial year (€ 93,735K in 2006 and € 118,715K in 2005).

During the 2006 financial year, administration costs (before their allocation to the technical account) amounted in total to € 11,444K, including € 226K for the depreciation of tangible assets.
These costs increased by 12.6% compared to 2005 (€ 10,165K, including € 265K for depreciation of tangible assets). This increase is primarily attributable to the aforementioned creation of the Group’s “Transport Hub”, with the resulting costs incurred in respect of non-employed staff operating in this area and other costs for restructuring of the offices.

Technical reserves as at 31 December 2006 amounted to € 288,487K (€ 254,129K as at 31 December 2005). The premium reserve amounts to € 62,161K (€ 61,994K as at 31 December 2005).
The claims reserve amounts to € 225,231K compared to € 191,152K as at 31 December 2005.

As at 31 December 2006, the amount of investments stood in total at € 100,470K (€ 102,155K as at 31/12/2005), a fall of 1.6% compared to the end of the previous financial year.
Bonds and other fixed income securities and property continue to represent the majority of investments at 82.3% (88.8% as at 31/12/2005).
As regards investments in securities, however, shares and mutual investment funds with equity content represent 9.7% of total investments (9.0% as at 31/12/2005), showing a further increase in interest in this sector.

For the 2007 financial year, we believe that, barring any particularly unfavourable events that are currently unforeseeable, and provided that the results expected from the creation within the Company of the Group’s Transport Hub are achieved, we can reasonably predict a further positive result.

THE LAWRENCE RE LTD.

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

In the 2006 financial year, the company again acted exclusively as the captive reinsurer of the Fondiaria-SAI Group.
The role performed consisted of an analytical assessment of the portfolios of the individual group companies, for the purpose of establishing, and consequently providing, the necessary reinsurance cover to support the specific underwriting activity. On the basis, the company has standardised the various portfolios underwritten, paying particular attention to inter-group co-insurance and to finding the necessary retrocession protection on the international market.
Before defining the scope of this protection, the company also arranged specific further retentions at Group level, considering both the type of business and the respective results.
The good technical performance of direct underwriting and the greater balance of cover achieved as a result of the amalgamation work described above once again allowed the company to obtain retrocession cover at very competitive prices from leading international operators.
The profit for the financial year amounts to € 42.4m, net of tax.
The considerable increase compared to the previous financial year (€ 9.7m) was primarily due to the alignment of the book value of the shareholding in Effe Finanziaria S.p.A. with the net equity value of the company itself.
The technical performance of the company's portfolio continues to give positive results in line with the previous years. Premiums accepted for 2006 amount to € 167.9m (€ 141.9m at the end of 2005), including 13.1 in the Life sector (unchanged compared to 31/12/2005). Premiums ceded to the market amount to € 99.8m (116.2m as at 31/12/2005), including 0.7 relating to the Life sector (0.3 as at 31/12/2005). The substantial increase in premiums accepted is the combined effect of a greater contribution due to the introduction of a new non-proportional treaty with a lower limit in the Motor TPL Class and of the cessation of acceptances in the transport classes, which are reinsured from 2006 with another Group company that specialises in the sector. The decrease in premiums ceded is a direct consequence of the change in the reinsurance policy relating to the Transport Classes.
The Company also continues also to carry out run-off activities for and on behalf of all the Group Companies that use this service. As regards the active reinsurance accepted in the past by the various companies, the objective pursued is to enter into settlement agreements that allow the administrative cost to be reduced without ignoring the need for financial gain. The company itself is a retrocessionaire of part of this business which shows a substantially balanced result.
During 2006, the company paid a dividend of € 10m.
The net equity as at 31/12/2006 amounts to € 94.9m.

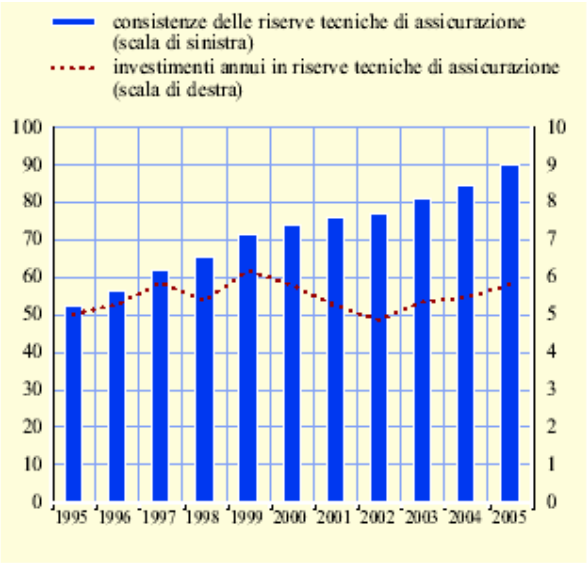
Life Insurance Sector

THE LIFE INSURANCE MARKET

The latest data from the European Central Bank show how European families are investing available capital in housing and/or financial assets. Depending on the structure of the pension system (or the size of public pension provision compared to private provision), a significant portion of the financial wealth of households may in turn be invested in insurance and pension products.

The wealth of households in the Euro area that is invested in insurance and pension products has increased substantially over the last ten years, amounting to approximately 90% of available income in 2005. By comparison, the wealth held in working capital and bank deposits has remain substantially unchanged compared to available income. On average, over the past ten years, transactions relating to investment in technical insurance reserves have increased to 5.5% of the available income of households (as shown in the following diagram), representing just over one third of the amount of household savings.

Figure 12 – Investments by households in insurance/pension products



Size of technical insurance reserves (left-hand scale)

Annual investments in technical insurance reserves (right-hand scale)

Source: Central European Bank
(percentage of the available income of households)

This reasons for this performance are first of all that the cyclical nature of the economy has made the combination of risk and performance offered by insurance and welfare products attractive in general, at a time when share markets have been experiencing a cycle of strong growth and sudden falls.
Secondly, in the longer or structural term, demand for investments in these products has been boosted by a growing awareness among households of the challenges created by the ageing population and of the need to ensure an adequate level of benefits in old age.

This performance has been strengthened by recent reforms of compulsory public pension schemes, which have generally reduced the generosity of the system, connecting the level of benefit with life expectancy and, albeit to a smaller extent, by tax incentives and greater emphasis on private pension plans.

Generally speaking, the financial role of insurance and welfare products is expected to become more important with the realisation by households of the need to make private provision for pensions.

The figures available to date show that the premium income of Italian insurance companies fell during the first 9 months of 2006. Total premiums in the Non-Life and Life Classes increased to € 76,364.3m, 3.6% less than the same period of 2005.
In particular, premiums in the Life sector fell by 6.4% compared to the first 9 months of 2005, down to € 50,360m. This represents 65.9% of the total portfolio, compared to 67.9% during the same period of 2005.
The net slowdown in the Life Classes is also confirmed by the data supplied by Ania on new production in the sector. During the first 10 months of 2006, new Life products was 8.9% lower than the figure for the corresponding period of the previous year.
This is a reversal of the growth trend recorded in the sector in recent years.
The dynamics noted in the month of October are the result of a recovery of business carried out through bank branches (+7% compared to October 2005), representing premium income of 80% of total new production, which also favoured an increase in production in Class III (unit and index linked policies), with a growth of 34.2%.
Gross premium income continued to fall for both products in Class I (insurance on human life), with -13.8%, and products in Class V (pure capital increase policies with guaranteed interest rate), with -61.8%. Among the other sales channels, we should point out the 24% growth in premium income through agencies, contrasted by a 19.5% fall in income through financial advisors.

There is still a great deal of room for development in the Life market. In terms of premiums, we are now at levels that are comparable to those of the main European countries, but in terms of volumes there is still a major opportunity for growth: compared to our level of 25%, the ratio of technical reserves to GDP is 80% in the United Kingdom, 50% in France and the Netherlands and 28% in Germany.

For the Fondiaria-SAI Group as a whole, premiums amounted to € 2,670m compared to € 2,361m in 2005, an increase of 13.11%. Premiums from direct business amount to € 2,568m, an increased of 13.1%.
Premium income in the Life sector therefore represents 26.8% of the total premium portfolio compared to 24.8% in 2005.

We should point out that total premium income in the sector also includes € 883m (€ 718m in 2005) from investment contracts that do not fall within the scope of IFRS 4 and are therefore recorded by the deposit accounting method.

Gross technical reserves reached € 15,265m (€ 13,908m as at 31/12/2005) and the ratio of technical reserves to premiums written was 571.6% (589.1% in 2005).

For an assessment of the adequacy and sufficiency of the reserves posted to the accounts, see the analysis contained in the chapter “Verification of the fairness of liabilities” contained in Part F, to which the reader is referred

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

(€m)	**31/12/2006**	**31/12/2005**	**Variation**
I - Whole of life insurance	1,389.6	1,341.9	3.6
III – Insurance referred to under I and II linked to investment funds	321.4	88.2	264.4
IV – Health insurance	0.1	0.1	0.0

V – Capital redemption operations pursuant to article 40 of Legislative Decree no. 174 of 17/3/95	959.4	930.7	3.1
	2,670.5	**2,360.9**	**13.1**

The premium income includes, as of the date on which control was acquired, the production of the subsidiary Liguria Vita and 50% of the premiums of BPM Vita: the latter data having been recorded from the last quarter of 2006, which is when the joint venture with the BPM group became operational. In uniform terms, ignoring the effect of the acquisitions made in 2006, the increase would have been 9.8%.

Premium income through bank branches amounts to € 667m and represents 24.98% of the total premium income from direct business.

Premiums ceded amount to € 24m (€ 14m in 2005). Gross amounts paid, including the respective charges, amounted to € 1,871m (€ 1,468m in 2005), an increase of 27.5%.

In the Life sector, management costs in 2006, excluding investment management costs, amounted to € 150m, an increase of just 1.3% (these costs were € 148m as at 31/12/2005). These costs therefore account for 5.6% of premiums, down from 6.3% of premiums in the previous financial year.
In this context, the fall in other administration costs has been more marked.

The yields of the main segregated accounts managed by Group companies are shown in the following table with reference to a number of operational indicators for the sector:

	2006	2005
Press	4.32	4.23
Nuova Press 2000	4.37	4.29
Fondivita	4.35	4.23
Fondicol	4.55	4.15
VIVA	4.40	4.24
GEPRE	4.55	4.45
3A	4.41	4.29
Pres Novara Euro 1	4.10	4.02
Gestione Po Vita	4.04	4.03
BPM Gest	3.42	3.11
BPM Sicurgest	5.79	6.40
Fondo Liguria	4.04	4.03

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

(€K)	**Class I**	**Class III**	**Class IV**	**Class V**	**Total**	**2005**	**% var.**
BIM VITA S.p.A.	11,199	9,116		13	20,328	22,720	(10.53)
BPM VITA*	200,891	325,844		178,621	705,356	572,277	23.25
FONDIARIA-SAI S.p.A.	365,463	257	165	370,127	736,012	766,216	(3.94)
MILANO ASS.NI S.p.A	145,700	10,562	-	190,908	347,170	369,041	(5.93)
NOVARA VITA S.p.A.	64,222	797,129		7,506	868,857	676,595	28.42
PO VITA S.p.A.**	127,302	507,878		230,238	865,418	616,740	40.32
SASA VITA S.p.A.	50,503	22,747		290	73,540	57,812	27.21
TOTAL	965,280	1,673,533	165	977,703	3,616,681	3,081,401	17.37

* data for the whole of 2006.
* * 100% data:
Note that new products do not include renewals, replacements, existing agreements and reactivations.

We should point out that, according to the Annual Equivalent Premium (APE) measure of the performance of new production premiums in the Life Classes, the Fondiaria-SAI Group recorded a 4.38% increase to € 318.9m compared to € 305.6m in 2005.

As regards the basis for calculating the APE, account was taken of the first premium paid on annual and recurrent premium contracts, plus one tenth of the premiums on new single premium contracts sold by the Group's Life companies, adding the value of new premiums written (see table no. 1 of ISVAP circular 461/S for each individual company) including those treated using the deposit accounting method.
For the company Po Vita, the values of new production were reconfigured according to the consolidation percentage of 50%; the contribution of Bipiemme Vita was € 12.3m considering the last quarter of 2006 and the 50% consolidation percentage.
Finally, because of their low relevance in respect of new life production, pension funds are currently excluded from the valuations.

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

In particular, the distribution networks of the Group oriented production towards the "DEDICATA A CHI AMI" policy, which has been created to respond to the requirements of people who want to protect their future and that of their loved ones. Available in four different formulas, this new Life product guarantees peace of mind and security in the future by paying out an insured amount of capital or covering the cost of a loan.

The following new unit lines were launched by Po Vita during 2006:

- PO VITA UNIT RE 2006;
- PO VITA UNIT MI 2006;
- PO VITA UNIT FA 2006
- PO VITA UNIT SOL 2006.

These are deferred capital insurance policies expressed in units of an internal fund, with a special counter-insurance. They are single-premium policies (Po Vita Unit RE 2006) and supplementary premium policies (Po Vita Unit MI 2006, FA 2006, SOL 2006) aimed at increasing value over time by means of an investment policy aimed at ensuring a portfolio that is geographically diversified (Po Vita Unit RE 2006 e MI 2006) or concentrated in Europe (Po Vita Unit FA 2006) or concentrated in the Far East (Po Vita Unit SOL 2006), mainly using undertakings for collective investment of savings in equities and bonds/currency.

For further information regarding the Group's new products, see the introductory section entitled "Main Events in 2006".

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

On 14/06/2006, Banca Popolare di Milano (BPM) and Milano Assicurazioni executed an agreement for the joint development, on an exclusive basis, of the bancassurance activities of Gruppo Bipiemme Group in the life business, signed on 21/12/2005. This agreement provides for the implementation of a wider business alliance and co-operation project with BPM in the bancassurance sector, to be implemented in the life classes, non-life classes and in banking and financial services. Bipiemme Vita is the insurance company of the BPM Group that operates through the Group's approximately 700 branches.
Under the terms of the agreement, Milano initially acquired from BPM and the subsidiary Banca di

Legnano a 46% stake in the capital of Bipiemme Vita S.p.A., with the opportunity to transfer the controlling share in the latter from the BPM Group to Milano itself by the purchase and sale of further shares amounting to 4% and 1% respectively, at two successive points in time, respectively by 31/12/2006 and 30/06/2007, exercising put and call options, in two tranches, which the parties have mutually granted to one another under certain conditions.
BPM and Milano have also signed a shareholders' agreement containing the corporate governance rules of Bipiemme Vita, as well as the business management aspects of the partnership, providing for Bipiemme Vita to continue having access to the distribution networks of the BPM Group for 5 years, with an opportunity to renew this on expiry by mutual agreement between the parties for a further 5 years.

The transaction received the prior approval of the Italian competition authority and the authorisation from ISVAP.

The purchase price of the 46% stake in Bipiemme Vita, initially agreed to be € 94.3m, was reduced, in accordance with the provisions of the Purchase and Sale Contract, to € 90.5m, primarily on the basis of the changes in equity (distribution of dividends and capital increase) that had taken place since the agreement was signed (December 2005).
On 18 October 2006, Milano Assicurazioni exercised the first tranche of the aforesaid call option, buying 4% of Bipiemme Vita and therefore bringing it shareholding up to 50%. In accordance with the provisions of the contract, the purchase price was fixed at € 7.9m. Equal governance of Bipiemme Vita has been achieved as a result of this option being exercised. This acquisition allowed the Fondiaria-SAI Group to consolidate the shareholding proportionally as of the month of October 2006.

The price for the purchase of the subsequent share of 1% in the capital of Bipiemme Vita is established by the contract (as it was for the purchase of the 4% share) as the definitive price paid for the 46% stake redetermined at the reference rate up to the date on which payment is made for exercising the options, net of any dividends distributed and increased by any capital increases paid in, both pro-quota, from the closing date to the date on which the price for exercising the option is paid.
The call option on the remaining 1% of Bipiemme Vita, with the resulting acquisition of control and full consolidation by Milano, will be exercisable between March and June 2007.
The exercise of Milano's call option will be subject to the agreement of a joint committee consisting of four members (two per party) called to assess, from time to time, the execution and results of the agreement, as well as to authorisation from ISVAP.

In the current market context, which is characterised by renewed focus among customers on traditional insurance products, the partnership will allow Bipiemme Vita to benefit from the technical and commercial know-how of a leading insurance operator, promoting the development of new products and improving penetration among BPM customers, while allowing Milano Assicurazioni to benefit from the expertise of the BPM Group in commercial banking.

For the BPM Group, the agreement will allow greater technical and managerial support to be gained in the insurance services required to pursue significant growth in production volume by offering products that fulfil customer requirements more effectively. This support will also be needed in view of the role that banks and insurance companies may be called to perform in respect of households and small and medium sized companies with the future development of complementary welfare.
The agreement is a further opportunity for the Company and the Fondiaria-SAI Group to develop the Life sector. From a business point of view, the transaction integrates perfectly with the current bancassurance agreements of the Company and the Fondiaria-SAI Group, which will continue to be strategic in the context of the growth policies of the Company and the Group themselves.

The performance of the subsidiaries in 2006 is summarised in the following table:

(€K)	GROSS PREMIUMS IAS/IFRS	% VAR.	EARNINGS	NET EQUITY excluding net earnings for the year
LIFE INSURANCE SECTOR				
BIM VITA S.p.A.	12,599	(30.15)	334	11,234
EFFE VITA S.p.A.	6,043	1.97	1,491	11,176
LAWRENCE LIFE ASSURANCE CO Ltd	355	25.89	286	6,725
LIGURIA VITA S.p.A.	9,923	52.51	(784)	5,609
MILANO ASSICURAZIONI S.p.A.(*)	641,176	9.34	247,854	1,737,650
NOVARA VITA S.p.A.	337,159	93.42	21,457	69,457
PO VITA S.p.A.	498,068	51.79	27,882	120,180
SASA VITA S.p.A.	86,062	16.98	3,106	13,870

(*) consolidated data according to IAS/IFRS criteria The gross premiums in the Life Sector of Milano Assicurazioni include € 68,091K from the newly acquired 50% share in BPM Vita.

BIM VITA S.p.A.
Share capital € 7,500,000
(Direct shareholding 50%)

The balance sheet as at 31 December 2006 closed with negative earnings of € 139K (positive earnings of € 512K as at 31 December 2005).
Premiums written as at 31 December 2006 amounted to € 24,898K (€ 25,154K at the end of the previous financial year) Examining the structure of premium income, we can see that while there was quite significant growth (+69.94%) in operations associated with investment funds, there was also an equally significant fall (-98.85%) in collective capital increase operations. Sales are made exclusively through the Banca Intermobiliare banking network of Cassa di Risparmio di Fermo and Cassa di Risparmio di Bra.

Gross technical reserves amount to € 89,508K, including € 39,105K in class C and € 50,403K in class D (€ 56,037K in total as at 31/12/2005). The greatest differences were recorded in the mathematical reserve (+52.42%) and in reserves relating to contracts the benefits of which are associated with investment funds and market indexes (+35.65%), the trend of which was similar to that of the previous year.

The amounts paid and the charges relating to the financial year amount in total to € 3,661K (€ 4,626K as at 31 December 2005) and particularly concerned operations associated with investment funds (+31.60%). The most frequent form of payment is redemption.

The volume of class C investments as at 31/12/2006 was € 49,719K, compared to € 40,276K as at 31/12/2005. The difference of € 9,443K is due primarily to new investments made in listed fixed income securities.

The volume of class D investments as at 31/12/2006 reached € 50,403K, compared to € 30,268K as at 31/12/2005. Fixed income securities are the largest investment in this class as well, amounting to 70.8% of the total for the class. Fixed income securities consist of the underlying securities of Index policies and listed securities relating to Pension Funds.

The Company's reinsurance policy remained unchanged in the 2006 financial year. A risk premium excess treaty is in force for T.C.M. policies with The Lawrence Re Ireland Limited, a reinsurance com-

pany of the Fondiaria-SAI Group.
Reinsurance business in 2006 closed with a result in favour of the reinsurer of € 1K.

BIPIEMME VITA S.p.A.
Share capital € 45,500,000
(Indirect shareholding 30.05%)

The balance sheet, drawn up according to Italian standards, shows premiums written of € 761,543K, compared to € 632,348K in the previous financial year (+20.43%). During the financial year, the company continued with the work aimed at rationalising the product portfolio, which has been renewed in order to maintain a high level of customer satisfaction and, at the same time, to seize all the commercial opportunities offered by the market.
A great deal of attention was focused on the financial management of policies with a guaranteed capital and return, to which clients were particularly attracted in the 2006 financial year. It is no coincidence that the return on Segregated Accounts managed by the Company were among the best in the market.

As at 31 December 2006, there were 274,031 Life contracts in the portfolio, compared to 258,270 in the previous financial year. The Non-Life contracts were 16,419, compared to 16,034 in 2005.
Careful financial management and attention paid to containing management costs allowed the Company effectively to confront the negative effects of the performance of the financial markets and, in particular, the fall in the price of bonds, particularly following the repeated monetary policy interventions by the main central banks that took place during the year.
The profit and loss account closed with a net profit of € 15,197K, compared to € 23,812K the previous year, as a result of the overall worsening of bond prices in the financial markets and of the increase in the commission rates paid to distribution networks. The fall in earnings is however compensated by the containment of management costs and careful financial management.

Financial management focused primarily on bonds. The share component was in fact reduced during the financial year. At the end of 2006, total investments in the Life Classes amounted to € 1,224,479K (including € 83,104K durable investments) compared to € 858,873K in 2005, an increase of 42.57%. Investments in the Non-Life Classes were € 5,418K, compared to € 5,364K as at 31 December 2005, an increase of 1.00%. The working capital portfolio as at 31 December 2006 shows underlying capital gains of € 17,981K, including € 6,798K relating to the bond sector.

Technical reserves for the Life Classes, gross of reinsurance, amount to € 3,499,176K (€ 3,255,501K as at 31 December 2005), including € 2,263,255K relating to insurance associated with investment funds (€ 2,414,920K as at 31 December 2005.

As regards passive reinsurance of the life classes, we should point out that a quota share reinsurance treaty was signed on 3 July 2006 in respect of the cover for loans disbursed by Banca di Legnano and Cassa di Risparmio di Alessandria.

Finally, we should point out that a sales plan was launched during the financial year with the approval of the administrative bodies of BPM, Fondiaria-SAI Group and Bipiemme Vita, which will focus on marketing Class I and III products.
From the beginning of April, the Group's networks have been able to market the new Unit Linked "Duetto" policy, which combines a Class I "BPM Consolida" Separate Management insurance produce with an internal flexible Class III "BPM Flex" fund.
Also in April, marketing of the "Domani Sereno" complementary welfare plan resumed after a review carried out to lower the loading and ensure a guaranteed minimum in accordance with ISVAP provisions.
In mid-May the placement of the € 89m "Convergenza Annuale" index-linked policy was successfully completed. The policy was placed entirely by the Banca Popolare di Milano network with a significant contribution from the networks of Banca di Legnano and Cassa di Risparmio di Alessandria.
At the beginning of August, subscription of the € 103m "Valuta Globale" Index Linked policy was

completed. This issue was also placed by the networks of Banca Popolare di Milano, Banca di Legnano and Cassa di Risparmio di Alessandria.
November saw the launch of marketing activities for the "Obiettivo Alpha" index-linked policy, third Group issue, which was completed in December as required by the commercial plan, with the subscription of € 96m.

LIGURIA VITA S.p.A.
Share capital € 6,000,000
(Indirect shareholding 99.97%)

The 2006 financial year closed with negative earnings of € 784K (positive in the amount of € 12K in 2005), attributable to the capital losses on the valuation of securities in the portfolio, which accounted for € 608K of losses, and to the writedown of the shareholding in Global Card Services s.r.l. in the amount of € 499K.

Premium income reached € 17,011K compared to € 17,758K the previous year, corresponding to an increase of 4.21%. Individual policies, which represent 88.1% of distribution, amount to € 14,988K (€ 15,849K as at 31/12/2005). Collective polices however grew by 6% and amounted to € 2,023K as at 31/12/2006. With the entry into Fondiaria-SAI Group, a reversal of the trend began which reduced the fall to 2.1% over the remaining seven months of the financial year, as a result of a number of new products designed with the Group and welcomed by clients, and of the greater stimulus and support given to the distribution network.

Gross technical reserves as at 31/12/2006 amount in total to € 69,411K, including € 6,018K for capital increase policies. The individual policies have technical reserves of € 59,599K and collective policies of € 9,812K.

The following products were developed during 2006:

- the "Valore continuo" policy, which extends the service provided to customers and is part of a plan to modernise the product catalogue, aimed at recovering expiring policies;
- the "Valore rivalutati" policy, which is characterised by low loadings, modular and streamlined cover, and has received an excellent response from customers and the distribution network.

Investments as at 31/12/2006 amount to € 69,760K (€ 64,205K as at 31/12/2005) and 96.3% of them consist of bonds and other securities.

A satisfactory development trend has been noted in the first few months of 2007 which confirms the positive reversal of the trend recorded in the final months of 2006. During the coming financial year, the Company will be involved in implementing the development plan approved by the Board of Directors, which is aimed at achieving a significant amount of growth in premium income and greater loyalty from the sales network. Specific attention will be paid to developing profitability and consolidating the portfolio.

NOVARA VITA S.p.A.
Share capital € 54,000,000
(Indirect shareholding 50%)

The balance sheet as at 31 December 2006 shows a profit for the year of € 18,208K (€ 13,963K as at 31 December 2005). The improvement in earnings compared to the previous financial year is attributable to the increase in premiums written and to the rise in interest rates which, even though they partially penalised the profit and loss account with value adjustments, allowed the income flow to be in-

creased and to achieve positive effects on provisioning.

Gross premiums recorded as at 31 December 2006 amounted to € 888,995K (€ 682,990K as at 31 December 2005). An analysis of premium income shows a recovery of products relating to index-linked operations (+57.16%) and pension funds (+10.20%). There was however a slowdown in premiums relating to whole of life insurance premiums (-45.27%) and capital increase operations (-65.29%). Gross reserves amount to € 2,947,463K (€ 2,767,203K as at 31 December 2005): the greatest increase was recorded in the reserves relating to contracts with benefits linked to investment funds and market indexes, which amounted to € 302,634K, and in reserves for amounts payable, which amounted to € 23,802K. The increase in technical reserves net of portfolio movements amounted to € 437,994K.

As at 31 December 2006, the total volume of investments amounted to € 3,049m, compared to € 2,840m the previous year: performance was positive at 7.36%. Fixed rate securities continue to account for most of the investments, representing 85.94% of their total value.

The earnings for the year are also significantly influenced by the fact that, after having joined the fiscal transparency scheme, the company stopped setting aside IRES tax for the year, transferring this charge to shareholders. The effect of this is equal to approximately € 6.6m.

As of the 2004 financial year, a risk premium excess treaty has been in force for T.C.M. policies with The Lawrence Re Ireland Limited, the Group's reinsurance company, which replaces the previous similar treaty that existed with the parent company.
The quota share treaty with Fondiaria-SAI was cancelled with effect from 31 December 2006, after which the financial and equity items resulting from this cancellation were defined.
During the year, a new treaty was signed with Financial New Life Co. Ltd to cede premiums relating to a Class I collective policy.
The reinsurance business in 2006 closed with a negative result for the Company of € 1,976K, primarily attributable to the termination of the quota share treaty with Fondiaria-SAI.

In the 2007 financial year, the Company will continue to create new products based on customer requirements, so as to maintain the production trend, in line with its achievements in previous financial years.

PO VITA COMPAGNIA DI ASSICURAZIONI S.p.A.
Share capital € 114,000,000
(Indirect shareholding 50%)

The balance sheet as at 31 December 2006 shows an after tax profit for the financial year of € 16,463K, compared to € 14,263K in the previous financial year.
Premium income in the financial year amounts to € 932m, an increase of over 40% compared to 2005 and of 87% on the budgeted figure of € 500m.
The 2006 financial year saw the end of the three-year plan covering the period 2004-2006. The results achieved were particularly satisfying, given that all the relevant objectives were exceeded: the reserves, which were forecast to be € 2,900m, reached € 3,558m, the number of active policies, which was forecast to be 167,000 units, reached 233,000 (+39%) while new production, which was forecast to be € 1,500m for the whole three-year period, reached € 2,172m (+45%).

Premium income in the 2006 financial year, in which the Company achieved its best performance since it was set up, clearly bucked the trend in the national life products market. During 2006, over 54,000 new policies were issued (+24%), the mix of which again shows the substantial balance achieved between the more heavily financial and the traditional products. Also in the financial year, over 20,000 contracts were extinguished (+97%), having reached their natural expirty date.
The increase in gross reserves was € 635,010K, including € 628,737K relating to the increase of technical reserves recorded in the profit and loss account, € 70K following portfolio movements and € 6,203 relating to the increase in the reserve for amounts to be paid, the latter attributable to a number

of products in the Company's portfolio reaching their natural expiry date.
The amounts paid and the charges relating to the financial year amounted to € 366,329K in total and relate mostly to capital increase operations and to whole of life insurance policies.
The Company's sales organisation as at 31 December 2006 consisted of the 312 branches of Cassa di Risparmio di Parma e Piacenza.

As at 31 December 2006, following the increase in size, the total volume of investments reached € 3,678m, compared to € 3,033m as at 31 December 2005. Investments consist primarily of bonds and other fixed income securities. Furthermore, considering the attractive level reached by interest rates, the fixed rate component was increased during the year (from 68% to 80%) as opposed to the variable rate component.
The equity share of the portfolio remained within a range of around 6% during the year and performance was achieved in particulary by rotation of the portfolio in trading, even between sectors. A geographical diversification strategy was also implemented by investing around 0.5% of the portfolio in the Japanese stock market.

Expectations for the 2007 financial year appear positive given the good start to the financial year but particularly in view of the expansion of the placement network, from which PO VITA will be able to benefit as a result of the corporate development involving the shareholder Cariparma. Specific attention will also be paid during the financial year, as it has been since the end of 2006, to the world of complementary welfare as a result of the new legislation that has come into force.

SASA VITA S.p.A.
Share capital € 10,000,000
(Direct shareholding 50%, Group interest 100%)

In the 2006 financial year, the Company achieved a net profit of € 2,414K, which was significantly up on the figure for 2005 (€ 1,184K). A combination of factors contributed to this result, the most significant being:

- the growth in premium income (+17.0% compared to 2005), which stood at € 86,062K at the end of 2006, characterised by an increase in premium income on risk products;
- particularly positive performance in terms of the rate of claims, considering that the risk portfolio is constantly increasing in size; underwriting policy in this context has allowed us to recover further margins, thanks among other things to the significant increase in the share of mortality profits;
- overheads substantially in line with the previous financial year; the ratio of overheads to premiums remains at 2.41%, lower than the figure for the previous year (2.76% in 2005);
- increased financial proceeds compared to 2005, as a result of the higher profits on the realisation of investments.

Gross technical reserves, including class D, amount to € 263,162K and are 26% higher than in 2005 (€ 203,768K).
The Company's investments increased during 2006 by 27.9%, and consist primarily of bonds and other fixed income securities, together with investments whose risk is borne by insurers.
As at 31/12/2006, the distribution network consisted of 558 points of sale, including multiple agents and brokers, distributed throught the territory. The sales network has been brought under the control of one person together with the sales structure of SASA Assicurazioni Riassicurazioni S.p.A.
As regards 2007, an update of the personal pension plan and the establishment of a new segregated account dedicated to this type of product, called SASARIV PENSIONE, are planned.

Also planned are the establishment of a further segregated account, the marketing of three new index-linked products and unit-linked products. The launch of these had been planned for last year but was postponed because of the migration and implementation of the Company's information system with the Group's system.

THE LAWRENCE LIFE ASSURANCE CO. LTD
Share capital € 802,886
(Indirect shareholding 100%)

During the 2006 financial year, the Company recorded a profit for the year of € 286K (compared to a loss of € 860K in 2005). The improvement is due partly to the definitive liquidation of the subsidiary Lawrence Life AG Vaduz, and partly to the technical management of the portfolio.

The value of assets managed reached € 394m, an increase of 28% compared to 2005, primarily due to the performance of the financial markets.

Premium income in 2006 included premiums from contracts classified as insurance of € 355K and income from contracts classified as financial of € 13,225K. The increase in income from financial contracts is primarily due to the launch of a new product distributed in Italy following the review of the Company's investment policies and strategies.

Reinsurance

Introduction

The Group's reinsurance structure is almost entirely identical to the protection system established for the parent company.

In accordance with previous financial years the placement of all the automatic cessions of the Fondiaria-SAI Group's Companies on the international market took place through the captive company The Lawrence Re Ireland Ltd, with the following exceptions for the Non-Life Classes:

- the transport classes placed entirely by the subsidiary SIAT;
- the aviation classes placed directly by the underwriting companies;
- the remaining non-marine portfolio of SIAT, placed with Milano Assicurazioni;
- particularly significant risks that are optionally ceded and placed directly by the companies.

Non-Life Reinsurance

Reinsurance policy continues to be oriented towards cessions on a non-proportional basis to protect individual risks or cumulative risks arising from the same event for the Fire, Accident, Theft, General TPL, Land Vehicle TPL and Land Vehicle Hulls Classes, and on a proportional basis for cessions in the Credit and Technological Risks classes. As regards the Transport, Aviation and Bonds Class, the mixed structure based on proportional treaties and claims excess cover to protect the respective retentions. In view of the good results achieved by the various underwriting sectors, and in the absence of any significant individual claims or of claims arising from natural events, the balance of reinsurance cessions was favourable to our reinsurers.

The offer of retrocession cover consisting of the sum of the various portfolios of the individual Companies continues to allow the international market to be presented with balanced programmes which, presented with detailed analysis, are constantly in demand among the main reinsurers and allow costs to be maintained almost unaltered despite increases in exposure.

This situation, together with the good results achieved, allows an excellent level of solvency guarantee to be maintained, which is particularly important in the presence of wide-ranging disaster cover, such as the Accident and Property cover.

The subsidiary SIAT arranged for the Transport sector protection to be placed on the reinsurance market, acting as the reinsurer of the Group companies, with a mixed structure based on propoertional treaties and claims excess protection. The remaining non-marine classes, which are in the process of being disposed of, have been integrated with the various Group programmes through Milano Assicurazione.

In accordance with guidelines set by the parent company, the subsidiary SASA arranged for the placement of the Aviation classes directly on the reinsurance market and the Transport Classes through SIAT, while the Group's programmes were used for the other guarantees. In specific cases, where lower priority is required, specific underlying programmes were placed.

With regard to active reinsurance, data is included as at 31/12/2006 for all the optional business and acceptances from Group companies and as at 31/12/2005 for all the other types of treaties. The balance of earnings already noted in previous years is confirmed once again, even when the respective retrocessions are deducted.

Life Reinsurance

As in previous years, the reinsurance programme consists of a proportional excess treaty: the retentions of the individual Group Companies vary depending on the respective premium volumes underwritten. The subsidiary The Lawrence Re arranges for the reinsurance of this portfolio and finds cover on the market via a non-proportional structure for major risks and specific Stop Loss protection for the Group's retention.
The planned retentions continue to be contained for the investee companies, particularly if compared to the total capacity supplied.

Property Sector

Between 2002 and 2005, expansion in the housing market boosted economic growth in the United States, both directly, by increasing residential investments, and indirectly, by sustaining household consumption.
Over the course of 2006, the number of new homes built in the United States fell from the peak for the last 6 years (in January 2006) to the lowest level (last October), a net collapse which was redeemed only by a slight bounce-back at the end of the year. Sales of existing houses during the third quarter, based on figures published by the National Association of Realtors, fell by 12.7% annually, equal to 6.27m property units. It is probable, however that investors believe the property markets has stabilised and that the feared "speculative bubble" has already burst, although there is still no way of establishing whether the negative phase of the US property market has reached it lowest point.

In Europe, judging by the increase in prices, the property market remains solid. During the second quarter of 2006, residential prices continued to grow in Spain and France. In the UK, after the run of increases that took place at the beginning of 2005 fizzled out, the beginning of 2006 saw a new recovery of property prices.

In Italy, based on data published by the Agenzia del Territorio, during the first half of the year the number of purchases and sales of property (residential and other) increased by 5% on the previous year: the prices recorded continue to grow, although the rate is slowing down. On average, during the first six months of 2006, investment activity in the construction sector continued at similar rates as in the previous six months (approximately 3% per year), although it slowed down in the second quarter.
Even though the general price cycle may no longer be on the ascendant, the market cycle, meaning the total amount of property units traded, still appears to be in a phase of expansion.

A further expansion in transactions of 3.9% is expected during the current year, although growth in the residential sector, which is the main segment of the sector, might slow down to 2.2%.
Positive signs are however coming from the non-residential building sector, which had shrunk last year. During the first half of 2006, the growth rate reached 3%. The climate of trust among companies also signals a recovery of optimism among entrepreneurs in the sector.

The corporate market regained its liveliness and dynamism at the end of 2006. The strong liquidity available among investors, who are increasingly inclined to pursue objectives of stability and security of return rather than aiming for maximisation of returns, has come up against the obstacle of a shortage of quality assets. Operations have expanded to include segments experiencing strong expansion, such as the hotel, mass distribution and logistics sectors.
A geographical breakdown of the market shows how the trend towards decentralisation is strengthening. In regional capitals, transactions have achieved a level of stability for a number of years now (+0.7% in 2006), while in smaller municipalities the market is growing (+5.5% in 2006).

Growth in the Italian property market may be moderate but mortgages are still growing, a sign that Italian households have not lost their traditional faith in the sector. The average amount disbursed to households in 2006 grew to € 126,000, compared to € 116,000 in 2005 (+8.6%). The value of the flow disbursed also grew to € 45.2bn (+16.31% in the third quarter of 2006 compared to the same period of 2005), with central Italian recording the highest growth (+12.8%).

Various different factors influence the property market: the cost of loans and transactions weighs on the market but activity is also influenced by public policies on housing and town planning regulations, which place conditions on construction permits.
As regards the cost of taking out a property loan, Italy is among the most expensive countries, with costs approaching 12% of the price of a house. High transaction, registration and commission costs weighing on Italian property owners also contribute to the lower rate of mobility of families after purchase.

The structure of the market is also changing. The rise in interest rates means that longer repayment periods are preferred: over 49% of loans are for more than 21 years, and 25% are for more than 26 years. At the end of 2006, applications for fixed rate loans (48.7%) overtook applications for variable rate loans (46.2%), with a marginal number going for mixed rate loans (5.1%). The new trend is e-

xplained by the six consecutive rises in the official discount rate carried out by the Central European Bank from December 2005. The factors that contributed to this result undoubtedly include the emotional factor, dictated by the fear of further rises, which will make repayments rise for people who have taken out variable loans, and the reform associated with recent liberalisations, which provides for abolition of the penalty for the early repayment of loans, a charge which banks impose particularly on fixed rate loans.

The performance of the loans market is also explained by household budgets. According to the recent study carried out by the OECD (Organisation for Economic Co-operation and Development) Italy is in second place behind Spain in terms of the gross equity available to households. It is worth remembering that, on average, Italian households have fewer debts that the rest of Europe, which means that there is still wealth to be invested in the property sector.

We should point out that during the first half of 2006 there were rises in the price of garages and parking spaces of +4% and +4.4% respectively. In major cities in particular, prices increased by +2.6% for garages and +3% for parking spaces. In most cases, garages or parking spaces are purchased for direct use and there is less probability of them being sought for investment. According to estimates, purchases and sales of garages and parking spaces in 2006 amounted to approximately 640,000, +5.8% compared to 2005.

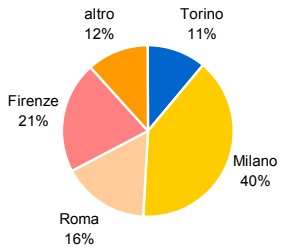
Forecasts for the next few months point to substantial overall stability in the number of transactions, although in the biggest urban areas there already are signs of a fall in transactions, counterbalanced by a steady situation in the minor markets. Values are expected to remain at current levels or if anything to continue growing at an even slower rate.
The balance of expectations with regard to prices and the number of transactions during the first half of 2007 shows a significant increase in negative opinions, resulting most probably from macroeconomic factors, such as the rise in interest rates and uncertainties regarding tax and regulations.

Finally, as regards the stock market, the 16 companies listed with Borsa Italiana, with a total capitalisation of around € 10bn, allowed the property sector index to grow in 2006 by 6.53% over the last month, by 35.56% since the beginning of 2006 and by 76.3% since 2005.

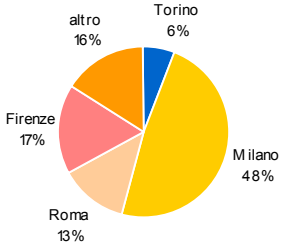
For information purposes, here is the structure of the Group's property portfolio in percentage terms, subdivided by geographical area.

Structure of the Group's property portfolio in percentage terms by geographical area

2006



2005

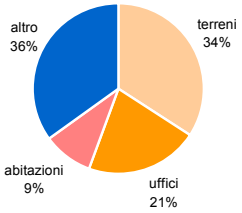


2006 - Turin 11% / Milan 40% / Rome 16% / Florence 21% / Other 12%
2005 - Turin 6% / Milan 48% / Rome 13% / Florence 17% / Other 15%

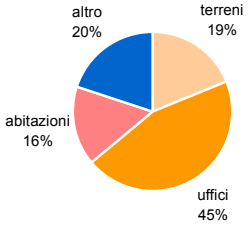
The following diagram shows the use that is made of the Group's property portfolio, subdivided into macro-categories.

Structure of the Group's property portfolio in percentage terms by use

2006



2005



2006 - Land 34% / Offices 21% / Housing 9% / Other 36%
2005 - Land 19% / Offices 45% / Housing 16% / Other 20%

The Group's Property Portfolio

The property activities carried out by the Fondiaria-SAI Group included the accomplishment and consolidation of important transactions that contributed both to improving the profitability of the portfolio and to major development potential being acquired. Activity in this sector is managed by the subsidiary Immobiliare Lombarda, which is consolidating its position among the primary listed operators in the Property Sector.

The main transactions carried out included the following:

- the subsidiary Milano Assicurazioni sold the commercial building situated in Milan, at via De Grassi, 8, for € 13.5m;
- the subsidiary Villa Donatello purchased a residential building in Florence, at viale Matteotti, 4/6/8, for € 9.6m;
- the subsidiary Meridiano Aurora purchased a residential and office building in Rome, at via Clitunno, for € 5.3m;
- with regard to the Tikal R.E. closed property investment fund launched in 2004 by the savings management company operating within the insurance Group, the financial year saw the sale of a commercial building in Milan, at via Toqueville 13, for € 39.5m and of a commercial building in Florence, at via S. Egidio 14, for € 4.33m. During the financial year, the fund acquired an office building in Milan, at via Pisani, for € 13.8m, and sections of properties used as hotel accommodation in Milan, at via Monte Grappa, for € 5m;
- sale by the subsidiary I.A.T. S.p.A. of the property complex and adjoining sports complex in Milan, at via Pinerolo, 76, for a total price of € 7.2m;
- sale by Fondiaria-SAI of the building in Bari, at via De' Rossi 220-234, for € 14m;
- the subsidiary Mantegna Srl purchased an office building in Milan, known as Torre Galfa, for € 48m.

Group Property Shareholdings

With regard to property shareholdings acquired during 2006, we should point out the following:

- Immobiliare Lombarda S.p.A., which was awarded the contract in November 2005, as part of a consortium of property operators, resulting from the competitive tender launched by Cimi Montubi S.p.A. (Fintecna Group) for the development of the Vitali – Spina 3 area of Turin, set up the company Penta Domus S.p.A., acquiring a shareholding of 20%. Through a vehicle company specifically created for this purpose, called Cinque Cerchi S.p.A., in which it will own a 49% stake, this company will develop and regenerate the aforesaid area. The process is expected to take around 8 years;
- Through the vehicle company Sviluppo Centro Est S.r.l., Immobiliare Lombarda S.p.A., together with other operators and acquiring a share of 20%, was awarded the contract resulting from the competitive tender launched by Fintecna S.p.A. for the purchase of 50% of the shares in the vehicle company Quadrante S.p.A., which owns an area in the Cine Città – Torre Spaccata area, with volumetric rights equal to 600,000 sq.m;

- Fondiaria-SAI S.p.A. and the subsidiary Immobiliare Lombarda S.p.A. respectively acquired 10% and 17.99% of the share capital of the Luxembourg company EX VAR SCS with a disbursement of € 55.38m by Fondiaria-SAI and € 30.77m by Immobiliare Lombarda. At the same time, Fondiaria-SAI disbursed a shareholder loan of approximately € 9,678m and Immobiliare Lombarda a shareholder loan of € 5,377m. Premafin Finanziaria is also involved in the operation with a share of 20%. The company being acquired in turn controls a company involved in the property development of the ex Varesine area of Milan;
- during the financial year, the investee company Citylife completed the purchase of the area currently occupied by Fiera di Milano. On completion of the transaction the balance of the price of € 523m was paid, net of the deposit paid during 2004. This payment was made partly by means of a bank loan provided by a pool of banks and partly by using resources provided by shareholders in proportion to their shares of the capital. Immobiliare Lombarda paid € 17.3m as a capital increase.

"EX VARESINE" PROPERTY PROJECT

During the first few months of 2006, negotiations were completed with the US real estate group Hines for the establishment of a joint venture with the Fondiaria-SAI Group aimed at implementing a property development project in the area of Milan known as "Ex Varesine", adjacent to the area known as "Garibaldi Repubblica", which was the subject of a similar agreement signed the previous year by the subsidiary Milano Assicurazioni with the same leading US group.

The area consists of a plot measuring approximately 32,000 sq.m. adjacent to Piazza della Repubblica and Garibaldi raiway station. The plan is intended to develop 82,000 sq.m. of Gross Floor Space (GFS) for office, commercial and residential units that will be built at the same time as the "Garibaldi Repubblica" site is developed, with the aim of creating elements of continuity that will allow a direct connection to be established between the two areas.

The intended use of the area includes 42,000 sq.m. of office space, 7,000 sq.m. of retail space, 33,000 sq.m. of residential space and the possibility of developing a further 15,000 sq.m. for parking and/or general interest activities.
In particular, under the terms of the agreement, on 12/04/2006 Fondiaria-SAI, directly and through the subsidiary Immobiliaria Lombarda, purchased a 28% share in the capital of a Luxembourg vehicle company, in which a 20% share is held by Premafin Finanziaria S.p.A. and a 51.9% share is held by a company whose capital will in turn be distributed between the Hines Group, the Galotti Group (a Bologna-based property group) and Monte dei Paschi di Siena. Through a Luxembourg sub-holding, the vehicle company controls an Italian vehicle company that will develop the buildable areas.
The remaining 0.1% of the vehicle company will be owned by a party (the "General Partner") in which the Hines Group will hold a 51% share and the Galotti Group a 49% share. The Hines Group and the

Galotti Group will operate as developers of the project, while Fondiaria-SAI will act as the financial investor in the operation.

The total financial commitment of Fondiaria-SAI and its subsidiary Immobiliare Lombarda is estimated to be € 47m between 2006 and 2011, with expected profits in the same period of € 33m. The investment will be made primarily by making interest-bearing loans to the vehicle company and, to a minimum extent, by making capital contributions.

"GARIBALDI REPUBBLICA" PROPERTY PROJECT

Work continued during the 2006 financial year on the development of the property project relating to the "Garibaldi Repubblica" area of Milan, in which Garibaldi S.c.s., in which Milano Assicurazioni has a 47.95% share, is currently involved. Milano Assicurazioni became involved in the project following the agreements signed during the first half of 2005 with the US Hines property group for the purpose of setting up a joint venture with the Fondiaria-SAI Group and, on its behalf, with Milano Assicurazioni in particular. As part of this project, Garibaldi S.c.s. is expected to develop approximately 95,000 square metres of buildable area, including approximately 50,000 square metres for offices, approximately 10,000 square metres for commercial premises, approximately 15,000 square metres for residential premises and approximately 20,000 square metres for exhibition areas.

Furthermore, during 2006:

- the architects were selected, by means of an international competition, for designing the residential and exhibition areas;
- the Construction Committee formally approved the plans for the main buildings and the area dedicated to the "podium";
- plans were made for the demolition of a number of buildings in the area.

2007-2010 BUSINESS PLAN OF IMMOBILIARE LOMBARDA

With the merger between Progestim and Immobiliare Lombarda, which took place at the end of 2005, the Real Estate sector sees the new Immobiliare Lombarda, a company belonging to the Fondiaria-SAI S.p.A. Group, as an international player. Already listed on the Milan Stock Exchange, the Company has property assets of over € 800m. A significant result, resulting from a far-sighted strategy which has integrated the property component, associated with the conception of Immobiliare Lombarda, with the management and development of property assets, consolidated by Progetim throughout its almost thirty years of activity. The new Immobiliare Lombarda is the fruit of a successful combination of different and complementary skills aimed at designing and supporting the numerous and significant initiatives that the Fondiaria-SAI Group engages in directly on the market or as a consultant for important partners.

The property company is committed to increasing the value of major property assets in a responsible way. The regeneration of major urban centres and participation in projects that are now involved in designing the cities of the future is the route chosen for creating economic and social value for the Group's stakeholders and for the community in general.

The synthesis of skills in the property sectors with skills in asset management has developed the Group's natural aptitude to enhancing property assets, implementing dynamic management and resource investment strategies in the market with a particular vocation for developing and regenerating urban areas.

The main activities of Immobiliare Lombarda consist of the following:

- Asset Management: by means of an active and strategic management of investments in the property sector.

- Fund Management: by means of closed contribution property funds, such as the Tikal R.E. Fund, the Group's property operations are intended to follow investment logics aimed at property that is already providing an income and other property to be completed or restructured.
- Service Provider: which is the supply, at the request of public and private clients, of technical, legal and financial support for the building, management and sale of properties.

The 2007-2010 business plan for the Immobiliare Lombarda Group was approved during November. The key objectives of the plan can be summarised as optimising and enhancing the existing property portfolio, and the property to be acquired, allowing the creation of economic and social value for shareholders and the community.

Dividing the Group's operations into two business areas: Property Company and Global Service Provider, the drivers for achieving the strategic aspirations are the following:

- Property Company:
    - optimising the management of property assets by regenerating/reconverting the properties owned by the company (amounting to over € 900m), increasing the number of income-generating properties (until a level of 90% of built assets is reached) and selling assets for approximately € 400-450m.
    - becoming the benchmark partner in Italy for property development and tradiing initiatives, with the aim of achieving an internal rate of return of approximately 15% on current initiatives.

- Global Service Provider:
    - Optimising the activites carried out for the Fondiaria-SAI Group companies;
    - Expanding the portfolio of clients and other institutional investors, within the period of the plan, by cross-selling on new property initiatives, among other things.

The combination of the above strategies will lead to the achievement of objectives, both qualitative and numerical, that are consistent with the evolution of the property market.

The performance of the main Group companies operating in the property sector is summarised in the following table:

(€K)	REVENUE and INCOME FROM SALES	% VAR.	EARNINGS	NET EQUITY excluding net earnings for the year
PROPERTY SECTOR				
IMMOBILIARE LOMBARDA S.p.A. (*)	95.016	298,76	3.483	670.785
NUOVE INIZIATIVE TOSCANE S.r.l.	20.746	169,11	(992)	89.712
TIKAL R.E. FUND	50.301	68,09	31.307	483.259

(*) consolidated data according to IAS/IFRS criteria

IMMOBILIARE LOMBARDA S.p.A.
Share capital € 697,907,754
(Direct shareholding 50.12%, Group interest 54.22%)

The 2006 financial year saw a consolidation of the integration process between the organisational and managerial structures of the companies involved in the merger that took place at the end of 2005. The economic results for the financial year reflect the net improvement in the economic balance of the parent company and the increase the number of property development strategies carried out through fully or partly owned vehicle companies. In fact, 2006 closed with a profit of € 3,081K, compared to the loss of € 4,477K made in 2005.

Bearing in mind that the economic values of the last financial year were heavily influenced by the company aggregation operation that took place in 2005, which led to the values for the incorporating company covering a period of twelve months while the values of the incorporated company and its associated companies only covered one month, for the current financial year a comparison between economic values is not meaningful.

During 2006, income from sales amounted to € 95,016K and includes:

- € 21,279K relating to the sale and marketing of residential units that are part of the property complex owned by the subsidiary Progetto Bicocca La Piazza S.r.l.;
- € 35,309K relating to the sales made by the parent company on which a total capital gain was made of approximately € 5,287K;
- € 5,000K of income from the sale of the property at Via Montegrappa 20 – Milan owned by the subsidiary Masaccio S.r.l., as a result of which the Group made a capital gain of approximately € 2,255K;
- € 1,739K relating to the sale of the sports complex at Via Pinerolo – Milan, owned by the subsidiary Insediamenti Avanzati nel Territorio – I.A.T. S.p.A..

Intangible assets amount to € 1,572K, a 73.96% fall compared to December 2005. The significant fall is essentially attributable to the "Land and buildings" item, which fell by € 3,300K as a result of the sale of part of the office units at Via Manin 37 - Milan, in which the parent company had established its registered office, and of the reclassification of the remaining part under "Surplus".

The company's share capital as at 31 December 2006 amounts to € 697,907,753.59 (€ 667,672,133 as at 31/12/2005) and consists of 4,105,339,727 ordinary shares, each with a value of € 0.17. The movements that took place during the financial year relate entirely to the shares issued, in January 2005, in respect of the conversion of warrants exercised in December 2005.

The Group's financial debt amounted to € 203,734 in total as at 31 December 2006 (€ 228,216K as at 31 December 2005), including € 159,169K relating to current liabilities and € 44,565 to non-current liabilities.

Commercial and other debts amounted to € 69,220K at the end of the financial year (€ 61,758K as at 31/12/2005).
Commercial debts specifically include:

- debts towards suppliers of approximately € 34,652K (€ 30,288K as at 31 December 2005), all payable by the next financial year and arising primarily from the maintenance of the properties, services provided by professionals and consultants, administrative coordination activities, building promotion activities and construction activities which the Group carried out during the financial year, including activities relating to the Bicocca project in Milan. These debts are non-interest bearing and are normally settled within 60 days;
- debts for down-payments and deposits received on undertakings given in respect of the residential units built and marketed by the subsidiary Progetto Bicocca La Piazza S.r.l. of approximately

€ 19,633K (€ 20,183K as at 31 December 2005).

The other debts essentially include the item "Urbanisation charges" (amounting to approximately € 5,563K), which represents the debt that Progetto Bicocca La Piazza S.r.l. owes to the Municipality of Milan following the issue of building permits for the works relating to the development owned by the company. The Company will remain in debt to the Municipality of Milan until the urbanisation works are delivered.

The accounts of the parent company as at 31/12/2006, drawn up according to Italian accounting principles, again closed with positive earnings, this time amounting to € 4,749K.

The Company's property activities saw various projects coming to fruition, which contributed to improving the profitability of the portfolio and developing major potential for development. This allowed the position of the various listed operators in the property sector to be consolidated, as described in detail in the previous section entitled "2007-2010 Business Plan of Immobiliare Lombarda".

NUOVE INIZIATIVE TOSCANE SRL
Share capital € 26,000,000
(Direct shareholding 96.88%, Group interest 98.76%)

Earnings for the financial year were negative in the amount of € 922K. Revenue amounted to € 20,746K, consisting essentially of an increase in surpluses of € 20,664, interest payable on bank deposits of € 26K and lease payments of € 18K. The costs for the financial year, which did not result in an increase in surpluses, amount to € 1,078K and relate primarily to contributions for operating expenses to the Castello Consortium of € 176K, premiums on guarantee policies of € 219K, costs for services and other items of € 131K and sundry operating charges of € 511K, including € 386K for local property tax.
The company's assets as at 31 December 2006 amounted to € 89,335K and consisted of tangible assets of € 539K, financial assets of € 41K, surpluses of € 82,232K, essentially referable to the property complex owned in Castello – Florence, credits of € 5,809K, including the VAT credits transferred to the parent company of € 5,150K, available cash of € 670K and other assets of € 44K.
The liabilities consisted of the net equity of € 88,720K and miscellaneous debts of € 615K, including € 42K of debts owed to the parent company Fondiaria-SAI for services rendered.

TIKAL R.E.
Total net value of the fund € 514,566,339
(Direct shareholding 50.68%, Group interest 77.09%)

As regards the Tikal RE closed-end private contribution mutual investment fund set up in 2004 by the savings management company Sai Investimenti SGR, which operates within the insurance Group, the unit value as at 31/12/2006 was € 321,375,588, compared to € 307,011,008 in the previous year.
The value of the Fund as at 31/12/2006, compared to the end of the previous financial year, considering the unit proceeds for 2005 of € 5K, disbursed during the financial year, shows a total increase in the unit of € 19,364.58, equivalent to a percentage of 6.39%, calculated using the Assogestioni method. In the light of this result, the Board of Directors resolved to distribute proceeds amounting to € 18,012,791.03 in total, equivalent to € 11,250 per individual unit owned and corresponding to an annual dividend yield of 4.5% on the nominal value of the share.

In accordance with the strategic policy of benefiting from the best opportunities for sales available in the market, during the financial year the Fund sold two properties (one in Milan and one in Florence) achieving a total capital gain of € 10.48m. Equally, in accordance with its reinvestment policy, the Fund invested in two properties, both in Milan, for a total of € 18.8m and planned a third transaction, which is expected to be finalised during the first half of 2007.

With regard to the properties included in the fund's initial portfolio, the property management activities were directed at ensuring maximum rental income and to maintaining and increasing the value of the properties. With regard to rental income, the total for the financial year was approximately € 34m, an increase of 14% on 2005, including all the operations relating to the property purchased in 2005.

As regards the enhancement of portfolio assets, improvement work was carried out during the financial year costing a total of € 3,648K.

As regards financial management, the financing contract signed in 2005 continued to be used during the past financial year. At the same time, negotiations were started with a pool of banks for a new loan amounting to € 186m in total. The terms of the new loan are better than the previous one and the period granted ends on 31.12.2016, with an option to extend the period until the date of expiry of the fund. The contract is expected to be signed during the first few months of 2007.

In view of the above, the management of the Fund intends to pursue activities aimed at seizing any divestment opportunities offered by the market. At the end of 2006, this led to a preliminary agreement being reached for the sale of the property at Via Lagrange, Turin, and to negotiations being started for the sale of other properties in the portfolio. With a view to maximising the value of the property assets and consequently improving profitability, the managers of the Fund intend to pursue and complete the improvement, regeneration and extension operations on a number of assets in the portfolio.

Other Activities Sector

Saving by Italian households

According to data published in the latest bulletin of the Bank of Italy, financial savings by Italian households during the first half of 2006 remained at the same level as the previous year, at a historically high level of € 67bn.
Households tended to choose products with a guaranteed return, reducing their purchases of shares and shareholdings (which fell from around € 43bn in the first half of 2005 to approximately €14bn in the same period of 2006), selling shares in mutual funds (from € -5bn in the first half of 2005 to € -23bn in the first six months of 2006). Resources allocated to Life insurance fell slightly from around € 21bn in the first half of 2005 to around € 20bn.
Life insurance accounts for around 12% of the total financial portfolio of Italian households, compared to 24% for shares and shareholdings and 8% for shares in mutual funds.

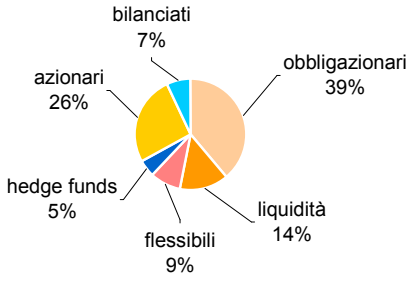
Debts continued to grow, both in terms of mortgage loans and in terms of consumer credit. As at June 2006, household debt compared to available income was up by 45.6%, about half the value recorded for the Euro area.

Managed savings

Despite recording a loss in terms of flows, thanks to the positive performance of the financial markets, managed assets bucked the trend. The managed savings industry ended 2006 with assets having grown to over € 1,106bn and with an outflow of income, in the month of December alone, of around € 2.1bn (€ -4.5bn at the end of November 2005).
The last month of the year is characterised by a net decrease in outflows from open OICRs (mutual funds and SICAVs) which, despite recording an outflow of € 132m (€ 2.2bn at the end of November), continue to represent the sector's strength (with over € 580bn, equal to over half the total assets at the end of the year).
The management of insurance products, despite the outflows (€ 424m), remain in second place, continuing to account for just under 18% of the entire sector. As at 31 December 2006, these assets were valued at € 196.6bn. The situation for retail GPFs remains almost unchanged: negative flows, which were slightly higher than the figure recorded as at November 2006, amounted to € 868m, and the assets, currently amounting to € 114.2bn, continue to represent 10.3% of the total.
The other activities recorded outflows of over € 1.1bn and at the end of the year the assets were € 92bn, the mass of which represents 8.3% of the industry. The GPM retail assets have grown, despite the outflows of € 46m, and amount to € 87.1bn. Closed OICRs also recorded positive income and almost stable assets, with a mass exceeding € 18bn.

We should point out that industry data for the end of the year confirm that savers are favouring flexible funds and hedge funds, the flows of which stood at € 1,014m and € 203m respectively.

Figure 13 – Mutual fund assets



balanced 7% / bonds 39% / liquidity 14% / flexible 9% / hedge funds 5% / equities 26%

Source: Assogestioni – Assets at the end of December 2006

With regard to Fondiaria-SAI, activity in the managed savings sector continued through the Group's specialised companies.

Consumer credit

Consumer credit is a form of financing reserved exclusively for households. It is granted by banks and financial companies that disburse a sum of money to the client, which is then repaid by the latter in instalments including interest on the loan.
There are various ways of providing credit in this form: loans used to pay for goods and services in instalments, personal loans or involving the allocation of one fifth of the person's salary, so-called "revolving" credit cards.

Eurispes statistics show that around half of Italians between the ages of 18 and 79 owe money on a loan repayable in instalments. The large slice of loans involving repayment in instalments is aimed in particular at purchasing consumer goods, and it mostly concerns employees between the ages of 34 and 45.

During the first half of 2006, recourse to consumer credit by Italian families increased again. According to the 21st Assofin-CRIF-Prometeia survey, as at the end of June 2006, loans had increased by 20.6% to a total of over € 85bn, gradually bringing Italy's figures close to the average for the Euro area.

As regards generic banks in particular, consumer credit grew by +14.8% to over € 20bn, faster than the rate of +9.2% recorded as at June 2005.
Consumer credit related to the activities of financial institutions and specialised banks grew by 25.3% during the first half of 2006, a faster rate of growth than in recent years, reaching in excess of € 65bn.

Table 5 – Evolution of the consumer credit market

(€m)	June 2003	June 2004	June 2005	June 2006
Total amount of credit (millions of Euros)	53,904	60,105	70,802	85,377
of which: generic banks (1)	17,370	16,399	17,698	20,316
of which: financial institutions and specialised banks	36,534	43,706	53,104	65,061
Total annual growth rates (%)	19.2	11.5	17.8	20.6
of which: generic banks (2)	26.2	3.2	9.2	14.8
of which: financial institutions and specialised banks (2)	16.2	15.5	21.5	25.3

(1) The values are obtained by deducting the credit granted by specialised financial institutions transformed into banks and supplied by ASSOFIN from the data referring to the banks

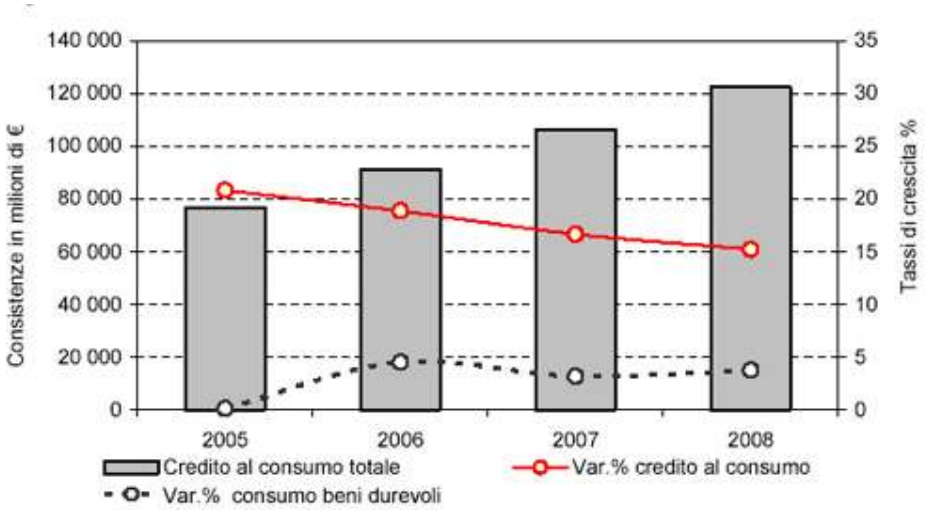
(2) Rates of growth calculated using uniform samples compared to the previous year, taking into account any business transfer operations between the various operators

Source: Assofin-CRIF-Prometeia Survey, vol. 21

Analysing the loans disbursed by specialised financial institutions by type of product, one can see that loans aimed at making purchases in the mobility sector, representing 44.1% of the total flows disbur-

sed, have grown in total by +10.3% (during the first half of 2005, the growth had been +6.4%). In more detail, we should point out the good performance of loans for the purchase of new cars, which increased by 13%.
The segment of other loans for specific purposes (loans granted for purchases in sectors such as furniture, electronics and household appliances, services, etc.), which accounts for 10.4% of the total disbursed, performed positively (+5.1% compared to -3.9% in the first half of 2005), as a result, among other things, of a recovery in household spending.
Loans intended for the purchase of furniture recorded a small growth (+1.2%). Against the trend in all the other segments, a 5.7% fall was recorded in the disbursement of loans associated with the purchase of electronic goods and household appliances. The number of contracts signed fell even further, confirming that in this sector, which is characterised by small loan amounts, traditional credit is gradually being replaced by finance using revolving cards.
The environment for the evolution of household credit over the coming years should remain favourable, although there may be a slowdown in growth. The dynamics expected in the consumer credit sector for the end of 2006 are for growth of +18.8%, compared to +20.8% recorded in 2005. Over the two years of the forecast we should see a further gradual slowdown (+16.6% and +15.2% respectively in 2007 and 2008). The amount of credit is therefore expected to grow from € 76.5bn in 2005 to approximately € 122bn at the end of the forecast period.

Figure 14 – Prospects for the consumer credit market



[left col.] Amount of credit granted in millions of €
[right col.] % rates of growth
[bottom left] Total consumer credit
[bottom left] % variation in the consumption of durable goods
[bottom right] % variation in consumer credit
Source: Assofin-CRIF-Prometeia Survey, vol. 21

The scenario outlined above implies a gradual development of recourse to household credit throughout the forecast period. Mirroring the current slow process of convergence towards forms of credit by European households, in 2006 debt among Italian households as a percentage of available income is expected to be approximately 46%, increasing to nearly 50% in 2008. This figure is however much lower than in other European countries.
In Italy, in fact, the amount of credit granted as a percentage of GDP (which is 6.1% as at 30/06/2006 is still much lower than in the other main European countries: United Kingdom 17.2%, Germany 10.4%, France 8.3% and Spain 8.5%.

The financial market

The main world markets closed 2006 in the positive, with the Nikkei index on +8%, the S&P500 index on +16% and the national S&PMIB list on +21%. The European share markets reached their highest level in six years, with the Eurostoxx50 index up by 14%, reflecting the positive world economic scenario. In particular, insurance was the driving sector. In Italy, for example, despite the fact premium income in the Non-Life Classes grew by a small amount compared to inflation and that Life premiums fell back unexpectedly, companies in the sector recorded growth of 13.8% at sector level, compared to +19.15 recorded by Mibtel.

Figure 15 – S&P500
Performance since June 2005

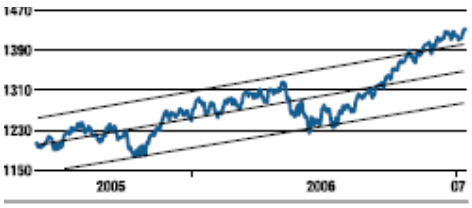


Figure 16 - Nasdaq
Performance since November 2005

Source: Il Sole 24 Ore

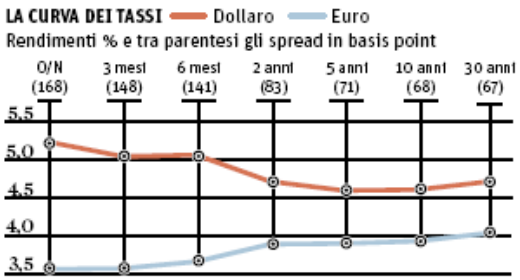
On the financial investment in telecommunication front, Europe has seen a recovery in the sector index (DJ Stoxx Telecom + 3.4%), while the technology sector, both American and European, continues to disappoint, still performing below market averages: from the beginning of 2006 to the date of writing, the Nasdaq grew by 11.5%, compared to +17.3% for the DJ Stoxx index, although its growth trend continued. As regards prospects for the sector, various uncertainties remain because of competitive pressure from Asia, particularly on products such as mobile phones and hardware.

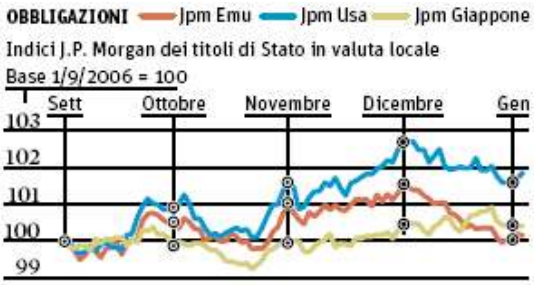
The Dollar remained weak at the end of 2006 compared to the Euro, essentially because of the Federal Bank's monetary policy which – having confirmed that rates would remain at 5.25% - did not support the US currency, of a high imbalance of the US trade balance and, lastly, of the tensions regarding the reduction of monetary reserves (in Dollars) by China.
The phase of stability in US interest rates may be benefiting the bond market but it is also fuelling uncertainties concerning the start of the expansionary monetary policy which, with expectations of a rise in rates during the second quarter of 2007, determined weakness and volatility during the year.

As regards the Euro area, short term maturities to a large extent incorporate the expectations of a rise in rates by the European Central Bank expected in the next few months. The ECB might in fact increase rates further, to over the 3.75% current just recorded, because of the persistent inflationary pressure. Among the factors that might lead the bank to increase rates is the growth in the money supply, which reached a new record at the end of December 2006, going from +9.3% to +9.7%, becoming a factor of concern about spiralling inflation.

Figure 17 – The rates curve

Figure 18 - Bonds





THE RATES CURVE
Dollar
Euro
% returns with the spreads in basis points shown in brackets
3 months / 6 months / 2 years / 5 years / 10 years / 30 years

BONDS
Jpm EMU Jpm USA JPM Japan
J.P. Morgan indexes of government securities in local currency
Sept. / October / November / December / Jan.

Source: Thomson Financial Datastream and Il Sole 24 Ore

Acquisition of Banca Gesfid S.A.

During December 2006, the Group implemented the agreements reached on 22 September of the same year, completing the purchase and sale by Fondiaria-SAI of 60% of the capital of Banca Gesfid, a Swiss lending establishment fully controlled by Rinascita Holding, a holding company wholly owned by Meliorbanca, for CHF 54m. The agreement also provides for a mutual option relating, respectively, to the purchase and sale of the remaining 40% of the capital of Banca Gesfid, to be exercised between 1 November and 31 December 2008, for a price that will primarily be based on the evolution of the company's net equity.

Banca Gesfid S.A. is based in Lugano and specialises in private banking, offering its clients highly specialised and personalised asset management services. The total amount managed as at 31 December 2005 amounted to 3.2bn Swiss Francs. The Bank closed the financial year 2005 with a net profit of CHF 8,6m.
For Fondiaria-SAI S.p.A., the acquisition is part of a process of reorganisation of its asset management activities in Switzerland and represents a further contribution to the development of the group's managed savings business which, with the acquisition of Gesfid, has tripled its assets under control to approximately 40% of the growth objectives set by the business plan for 2008.

The acquisition took over net equity of € 38,139K in addition to € 1,938K of net capital gains on property, together with a client list valued at € 15,931K, based on the average value of mediation margins calculated on the number of clients and estimates of the value of the assets under management over time.

Acquisition of 100% of the capital of FINITALIA S.p.A. by BANCASAI

Following authorisation from the Bank of Italy, on 24/07/2006, the subsidiary BANCASAI acquired 100% of FINITALIA S.p.A., previously owned by SAIFIN-Saifinanziaria S.p.A., also 100% owned by Fondiaria-SAI, for approximately € 52.5M, determined on the basis of a valuation carried out by an independent expert appointed for this purpose.
The Bank of Italy also gave its approval for BANCASAI to implement a capital increase of € 60m on 20/06/2006 and for the same bank to take on the role of Parent Company of the banking group, which includes FINITALIA.

The transaction is neutral in terms of accounting representation because it does not modify the structure of the Group but constitutes an interesting operational change aimed at ensuring greater coordination between the Group's insurance activities. The creation of the Banking Group also allows greater value to be created in the medium to long term by allowing Finitalia to reduce the cost of raising capital.

The performance of the main Group companies operating in the banking and managed savings sector is summarised in the following table:

(€K)	REVENUE	% VAR.	EARNINGS	NET EQUITY excluding net earnings for the year
OTHER ACTIVITIES SECTOR				
BANCA GESFID S.A.	28,315	11.71	6,873	31,475
BANCASAI S.p.A.	27,527	41.01	(7,968)	116,498
SAI A.M. SGR	6,765	7.13	188	6,017
SAINVESTIMENTI SGR S.p.A.	5,083	43.99	527	4,158
SAI MERCATI MOBILIARI SIM S.p.A.	6,160	(19.14)	(4,207)	20,220

BANCA GESFID S.A.
Share Capital CHF 10,000,000
(Direct shareholding 60%)

Banca Gesfid S.A. is a Swiss bank that operates in the field of private banking and is based in Lugano.

The main activity is asset management. The assets are managed through accounts with national and overseas banking institutions. Client assets are allocated according to risk and current diversification criteria, market trends and the requirements of clients themselves. The asset management activity also provides for loans to be granted to customers, essentially Lombard credit, and for the use of derivatives on behalf of clients, mainly for the purpose of hedging exchange risks.
By appointing specific committees and working under the supervision of the board of directors, the management is primarily responsible for determining and implementing the risk policy stated in specific documents.
The Compliance Officer verifies compliance with current regulatory provisions and with the diligence duties of financial mediators, particularly with regard to compliance and due diligence risks. He follows legislative developments implemented by the supervisory authorities and ensures that internal regulations comply with legislative and regulatory provisions.

The 2006 financial year ended with a profit of CHF 11,947K, compared to CHF 8,622K for the previous financial year, showing an improvement of 28.12%. Contributing to this, among other factors, were the substantial growth (+56.57%) in the interest margin from CHF 2,860K on 31/12/2005 to CHF 4,564K and the increase (+13.29%) in the mediation margin of CHF 34,301K (CHF 30,276K as at 31/12/2005).

Total amounts under management amount to CHF 3,479,889 (CHF 3,200,387K as at 31/12/2005), including CHF 2,342,834K of assets managed (CHF 2,204,705K as at 31/12/2005) and CHF 1,137,055K of assets administered (CHF 995,682K as at 31/12/2005)

A further important element was the placement with clients of over CHF 100m in structured products, created by the internal Asset Management structure.

Receivables from banks and available cash amount to CHF 122,478K (CHF 159,931K as at 31/12/2005) having fallen by 23.42%, while receivables from clients have increased by 7.57%. Income from clients amounts to CHF 114,033K (CHF 165,804K as at 31/12/2005). Finally, net equity on 31/12/2006 was CHF 44,905K (CHF 33,858K as at 31/12/2005).

In addition to the above, two Sicav funds under Luxembourg law were created in 2006 and attracted a great deal of interest, as shown by the placement of over CHF 70K.
Finally, we should also report the purchase of an administrative building adjacent to the existing offices which will provide logistical support for the current expansion in the near future.

BANCASAI S.p.A.
Share capital € 116,677,161
(Direct shareholding 100%)

The financial year closed with a loss of € 7,900K compared to the loss of € 8,491K for the previous financial year. Contributing to the reduction in the loss were a substantial increase in the interest margin, from € 5,487K to € 9,206K (+68%), and in the mediation margin from € 3,219K to € 4,143K (+29%).

The above data reflect the activities carried out by the bank during 2006, which were primarily aimed at establishing an operational and control base capable of supporting the development of the company in the more traditional sectors, activities which have allowed the volume of investments to be increased significantly during the financial year, as part of a process in which costs are currently exceeding revenue but the dynamics of which have been reversed, in the sense that growth in revenue is currently faster than the growth in costs.
On particularly significant event in the 2006 financial year was the acquisition of 100% of Finitalia S.p.A., a Group company specialised in granting loans for financing premiums, loans to private entities that have agreements with the company and consumer credit to Group clients.

Subsequently, after obtaining authorisation from the Bank of Italy, the BANCASAI Banking Group was set up, to include Finitalia, which allows the financing business of Finitalia to be rationalised, with a significant reduction in the cost of raising finance, as well as allowing further operational integration to be developed between the two companies, resulting in improvements to customer service.
Authorisation was also obtained for a new branch to be opened in Genoa, which will be operation by the middle of the current financial year.

As regards the placement of managed savings products, gross deposit taking remained steady and almost unchanged at € 242,172K, but an increase in redemptions, from € 168,775K to € 262,797K, meant that net deposit taking was negative in the amount of € 20,624.
The amounts under management remained practically unchanged at € 660,299K, an increase of € 6,723K. The number of financial advisors fell from 1,449 to 1,415. However, only some of these operate in the placement of managed savings.

These results were affected by a less than brilliant performance of the market in general, as well as a certain amount of difficulty encountered by financial advisors operating within the Group's insurance branches in combining an extremely demanding activity in the field of insurance with savings management activities.

Deposit taking from clients fell from € 427,806K to € 365,999K, particularly because of the lower amount of deposits by Group companies at the end of the year, while deposit taking from ordinary clients increased.

The number of agencies which have agreements with the company increased from 1,658 to 2,049 and continues to grow. Personnel increased from 135, including the staff working in group companies and temporary staff, to 162, following the enlargement of the company's facilities as mentioned above. In this respect, we should point out that all the company's auditing activities have been

brought in-house and that the partial outsourcing agreement with the Parent Company has been cancelled, with auditing activities for Finitalia also being taken on.

In view of the above, the management of the Bank in future will be characterised by decisive growth in traditional activities, with investments in respect of both private clients and companies, a development which will be achievable thanks to the aforesaid expansion of the facilities.
Activities in the managed savings sector will continue to rely on the Group's network of branches, which means that efforts made in terms of the organisation and expansion of the managed savings and banking products range should allow an appreciable improvement to be achieved in deposit taking, if the market allows.

SAI ASSET MANAGEMENT SGR S.p.A. (formerly Effe Gestioni Sgr)
Share capital € 5,000,000
(Direct shareholding 100%)

The financial year that ended on 31/12/2006 closed with a profit of € 188K, compared to the loss of € 256K as at 31/12/2005. Both results were obtained by applying the new IAS/IFRS accounting standards, including the 2005 result, which has been restated according to these principles.

The earnings for the financial year ending in December 2006 show an improvement in the mediation margin (from € 6,489K to € 6,971K) as a result of the greater amounts under management and of the good performance achieved. The positive result shows the improvement achieved in net commissions (from € 6,315K to € 6,765K) resulting from the dynamics of deposit taking and redemptions during the two financial years and from the action taken to bring a number of sub-delegated operations in-house, which resulted in a considerable reduction in commissions payable. Furthermore, administrative costs remained virtually unchanged.

The asset and liability statement presents no significant variations from the previous financial year. The company's assets as at 31/12/2006 amount to € 11,750K and consist primarily of financial assets available for sale of € 6,619K (€ 6,094K as at 31/12/2005) and receivables of € 4,391K (€ 5,534K as at 31/12/2005). The liabilities consist primarily of the net equity of € 6,205K (€ 5,773K as at 31/12/2005) and debts of € 3,210K (€ 3,607K as at 31/12/2005).

The total assets managed at the end of 2006 amounted to € 1,042,940K, compared to € 1,065,964K in the previous financial year. Mutual investment funds amount to € 721,580K and managed assets amount to € 321,360K.
Total gross deposit taking was € 530,265K compared to € 412,704K in the previous year. The performance of funds managed directly and by delegation and of managed assets were satisfactory overall in relation to performance in the reference markets.

At the end of 2006, action was taken to rationalise the number of products available for individual asset management, in order to optimise the types of investments offered. Furthermore, as of 2007, the regulations of a number of Funds (Sai Pacifico and Sai Paesi Emergenti) were changed to transform them into Funds of Funds for more efficient management, and in the case of the Sai Euromonetario fund a change was also made to the type of investments.

SAI INVESTIMENTI S.G.R. S.p.A.
Share capital € 3,913,588
(Direct shareholding 40%, Group interest 64.04%)

As of the 2006 financial year, the company has drawn up its accounts using the IAS/IFRS international accounting standards as illustrated and interpreted by the International Financial Reporting Interpretations Committee (IFRIC) and approved by the European Commission. The accounts are drawn up in compliance with the instructions and charts contained in the Bank of Italy decree of 14 February

2006 and according to the instructions issued by the O.I.C. and the ABI.
The financial result for the year was positive in the amount of € 1,398K.
Income for the period amounted to € 5,083K are consisted of commissions receivable for management of the mutual property fund of € 4,810K and interest receivable from banks and government securities of € 233K. The costs for the financial year amounted to € 3,685K and consisted primarily of management costs of € 1,594K – of which € 859K were incurred in respect of the parent company Fondiaria-SAI and € 154K were incurred in respect of the subsidiary Uniservizi -, commissions of € 1,249K payable to the subsidiary Immobiliare Lombarda S.p.A. and income tax for the financial year of € 829K.
The assets of the company as at 31 December 2006 amount to € 13,053K and consist of bonds valued at € 7,467K, the shareholding in the subsidiary Uniservizi valued at € 8K, receivables and available case of € 149K, tangible and intangible assets of € 19K, other assets of € 5,312K – mainly consisting of VAT credits of € 4,783K and receivables from the parent company of € 492K – and tax assets of € 98K, including € 78K for IRAP deposits paid during the financial year.
As at the same data, the liabilities consisted of the net equity of € 5,606K, debts of € 2,207K – including € 1,488K in respect of the parent company Fondiaria-SAI, € 644K in respect of the subsidiary Immobiliare Lombarda and € 66K of debts owed to the subsidiary Uniservizi – tax liabilites of € 123K and other liabilities of € 5,117K, including € 4,930K of debts owed to the Tikal property fund.

During the financial year, the savings management company concentrated solely on managing the closed-end mutual property investment fund known as “Tikal RE Fund”.
The fund management activity included a number of transactions during the year that were suggested by a different strategic view of the fund itself, as a result of which a request was submitted to the Bank of Italy on 31/07/2006 to extend the life of the fund from 7 to 14 years. On 17/10/2006, the supervisory authority approved this change by extending the life of the Fund to 2018.
As at 31 December 2006, the Fund had a net asset value of approximately € 514.5m, which means that it has grown by approximately € 23m since the previous financial year.
The recorded performance, of 6.41% was obtained by calculating the net asset value of the € 8m of proceeds distributed during the year and relating to 2005. In the light of this result, the Board of Directors of Sai Investimenti SGR resolved to distribute proceeds amounting to approximately € 18m, equivalent to € 11,250 per individual unit owned and corresponding to an annual dividend yield of 4.5% on the nominal value of the share.

SAI MERCATI MOBILIARI SIM S.p.A.
Share capital € 20,000,000
(Direct shareholding 100%)

The financial year that ended on 31 December 2006 closed with a loss of € 4,207K (€ 2,595K as at 31 December 2005).

The mediation margin as at 31 December 2006, amounting to € 3.1m, suffered a significant fall (-30%) compared to the figure of € 4.4m recorded in the previous financial year. The reduction in the mediation margin is attributable exclusively to the significant fall (-63%) in earnings from trading on the company’s own behalf, which dropped from € 3.6m to € 1.3m.
The unfavourable performance of activities carried out on the company’s own behalf is only partially offset by the excellent result achieved in trading on behalf of third parties. As a result of the rapid increase in volumes mediated, net commissions in fact grew from € 0.2m to € 1.4m.
The interest margin at the end of 2006 stood at € 0.4m, compared to 0.7m in the previous financial year. The fall is attributable to a reduction in the market spreads between government securities, which has made the arbitration activity on these securities less profitable.

Overheads increased slightly (+3%) on the previous year from € 7.0m to € 7.2m: in overall terms, administration costs remained unchanged, despite the significant increase in staff costs (+22%) resulting from the expansion of facilities, almost entirely offset by the rigorous containment of other administration costs (-15%).
Value adjustments on tangible and intangible assets fell from € 0.6m to € 0.4m. This reduction is associated with the completion of the depreciation cycle of a number of the Company’s assets. The ne-

gative balance between the other operating charges and proceeds increased from € 0,1m to € 0.5m. This increase is for the most part attributable to a contingent liability of € 0.2m relating to a judgement that went against the Company in the context of action taken against Software Company.

The guidelines established during the second half of 2006 are still valid and will allow financial balance to be achieved in 2007. The Company will also continue to develop activities on behalf of third parties, in which there are no high levels of risk.

(€K)	REVENUE	% VAR.	EARNINGS	NET EQUITY excluding net earnings for the year
OTHER ACTIVITIES SECTOR				
FINITALIA S.p.A.	31,697	10.96	2,473	40,202
FINSAI INTERNATIONAL S.A.	2,941	19.36	2,323	105,133
FONDIARIA NEDERLAND B.V.	13,722	n.a.	12,692	94,877
SAI HOLDING ITALIA S.p.A.	17,185	10.70	8,876	176,436
SAIFIN - SAIFINANZIARIA S.p.A.	6,322	(34.97)	5,630	134,762
SAILUX S.A.	1,260	58.29	963	39,197
SAINTERNATIONAL S.A.	30,479	40.16	6,046	171,011

FINITALIA S.p.A.
Share capital € 15,376,285
(Indirect shareholding 100%)

The financial year that ended on 31/12/2006 closed with a net profit of € 2,473K, compared to a net profit of € 3,773K as at 31/12/2005, restated according to IAS/IFRS standards.

The earnings were influenced by the following gross revenue:

- income from loans granted for the payment of premiums in 2005 by My Fin S.p.A. of € 1,174K; in 2006, changes were made to the recording method to ensure uniformity of presentation;
- € 495K as the positive result of the IAS/IFRS valuation, including € 361K of commissions recovered as a result of the early cancellation of the medium-term loan granted by a pool of banks in 2005 and € 134K due to cancellation of the derivative contracts.

The 2005 financial year also included extraordinary components of € 3,561K relating to the posting of advanced taxes resulting from the incorporation of My Fin S.p.A..

We should point out that during 2006 loans and credits were disbursed amounting to a total of € 148,067K (€ 144,817K in 2005), an increase of 2,24%, with a margin of interest for the financial year of € 16,079K, having recovered 10.12% on the margin for the previous financial year. The same positive performance was recorded in the mediation margin, which rose from € 14,633K (restated according to IAS/IFRS standards) to € 15,618K.

The high demand for consumer credit recorded in 2006 is essentially attributable to the offer of increasingly attractive and competitive products by industry operators: an excellent premise for

further growth in the sector. Finitalia therefore promptly acquired the structure needed to sustain the financial commitment for its development by joining the BANCASAI Banking Group last October, in order to optimise the potential synergies in the cash flow and banking services sectors, achieving economies of scale in terms of financial activities.

Furthermore, major strategic results were achieved during the year which will help the company to grow, including:

- the updating and signing of new commercial agreements with the Fondiaria-SAI Group Companies and their network of agencies, which allowed the number authorised agents to be increased;
- the launch of zero-rated loans for the payment of premiums offered to policy holders based on agreements or campaigns with the Companies;
- supporting the sales resources of the Companies locally, for the development of initiatives aimed at selling insurance contracts using the "premi famiglia" loan scheme;
- development of the "WEB-based Finitalia" application, which has allowed further automatic functions to be added, integrated with the applications of the network of agencies, for the disbursement of loans in real time.

With regard to risk management in particular, for several years the company has been using a multi-screen procedure with excellent results. The scoring activity is also supported by valuations which provide further profiling of the degree of risk according to the insurance characteristics of the clients of companies which have agreements with Finitalia. The insurance contracts of financed clients are pledged to the company and contribute to reducing the magnitude of difficult loans. Finally, in order to improve the timings and cost of credit recovery operations, the necessary IT procedures and applications are being implemented and should be completed by 2007.

Finally, as regards the guidelines for 2007 approved by the Board of Directors, we should point out the following:

- increase in the number of approved agencies, aimed at activating a large number of agencies in all the Group's networks;
- a study, to be carried out with the sales departments of the Group, of the action needed to increase the number of agencies that are actually operational;
- implementation of sales activities aimed at relaunching "personal loans" target (with the "Monetary – il credito in Agenzia" product), which last longer than other products and therefore contributes in a significant way to building a stable credit portfolio;
- continuation of actions to support the Group's sales departments in selling insurance products with premium financing, with financial charges borne by the latter, to both individuals and companies. Suitable risk assessment procedures will have to be adopted in respect of the latter;
- improvement of automatic checks on loan disbursement risks, highlighting the individual existing exposures, respective guarantees and continuous improvement of internal scoring;
- adaptation of operational procedures and strengthening of the data processing system;
- updating of the automatic procedures for restricting/unrestricting/blocking claims in respect of insolvent clients.

FINSAI INTERNATIONAL S.A.
Share capital € 22,801,140
(Direct shareholding 38.53%, Group interest 100%)

The financial result for the year was positive in the amount of € 2,323K, resulting from revenue of € 2,941K, essentially consisting of financial proceeds from the management of liquidity, interest on the loan granted to the parent company and dividends on shareholdings, and from costs of € 618K, consisting primarily of general and administrative costs.
The assets of the company as at 31 December 2006 amount to € 68m and consist of the shareholding in Mediobanca (0.35%), which has a book value of € 10m, tied to the shareholders' agreement, of investments in overseas funds of € 20m, of the loan granted to the parent company of € 27m and of sundry liquidities and assets of € 11m. The liabilities of the company as at the same date consist primarily of the net equity of € 67.5m and tax funds of € 0.5m.

FONDIARIA NEDERLAND B.V.
Share capital € 19,070
(Direct shareholding 100%)

The financial result for the year was positive in the amount of € 11,550K.
Revenue amounts to € 13,722K and consist primarily of dividends received from the subsidiary The Lawrence Re of € 10,000K and from the subsidiary Milano Assicurazioni of € 2,340K, in addition to interest receivable on the liquidity invested in time deposits in Luxembourg of € 1,370K.
Costs amount to € 2,172K and relate primarily to administrative costs of € 111K, withholdings of € 351K, taxes for previous financial years of € 1,271K and current taxes estimated at € 348K.

The assets of the company as at 31 December 2006 amount to € 107,619K and consist of shareholdings in Group companies of € 75,491K and sundry liquidities and assets of € 32,098K. The net equity of the company amounts to € 107,569K.
During the financial year, the company sold its entire shareholding in Swiss Life Holding. The liquidities resulting from the sale amounted to € 303,135K. Furthermore, capital reserves of € 250,333K were distributed and the total price of € 38,843K was paid for the exercise of the Milano Assicurazioni warrants held.

SAI HOLDING ITALIA S.p.A.
Share capital € 143,100,000
(Direct shareholding 100%)

The balance sheet as at 31 December 2006 closed with a positive result of € 10,664K.
Revenue amounted to € 17,185K and consisted of dividends of € 16,018K, including € 6,763K and € 6,480K respectively from the subsidiaries Po Vita and Novara Vita, both subject to transparent taxation (specific taxation of shareholders' dividends in the Italian tax system), € 839K from the subsidiary Siat Assicurazioni, € 1,140K from the parent company Fondiaria-SAI, € 796K from Milano Assicurazioni, € 50K from interest on securities including in working capital, € 670K from interest receivable on loans, € 422K from proceeds arising from the management of liquidities and € 25K for extraordinary proceeds.
Costs amounted to € 6,521K and consisted of administration costs of € 628K, current tax of € 3,479K and deferred tax of € 2,407K.
The company's assets as at 31 December 2006 amounted to € 223m and consisted of financial investments of € 179m, receivables of € 33m, including the loan granted to the parent company of € 30m, liquidities of € 9m and other assets of € 2m.
The liabilities consisted primarily of the net equity of € 218K, debts in respect of subsidiaries subject to transparent taxation of € 0.5m, debts towards the parent company Fondiaria-SAI relating to IRES for the period of € 3m and other liabilities of € 1m.

SAIFIN SAIFINANZIARIA S.p.A.
Share capital € 102,258,000 fully paid-up

(Direct shareholding 100%)

The financial result for the year was positive in the amount of € 5,006K.
The income for the financial year amounted to € 6,322K, consisting primarily of the interest receivable on loans to customers, bond securities and bank deposits of € 1,391K, dividends received of € 475K, profits on financial transactions of € 3,590K – mainly referable to the sale of the shareholding in Finitalia – value adjustments on financial investments of € 67K and the balance of deferred taxes receivable of € 792K. The costs for the period, amounting to € 1,316K, consist primarily of value adjustments on financial investments in relation to the investee company RCS Mediagroup of € 695K, administration costs of € 527K, commissions and interest payable of € 88K.

The assets of the company as at 31 December 2006 amounted to € 140,930K and consisted of shareholdings in Group companies of € 53,597K, other shareholdings of € 29,005K, financial credits of € 48,007K, cash primarily invested in term deposits of € 7,706K and sundry assets of € 2,615K. The company's net equity on the same date amounted to € 140,327K.

SAILUX S.A.
Share capital € 30,000,000
(Indirect shareholding 100%)

The financial result for the year was positive in the amount of € 963K, resulting from revenue of € 1,260K, essentially consisting of dividends and financial proceeds from the management of liquidity, and costs of € 297K, consisting primarily of general and administrative costs.
The company's assets as at 31 December 2006 stood at € 40.36m and consisted of the controlling share in Finsai International (61.47%), with a book value of € 26.99m, shareholdings in unlisted companies of € 0.65m, and cash and sundry assets of € 12.71m The liabilities of the company as at the same date consist primarily of the net equity of € 40.16m and tax funds and other liabilities of € 0.2m.

SAINTERNATIONAL S.A.
Share capital € 154,000,000
(Direct shareholding 100%)

The financial result for the year was positive in the amount of € 5,532K. Revenue amounted to € 30,479K, consisting of proceeds from loans granted to the parent company Fondiaria-SAI of € 23,837K, dividends of € 2,163K and other financial proceeds of € 4,479K. Costs amounted to € 24,947K, consisting of general and administration costs of € 682K, interest payable and charges on bond loans of € 21,406K, value adjustments on investments of € 277, other charges of a financial nature of € 1,560K, and income taxes and other taxes of € 1,022K.

The company's assets as at 31 December 2006 amounted to € 364,544K and consisted of the loans granted to the parent company Fondiaria-SAI of € 235,000, shareholdings in unlisted companies and loans to these companies of € 16,011K, listed securities of € 44,055K, other short-term investments of € 21,229K, and cash and sundry assets of € 48,249K. The liabilities consisted of the net equity of the company, amounting to € 174,735K, the debt owed to bondholders of € 180,400K, the funds for risks and charges of € 1,305K and other liabilities of € 8,104K.
The listed securities consisted of 10,100,000 shares in RCS Mediagroup, tied to the latter company's shareholders' agreement, and 1,110,000 shares in the subsidiary Milano Assicurazioni.

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

	REVENUE	% VAR.	EARNINGS	NET EQUITY excluding net earnings for the

(€K)				year
SAIAGRICOLA S.p.A.	9,734	4.33	(1,577)	57,457
CAMPO CARLO MAGNO		39.23		
SPORT S.r.l.	181		10	516

SAIAGRICOLA S.p.A.
Share capital € 50,000,000
(Direct shareholding 92.004%, Group interest 97.29%)

The balance sheet as at 31 December 2006 shows a negative result for the financial year of € 1,588K (negative result of € 2,000K as at 31 December 2005), after setting aside depreciation on intangible fixed assets of € 403K (€ 421K in 2005) and on tangible assets of € 1,580 (€ 1,537 in 2005), having paid interest on loans of € 478K (€ 118K in 2005) and set aside tax of € 30K (€ 48K in 2005).
2006 was characterised by a particularly good seasonal performance for all agricultural crops, particularly as regards the grape harvest, the quantity of which was up by 7%. The resulting wines have a good organoleptic structure, as confirmed by the initial assessments in the specialised press.

The higher grape production reduced the average cost per hectolitre, which was approximately 4.5% lower than the previous year. The production of bottles (capacity of 0.75 litres) reached 1,131 million units compared to 1,054 units in 2005 (+7.3%).
Olive production was also abundant, unlike the previous year, as a result of the alternating “load year”. The olive oil yield remained at an average level because there is a tendency to bring the harvest period forward to obtain oil with better qualitative characteristics.
Rice production increased by approximately 3,400 quintals, reaching an average yield of 58 quintals per hectare of and an average production cost of € 24 per quintal.
Average levels of production were recorded in other categories of cereal production.

Sales of unrefined rice amounted to 28,524 quintals, generating a turnover of € 560K (25,348 quintals for € 441K nel 2005), an increase of 27% in value and 12.5% in quantity compared to 2005. The average price per quintal was therefore € 19.6 (€ 17.4 in 2005).
As regards sales of the main packaged products, sales of processed and packaged rice amounted to € 419K in total on a quantity of approximately 173,000 kg. Sales of bottled wine amounted to € 5,187K (€ 4,901K in 2005), an increase of 5.8%.
For the packaged products of wine, oil and grappa, overseas sales accounted for approximately 40% of total sales. A further 40% related to sales in Italy through agents, which remained unchanged, while the remaining 20% relates to the commercial channels of clients of the group.

Compared to the previous year, final stocks of finished products, raw materials and products in progress increased in value by € 537K from € 7,729K in 2005 to € 8,266K. We should point out the higher value of wine stocks resulting from the abundant annual production and of the new vineyards in Montefalco, together with the effect of the revaluations of costs on the product being aged.
During 2006, European Community aid amounted in total to € 903K (€ 929K in 2005). This aid was received to support rice production and supplement income under the terms of EEC Regulation 2080/92.
Investments made during the financial year, net of European Community capital contributions, amounted to € 1,745K (€ 2,435K in 2005) and related essentially to cellar installations and equipment, restructuring and extension of operational and residential buildings, installations for new vineyards.

Some of the main food and wine events organised with the participation of Saiagricola in 2006

included:

- "Cantine Aperte" (open cellars), which has now become an unmissable event at the end of May for all food and wine lovers. During 2006, Fattoria del Cerro beat all its personal records, attracting over 1,000 visitors, by offering an intensive course on wine and the surrounding area, with opportunities to taste the high quality wine and typical foods of the area, including the Pecorino di Farindola (PE) Slow Food Event.
- The "Grinzane Cavour" literary prize was presented on 17 June in the setting of the castle of the same name in Piedmont. Guests who attended the award ceremony received Carnaroli Rice of Cascina Veneria as a gift and had the opportunity to meet other food and wine lovers interested in ensuring the balance between man and nature.
- At the most recent "Globo d'Oro" film award ceremony, which took place in Rome in July, Pupi Avati received the best director award for *La seconda notte di nozze,* receiving not only the prestigious statuette but also a magnum of Vino Nobile di Montepulciano Docg Riserva 2000 produced by Fattoria del Cerro, a Saiagricola Group company.
- During October, "Eurochocolate", an exhibition that takes place Perugia and is dedicated to chocolate in all its most varied and fascinating forms, organised an event called "Rosso & Nero" (red and black) dedicated to the world of Montefalco red wines and "cibo degli dei" dark chocolate. Saiagricola took part in the event with its Sagrantino Colpetrone.
- At the Salone del Gusto, which took place in Turin at the end of October, at the "All'Enoteca" restaurant in Canale d'Alba on 29 October, a dinner was held during which Saiagricola's wines, combined with the menu prepared by Alsatian chef Michel Husser, enhanced the quality of the various dishes served.

- In mid-November a series of winter events was launched in Rome called "I mercoledì del Nobile", organised with the collaboration of the Montepulciano Vino Nobile Consortium and with the alternating particpation of the most highly renowned companies from Montepulciano, which presented their best products in the picturesque setting of the Teatro del Vino, a wine bar designed by the Gambero Rosso to bring the best Italian wines to the attention of the country as a whole.
- All the Saiagricola wine producing companies were also selected for the 2006 edition of the prestigious "Weinfestival" food and wine festival, which took place in Merano in November. The Group exhibited products from its three production centres of Fattoria del Cerro, La Poderina and Colpetrone.
- Luca Maroni, an internationally renowned wine tasting expert and published of the "Guida Vini d'Italia 2007" (guide to Italian wines) awarded the highest score to Antica Chiusina, a Vino Nobile di Montepulciano Docg 2003 produced by Fattoria del Cerro, awarding it first place among all Italian red wines. Second place in the same category went to Montefalco Sagrantino Docg Colpetrone 2003, also produced at the Saiagricola vineyard.

Finally we should point out that last September Italy won the first International Rice Olympics organised by the Académie Internationale de la Gastronomie in Paris in Benicassim, Castellon de la Plana (Valencia), thanks to the rice produced by Saiagricola's Cascina Veneria and cooked by Italian chef Paolo Viviani of the San Rocco di Orta San Giulio (Novara) restaurant.
This constitutes a major recognition of the excellent quality of the Company's products.

CAMPO CARLO MAGNO SPORT S.r.l.
Share capital € 87,000
(Indirect shareholding 100%)

Acquired from Milano Assicurazioni in December 2005, the company owns licences to operate ski

slopes, ski-lifts and the golf course of the Golf Hotel complex and has signed a company leasing contract with Atahotels S.p.A. which requires the payment of 20% of the annual net revenue, subject to a guaranteed minimum. The operation guarantees the company an adequate return on the line of business leased, which is consistent with the levels of income from similar operations in the market.
The accounts for the 2006 financial year closed with a profit of € 10K, compared to a loss of € 21K in 2005, which however represented the net earnings over a period of eight months, as a result of the decision to make the financial year of the company (which was previously from 1 May to 30 April) match the calendar year. During January 2007, the respective AGMs approved the plan to merge Campo Carlo Magno Sport S.r.l. by incorporation with Campo Carlo Magno S.p.A..
The deed of merger will be signed after the legal period allowed for objections from creditors has expired. MAA FINANZIARIA – Milan (our direct shareholding 100%). The Company, which originally operated in the financial leasing of capital goods and financing, is currently limited to managing a number of financing contracts already in its portfolio. The accounts as at 31 December 2006 closed with a loss of € 13K. SOGEINT – Milan (our direct shareholding 100%). The Company provides business support to agencies. The accounts as at 31 December 2006 closed with a loss of € 264K.

Asset and financial management

INVESTMENTS AND AVAILABLE CASH

As at 31/12/2006, the volume of investments was € 33,813m, compared to € 30.065m in the previous financial year (12.5%)
The following table shows the investments as at 31/12/2006, compared to the corresponding amounts as at 31/12/2005.

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

(€K)	31/12/2006	% Comp.	31/12/2005	% Comp.	% Var.
INVESTMENTS					
Property investments	2,125,628	5.95	2,041,721	6.45	4.11
Shareholdings in subsidiaries, associated companies and joint ventures	155,921	0.44	71,675	0.23	117.54
Loans and receivables	1,305,863	3.66	1,408,658	4.45	(7.30)
Investments owned to maturity	0	0.00	0	0.00	0.00
Financial assets available for sale	23,067,611	64.61	20,972,111	66.19	9.99
Financial assets at fair value through profit or loss	7,157,453	20.05	5,570,855	17.59	28.48
Total investments	**33,812,476**	**94.71**	**30,065,020**	**94.91**	**12.46**
Tangible assets: property and other tangible assets	1,164,620	3.26	1,086,135	3.43	7.23
Total non-current assets	**34,977,096**	**97.97**	**31,151,155**	**98.34**	**12.28**
Net available cash and equivalents	723,032	2.03	526,505	1.66	37.33
Total non-current assets and available cash	**35,700,128**	**100.00**	**31,677,660**	**100.00**	**12.70**

We should point out that, as a result of the acquisitions, with resulting variations in the consolidation scope, which took place during 2006, the investments also include the assets:

- Liguria Società di Assicurazioni S.p.A. and Liguria Vita of € 241m;
- Capitalia Assicurazioni S.p.A. of € 26.5m;
- BPM Vita S.p.A. of € 1,756m (the latter at 50%);
- Banca Gesfid S.A. of € 119.5m;

amounting to a total of € 2,143m.

The financial assets at fair value through profit or loss include € 5,751m (€ 4,065m in 2005) of investments with risk borne by the policy holder and resulting from the management of pension funds, while the balance relates to shares held for trading in the Non-Life sector and to hybrid bond instruments with a significant derivative component.
In accordance with the property portfolio valuation policy, the property investments include the assets of the Tikal R.E. closed Fund. This fund was consolidated and the respective properties valued at cost with a total contribution of over € 594m. At the same time, contra entries were made for the units owned by the Tikal Fund itself.

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

the following:

(€K)	31/12/2006	31/12/2005	% Var.
Financial assets available for sale	**23,067,611**	**20,972,111**	9.99
Capital securities and collective savings investment	4,204,911	3,767,474	11.61
Debt securities	18,859,785	17,200,376	9.65
Other financial investments	2,915	4,261	(31.59)
Financial assets at fair value through profit or loss	**7,157,453**	**5,570,855**	28.48
Capital securities and collective savings investment	1,450,313	739,663	96.08
Debt securities	5,416,753	4,661,888	16.19
Other financial investments	290,387	169,304	71.52

As regards the structure of investments, the Group focused on bonds as normal, doing a significant amount of work aimed at slowly but steadily increasing the duration of Life portfolios. In the Non-Life Classes however, operational strategies centred on shortening duration, so as to reduce risk in the portfolio. Despite the lower returns, with a shorter duration, overall profitability remained positive as a result of the higher contribution of the variable component and a more dynamic trading component. The amount of investments represented by bonds accounts for 71% of the total investments made by the Group.

During 2006, financial management in the Fondiaria-SAI Group was successful because of the strong local presence of the Group. All the financial shareholdings achieved significant increases in value following the intense phase of aggregations which the Italian financial system is experiencing. The investment in corporate securities belonging to the “investment grade” category was made in order to achieve a return above the asset class of government securities for the same maturity.

As part of this work, action was taken to diversify the share portfolios strategically by increasing equity investments and simultaneously hedging part of the strategic component (which has been reduced following the sale of the shareholding in Swiss Life among other things) by means of derivatives.
The selection of shares that have become part of the working portfolio is intended to ensure medium to long term profitability (which is appreciated by the markets even in the short term) as well as geographic diversification (albeit within the Euro zone) and sectoral diversification with a reduction in the weight of financial securities.

During the course of the year, financial management of the Group’s debt securities followed a path aimed at ensuring a gradual but constant increase in the duration of Life portfolios, more marked in the second half of the year, for the purpose of achieving a better distribution of assets in relation to liabilities of the individual segregated accounts, so as to benefit from substantially attractive opportunities for returns in relation to the guaranteed minimums and to improve the ordinary profitability of individual assets in relation to market expectations.

However, as regards Non-Life Portfolios, financial management focused on slightly shortening the riskiness of portfolios, particularly during the first half of the year. The decision to maintain a short duration of Non-Life Portfolios was offset, in terms of overall return, by a higher profitability generated by the variable rate components, by substantially higher short-term rates than in the previous year and by more dynamic trading activity.

As regards Fondiaria-SAI, as at the end of 2006, the bonds sector represented 69% of the total portfolio, with a duration of approximately 4.67. The equities component represented 23.8% of the total portfolio and mutual funds accounted for the rest. The Non-Life Classes portfolio, with a total duration of 1.98, consists of government and supranational fixed rate bonds (58.5%) and variable rate bonds (41.5%).
The Life Classes portfolio, with a total duration of 5.54, has an asset allocation focused more on

fixed rate government and supranational securities (81%) than on variate rate securities in the same asset class (19%). At strategic level, the preference was for investment in government securities in the Euro zone was favoured, which now represent 85% of the portfolio, while the corporate sector was reduced from 19% at the beginning of the year to 15% at the end of the financial year. Corporate securities belong for the most part to the "investment grade" category.

As regards Milano Assicurazioni, as at the end of 2006, the bonds sector represented 79% of the total portfolio, with a duration of approximately 3.72. The equities component represented 13.2% of the total portfolio and mutual funds accounted for the rest.
The Non-Life Classes portfolio, with a total duration of 1.88, consists of government and supranational fixed rate bonds (78%) and variable rate bonds (22%).
The Life Classes portfolio, with a total duration of 5.27, has an asset allocation that is richer in fixed rate government and supranational securities (82.5%) than variate rate securities in the same asset class (17.5%).
At strategic level, the preference was for investment in government securities in the Euro zone was favoured, which now represent 85% of the portfolio, while the corporate sector was reduced from 20% at the beginning of the year to 15% at the end of the financial year. Corporate securities belong for the most part to the "investment grade" category.

The following table shows the results of financial and property activity over the past two years:

(€K)	31/12/2006	31/12/2005	Variation
Net income from financial instruments at fair value through profit or loss	**80,267**	**126,561**	**(46,294)**
Shareholdings in subsidiaries, associated companies and joint ventures	**19,500**	**46,838**	**(27,338)**
Income from other financial instruments and property investments including:			
Interest receivable	710,662	613,165	97,497
Other income	228,534	172,411	56,123
Profits achieved	196,917	205,392	(8,475)
Profits from valuations	284	2,128	(1,844)
Total income	**1,236,164**	**1,166,495**	**69,669**
Charges from shareholdings in subsidiaries, associated companies and joint ventures	**54**	**2,976**	**(2,922)**
Charges from other financial instruments and property investments including:			
Interest payable	88,097	50,078	38,019
Other charges	77,680	30,300	47,380
Losses incurred	54,581	50,814	3,767
Losses from valuations	37,429	65,057	(27,628)
Total charges and interest payable	**257,841**	**199,225**	**58,616**
TOTAL NET INCOME	**978,323**	**967,270**	**11,053**

Sale of the shareholding in Swiss Life Holding

On 11/01/2006, the subsidiaries Fondiaria Nederland B.V. and Milano Assicurazioni S.p.A. sold their entire shareholding in the company Swiss Life Holding to an institutional investor (UBS). Fondiaria Nederland and Milano Assicurazioni sold 2,000,107 and 828,709 Swiss Life Holding shares respectively, for a total of 2,828,816 shares, representing 8.3753% of the share capital, for CHF 234.75 each. The price was determined by applying a discount of 0.53% to the closing

price on 11/01/2006 of CHF 236.

The proceeds from the transactions amounted to approximately CHF 664.1 in total, compared to a total book value of approximately CHF 702.8.

The financial effects of the sale had already been recorded in the balance sheet for the past financial year by the subsidiaries Milano and Fondiaria Nederland, creating a negative impact of approximately € 27m.

Given the opportunities provided by the stock market performance of the Swiss Life Holding shares, it was deemed to be of interest to the Fondiaria-SAI Group and for the said subsidiaries to achieve the sale of the shareholding in a very short space of time, contacting a number of institutional investors in this respect and inviting the interested ones to take part in a competitive tender, submitting their firm offers.
The transaction allowed the diversification of asset allocation to be developed in 2006 and prospects for greater flexibility in strategic investments to be increased.

Capitalia Shareholders' Agreement

In a letter date 11/01/06, the parent company declared that it was willing to increase its total share held in Capitalia and contributed to the share syndication agreement, directly and through Milano Assicurazioni, from the current 2.57% to 3.50%.
The possibility had in fact arisen, among the interested shareholders, to modify their share under the Agreement, which had been reduced in size as a result not only of the entry of a number of MCC shareholders following the demerger of the latter (of which the beneficiary was Capitalia) but also of the contribution to the Agreement of further Capitalia shares by a number of members who were also shareholders of MCC itself and/or Fineco, in view of the further extraordinary merger by incorporation of Fineco into Capitalia. The purchase of new shares to be contributed to the Agreement by the interested shareholders was made possible, on the one hand, by the fact that Toro Assicurazioni had expressed its intention to sell its shareholding (of 0.83%) and, on the other hand, by the fact that, since the shareholding currently owned by the signatories to the Agreement exceeded 30% (30.54%), the possibility had arisen to consolidate the shareholding itself, with an exemption from the duty to launch a takeover bid, subject to the maximum limit of 3% per year pursuant to article 46 of the CONSOB Regulations for Issuers.

In particular, Fondiaria-SAI and Milano purchased part of the shareholding put on sale by Toro, amounting to just over 0.5% of the share capital of Capitalia.
The transaction involved a total disbursement of approximately € 48m. Furthermore, following the pre-emption offer made to the signatories to the Capital Shareholders' Agreement of the total of 49,689,476 shares in the latter (amounting to 1.92% of the share capital) put on sale by Pirelli & C. S.p.A., Fondiaria-SAI and Milano Assicurazioni purchased the 5,335,132 Capitalia shares to which the two companies were entitled on a pro quota basis, in addition to 4,706,783 shares to which the companies were entitled from among the shares that had not been subscribed by other signatories to the Agreement.

Fondiaria-SAI and Milano Assicurazioni therefore purchase a total of 10,041,915 Capitalia shares, contributed to the Agreement, for a gross price of € 6.6993 per share and therefore for a total of € 67.3m approximately, including approximately € 50.3m from Fondiaria-SAI and approximately € 17m from Milano Assicurazioni.
The total shareholding owned by Fondiaria-SAI and Milano as a result of the said purchase is 3.51% of the share capital of Capitalia and 11.32% of the syndicated shares.

DEBTS OF THE FONDIARIA-SAI GROUP

As a result of the application of international accounting principles, significant changes have had to be

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

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

The situation is summarised in the following table:

(€m)	**31/12/2006**	**31/12/2005**	**Variation**
Subordinate loans	807.4	483.9	323.5
Mandatory SAInternational	178.0	176.8	1.2
Debts owed to banks and other loans	395.5	518.0	(122.5)
Total debts	**1,380.9**	**1,178.7**	**202.2**

On 12 December 2002, the incorporating company SAI had signed a financing contract with MEDIOBANCA on the basis of which the latter had disbursed the amount of € 400m to the Company in order to increase the constituent elements of the solvency margin. Based on the agreements reached with Mediobanca, and with prior authorisation from ISVAP, in July 2003 Fondiaria-SAI had obtained a new subordinate loan, for the same amount, at the same time as the existing loan was repaid early.

During December 2005, with prior authorisation from ISVAP, the interest rate spread of the loan was renegotiated and as of January 2006 it was reduced from the 6-month Euribor plus 2.65% to the 6-month Euribor plus 1.8%.
At the same time, a new subordinate loan contract was signed for € 100m with the same characteristics of the existing loan.

Finally, with a value date of 14 July 2006, a subordinate loan contract was signed with Mediobanca, half by Fondiaria-SAI and half by Milano, for € 300m, with the same characteristics as those of the previous contracts. This loan will contribute to further improving the available solvency margin in the amount of 25% of the available margin or of the solvency margin required, whichever is the smallest.

With reference to the subordinate loan of € 400m as at December 2006, an interest rate swap was agreed lasting 6 years on a notional amount of € 200m with a fixed interest rate of 3.97%. The swap will run from 23 January 2007 and will cover part of the interest rate risk associated with the aforesaid loan, stabilising the flow of interest to be paid to the counterpart on an annual basis.

Finally, the "Subordinate loans" entry also includes the subordinate loans of BPM Vita received during 2003. These are four subordinate loans for a total of € 16m, half of which were taken out with Banca Popolare di Milano and half of which were taken out with Banca di Legnano. Two loans run out on 27 June 2008 and have an interest rate equal to the 12-month Euribor plus 0.75%, while the other two loans have no fixed expiry date and an interest rate equivalent to the 12-month Euribor plus 2.50%.

On 27/09/2004, the Luxembourg subsidiary Sainternational S.A. launched a Convertible Bonded Loan repayable exclusively by means of ordinary shares in Banca Intesa Sanpaolo owned by Fondiaria-SAI, expiring on 29/09/2010.
The bonds, which have a total nominal value of € 180,400K, will be repayable on expiry by delivering 44,000,000 ordinary shares in Banca Intesa Sanpaolo, currently owned by Fondiaria-SAI, at the exchange price of € 4.10 per share, and therefore with a premium of 35.13% on the price of ordinary

shares in Banca Intesa Sanpaolo at the time of establishment of the offer price.

The annual coupon on the bonds and the return at maturity amount ot 6.10%.
On 21/10/2004, the bonds were admitted for trading at the Luxembourg Stock Exchange.
As regards the undertaking by Sainternational to deliver the converted Banca Intesa Sanpaolo shares to the noteholders, Fondiaria-SAI undertook directly in respect of the noteholders to deliver the shares.

As regards debts owed to banks and other financing organisations, amounting to € 395.5m, here are the most significant amounts:

- € 203.7m relate entirely to the consolidated debt of the subsidiary Immobiliare Lombarda. In particular, € 204m are the result of the renegotiation of the debt of the acquired company Immobiliare Lombarda pursuant to the merger plan, which stated this as one of its conditions. The interest rate on the loan is the Euribor + 0.9%. The expiry dates are variable until 2012;
- € 173.4m relate to the loan taken out by the Tikal R.E. Closed Property Fund with Banca Intesa Sanpaolo, the latter as the Organising, Agent and Financing Bank. The purpose of the loan is to improve the return on the shareholders' equity of the fund and therefore on the capital invested by participants. The amount disbursed, which does not exhaust the line of credit granted of a nominal € 280m, is used for both investments in new initiatives and to carry out improvement work with a view to future sales or increases in income. The cost of the loan is equivalent to the Euribor plus a variable credit spread of between 70 and 110 b.p.. Since the previous financial year, the Fund has made recourse to two derivative instruments on rates, implementing a policy of hedging the potential risk of an increase in rates on the loan taken out;
- € 14.2m relate to the debt taken out with lending establishments by the subsidiary Finitalia;
- the rest relates to other debts of insignificant unitary value.

OWN SHARES AND SHARES IN THE PARENT COMPANY AND ITS SUBSIDIARIES

As at 31/12/2006 and 31/12/2005, the parent company held own shares and shares in the parent company Premafin Finanziaria according to the following table:

(€K)	31/12/2006		31/12/2005	
	Number	**Book value**	**Number**	**Book value**
Own shares in the name of:				
Fondiaria-SAI	9,490,212	182,201	8,075,212	138,079
Milano Assicurazioni	6,802,557	149,440	5,362,557	103,672
Sai Holding	1,200,000	28,285	1,200,000	28,285
Grand total	**17,492,769**	**359,926**	**14,637,769**	**270,036**
Shares in the parent company in the name of:				
Fondiaria-SAI	18,340,027	45,116	18,340,027	36,203
Milano Assicurazioni	9,157,710	22,528	9,157,710	18,077
Saifin – Saifinanziaria	66,588	164	66,588	132
Grand total	**27,564,325**	**67,808**	**27,564,325**	**54,412**

Own shares:

During the 2006 financial year, a total of 1,415,000 ordinary own shares were purchased with a disbursement of € 44,121K.
Therefore, at the end of the 2006 financial year, there were 9,490,212 ordinary shares in the portfolio,

equal to 7.063% of the ordinary share capital.
No purchase or sales of own shares have been carried out since the end of the financial year. The AGM Resolution of 04/12/06 cancelling all the 9,490,212 ordinary share held in the Parent Company was implemented on 23 March. We should also point out that the subsidiary Sai Holding S.p.A. holds 1,200,000 ordinary shares and the subsidiary Milano Assicurazioni S.p.A. holds a further 6,802,557 ordinary shares.

Shares in the parent company:

During the 2006 financial year, purchase and sale operations were carried out on ordinary shares in the parent company Premafin Finanziaria S.p.A..
As at 31/12/2006, the Parent Company owns 18,340,027 shares in the parent company, amounting to 4.469% of the share capital.
No purchase and sale transactions have been carried out since the end of the financial year. Therefore, as at 30/03/2007, the Parent Company owned 18,340.027 shares, amounting to 4.469% of the share capital, while the subsidiary Saifin-Saifinanziaria S.p.A. owned a further 66,588 ordinary shares, amounting to 0.016% of the share capital and the subsidiary Milano Assicurazioni owned a further 9,157,710 ordinary shares, amounting to 2.232% of the share capital.

PERFORMANCE OF THE GROUP'S LISTED SHARES

At the end of the financial year, the share capital of the parent company Fondiaria-SAI S.p.A. amounted to € 177,680,822, subdivided into an equivalent number of shares with a nominal value of € 1 (134,370,950 ordinary shares and 43,309,872 savings shares).

During 2006, the price of the shares fluctuated between a minimum of € 26.89 (as at 13/06/2006) and a maximum of € 36.44 (as at 19/12/2006) per ordinary share, and between a minimum of € 19.132 (as at 13/06/2006) and a maximum of € 26.98 (as at 29/12/2006) per savings share.

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

(Euro Units)	**29/12/2006**	**30/12/2005**	**% Variation**
Fondiaria SAI ord.	36.25	27.71	30.82
Fondiaria SAI risp.	26.98	21.14	27.63

The corresponding stock exchange capitalisation at the end of the financial year was € 6,039m (€ 4.522m as at 31/12/2005).

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

(Euro Units)	**29/12/2006**	**30/12/2005**	**% Variation**
Milano Assicurazioni S.p.A. ordinary shares	6.174	5.72	7.94
Milano Assicurazioni S.p.A. savings shares	6.128	5.69	7.70
Immobiliare Lombarda S.p.A. ordinary shares	0.217	0.19	14.32

As at 31/12/2006, the subsidiary Milano had a stock exchange capitalisation of € 2,884m (€ 2,623m as at 31/12/2005), while the subsidiary Immobiliare Lombarda had a capitalisation of € 891.7m (€ 745.8m as at 31/12/2005).

RATINGS AND RELATIONS WITH THE MARKET AND INSTITUTIONAL INVESTORS

We should point out that in September the rating agency Standard & Poor's improved the outlook for the Fondiaria-SAI Group and its subsidiary Milano Assicurazioni from "stable" to "positive". The "BBB" counterpart and financial solidity rating for both companies was confirmed.

The outlook review reflects a more prudential investment strategy and an improved capitalisation, as well as the strong competitive position achieved by the Group on the market and its significant operational performance.

OTHER INFORMATION

Stock option plans

On 14/07/2006, the Board of Directors of Fondiaria-SAI resolved to allocate the options in the 2006-2011 stock option plans to the executive directors and management of Fondiaria-SAI, its subsidiaries and the parent company for the purchase of savings shares in Fondiaria-SAI itself.

The assignment by the Board took place in accordance with the resolution of the Fondiaria-SAI AGM of 28/04/2006. As regards the executive directors, the total of 8,700,000 options were assigned to the persons and in the quantities resolved during the aforesaid AGM.
As regards the management, however, the stock option plan relates to 75% of the Group's serving executives. The number of options assigned to the individual beneficiares takes into account the level of responsibility assigned and the impact of the function performed on the business. The total number of options assigned amounts to the maximum of 6,300,000 shares resolved by the AGM.
For both plans, the subscription price of the shares was determined by the Board using the criterion for fixing the subscription price established by the AGM at € 21.546 per share, equal to the arithmetical average of the reference prices of Fondiaria-SAI savings shares recorded on the market in the thirty days preceding the date of assignment of the rights.

In this respect, the report drawn up by the auditing company Deloitte & Touche S.p.A. was obtained in accordance with article 2441, paragraph 4, second sub-paragraph of the Civil Code, which confirmed the appropriateness of the criterion used.

The options cannot be exercised until a vesting period running from the date of assignment has expired, according to the following procedures:

- 40% of the options cannot be exercised until 24 months have elapsed from the date of assignment;
- 30% of the options cannot be exercised until 36 months have elapsed from the date of assignment;
- 30% of the options cannot be exercised until 48 months have elapsed from the date of assignment;

On expiry of the vesting period, the beneficiaries have the following alternatives:

- maintaining the options until expiry;
- exercising the options, subscribing the shares and keeping them in the portfolio;
- exercising the options, subscribing the shares and selling them on the market;

In any case, options not exercised within 5 years of the date of the AGM will automatically be forfeited.

The power to exercise the option is in any case suspended for a period running between 10 days before the date of the Board of Directors meeting called to approve the accounts and the date of detachment of the dividend.

The Regulations also impose restrictions on the way in which options can be exercised and specifically:

- once the options have been exercised and the respective share subscription has taken place, no more than 10% or 15% (for the management plan and the executive directors respectively) of the daily average of volumes recorded in the third days preceding the date chosen for the sale may be sold every day;
- share that result from the options being exercised cannot be traded during the month in which the Board of Directs has been convened for approval of the accounts and of the half-year statement.

In the event that, due to changes in the current state of welfare and tax legislation and any other applicable law, or in the respective interpretation and application, implementation of the Plan should involve welfare, tax or other costs for the Company, the latter will be entitled to amend the Plan, or to withdraw from the Plan itself, without the beneficiaries having any right to compensation.

Finally, the Board has also resolved to make exercising the options conditional upon the achievement of the main objectives of the Group's Business Plan for 2006-2008, already made known to the market.

Consequently, pursuant to IFRS 2 "Share-based payments", the costs involved in the aforesaid stock option plan have been calculated. Using appropriate assessment models, the company has therefore determined the fair value of the options, consequently increasing the cost of labour for the period by € 6.3m, as a counter-item to a net equity reserve.
Given that the plan also involves a number of executive directors and managers of the subsidiaries Milano Assicurazioni and Immobiliare Lombarda, the financial effects of the stock option plan are also recorded in the accounts of the aforesaid companies in the amounts that correspond to them. Vice versa, the consolidated accounts of Fondiaria-SAI do not record the cost of options allocated to executive directors and managers of the parent company. The total cost of the plan for the Fondiaria-SAI Group is estimated to be € 36m.

Business plan of the Fondiaria-SAI Group for the three-year period 2006-2008

In April 2006, the new Business Plan of the Fondiaria-SAI Group S.p.A. for 2006-2008 was presented to the financial community.
Increasing value for shareholders is the objective of the plan, to be achieved by increasing the diversification of the business to reduce risk, creating new development options, increasing profitability, acting on the distribution structure through which the Group currently operations and on the new growth scenarios that are emerging, including optimisation of the management of surplus capital.

As regards the current platform, the objectives are the following:

- to achieve a growth rate of close to 15% in the Non-Motor retail market by means of an intensive programme of sales campaigns, the addition of new salesmen and the launch of diverse development programmes involving over 5,000 agents;
- to maintain the position of leadership in the Motor sector, maintaining the current level of profitability by extenting the new "Nuova Prima Global" product to the whole Group;
- to maintain a combined ratio that is substantially unchanged but has a more balanced portfolio mix with satisfactory long-term results;
- to grow in the Life Classes by developing new annual premium products, increasing the involvement of the network of agencies by means of new management methods and developing bancassurance;
- to develop the Managed Savings sector by acquiring networks of financial advisors and relaunching Banca Sai with campaigns targeted towards current financial advisors.

As regards the new growth options, the Group's targets are:

- to sell 170,000 policies through the direct channel, developing the subsidiary Dialogo Assicurazioni, by means of targeted investments, to win new clients in respect of whom action aimed at

cross-selling non-motor products can be taken through the traditional networks;
- to develop the Non-Life bancassurance channel through 2,700 branches, either by means of sales agreements or by means of joint ventures with banking partners, using the group's know-how with a dedicated structure and operating with products that produce a low level of claims;
- to expand its presence abroad, in Mediterranean and East European markets, by setting up dedicated holding companies with partners who have detailed knowledge of the countries where the company will be operating.

Optimising capital management will allow growth levers to be developed for all shareholders in a way that is compatible with the minimum levels of capitalisation required by the supervisory body. Over the three years of the plan, this will allow the Group to achieve the following objectives:
- to offer attractive dividend programmes (with payouts increasing by up to 60% for the Parent Company);
- to continue strengthening the equity, with the aim of achieving a further improvement in the rating.

PROJECTS AND INNOVATIONS

1.1 Law 262 Project

Making the principles that inspired Law 262/2005 on savings of 28 December 2005 and the subsequent legislative decree no. 303 of 29 December 2006 its own, Fondiaria-SAI promptly implemented a company project aimed at ensuring the company's full compliance with the law passed by legislators. The spirit of the law, which is aimed at providing a guarantee to the financial community (from small savers to institutions investors) about the consistency between the financial disclosures supplied by listed companies and the internal administration and accounting system, harmonised easily with the principles which have always guided the internal operations of the company and the Group since the publication of the Code of Ethics adopted by the Board of Directors of Fondiaria-SAI in its resolution of 16 February 2005 and the implementation of the "Organisation, management and control model" established by Legislative Decree 231/01 and of the specific Supervisory Body.

The project, which was launched in the second quarter of 2006 and includes representatives on its committee from the departments that deal with supervision, control and organisation within the company (Audit, Risk Management, Group Operational Planning and Organisational Processes) has been subdivided into two sub-projects:

- the company requirements committee;
- the company process mapping committee.

The purpose of the company requirements committee is to carry out a census of the internal control structures that contribute to ensuring complete consistency between financial information disclosed to the market and accounting records, and where necessary to implement the improvements believed to be necessary. This working group assesses all company processes and the links between the various structures of the company, focusing on the following three areas of action:

- the Company Level Controls sub-committee deals with Group control regulations, disciplines and mechanisms that affect the quality of financial disclosures;
- the Information Technology General Controls sub-committee analyses the general rules applied to managing technologies and application developments that are common to the architectures and computer applications required for the production of financial reports;
- the Management Model 262 sub-committtee takes the organisational decisions needed to maintain the documentation issued for the purposes of law 262/05.

The company process mapping committee is currently carrying out a detailed analysis of existing con-

trols on each individual activity that produces administrative and accounting effects, highlighting the potential risks for the purposes of the savings law and identifying and implementing corrective action aimed at eliminating all residual risks of inconsistency between the disclosures addressed to the market and the company's accounting records.

The project will complete the analysis of company requirements and the most significant administrative and accounting processes within the first half of 2007 and will leave the company with a wealth of methods, rules and knowledge that will contribute to ensuring the complete transparency and customary rigour with which accounting data is treated by Fondiaria-SAI.

1.2 "Intrinsic Group Value" Project

The "Intrinsic Group Value" project was launched in the Life Sector during 2005 for the purpose of establishing the In Force Value by 2007. This is the indicator used by most investors and analysts to value insurance companies.
The initial results of the project have consisted of the definition of intermediate indicators useful for interpreting the Intrinsic Value. The project was developed in 2006 and will be implemented, as planned, by 2007.
With specific reference to the Value of New Group Production, this result will be announced officially to investors and analysts during the annual meeting planned for next April.

1.3 Information Technology Projects

If they are acted upon promptly, legislative changes and new market challenges allow information systems to be transformed into tools providing a competitive advantage. Therefore, specific attention was paid in 2006 to analysing the current and future requirements of all the Group's business processes in terms of technology and function, committing the Information Technology Department to completing the IT migration of all the Group's Life and Non-Life companies, to implementing projects in support of the actions required by the business plan, progressing at the same time in the transformation of IT technologies and applications with the implementation of the new Agency procedure and the online sales system.

The migration of the SIS and Nuova MAA network to the Group's head office IT systems has completed the integration, in terms of information among other things, of the technical, accounting and administrative production processes of Fondiaria-SAI and Milano Assicurazioni.

Significant work was carried out on the Motor and Real Estate products for the sales initiatives planned in 2006 and aimed, among other things, at contributing to the intense programme of sales campaigns required by the business plan.

In accordance with the business plan, the Information Technology Department invested in the relaunch of the telephone company DIALOGO by establishing a technology and application infrastructure more oriented towards sales initiatives.

Since the beginning of 2006, work has also been done to create new tools to support internal users and the Group's Agencies. As regards the networks of agencies, the new tools that support agency management and sales activities (marketing, CRM, DataWareHouse) and the development of Agency Intranets, a fundamental tool for improving communication and for managing sales initiatives more effectively and efficiently, are particularly significant.

As regards legal requirements, in addition to implementing the provisions of Legislative Decree 196/2003 regarding the electronic processing of data (with reference to the Safety Programme Document 2006) and of ISVAP Circular 577, the Group's information systems have been adapted to comply with the requirements of ISVAP regulation no. 4 regarding submission of the risk certificate and prepared for the introduction of the new direct compensation system. Also launched were projects relating to implementation of the terms of law 262 on savings.

Significant investments were made during the year to launch the IT activities supporting the Bancas-

surance Business, both in the Non-Life and the Life sectors, by implementing new distribution agreements using the Group's information systems, or interfacing with the information systems of partners or suppliers.

The intense IT system development activity relating to new projects and to evolutionary maintenance projects was accompanied by service and management activity aimed at safeguarding data integrity, database alignment and therefore the accuracy of technical, administrative and accounting processes resulting from information stored and managed by the IT systems.

Online Non-Life System

An important initial stage in the creation of the new Online Non-Life System was completed in 2006, implementing the technological choices and the basic development activities aimed at establishing the foundations for the start of the second development phase, which will lead to completion in 2007 of the functions that will become operational in 2008. 2006 also saw the completion of the new Agency procedure that will run alongside the Online system, for functions unrelated to selling insurance but connected with the administrative and commercial management of the point of sale. The new Agency procedure will be gradually released to Group networks starting in 2007.

Direct Compensation – IT systems for managing claims

The Fondiaria-SAI Group's IT systems for managing claims are totally integrated with the Group's other management systems, according to efficient service interchange logics. All the users of the Group's settlement network are connected online to the central system via the company intranet, through a user-friendly graphic interface (web based) that uses the latest generation technology and infrastructure. The network of loss adjusters also interacts online using an automatic email exchange mechanism run by the systems and a website that gathers and manages all the tasks from submission to invoicing.

The launch of direct compensation took place at the same time as the unification of the two online systems (IES and SIG) used by the various companies/divisions of the Fondiaria-SAI Group was beginning. The dissemination of the IES system, which has been chosen as the benchmark for the Group as a whole, because it is based on more advanced technologies, required a very complex conversion of data and a detailed roll-out and training activity aimed at around half the Group's settlement offices. This operation will last at least until the end of the first half of 2007. It has therefore been necessary to implement the principles of Direct Compensation on both systems, with only the essential functions being implemented in the system that is being dispensed with.

All the work in question has been carried out internally by the ICT Department, which also avails itself of a number of leading software houses (including Wave Technologies S.p.A.)

With the advent of direct compensation, it has been necessary to fully review all the data flows to and from ANIA and CONSAP, in order to manage the new transmission paths, the new rules and the various types of information that has to be exchanged with the market. Since the evening of 1 February 2007, the Fondiaria-SAI Group has been successfully managing the demanding exchange of data with the clearing room, according to the protocols established by the *Convenzione tra Assicuratori per il Risarcimento Diretto* or CARD (agreement between insurers for direct compensation).

The screens of both the Group's systems have been changed to allow it to acquire and manage throughout the settlement process all the basic information for direct compensation (e.g. single or double signature, position of the insured in terms of reason, fault or contributory negligence, dynamics of the accident, consistency with the responsibility distribution plan contained in the Presidential Decree, etc.).
The rules for classifying damage under the CARD system and for allocation to the Claims Departments assigned to negotiation (channeling rules) have been automated.

An automatic logbook has also been created which allows tracking and monitoring of all the activities that need to be carried out with regard to both managers and debtors (e.g.: dynamics to be confirmed for the statement to be sent to debtors, receipt of replies from debtors, statements received from ma-

nagers, sending of documentation to the *Servizio Aziendale di Riferimento per le Convenzioni* or SARC (company reference system for agreements), etc.)
The letters required by the new legislation have been automated.
Mechanisms have been implemented to allow interaction between local Claims Offices and the central SARC.
We have had to adapt all the programs that produce accounting records, programs that complete duty stamped documents, balance sheet forms and the ISVAP claims database.

A complex procedure has also been created for managing so-called "reciprocal" claims (between vehicles of the same company, which numerically represent a significant number of claims) which, since they are not admitted to the clearing room, have obliged the Group to replace ANIA and CONSAP in order to ensure a uniform management process for the users of the settlement network.

We should point out that the channels through which reports are received have not changed from the situation before the advent of Direct Compensation. Therefore, the reporting process primarily takes place at the agency, although policy holders have the opportunity to contact a dedicated call centre, which has been strengthened for this purpose. It is important to stress that the call centre uses the same system as the other Claims Offices, thus allowing the same automatic functions to be used in channeling and managing claims.

Furthermore, claim files are opened online at the Points of Sale and/or Claims Offices and are channeled automatically to the organisations assigned to negotiation, with instructions being sent electronically to the loss adjuster if this is provided for by the operational model implemented in the system.

The process by which the claim file is loaded into the system mirrors the completion of the blue form, it checks the insurance cover of our vehicle in the head office policy portfolio and the insurance cover of the counterpart vehicle in the ANIA archives using the online service of the *Sistema Informatico Integrato per i Controlli* or SIC (integrated computerised system for checks) – (batch in the case of deferred replies or unavailability of the connection).

The system recognises the premises for applicability of the CARD based on the data entered by the user and allows the list of additional data to be sent and/or produced for correct application of the new agreement (additional data letter).

An extremely advanced document manager also allows the documentation produced during the claim settlement process to be gathered. Loss adjusters and police doctors also have the opportunity to attach their material to the electronic folder, using the site through which they interface with the head office system. Even though all the information is available to users directly on the online system and the documentation produced by the system itself can be reproduced at any time, the company is looking at installing a connection to a scanner in each Claims Officer to gather all the documentation together in the electronic folder.

All the Fondiaria-SAI Group agencies are able to supply information to their clients on the state of progress of the claim and a dedicated call centre has been set up to provide this service. Agencies that are already connected to the new system (the system will extended to all agencies by the end of 2007) are able to access the documents attached to the electronic folder as well as the data stored in the database.

As regards the training of resources involved in the project, the excessive amount of uncertainty that surrounded the development of the system could have prevented the establishment of a wide-ranging information and training plan for all the people involved in our Group. It was therefore necessary to opt for a compact programme of training days as close as possible to the starting date of 1 February in order to be reasonably sure of presenting topics which (at least initially) would be applicable from that date.
This plan involved all the users directly involved from the start and 127 training classes were organised in a period of around 3 weeks througout the country, with peaks of 15 simultaneous clases on the same day, ensuring that a total of 1,300 colleagues and over 3,000 agency employees could be trained. At the same time, manuals and circulars were produced to provide detailed information to colle-

agues on the new processes and the new mechanisms required by the new legislation, and a free-phone number was set up to provide information on these topics, in addition to the FAQs being published on the company intranet.

Lastly, we should point out that the difficulty of the entire operation was recognised by the most authoritative sources of information, so much that it was considered to be the most critical operation since 1969, equal to the introduction of Compulsory TPL insurance in terms of complexity and the need to introduce organisational and technical adaptations.

Social responsibility

The Fondiaria-SAI group has a long tradition of attentiveness to Social Responsibility, having always been aware of the fact that all companies operate in a community in which they have to play an active role.
IAS 1.10 requires corporate, environmental and stakeholder-related information to be kept separate from an IAS/IFRS balance sheet but we nonetheless feel it is appropriate to present this information both in order to begin implementing a policy of reporting on intangibles, and to supply readers of these accounts with additional decision-making tools.

2005 Company report

In September, the "2005 Company report", compiled for the second consecutive year by the Fondiaria SAI Group, in collaboration with a team of students from the Economy Faculty at the University of Turin, was presented in Turin.
The objective of seeking a contribution from some of the undergraduates at the subalpine university in question was to stop the gap that at times exists between the academic and business world, thereby enhancing synergy and encouraging student integration into the Group's internal structures. The University's involvement was facilitated by the dual role played by the top manager and academic, Prof. Fausto Marchionni, Chief Executive of the Parent company.

Fondiaria-SAI, always sensitive to the demands of the local area in which it operates, thereby demonstrates its role as a "responsible" company which, under the logic of profit, also supports initiatives, revolving around the Group's performance, which create corporate value for all stakeholders. These interests are often conflicting but find a perfect balance in customer satisfaction. From this perspective, the document's inclusion of an "adjusted social added value" indicator, defined to measure the social value created by the Group for its clients, should be stressed.

This is tangible evidence of the Group's desire to be as "transparent" as possible and to contribute to spreading a culture of corporate social responsibility to new generations, the protagonists of the future.

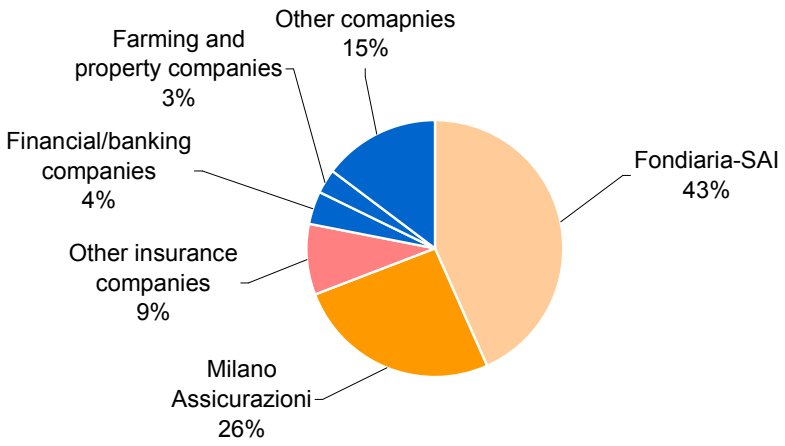
HUMAN RESOURCES

General data

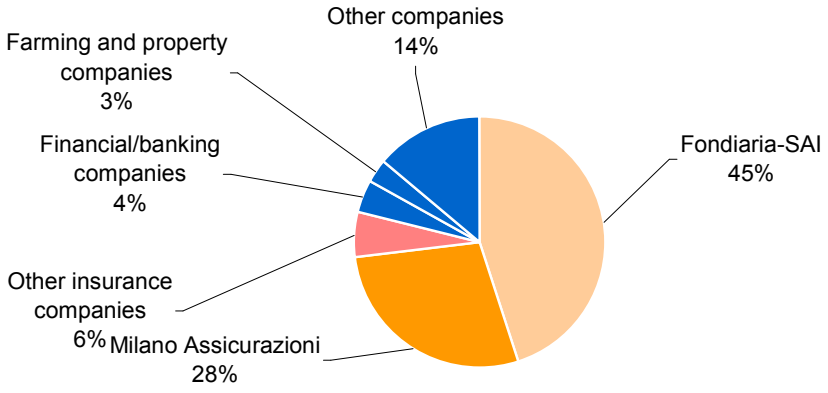
In 2006, the Fondiaria-SAI Group employed 6,130 people (5,852 as at 31/12/2005) 2,649 of whom were employed by the parent company (2,673 in 2005) and 3,481 by subsidiaries (3,179 in 2005).

In particular, the rise in the number of employees was due to the acquisition in 2006 of Dianos S.p.A., Liguria Società di Assicurazioni S.p.A., Liguria Vita, BPM Vita S.p.A. and Banca Gesfid, with a total of approximately 270 employees.

Breakdown of Group employees as at 31.12.06



Breakdown of Group employees as at 31.12.05



Human Resource management activities

The current socio-economic position requires organisational flexibility, capable of adapting to a scenario marked by fierce competition and continual variability. This is why the function of Personnel Management has taken on a strategic role, evidenced by the creation of the managerial figure of Human Resources management which has to be capable of innovation, problem-solving and systemic thought, as well as having the capacity to choose between numerous external opportunities to find the one that best responds to the organisation's business outlook.
As for the Fondiaria-SAI group, in recent years, the strategic choice to safeguard the three business hubs in Turin, Milan and Florence has continued with the intention of enhancing the professional skills that have, historically speaking, been formed and consolidated at the individual centres.

In this sense, the objective was to:

- identify and enhance professional excellence existing in original companies;
- establish uniform management and wage policies in order to ensure that fair and consistent operational tools are adopted;
- manage internal mobility processes, essential for defining organisational procedures;
- manage policies for gradual retirement of personnel, making appropriate generational sequences possible and safeguarding the precious technical skills formed within the Group.

The company is, in fact, a combination of technical, economic and human resources, all of which are essential for the internal structure to function correctly. Human Resources Management's major asset is its capacity to maintain a perfect managerial balance, combining personal ethical values, corporate culture and values, as well as a master plan for the wellbeing of company workers.

STAFF DYNAMICS

Recruitment Policies

In 2006, alongside the policy of incentivising early retirement for workers meeting the necessary retirement requisites, the upturn in recruitment, already started in 2005, was consolidated.
New intakes of personnel, needed to handle new business or increased volumes of existing business, have related to young graduates with potential and personnel with specific experience, not available internally, originating from the insurance and financial markets. Some intakes have also involved personnel from other Group Companies, in line with a policy aimed at the natural exchange of professional skills.

Turnover and requirements have also been managed by focusing on optimising costs, via the negative balance between incoming and outgoing personnel and the savings generated by bringing in young workers with lower wages and on lower grades than outgoing staff:

Numbers hired	**Incoming**	**Outgoing**
Fondiaria-SAI S.p.A.	88	105
Milano Assicurazioni S.p.A.	21	66
Total	**109**	**171**

Constant use was made of supply contracts, not just to fulfil exceptional and non-definitive requirements, but mainly as the preferred recruitment channel for hikes in business or to replace retirees.

Staff projects and development

Profound changes in the economy and the emergence of new organisational configurations have led us to acknowledge that the contribution that “human capital” can make in gaining a competitive edge is essential, particularly if said human capital is flexible and dynamic and is placed in the right role. A correct assessment of resources right from the recruitment stage (assessment of potential) and then an ongoing assessment (assessment of potential and performance), as well as specially adapted training initiatives, contribute to identifying those internal and/or external resources that possess the requirements or the potential to take up a specific organisational position at a given moment.

Today we acknowledge the central role to be played by creative forces in identifying innovative solutions that are commercially beneficial to a company’s organisation. To initiate and encourage the development of these innovations it is, therefore, no longer just enough to possess “knowledge” and “know-how”, it is absolutely vital at all organisational levels:

- to possess, in addition to mere technical skills, transversal skills to be employed in various professional contexts in order to gather relevant information and use it for rapid analysis and decision-making;
- to disseminate and supplement personal know-how and capitalise on experience;
- to operate in relational networks where there are exchanges of culture and experience, both inside and outside the employees’ own organisations.

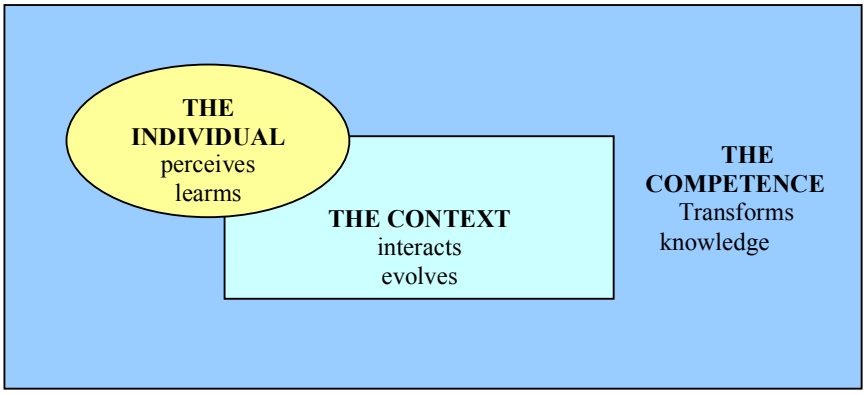
The most widespread tools for managing these transversal skills are known as “skill models”, which are designed to perform a human resources assessment to identify those skills that are considered to be successful for specific company roles.

Professional competence

Professional competence is defined by Boyatzis (one of the authors to whom we owe the new concept of competence-based human resources management) as "a person’s *intrinsic characteristic*, a motive, trait, ability, aspect of self image or social role, or body of knowledge that the person uses, *causally linked* to an effective and superior performance in a job or situation and that is *measured on the basis of a predetermined criterion*". Competence is relative to the general social context in which the individual is placed, with particular reference to the professional context in which he or she operates on a day-to-day basis.

The diagram below summarises the concept of competence by means of a graphic

Fig. 19 – The individual, the context, the competence



Source: Bplus-EbcConsulting

Developing new skills

Developing new skills means continual innovation, active change and constant renewal. The company of today must, therefore, transform itself into an organisation whose main objectives are the creation, development and sharing of skills and knowledge, a cognitive and social system capable of projecting itself into the future by anticipating future demands and trends, to which it can respond with new and effective competitive strategies.
Developing new skills is, therefore, seen by the Group as a strategy and tactic for progress and expansion, which combine to determine the continuity of the company and its prosperity.

It is only through implementing integrated personal and organisational development action plans that it becomes possible to construct, in an active and mindful way, tools to anticipate, handle and respond proactively and with composure to the changes and new requirements of the economic/social market, due to the continual synergy that is developed, in this way, between the individual and corporate level.

In this context, assessment of potential via the Assessment Center becomes a tool that makes it possible for the organisation to identify, in a systematic and structured way, the most appropriate resources, in terms of the task in hand and skills required, to achieve its own objectives.
The Assessment Center is a process of diagnosing congruence between personal aptitudes and psycho-aptitudinal characteristics ("personal level") and those required by the organisation in terms of optimal coverage of an organisational role ("corporate level").

Fig. 20 – the "personal" and the "corporate" level

PERSONAL LEVEL	CORPORATE LEVEL
	Consideration of the socio-economic market
	Strategic analysis and definition of market positioning
	Opening up of new markets
	Diversification of production and/or services supplied
	Corporate restructuring of processes and human resources
Assessment of potential	
Assessment and definition of mutual commitment to personal/corporate growth	
Vocational guidance	
Training programmes to develop skills aimed at meeting the corporate needs	
Training programmes to develop skills aimed at meeting personal needs	
	Corporate climate analysis and initiatives to create situations of corporate wellness
Personnel assessment (corporate and personal skills)	
	Knowledge management
Assessment of personal potential	

Assessment of new personal development opportunities which also correlate with guidelines for corporate development	Assessment of new business opportunities originating from intellectual capital and personnel available within the company

Source: Bplus-EbcConsulting

The Fondiaria-SAI Group

During the course of the 2006 financial year, the new Manager Performance Assessment model was implemented.
Assessor training was, therefore, completed and notification of all interested resources was organised.
The model aims to encourage human resource development, from the perspective of performances tending to excellence. The systematic adoption of this model will make it possible to steer and motivate individual and collective behaviours in the direction of the Group's core values, improve the drive for results, enhance the efficacy of the relationship between Managers and Professionals, define professional development programmes and consolidate the coherence between excellent individual service provisions and a meritocratic reward system.

Training at Fondiaria-SAI

The world of insurance is a "sui generis" industrial reality i.e. devoid of factories and warehouses, its human resources – management, employees and agency network – are its greatest capital when it comes to achieving economic and social objectives and hitting industrial plan targets.

Working with skills is, therefore, increasingly a requirement of the reality in which we live i.e. it is, therefore, essential to understand that this does not mean "having the skills to work", but rather "knowing how to work with the skills". This is possible if people are able to recognise their own skills, understand them, value them, experiment with them, communicate them and apply them within the workplace and, more generally speaking, in everyday life.

For the reality of our working life this translates as the capacity to invest in, and develop, personal know-how, by creating the right conditions for said know-how to be expressed. Full development of potential, also achieved through job rotation processes and well-designed and continuous training programmes, becomes, therefore, the strategic lever for corporate success and is as important as the level of service offered to clients.

From a training perspective, 2006 saw the consolidation and reinforcement of initiatives already undertaken in 2004-2005 to support cultural integration between the various Group beings.

The launch of a specialist initiative aimed at new managers and high-potential executives with the objective of aligning managerial themes and an achieving an ever greater understanding of the overall functioning of our operational reality.

Some of the most significant activities are:

- Realisation of the 1st version of the General Management and Understanding of the Corporate System seminar, organised in collaboration with Studio Ambrosetti.
- The involvement of "professional" personnel in problems relating to Managing Change. This activity was aimed, in previous years, at populations of managers.
- The launch of the Skills Development for Managers programme, dealing with themes of leadership, planning and coordination.
- The launch of the first Group Course Catalogue which presents an initial collection of in-house

company training schemes, aimed at Group personnel.

- Further consolidation of Distance Training activities to provide, both employees and corporate network agents, with mandatory courses (such as, for example, courses dealing with the topic of privacy, money laundering, Legislative Decree 231, etc.).

The strategic role of training

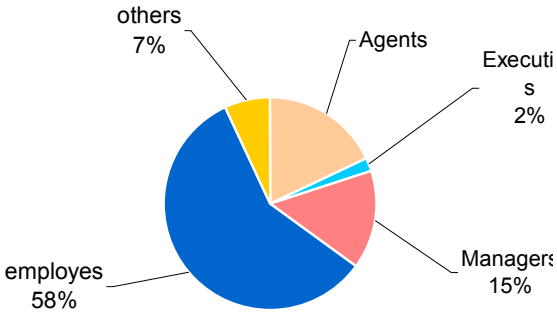
The training department should be considered a strategic partner in company business. Training is, in fact, the meeting point between the individual's potential and needs and the potential and needs of the company, between individual knowledge and "organisational" know-how.
Training should, however, if it is provided in line with company requirements, be seen as a strategic lever both for the individual, since it contributes to professional development, the acquisition of new knowledge and personal skills to be applied in order to achieve and manage greater periods of autonomy, useful for encouraging corporate culture and developing a sense of Corporate belonging, and for the company, since it brings together individuals located within an organisation, making greater integration of all corporate areas and units possible as well as improving management processes.

In 2006, as part of the annual and multiyear training programmes, compiled in accordance with corporate objectives, a good 3,977 people (494 more than the previous year), were actively involved in traditional training activities or in FAD (distance training) for at least one half-day course.

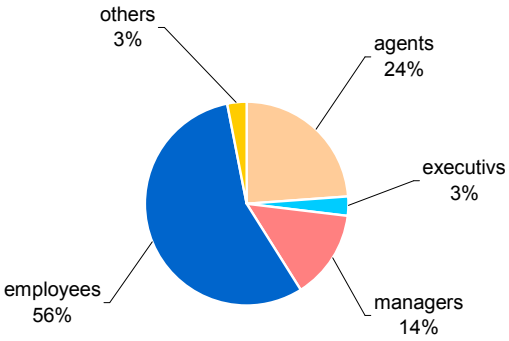
The rise in distance learning (short-term courses) has resulted in a drop in days provided per capita.

Categories involved as a percentage of the total number of participants

2006



2005



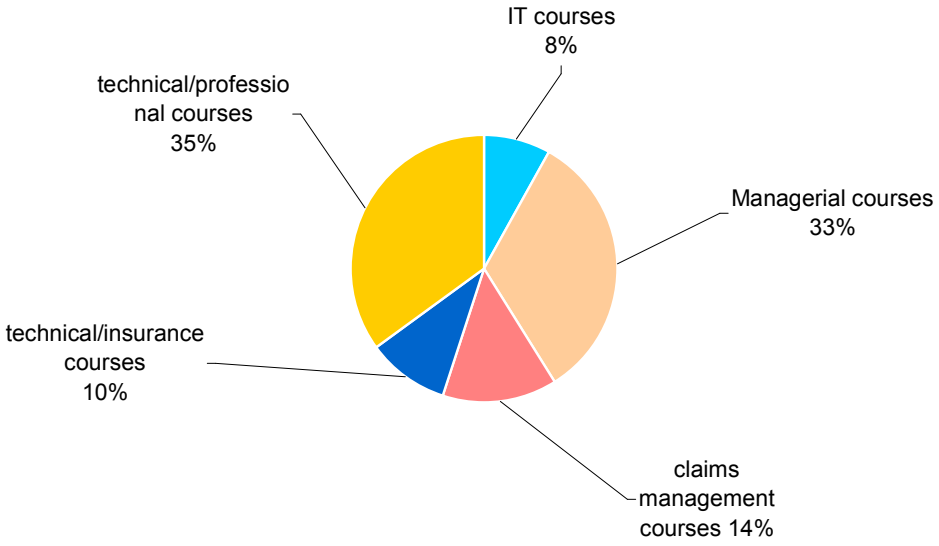
The traditional indicators used to measure Training performance are the concepts of *attendance* and *trainee day*.
Attendance means the number of participants attending each individual initiative, for example, if an employee takes part in 2 separate and different initiatives, 2 attendances will be recorded.

Trainee day means the product of the attendances per day of duration of the initiatives.

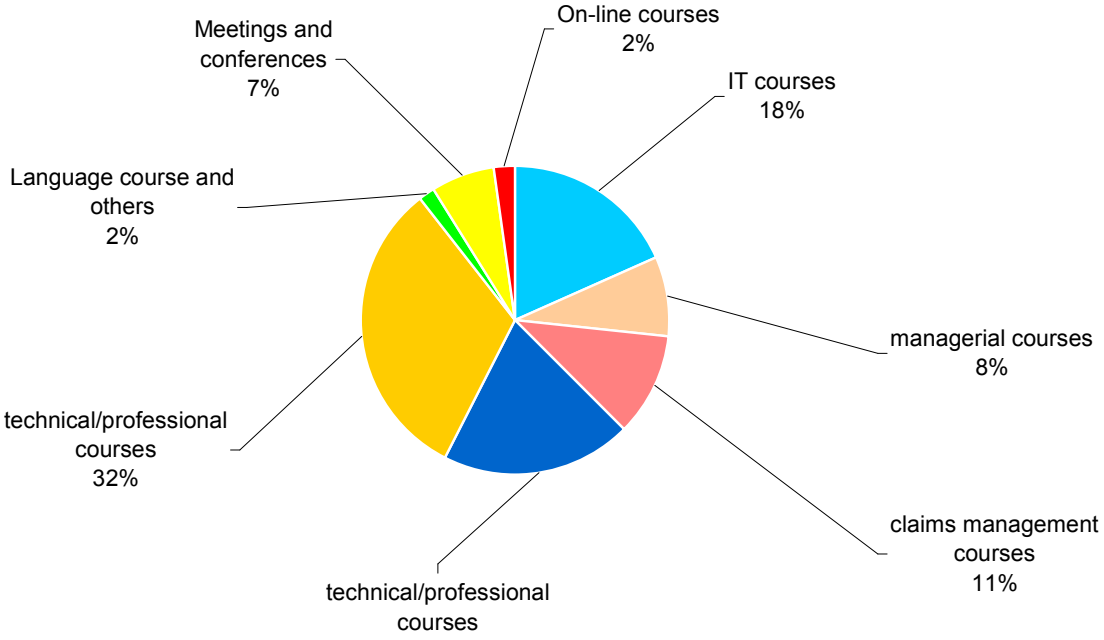
In 2006, 6,618.5 student days were achieved with a total of 6,336 attendances.

The graph below shows how initiatives have been maximised to support the integration of managerial culture and to support “compulsory” knowledge (FAD for Legislative Decree 231, privacy, anti-money laundering).

Personnel involved by type of initiative in 2006

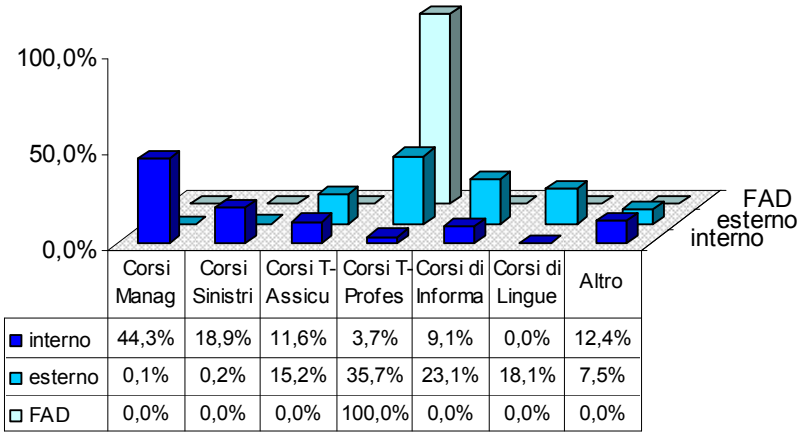


Personnel involved by type of initiative in 2005



The graph and the table below show, in addition, how a large number of activities took place within the Group or via distance training, with marginal use of external courses.

Percentage of personnel involved by type of initiative and provision as at 31/12/2006



	Corsi Manag	Corsi Sinistri	Corsi T-Assicu	Corsi T-Profes	Corsi di Informa	Corsi di Lingue	Altro
interno	44,3%	18,9%	11,6%	3,7%	9,1%	0,0%	12,4%
esterno	0,1%	0,2%	15,2%	35,7%	23,1%	18,1%	7,5%
FAD	0,0%	0,0%	0,0%	100,0%	0,0%	0,0%	0,0%

Industrial relations policies

The industrial relations system created in the Fondiaria-SAI Group was inspired by principles of clear information and constant dialogue. This labour relations model was defined right at the start of the dialogue on the Fondiaria-SAI merger and has been the reference model for all subsequent phases of the Group's restructuring.

Between 30/7/2002, the day on which the Memorandum of Understanding relating to the merger by incorporation of La Fondiaria S.p.A. into SAI S.p.A. was signed, and 31/12/2006, 50 agreements were signed with Trade Unions, 13 of which were signed in 2006. These agreements relate both to companies operating within the insurance industry and those operating in other sectors in which the Group is involved (finance, banking, property and services).

These agreements were signed with reference to restructuring the Group's insurance companies and rationalising related activities and, with particular reference to the past year, we must emphasise the signing, on 20/9/2006, of the Record of Agreement relating to the reorganisation of activities relating to the Group's Transport business.

2006 was, in addition, marked by the entry into force of all the clauses of the Fondiaria-SAI Complementary Agreement [contratto integrativo aziendale] and by the signing of the Milano Assicurazioni S.p.A. Complementary Agreement, on 25/1/2006.

These agreements proved to be particularly relevant from the perspective of harmonisation of financial and regulatory conditions between Employees from various corporate components coming together in the Group's main insurance companies, Fondiaria-SAI S.p.A. and Milano Assicurazioni S.p.A.
The harmonisation of these conditions was achieved for some clauses from the date on which the contracts were stipulated, whilst for others harmonisation will be achieved during the course of, or at the end of, the contractual term, fixed for 31/12/2008 in both cases.

Complementary agreements for SIAT S.p.A. and Novara Vita S.p.A. were also signed over the past year, on 21/4/2006 and 24/5/2006 respectively, and for SASA Assicurazioni e Riassicurazioni S.p.A., as well as SASA Vita S.p.A., on 18/5/2006.

Still in a logic of harmonisation and with the aim of developing and consolidating the relationship of loyalty between Employee and Company, some Internal Relations initiatives, specific to the tradition of individual Group companies, were extended.

This included initiatives, beyond the bounds of union negotiations, aimed at Employees' children, such as giving Christmas presents to the youngest children and study grants to students attending secondary school and university.

One of the most significant events occurring after year end was the union dispute resolution procedure, as laid down by legislation and by the national labour agreement for the insurance industry, instituted in reference to the sale of a line of company business relating to the management of the Group's Information Technology infrastructures, awarded by Fondiaria-SAI S.p.A., Milano Assicurazioni S.p.A. and Starvox S.p.A. to Fondiaria-SAI Servizi Tecnologici S.r.l., a company formed as a joint venture with EDS Italia S.p.A.

The operation, which was without precedent in the insurance industry, involved transferring 134 Employees to the new company and was completed without any form of conflict, either at union level or at an individual level with the Personnel involved.

In fact, the dispute resolution procedure, in line with the industrial relations structure and principles of a general nature existing within the Group, was concluded with the signing of a Record of Agreement on 30/1/2007, in which the regulatory and financial conditions applicable to the Personnel in question were defined.

Health and Safety at Work

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

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

Another similar innovative project, unique within Italy, affords General Management a better strategic view and harmonisation in terms of healthcare initiatives between the various Group companies, by virtue of the four units which make up the department: management medical advice, Group healthcare services, healthcare network, audit. This means that regular health checks (required by Legislative Decree 626/94), are now carried out by eight doctors specialising in occupational health, each of whom has been assigned to a specific geographical area.

It is important to point out that the attention paid by the Company to employee health protection and prevention is manifested, not only by its compliance with legal and contractual duties, but also by Group Companies' own initiatives. Various medical/healthcare services are, in fact, provided such as eye tests, hearing tests and other preventive medicine initiatives for both men and women such as check-ups, ECGs, orthopaedic examinations, flu vaccinations etc.

As regards the formalities that must be complied with under the terms of Legislative Decree 626/94, all the documentation has been drawn up and employee safety representatives have been appointed and trained. As regards the management of emergencies, the staff assigned to fire and first aid teams have been appointed. The above staff training/updating programme, which will be completed during the course of this year, will involve around 450 workers.

The efficiency of these teams is tested periodically by means of specific drills involving whole buildings and hundreds of employees. Inspections of the working environments are carried out periodically by the appointed doctors together with the prevention and protection department.

During these inspections, specific attention is paid to fire-fighting and first-aid systems, the layout of working environments and ergonomic aspects. Appropriate instruments are used to carry out checks if necessary, such as in the case of noise or air quality. In some offices, particularly in Turin, unscheduled maintenance work has been carried out to make further improvements to safety at work and environmental comfort.

Another aspect associated with prevention is the ongoing worker training and information activity that takes place in the context of "guidelines for the use of video terminals" (Ministerial Decree of 2/10/2000), involving classroom training days as well as self-learning programmes made available on the intranet networks.

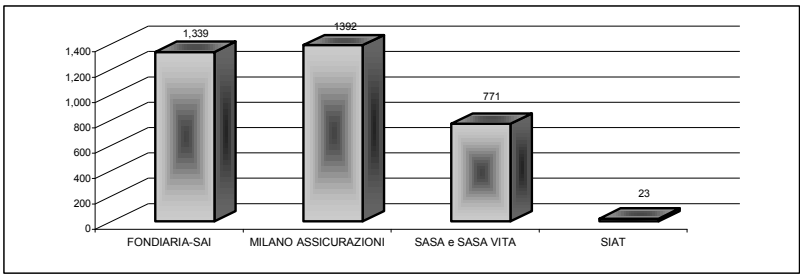
A practical booklet is also being produced and will be available at all Group offices, with a view to providing information on the standards of behaviour expected in the event of an emergency.

AGENTS

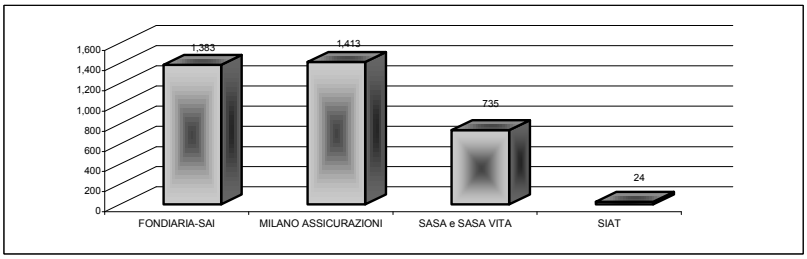
The sales network, which focuses around the figure of the insurance agent is, to all intents and purposes, Fondiaria-SAI's point of sale. Even though lots of different distribution channels are used, the agency network continues to play a major role in selling the Group's products to both the retail and corporate markets. The Group's agents are responsible for assisting and advising all customers, offering the best insurance products to meet their needs and, increasingly, making customers aware of all the potential risks of which they are usually unaware. All this emerged from the interviews held with a sample of agents identified for the Group's various brands.

Premium income in 2006 came mainly from the 3,525 agencies operating through 2,791 points of sale and representing the traditional sales channel. In particular, the distribution structure includes 1,339 tied agents and other parent company offices, as well as 2,186 tied and independent agents who work with other Group companies.
691 of the aforementioned agencies operate under a mandate from Bancasaid, which also includes mandates from the incorporated company Effe Investimenti Sim, and sell SAI A.M. SGR (formerly Effe Gestioni Sgr) investment fund units, working with the Bancasai network which amounts, in total, to 1,343 financial advisors.

Position as at 31/12/2006



Position as at 31/12/05



Sales training

The Fondiaria-SAI Group's current training programme is capable of meeting the various needs arising from agency network roles, via training whereby participants can benefit from classroom training days in line with their experience, previous training and specific role within the Agency.

In this context, dedicated training modules have been designed for personnel working mainly on Agency premises, with both administrative and sales duties, as well as customer satisfaction courses on how to offer the most appropriate products, these courses being specifically aimed at employees working in external sales.

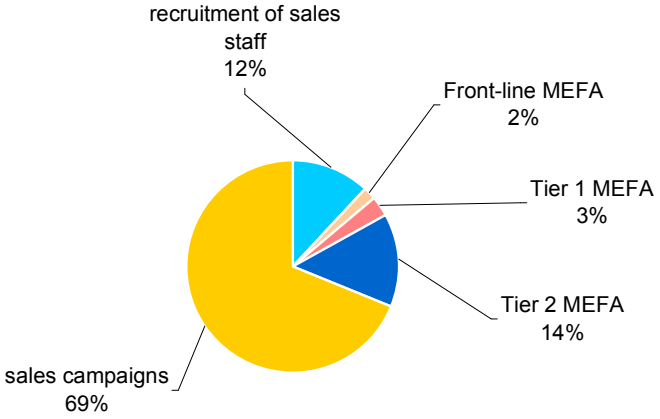
In particular, Fondiaria-SAI agents are invited to attend first step training, either relating to the company or to the market in which they operate, as soon as they are appointed. Subsequently, in addition to conferences providing updates on new products issued and regulatory changes, Agents can enrol in a series of courses which become more and more exhaustive and complex as the agent's experience widens.

In 2006, to support the launch of several sales campaigns, training days with technical, sales and behavioural content were offered to Agency and/or sales personnel.

The main types of course offered last year by the Parent company can be summarised as follows:

- Front-line MEFA courses (Management Economy Finance Insurance) such as communications and sales, telemarketing and customer retention;
- tier one MEFA courses, such as the sales professional course and courses in Motor products, Retail Life products and sales techniques;
- tier two MEFA courses, such as complementary welfare and Corporate Life, relational marketing, commercial planning and organisation;
- courses dedicated to recruiting sales personnel such as, for example, agent workshops;
- courses on sales campaigns for new products and their follow-up.

Fondiaria-SAI – Position by type of initiative as at 31/12/2006 (in man-days)



As regards Milano Assicurazioni, intensive sales training was promoted in 2006.
The training was divided into Master training courses, training courses aimed at developing the professional growth of agency personnel and various training steps, designed for sales personnel operating on the external network.
Master training offers courses grouped together in progressive levels to supply the various figures (agents, subagents, agency co-workers and front-line personnel) with the necessary selling skills.

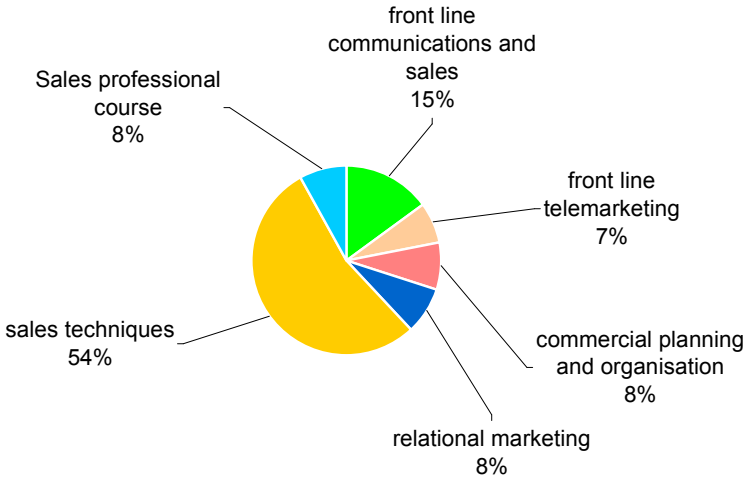
To facilitate participation, courses were held throughout the year in all parts of the country and were organised as 4 sessions on the following topics:

- The Sales Professional;
- Relational Marketing;
- Commercial Planning and Organisation;
- Sales Techniques;
- Front line: telemarketing;
- Communications and sales.

Master MEFA courses are taught by personnel from external consultancy firms.

The graph below provides greater details.

Milano Assicurazioni S.p.A. – Position by type of initiative as at 31/12/2006 (man-days)



Four step training courses for sales supervisors and area managers for the Milano, Previdente and Nuova Maa divisions, were held in Milan and Rome by the consultancy firm Cafca.

SUPPLIERS

General data

Insurance company suppliers (excluding network suppliers which is a category of stakeholders in its own right) tend to be smaller in number than suppliers of companies belonging to other sectors, but the attention paid to this category of stakeholders is, nonetheless, considerable. They are, primarily, lawyers, doctors and loss adjusters.
Stability, reliability, shared values and quality of service are the characteristics that the Fondiaria-SAI Group looks for in third party suppliers, given that service providers are an active and essential part of the claims settlement procedure and, therefore, of the actual quality offered to the customer. The professionalism of staff interacting with Clients who have suffered a loss is, in fact, an insurance company's best calling card.

For its insurance activities and, particularly for the purposes of assessing the damage reported, the Group relies on a network of trusted professionals who are the first interface with customers or third parties. The Group has always been careful in its choice and selection of collaborators, from whom it expects professionalism, care and sensitivity in respect of customers, in the conviction that they are joining one of the largest and most prestigious groups in the market. Once the best and most appropriate suppliers have been identified, a stable relationship is sought to the advantage of the supplier and other stakeholders, particularly customers and agents.
Service suppliers have an active role to play in the claims settlement process, acting as back-up for Group employees in defining the service offered to customers.

In order to guarantee all of this, a single register of suppliers has been set up and an internet site has been launched for all co-workers and professionals on whom the company normally relies for claims management.
This tool makes it possible for the allocation, return and parcelling of claims to be streamlined and speeded-up, thereby improving the service to the end customer via the use of shared and standardised IT procedures.
A speedy response to the market innovations demanded by customers is only made possible by means of a dynamic relationship that is capable of evolving in line with changes in demand.

COMMUNITY

Corporate Social Responsibility

For the Fondiaria-SAI Group, corporate social responsibility is an integral part of a company's "ordinary" working practice and, as such, is achieved via a clearly defined relationship with its environment. The virtuous web cycle between institutions and companies within a cultural context is central to the Group's corporate policies and is a vital prerequisite of the company's own growth and development.
Being socially responsible means not only complying with legal requirements but also going beyond merely adhering to regulations, investing more in human capital, in the environment and in relations with those with a stake in the Company's business.
The concept of "sustainable development", which, according to the first definition contained in the World Commission on Environmental Development Report of 1987, means *"development which makes it possible to satisfy the economic, environmental and social needs of the current generation without compromising the ability of future generations to meet their own needs"* is becoming increasingly important in both our shared and individual consciousness.
The insurance industry, by virtue of its intrinsic characteristics, has a strong social dimension. Insurance company core business has its technical foundation in mutuality, consisting of a form of sharing risks, inspired by criteria of sharing and redistributing savings within the community of insured parties, providing a response to the need for security and encouraging the transfer of financial resources.
What's more, insurance policies are based on a relationship of trust between the Client and the Company that, in many cases, stretches over an extended timescale. This is a link that can only stay fertile if grafted onto an insurance culture and a relationship marked by decency and transparency.
A Group's strength and authority is not only reflected in the numbers on the balance sheet but also in terms of its social responsibility. The results achieved over the last few years within the scope of the production of added value for the wide range of stakeholders involved, are another thing for our entire Group to be proud of.

Below are the actions taken in accordance with the above.

Action taken to enhance the Group's image and Public Relations

In 2006, with the aim of consolidating its own institutional role and visibility at a national level, the Group supported, and worked together with, the following cultural institutions:

- the Teatro Regio foundation in Turin, of which Fondiaria-SAI is a founding member;
- the National Museum of Cinema, for which Fondiaria-SAI is on the steering committee;
- the Turin "Consulta per la valorizzazione dei Beni Artistici e Culturali" [Council for the enhancement of Artistic and Cultural Heritage];
- the International Book Fair (Turin was 2006/2007 world book capital);
- Turin Industrial Union Convention Centre;
- the May Florentine Music Festival in the city of Florence.

as well as other institutions operating within a social and cultural context.

In particular, as continued evidence of the Group's desire to promote a high-level artistic/cultural scenario and its tireless desire to create a solid link with the city of Turin, on 10 October 2006 the inaugural evening of the Teatro Regio in Turin took place (with the opera "Turandot" by Giacomo Puccini) to great public success and excellent reviews in the media.

Fondiaria-SAI foundation

The increasing demands of civil society and a response from institutions that is not always exhaustive have contributed to promotion of the role of foundations.
In the current social climate, these organisations have a strategic value because they succeed in implementing an efficient operating system where the institutional world is unable to make a contribution. On the way, foundations have grown and, above all, have gradually distanced themselves from the passive role of suppliers, increasingly putting themselves forward as organisations with their own planning capability, able to contribute to the development of the social, cultural and economic fabric.

The true "added value" of foundations can be identified in the possibility of the direct and immediate achievement, by virtue of their particularly streamlined structure, of high profile objectives intended to have a profound impact on the future of the community. The transversality of these organisations' performance means that their operating range can be increased, allowing for constant and continual growth. From this perspective, the Fondiaria-SAI foundation has created networks to link up with institutions and associations, with the aim of bringing the public and private sector together as much as possible.

Aware of the challenge but, above all, of the great opportunity on offer, the Fondiaria-SAI foundation, presided over by Dr. Giulia Maria Ligresti, has scheduled activities for 2006 by identifying the initiatives that best reflect its own mission statement.

In its first year of operation, the Foundation concerned itself with far-reaching topics, operating in partnership with other organisations. Effective collaboration with various institutions has made it possible to operate with an international profile, creating space for initiatives offering the help required by people in difficulties.

Confirming its sensitivity to the world of the underprivileged, during 2006 the following funds were set aside:

- € 50K, as a contribution to the "Luce per la Vita Onlus" association, for paediatric palliative care in the home, an initiative aimed at very young children. This is a new experiment for healthcare in Piedmont, and may become a reality in the next few months. For this very reason, the Foundation

decided not only to examine the draft proposal submitted by the “Luce per la Vita” association, but to work in partnership with it. Luce per la Vita Onlus operates within the healthcare sector, working to raise awareness of palliative care throughout the local area (Turin and provinces) and provides free home care services;

- € 50K as a contribution to support the “Decoro Urbano” project, set up by the A.N.C.E.S.C.A.O. - Coordinamento Centri Sociali Anziani di Firenze [Florence Elderly Persons’ Social Centre Coordination];
- € 200K as a contribution to the “GURULA project”, for the adoption of an entire scholastic structure and children’s home in India, housing 404 children (including 57 orphans). The project’s objective is to be able to house 1,000 children, with the addition of one class a year for all courses of study, so as to be able to guarantee accommodation and schooling from nursery right up to the first year of secondary school. The first phase of the programme was launched last June. Future steps are already planned and will take place over the three year period from 2007-2009. Note that next September a new education project is to be launched, supported, in terms of training, by the Catholic University in Milan, but entirely sponsored by the Fondiaria-SAI foundation;
- € 5K as reimbursement of expenses incurred for the “Progetto Tempus” meeting, organised in collaboration with Florence University’s Faculty of Medicine and Surgery. The university, together with the Foundation is, in fact, preparing a project to be submitted for assessment by the European Commission, as part of the higher education sector programme of international cooperation known simply as “Tempus”. European institutions supply the programme with interesting forms of finance which, together with the resources from the Fondiaria-SAI foundation, would make it possible for the faculty of medicine to organise a prestigious training course;
- € 2.4K for participation in the call for “Tempus” European funding;
- € 20K to the Veneranda Arciconfraternita della Misericordia di Firenze for the restructuring of an orphanage in Belarus.

Social and Cultural Initiatives

The awareness, so deeply rooted in Fondiaria-SAI, that economic development must accompany and support social, cultural and artistic progress in the interest of the community, prompted the planning of sponsorship and donation initiatives in 2006, both at an institutional and local level, planned with the aim of consolidating the Parent company’s presence at its operating centres in Florence, Milan and Turin.

In the socio-cultural field, there was renewed support for the twenty-seventh "Rimini Meeting" which dealt with the central theme of the relationship between reason and infinity. Once again there were large numbers involved i.e. over 700,000 attendees, 120 meetings, 18 shows, 12 exhibitions, around 400 speakers, including the CEO of Fondiaria-SAI, 800 credits in the press, with considerable returns in terms of image.

In addition, support for the Andos-Associazione Nazionale Donne Operate al Seno [association for women who have undergone breast surgery] the Aimac-Associazione Italiana Malati di Cancro [association for those suffering from cancer], and the A.T.L.Ha-Associazione Tempo Libero Handicappati [association organising leisure activities for the disabled], continued, with particular attention being paid to infant and adolescent problems, disorders and diseases.

In addition to the support now given for many years to Telefono Azzurro for the 114 infant emergency telephone service, support for the Rome Ospedale Pediatrico Bambin Gesù [paediatric hospital] for the construction of a new 6,000 m2 ward intended to house all paediatric medicine specialities, for the Dynamo-Motore Philanthropic Foundation for the “Progetto Villaggio” project, a summer camp with maximum safety levels for sick children and their families and, finally the AID-Associazione Italiana Dislessia [Italian Dyslexic Association] for the A.P.RI.CO project, conceived with the aim of activating computer-assisted preventive, rehabilitative and compensatory initiatives in schools for dyslexic students.

Fondiaria-SAI has, in addition, confirmed its desire to take part in social, artistic and cultural commu-

nity life in the city of Milan, where it has one of its largest operating centres, and to share with said communities, its aims in terms of improvement and growth.

Planning of cultural sponsorship has served to reinforce Fondiaria-SAI's position alongside the major Milanese cultural institutions, such as the La Scala Philharmonic Orchestra and the G. Verdi Conservatory Philharmonic Orchestra, and, in its desire to add value to its links with the city, alongside the Veneranda Fabbrica del Duomo [venerable Duomo workshop] in its work to restore the front of the cathedral.
The project plans to install a central 735 m2 (17m x 43m) big screen portraying a nineteenth century illustration of the inside of the Duomo and two side screens (10m x 17m) on which the Fondiaria-SAI logos and those of its subsidiary Milano Assicurazioni, with the three Sasa, Siat, Dialogo and BANCASAI divisions, will be reproduced. The installation period chosen, from November 2006 to February 2007, has contributed to giving this operation maximum visibility since the Milan Duomo becomes the city's main protagonist over the Christmas period.

One of the most significant initiatives with a social and humanitarian content, that best reflect the Parent company's high regard for values of solidarity and principles of corporate social responsibility, was the work carried out with the Milan Opera Cardinal Ferrari, a daycare centre for the disenfranchised and destitute, to which Fondiaria-SAI has donated funds for rebuilding the roof of the Institution's main hall where it welcomes around 500 people on a daily basis.

It is, in addition, worth noting that, in 2006, Fondiaria-SAI contributed, as a founder member, to the May Florentine Musical organisation, a musical event designed to take place every three years but becoming a yearly event ever since the end of the thirties and a must for all lovers of classical music.

In particular, Fondiaria-SAI was a partner in the festivities accompanying the 70th birthday of Maestro Zubin Mehta in Florence, with two concerts being held in April in the Sala Botticelli at the Uffizi, and the closing concert of the Festival taking place at the end of June against the new backdrop of the Piazza del Duomo, under the Campanile di Giotto.

These three major initiatives will not only serve to reinforce the relationship between Fondiaria-SAI and the event, but will lay the groundwork to ensure that the 70th Festival in 2007 becomes a major opportunity to support the Theatre which is so dear to Florence and to Italian culture.
The company, has almost doubled its own contribution to the Teatro del Maggio Foundation this year, thereby committing to funding for the following year as well.

Finally, please note the sponsorship, together with Amsa S.p.A. and Corriere della Sera, of the "I LAV MILAN" initiative, promoted by the Milan Comune with the aim of raising citizens' awareness of problems of urban decor, involving them, together with schools, in cleaning up the city and, in particular, ridding the palazzi of the graffiti that disfigures them. On 30 September, 288 buildings were cleaned of graffiti, amounting to a total of around 32,500m2.

In the field of sport, the most significant sponsorship in terms of media exposure and financial commitment, was that of the +39 Challenge, the Italian vessel taking part for the second year running in the qualification races for the 32nd America's Cup of 2007, sporting the Fondiaria-SAI logo on its sails.

We should also mention sponsorship of the Fondiaria-SAI Swing Cup, a golf tournament taking place at 16 of the most prestigious courses in Italy, with the final at the Tanka Village course in Villasimius, and of Fondiaria-SAI Atletica in Rome, the women's athletics squad which, with the Fondiaria-SAI logo on its jerseys, once again achieved remarkable results, obtaining the "scudetto tricolore" [tricolore championship shield] for the fifth year running and the silver medal at the European Championships, with resultant high profile attention from the sector's media.

COMMUNICATIONS

Internal Group Communications

In order to consolidate the creation of a company culture shared by the whole Group, numerous Internal Communications activities were planned and studied in 2006 which have involved, or will involve, the Group over the coming months, either by providing employees with printed/online material or by organising internal events.

Some of the most significant activities were:

- sharing of information via the NEWS newsletter and the TEAM internal bulletin (with "special" editions planned), aimed at all Group employees and all distribution networks;
- compilation of ad hoc Communications Plans (in particular, for Milano Assicurazioni which is currently collaborating on research into a new dedicated paper publication called "Milano Magazine") and the completion of communications projects aimed at various Group companies;
- development of loyalty among the best clients (Club Assicurati) by publishing the four-monthly magazine LINEA DIRETTA CLUB;
- distribution of the 2006/2007 Gifts Catalogue, intended for all employees and all distribution networks, for the management of the Group's promotional giftware;
- continuation of intranet integration work;
- management of major brands (with particular reference to the new Fondiaria-SAI office in Rome) and agency insignias throughout the Group (in particular, an insignia in line with the new logo is planned for Liguria Assicurazioni);
- events planning aimed at employees and agency networks.

External communications

In 2006, work continued with the aim of guaranteeing the support and visibility required for initiatives developed by various corporate business centres and Group companies.

In particular, communications projects were developed, within the scope of marketing communications, for the positioning and launch of the La Mia Assicurazione Basic (Fondiaria-SAI and its networks) and the La Mia Assicurazione Multirischi (Milan and its Divisions) products, intended for single-product customers (Motor TPL) and those with a low 'propensity to insure', aimed at starting off a process of greater commercial penetration in line with the 2006-2008 Industrial Plan.
The year ended with the introduction of the new La Mia Assicurazione Fabbricati product, for which an entire communications kit was created.

Within the sphere of brand identity activities, newly consolidated visible identity criteria continued to be extended to Group companies (Siat) with the aim of further strengthening the perception of the Fondiaria-SAI Group structure in its various fields of business.

With reference to the Group's activities, the communications initiatives developed to spread the positioning-statement "Libera la Vita" should be noted.

Customers' serenity is created by the security of having access to reliable contacts, capable of giving effective answers in any situation i.e. feeling protected from the financial implications of unforeseen events and the fundamental supposition that they can be free to concentrate on the aspects of life that they hold most dear. Believing strongly in this concept, the Group has provided its own Agencies with a flexible system of highly customisable insurance products to protect individual and corporate customers and their property both now and in the future. The efficiency and transparency of claims settlement procedures in the event of loss are, in addition, guaranteed by state-of-the-art computer management systems which make constant monitoring of the progress of the claim possible and, above all, by the most widespread claims settlement network in Italy.
In this way, the emphasis is placed, on a daily basis, on selecting a Group which exists to make working and daily life simpler for everyone.

Finally, work continues to support the Agencies, in accordance with what is laid down by Isvap circular 533/D, by supplying, in the majority of cases, communications tools created on an ad hoc basis according to specific local marketing requirements.

Press Office

The press office has guaranteed a constant flow of information about the Parent company's activities and results and has been responsible for circulating approximately 20 price-sensitive press releases.
It has also promoted and managed interviews and in-depth consultations with the Company's CEO and its top managers, from the perspective of transparency and readiness to enter into dialogue, for an increasingly improved perception of the corporate image by the outside world.
Finally, it collaborated in the presentation of the 2006-2008 Industrial Plan to the financial community, thereby enhancing its media impact.

CURRENT DISPUTES

Antitrust Dispute

During 2006, the so-called "Antitrust" dispute, consisting of the well-known civil action brought by our policyholders (as of April 2001) claiming reimbursement of part of the Motor TPL premium that they had paid, continued to be fuelled beyond expectations, despite the favourable judgement of the United Sections of the Court of Cassation of 4 February 2005 which declared that the Justices of the Peace did not have the jurisdiction required to judge the cases in question, confirming that this jurisdiction lay with the Court of Appeal. Following the aforesaid judgement of the Court of Cassation, the number of new actions brought before Justices of the Peace fell to almost zero, but numerous actions were taken or re-taken before the Court of Appeal, generating an unexpected phenomenon after the Supreme Court decision. On 30 October 2006, there was a discussion hearing before the Supreme Appeal Court brought by the Company against the first unfavourable sentence issued by the Naples Appeal Court. The decision was published just a few days ago which, unfortunately, only upheld part of the arguments put forward by the Companies, which leads us to believe that this phenomenon will continue for an indeterminate period and with unquantifiable dimensions.

As at 31 December 2006, the total number actions lodged as of April 2001 was 30,589 just for the Parent company. Actions still pending on that date were 5,443 for Fondiaria-SAI and 1,986 for Milano Assicurazioni.

Writs of summons from shareholders

In relation to proceedings instituted against the Company by shareholders in the incorporated company La Fondiaria Assicurazioni S.p.A. for the fulfilment of its alleged duty to make a public purchase offer, deriving from the well-known Consob decision of December 2002, it should noted that there are eight actions pending at first instance.

Proceedings brought before the Milan Court of Appeal by the Company to appeal against sentence number 5259 of 8/5/2006 and 10987/2006 issued by the Court of Milan in actions brought by Messrs. Marcegaglia and by the trust company Promofinan s.r.l. and by other shareholders are also pending. As regards this last rehearing, it should be noted that the Milan Court of Appeal upheld the Company's application to suspend enforcement of the first degree sentence.

The Milan Court of Appeal, with judgement 54/2007 filed on 15/1/2007, upheld the appeal brought by Fondiaria-SAI and by other defendants against the Court of Milan judgement number 6688/2005 which had ordered the Company and Mediobanca to pay compensation for damages claimed by the plaintiff Promofinan S.p.A. in its capacity as a La Fondiaria Assicurazioni S.p.A.

shareholder. Further to the judgement, Fondiaria-SAI recovered what was paid to Promofinan in execution of the amended judgement, in addition to first and second instance legal costs. The judgement may be contested before the Court of Cassation.

The provision for risks and charges posted to the accounts as at 31/12/2006 is, however, sufficient to cover the charges arising from any exacerbation of the existing disputes.

SIGNIFICANT EVENTS OCCURRING AFTER YEAR END

Bersani-Bis Law

The Bersani-bis Law was published on 31/01/2007 with article No. 7 "Urgent consumer protection measures, to encourage competition, economic growth and the formation of new companies".
The decree provides for some insurance-related measures, the most significant being for Motor TPL in respect of risk category maintenance and changes and the "portability" of the no-claims certificate; all of which will have an economic impact which at the present moment is unquantifiable. The Company has started the procedures needed to conform to this legislation.

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).

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 an IT 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 multiyear 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 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 joint venture 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.

The entire agreement was negotiated by the Company 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 has a 51% capital interest in FonSAI ST, based on the governance agreement as a whole, operational control of the company is still attributed to EDS, this being a necessary requirement to guarantee that the Fondiaria-SAI Group benefits from 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 Fondiaria-SAI, Milano Assicurazioni S.p.A., 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.

€ 120,000 of the total value of the lines of business referred to in said balance sheets was posted to FonSAI ST share capital and, the remainder, to the share premium reserve, i.e. approximately € 8.4m.

The lines of business transferred also included 134 employees from the Parent company, Milano Assicurazioni and Starvox, in reference to whom, in accordance with the law, union proceedings were instituted, concluding with the signing of an appropriate agreement.

In March 2007, Milano Assicurazioni, Uniservizi and Starvox 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 Fondiaria-SAI Group companies, other than the transferors.

And finally, the changeover of FonSAI ST from S.r.l. [limited company] to S.p.A. [public limited company], with the issue of various share classes with different rights in terms of votes and shares in profits and losses, in line with the aforementioned governance agreement as a whole.

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.

Purchase by the subsidiary Immobiliare Lombarda of a capital interest in IGLI

On 27 February 2007, the purchase of a total capital interest of 33.3% in the company IGLI S.p.A. was concluded by the subsidiary Immobiliare Lombarda.
IGLI is a holding company whose sole asset is an interest of approximately 29.9% in Impregilo.
In particular, Immobiliare Lombarda purchased the entire 20% holding in IGLI previously held by Efibanca, and a further holding of approximately 13.3% held by Tesir, at a price of € 38.3m and € 48.9m respectively, making a total of € 87.2m.
On the same date, Tesir then sold its remaining shares in IGLI to Argo Finanziaria (approximately 3.3%) and Autostrade per l'Italia (approximately 13.3%) so that IGLI's current share capital is held jointly between the three shareholders, each of which owns approximately 33.3% of IGLI.
The total price paid by Immobiliare Lombarda corresponds, based on IGLI's balance sheet as at 30 September 2006, to an average implicit valuation of the interest held by IGLI in Impregilo at approximately € 4.1 per share, against an official stock market price for Impregilo shares on the date of the transaction of € 4.67 per share.
The investment in IGLI – as well as being viewed in the light of the favourable prospects of the company itself, demonstrated both by the positive trend in share prices and by the consensus expressed by financial analysts – must be seen in terms of potential synergies with numerous and extensive property growth initiatives that Immobiliare Lombarda, together with Fondiaria-SAI and other institutional investors, is pushing forward throughout Italy (e.g. Citylife, Città della Moda, Ex Varesine, Area Castello, Cinque Cerchi, Torre Spaccata, etc.).
These initiatives not only involve civil and residential/service sector building work costing several bil-

lion Euro over the course of the next 10-15 years but, above all, as in the case of the Citylife project, involve the participation of operations (general contractors) with a proven international track record in building complex structures due to the innovative technical characteristics of the buildings planned (three skyscrapers).
What's more, purchasing an interest in IGLI constitutes the Fondiaria-SAI Group's return to having a shareholding in Impregilo, a major force in the Italian business world which, for many years, was controlled by Gemina, in which Fondiaria-SAI has, historically, held an interest and in whose shareholders' agreement it has already participated. Immobiliare Lombarda financed the overall investment partly by the sale of premises and partly by means of loans.
The purchase of the overall shareholding will require Immobiliare Lombarda to take on a greater role in respect of the body of shareholders during this delicate phase of shareholder restructuring at IGLI, in line with its desire to develop industrial synergies relating to Immobiliare Lombarda's core business

Further to the cancellation of the shareholders' agreement originally stipulated between the founding members of IGLI in June 2005, Immobiliare Lombarda, together with Argo Finanziaria and Autostrade per l'Italia has, therefore, signed a new shareholders' agreement aimed at regulating the governance of IGLI, as well as the rights deriving from the interest in Impregilo held by said IGLI.
The Group's governance will be equally divided between the 3 shareholders, with 2 board members each in IGLI and 4 board members each in Impregilo, including one independent, the chairman, the managing director and a minorities member.

The agreement provides for a share lock-up on the shares held by the 3 shareholders for the entire duration of the agreement.

The IGLI shareholders' agreement will remain in force until 12 June 2008.

Meridiano Secondo and Fondo Tikal R.E:

In February, the subsidiary Meridiano Secondo purchased volumetric rights of use of accommodation/hotels in the Garibaldi-Repubblica area of Milano with a disbursement of € 17m. This purchase completed the preliminary purchases to be made prior to the construction of a top-of-the-range hotel in Milan.
In February, the Tikal fund sold its share of property in Turin, via Lagrange for a price of € 13.7m excluding VAT.

IT contract for Non-life Bancassurance

In March 2007, RGI – a company listed on the Espandi market and active in the IT for insurance and banking sector – entered into a contract with the Fondiaria-SAI Group for the supply, via outsourcing, of an IT System to manage Non-life Bancassurance.
The project will support sales of insurance products via around 3,000 bank counter channels throughout Italy
The contract, lasting for three years, is worth around € 3.7m.

Adding value to property assets

Via the subsidiary Meridiano Secondo S.r.l., the company Immobiliare Lombarda purchased the right to build a property of approximately 15,000 m2 for use as a hotel in the area of Milan designated for "Città della Moda" development.
Counterparty agreements have, in addition, been drawn up for the purchase of an interest in SEIS S.p.A. (for a total price of € 11.2m), which owns a residential complex on the isola della Maddalena; and in Sintesi Seconda S.r.l. (for a price of € 32.4m), which owns 4 buildings designated for use as offices and services, at via Missaglia, 97 in Milan.

BUSINESS OUTLOOK

The future of the Fondiaria-SAI Group is contained in a business plan which will set us significant new goals. By analysing the results for the year just ended, we have been able to ascertain an upward trend in business and we believe that this will make it possible to improve on the Group objectives already set by the Industrial Plan for the three year period from 2006-2008. Our strategy is further enhanced by another factor. It is no longer enough just to obtain a balance between expansion and profitability, although this has been brilliantly achieved, now a third dimension must be added i.e. diversification to reduce risk.

We wish to complement our growth strategy in Italy, and possibly at an international level, by safeguarding our excellent revenue and guaranteeing the creation of satisfactory value for all stakeholders.

In fact, when it comes to foreign partnerships, principally with Eastern Europe, research into future joint ventures to create corporate vehicles with allies that have the know-how in terms of various local markets, is still in progress.

All this means improving our position of excellence in the non-Auto retail segment, by taking over its leadership (via targeted incentivising and training initiatives for agency networks) and also by retaining pole position in the Motor TPL market (the extension of the sale of the new "1ª Global" product to all Group networks will help), by developing alternative sales channels such as direct sales via the re-launch of the subsidiary Dialogo, or via the development of Non-life Bancassurance, increasing the network to 2,700 branches.

In addition, we will concentrate on other areas of business, focusing our attention on the Corporate sector (which has great potential in areas appertaining to hedging equity, finance and credit risks), but with an eye on the public administration market (where the tender system makes it possible to create great opportunities within a field which has specific requirements, both from a contractual and economic viewpoint). Consolidation of asset/financial management will continue via a management strategy which will continue to be inspired by prudence, with the objective of limiting rate, fair value and counterparty risks, whilst seizing any opportunities that the financial market may offer in a positive economic climate. New opportunities on the property market will also be seized (with guidelines for growth inspired by investment procedures marshalled according to the level of risk). In the meantime, the Life segment will continue to be developed via the increase in premium income, also due to new bancassurance agreements, with the aim of rebalancing the portfolio mix. In this respect, sales initiatives involving traditional networks and aimed at significantly increasing new annual premium production, as well as recovering capital upon maturity, have added further long-term value to the portfolio.

Our ultimate aims will, therefore, be to maintain our excellent technical balance, with a combined ratio of around 92%, as well as guaranteeing attractive capital management policies for shareholders, with growth initiatives aimed at creating value, via diversification of the business, the creation of new growth options and an increase in profitability.

As for the Milano Assicurazioni Group, within the scope of Non-life insurance business, initiatives planned for the next few years will continue the policy of taking on risks that make satisfactory profitability levels possible. In particular, in Motor business, initiatives will continue in 2007 to reorganise geographical areas demonstrating unsatisfactory technical performances, as well as to downsize the fleet portfolio. At the same time, specific initiatives will be implemented to maintain and develop the portfolio in profitable areas and tariff sectors, with the offer of tariffs that are increasingly open to customisation. In the life sector the ongoing aim is to continue to grow the portfolio in respect of products of a traditional nature with recurrent annual premiums, capable of providing adequate levels of profitability and guaranteeing added value for the portfolio in the long term.

With regard to the property segment, the Immobiliare Lombarda Group's activities will mainly be aimed at managing and leasing existing property assets to complement existing asset growth initiatives and also to seek out new growth opportunities via participation in large urban regeneration pro-

jects under way in some major Italian cities.

We are aware of the ambitious nature of the projects that we intend to pursue at consolidated level i.e. a growth path that is, in any event, compatible with the potential of a Group which, in the past three years, has industrially integrated seven companies, harmonising claims management networks, IT systems and administrative units.

Even when the first Industrial Plan for the new Fondiaria-SAI Group was presented three years ago, following post-merger restructuring, this was already thought to be particularly ambitious. Looking back, we can confirm that the work planned was completed and that all the objectives set were more than amply achieved.

Flushed with this success, we will face the coming years with confidence that we can grow our scheduled performances since we strongly believe in the unfailing commitment, which never diminishes, of all the Group's resources.

Milan, 27 March 2007

For the Board of Directors
The Chair

JONELLA LIGRESTI

Consolidated Accounts 2006

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

These consolidated accounts consist, in accordance with IAS 1.8 (Presentation of Financial Statements), of the Balance Sheet, Profit and Loss Account, Statement of Variations in Net Equity, Financial Statement and Explanatory Notes. They also contain the annexes provided for by Isvap Instruction no. 2404 of 2005 and the information required by the 'Commissione Nazionale per le Società e la Borsa' pursuant to art. 9 co.3 of Legislative Decree 38/2005.

The Fondiaria-SAI S.p.A. consolidated accounts presented below aim to follow a model which meets the requirements in terms of presentation and disclosure laid down by the International Financial Reporting Standards (IFRS), and also take into account the charts and instructions issued by the supervisory body in Instruction no. 2404 of 22 December 2005.
They also contain some additional information which illustrates some examples contained in several IAS/IFRS which are considered to be best practice.
In preparing these accounts, it is assumed that that Fondiaria-SAI has drawn up the consolidated accounts according to IAS/IFRS which continue to apply.

BALANCE SHEET - ASSETS			
(€K)			
		2006	2005
1	**INTANGIBLE ASSETS**	**1,173,487**	**926,525**
1.1	Goodwill	1,013,370	872,393
1.2	Other intangible assets	160,117	54,132
2	**TANGIBLE ASSETS**	**1,164,620**	**1,086,135**
2.1	Property	986,250	959,414
2.2	Other tangible assets	178,370	126,721
3	**REINSURERS' SHARE OF TECHNICAL RESERVES**	**895,703**	**896,948**
4	**INVESTMENTS**	**33,812,476**	**30,065,020**
4.1	Investment property	2,125,628	2,041,721
4.2	Holdings in subsdiaries, associates and joint vent*ures*	155,921	71,675
4.3	Investments held to maturity	0	0
4.4	Loans and receivables	1,305,863	1,408,658
4.5	Financial assets available for sale	23,067,611	20,972,111
4.6	Financial assets at fair value through profit and loss	7,157,453	5,570,855
5	**SUNDRY RECEIVABLES**	**2,646,728**	**2,811,043**
5.1	Receivables deriving from direct insurance	1,941,642	2,034,610
5.2	Receivables deriving from reinsurance	192,575	160,642
5.3	Other receivables	512,511	615,791
6	**OTHER ASSETS**	**807,326**	**1,667,976**
6.1	Non-current assets or those belonging to an HFS disposal group	15,390	6,450
6.2	Deferred acquisition costs	320,972	306,954
6.3	Deferred tax assets	96,978	673,490
6.4	Current tax assets	89,775	449,841
6.5	Other assets	284,211	231,241
7	**CASH IN HAND AND AT BANK AND EQUIVALENTS**	**723,032**	**526,505**
	TOTAL ASSETS	**41,223,372**	**37,980,152**

BALANCE SHEET - NET EQUITY AND LIABILITIES			
(€K)			
		2006	2005
1	**NET EQUITY**	**5,054,542**	**4,508,889**
1.1	**Group share**	**3,896,991**	**3,459,660**
1.1.1	Capital	177,681	173,114
1.1.2	Other equity instruments	0	0
1.1.3	Capital reserves	207,410	193,729
1.1.4	Profit and other equity reserves	2,643,229	2,378,368
1.1.5	(Own shares)	-359,987	-270,057
1.1.6	Reserve for net exchange differences	-126	-441
1.1.7	Profits or losses on financial instruments available for sale	694,538	535,891
1.1.8	Other profits or losses recorded direct under equity	53,042	-16,227
1.1.9	Group share of profit (loss) for the year	481,204	465,283
1.2	**Minorities' share**	**1,157,551**	**1,049,229**

1.2.1	Minorities' capital and reserves	972,179	892,353
1.2.2	Profits or losses recorded direct under equity	65,808	35,809
1.2.3	Minorities' share of profit (loss) for the year	119,564	121,067
2	**PROVISIONS**	**236,676**	**229,075**
3	**TECHNICAL RESERVES**	**26,926,593**	**25,359,603**
4	**FINANCIAL LIABILITIES**	**7,079,895**	**5,172,378**
4.1	Financial liabilities at fair value through profit or loss	4,842,032	3,231,858
4.2	Other financial liabilities	2,237,863	1,940,520
5	**PAYABLES**	**1,069,419**	**1,100,580**
5.1	Payables deriving from direct insurance	177,205	210,047
5.2	Payables deriving from reinsurance	113,102	113,541
5.3	Other payables	779,112	776,992
6	**OTHER LIABILITIES**	**856,247**	**1,609,627**
6.1	HFS disposal group liabilities	0	0
6.2	Deferred tax liabilities	256,777	724,243
6.3	Current tax liabilities	31,474	272,838
6.4	Other liabilities	567,996	612,546
	TOTAL NET EQUITY AND LIABILITIES	**41,223,372**	**37,980,152**

PROFIT AND LOSS ACCOUNT

(€K)

		2006	**2005**
1.1	Net premiums	9,649,838	9,096,306
1.1.1	*Gross premiums earned*	*9,986,706*	*9,341,801*
1.1.2	*Premiums earned ceded in reinsurance*	*-336,868*	*-245,495*
1.2	Commissions receivable	76,499	53,453
1.3	Income and expenditure deriving from financial instruments at fair value through profit or loss	80,267	126,561
1.4	Income deriving from holdings in subsidiaries, associates and joint ventures	19,500	46,838
1.5	Income deriving from other financial instruments and investment property	1,136,397	993,096
1.5.1	*Interest income*	*710,662*	*613,165*
1.5.2	*Other income*	*228,534*	*172,411*
1.5.3	*Profits realised*	*196,917*	*205,392*
1.5.4	*Valuation gains*	*284*	*2,128*
1.6	Other revenue	400,946	393,594
1	**TOTAL REVENUE AND INCOME**	**11,363,447**	**10,709,848**
2.1	Net charges relating to claims	7,833,827	7,480,620
2.1.2	*Amounts paid and changes in technical reserves*	*8,018,174*	*7,663,479*
2.1.3	*Reinsurers' share*	*-184,347*	*-182,859*
2.2	Commissions payable	39,754	30,837
2.3	Expenses deriving from holding in subsidiaries, associates and *joint ventures*	54	2,976
2.4	Expenses deriving from other financial instruments and investment property	257,787	198,720
2.4.1	*Interest expenses*	*88,097*	*50,078*
2.4.2	*Other expenses*	*77,680*	*32,771*

2.4.3	*Losses realised*	*54,581*	*50,814*
2.4.4	*Valuation losses*	*37,429*	*65,057*
2.5	Operating expenses	1,644,278	1,602,649
2.5.1	*Commissions and other acquisition costs*	*1,289,588*	*1,219,864*
2.5.2	*Investment management expenses*	*10,462*	*74,522*
2.5.3	*Other administration costs*	*344,228*	*308,263*
2.6	Other costs	678,863	562,918
2	**TOTAL COSTS AND EXPENSES**	**10,454,563**	**9,878,720**
	PRE-TAX PROFIT (LOSS) FOR THE YEAR	**908,884**	**831,128**
3	Taxes	**308,116**	**244,778**
	PROFIT (LOSS) FOR THE YEAR NET OF TAXES	**600,768**	**586,350**
4	**PROFIT (LOSS) FROM DISCONTINUED OPERATIONS**	**0**	**0**
	CONSOLIDATED PROFIT (LOSS)	**600,768**	**586,350**
	Group share	481,204	465,283
	Minorities' share	119,564	121,067

STATEMENT OF VARIATIONS IN NET EQUITY

(€K)

			Balance as at 31-12-2004	Change in closing balances	Allocations	Transfers to Profit and Loss Account	Other trans-fers	Balance as at 31-12-2005	Change in closing bal-ances	Allocations	Transfers to Profit and Loss Account	Other transfers	Balances as at 31-12-2006
Group share of net equity	Capital		170,554	0	2,560		0	173,114	0	4,567		0	177,681
	Other equity instru-ments		0	0	0		0	0	0	0		0	0
	Capital reserves		190,532	0	3,197		0	193,729	0	13,681		0	207,410
	Profit and other equity reserves		2,108,422	14,780	255,166		0	2,378,368	0	264,861		0	2,643,229
	(Own shares)		-171,371	0	0		-98,686	-270,057	0	0		-89,930	-359,987
	Reserve for net exchange differences		-394	0	-47	0		-441	0	315	0		-126
	Profits or losses on financial assets available for sale		0	150,174	695,090	-108,114	-201,259	535,891	0	274,246	-73,204	-42,395	694,538
	Other profits or losses recorded direct under equity	Profits or losses on hedge instruments for financial flows	0	0	0	0	0	0	0	2,913	0	0	2,913
		Profits or losses on hedge instruments for a net investment in foreign business	0	0	0	0		0	0	0	0		0
		Reserve deriving from changes in participat-ing interests' net equity	727	0	-1,434	0		-707	0	40,247	0		39,540
		Revaluation reserve for intangible assets	0	0	0			0	0	0			0
		Revaluation reserve for tangible assets	0	0	0			0	0	0			0
		Income and expendi-ture relating to non-current assets or to an HFS disposal group	0	0	0	0	0	0	0	0	0	0	0
		Other reserves	-5,762	0	-9,758	0	0	-15,520	0	26,109	0	0	10,589
	Profit (loss) for the year		340,691	0	249,651		-125,059	465,283	0	177,958		-162,037	481,204
	Total Group share		**2,633,399**	**164,954**	**1,194,425**	**-108,114**	**-425,004**	**3,459,660**	**0**	**804,897**	**-73,204**	**-294,362**	**3,896,991**
Minorities' share of net equity	Minority interest in capital and reserves		536,979	2,298	353,076		0	892,353	0	79,826		0	972,179
	Profits or losses recorded direct un-der equity		55	1,592	104,519	-17,342	-53,015	35,809	0	83,641	-34,265	-19,377	65,808
	Profit (loss) for the year		104,336	0	69,126		-52,395	121,067	0	56,704		-58,207	119,564
	Total minority interest		**641,370**	**3,890**	**526,721**	**-17,342**	**-105,410**	**1,049,229**	**0**	**220,171**	**-34,265**	**-77,584**	**1,157,551**
Total			**3,274,769**	**168,844**	**1,721,146**	**-125,456**	**-530,414**	**4,508,889**	**0**	**1,025,068**	**-107,469**	**-371,946**	**5,054,542**

Statement of variations in consolidated Net Equity for the year ended 31 December 2006

Regarding the statement of variations in net equity, the annex required by Instruction 2404/05 is given below, which complies with the provisions of IAS 1, providing for a free form table with a series of minimum requirements. In particular, we show that the first column contains the data of the consolidated accounts as at 31/12/2004 whilst in the second column "Change in closing balances" the effects on the net equity arising from the application of IAS 39 and IFRS 4 are shown.
In particular, the Profits or losses on financial assets available for sale item shows the effects of the valuation of related financial instruments net of the amount attributable to policyholders and posted to deferred liabilities to 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 under equity. The transfers to profit and loss account column shows profits or losses previously recorded direct under net equity in accordance with what is laid down by international accounting standards. Other transfers shows the ordinary distribution of dividends and decreases in capital and other reserves, including the purchase of own shares and shares of profits or losses deriving from the valuation of financial assets available for sale, attributable to policyholders and allocated to insurance liabilities.

FINANCIAL STATEMENT (indirect method)		
(€K)		
	2006	**2005**
Pre-tax profit (loss) for the year	**908,884**	**831,128**
Change in non-monetary items	**1,876,452**	**-1,384,671**
Change in non-life premium reserve	76,046	18,996
Change in claims reserve and other non-life technical reserves	148,599	63,203
Change in mathematical reserves and other life technical reserves	1,343,589	-1,178,526
Change in deferred acquisition costs	103,063	-110,130
Change in provisions	37,305	100,011
Non-monetary income and expenditure deriving from financial instruments, investment property and holdings	89,766	-212,607
Other changes	78,084	-65,618
Change in receivables and payables generated by operating activities	**-77,697**	**-48,080**
Change in receivables and payables deriving from direct insurance and reinsurance	-213,614	1,759
Change in sundry receivables and payables	135,917	-49,839
Tax paid	**-172,623**	**-241,381**
Net liquidity generated/absorbed by monetary items appertaining to investments and financial activities	**-263,373**	**2,768,332**
Liabilities from financial contracts written by insurance companies	378,161	3,114,057
Payables to bank and interbank clients	-160,476	117,227
Loans and receivables to/from bank and interbank clients	-40,327	0
Other financial instruments at fair value through profit and loss	-440,731	-462,952
TOTAL NET LIQUIDITY DERIVING FROM OPERATING ACTIVITIES	**2,271,643**	**1,925,328**
Net liquidity generated/absorbed by investment property	-107,630	-234,430
Net liquidity generated/absorbed by holdings in subsidiaries, associates and joint ventures	-73,083	21,217
Net liquidity generated/absorbed by loans and receivables	140,382	-632,371
Net liquidity generated/absorbed by investments held to maturity	0	0
Net liquidity generated/absorbed by financial assets available for sale	-1,814,581	-1,900,927
Net liquidity generated/absorbed by tangible and intangible assets	-374,864	-30,451
Other net cash flows generated/absorbed by investment activities	0	0
TOTAL NET LIQUIDITY DERIVING FROM INVESTMENT ACTIVITIES	**-2,229,776**	**-2,776,962**
Net liquidity generated/absorbed by capital instruments pertaining to the group	14,736	9,672
Net liquidity generated/absorbed by own shares	-50,063	-98,686
Distribution of dividends pertaining to the group	-162,037	-125,059
Net liquidity generated/absorbed by minority interest in capital and reserves	-41,241	286,793
Net liquidity generated/absorbed by subordinated liabilities and equity financial instruments	300,000	83,888
Net liquidity generated/absorbed by sundry financial liabilities	93,265	465,734
TOTAL NET LIQUIDITY DERIVING FROM FINANCING ACTIVITIES	**154,660**	**622,342**
Effect of exchange differences on cash in hand and at bank and equivalents	**0**	**0**
CASH IN HAND AND AT BANK AND EQUIVALENTS AT THE START OF THE YEAR	526,505	755,797
INCREASE (DECREASE) IN CASH IN HAND AND AT BANK AND EQUIVALENTS	196,527	-229,292
CASH IN HAND AND AT BANK AND EQUIVALENTS AT THE END OF THE YEAR	723,032	526,505

Consolidated financial statement for the year ended 31 December 2006

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

The indirect form of the financial statement, given below, shows the net cash arising from the operating activity separately from that arising from investment and financing. We should recall that, following the application of IAS 39 and IFRS 4, as from 01/01/2005, the comparison of the flows affected by the principles mentioned may not be immediately significant with respect to 2005. In particular, we show how the increase in financial instruments also includes the effect of fair value, the change in the life technical provisions is influenced by the reversal of the investment contracts not falling within the scope of application of IFRS 4 and, consequently, the balance of Deposit Accounting as at 31/12/2005 is shown in the change due to liabilities from financial contracts written by insurance companies, . Conversely, securities relating to 2006 were standardised.

Explanatory notes

PART A - Accounting Policies

Section 1 – Declaration of conformity with international accounting principles

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

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

Community legislation

The standards were gradually ratified by the European Union by means of separate regulatory measures. In particular:

- EC Regulation No. 1725 of 29 September 2003, in accordance with Regulation 1606/2002, adopted all the international accounting standards and interpretation documents compiled on 14 September 2002, with the exception of principles relating to financial instruments (IAS 32 and 39) and related interpretations (SIC 5, 16 and 17).
- EC Regulation No. 707 of 6 April 2004 amended Regulation 1725/03, replacing document SIC-8 (First time application of IAS as a reference accounting system) with IFRS 1 (First time adoption of IFRS).
- Under EC Regulation No. 2086 of 19 November 2004, IAS 39 (Financial instruments - Recognition and measurement) was adopted, excluding some provisions relating to the unlimited fair value option and hedge transaction accounting, which had aroused concerns on the part of supervisory authorities regarding the possibility that these standards could be used inappropriately.
- Under Regulations 2236, 2237 and 2238 of 29 December 2004 the following new principles were adopted: IFRS 3 (Business combinations), IFRS 4 (Insurance contracts), IFRS 5 (Non-current assets held for sale and discontinued operations), IAS 32 (Financial instruments - Disclosure and Presentation) and those principles already adopted under Regulations 1725/03 and 707/04 were approved again but were subsequently reviewed by the IASB.
- Regulation No. 211 of 4 February 2005 adopted the new IFRS 2, relating to Share-based payments.
- Finally, on 16 November 2005, EC Regulation No. 1864 of 15 November 2005 was published in the EUOJ, amending IFRS 1 as well as IAS 32 and 39, following the new wording of the fair value option published by the IASB on 16 June 2005 after much debate, in particular, with the European Central Bank and with supervisory authorities represented on the Basle Committee.

- In August 2005 the IASB issued a further amendment to IAS 39 and IFRS 4 dedicated to the accounting treatment of guarantees issued. On the basis of this amendment, liabilities deriving from financial guarantee contracts must be recorded in the guarantor's accounts and are initially valued at fair value and subsequently at the greatest of (a) the best estimate of expenditure required to fulfil the obligation on the reference date, on the basis of what is laid down by IAS 37 – Provisions, contingent liabilities and contingent assets, and (b) the amount initially recorded less any accumulated amortisation recorded in accordance with IAS 18 – Revenue. The application of the amendment has not had any significant repercussions.

We should remember, in this regard, the IASB's decision not to request the application of new standards prior to 1/1/2009 so as to provide all stakeholders with a "stable platform" of four years worth of uniform accounting principles.

Section 2 – General principles for preparing the accounts

The accounts were prepared in the expectation the that business would continue. There were no uncertainties regarding events or conditions which could result in doubts arising over the ability to continue to operate as a working entity.

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

Section 3 – Consolidation methods

CONSOLIDATION PRINCIPLES

ACCOUNTS USED FOR THE CONSOLIDATION

Accounts approved by Shareholders' meetings of the respective Companies were used to prepare the Consolidated Accounts. Where the Accounts had not yet been approved, the draft accounts examined by the respective Boards of Directors were consolidated. The aforementioned accounts were adjusted and reclassified to reflect the application of the International Accounting Principles.

CONSOLIDATION TECHNIQUES

- Full consolidation

The consolidated accounts include the accounts of the Parent company and the companies in which Fondiaria-SAI has the power to exercise control as defined by IAS 27.
Control also exists even when the company has half, or less than half, of the votes at a shareholders' meeting if it has: control of more than half the voting rights by virtue of agreements with other investors, the power to determine the organisation's financial and operating policies, the power to appoint or dismiss the majority of board members or the power to exercise a majority vote at board meetings.

With 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 participating interests.
Minority shareholders' interest in the net equity and the economic result are posted to appropriate balance sheet and profit and loss account items.
The differences between the book value of the holdings and related net equity shares, which emerge on the date of acquisition of said holdings, are posted to specific tangible assets identified where the higher cost reflects the fair value of the same and to specific intangible assets (including for example VOBA, VIF, Income Value or the client list), in this case also taking full advantage of the minority interest and the tax effect and, the remainder, to the Goodwill item in cases where the higher price paid

reflects the prospective value of future economic results.

- Proportional Consolidation

The consolidated accounts also include entities over which an entity included in the consolidation has joint control with other shareholders on the basis of a contractual agreement with them, as laid down by IAS 31. In this case, as an alternative to the net equity method, inclusion in the consolidated accounts follows the criterion of proportion with the shareholding owned.

- Consolidation using the net equity method

Associated companies were valued using the net equity method according to IAS 28: an associated company is an entity in which the Parent company has considerable influence without being a subsidiary or a shareholding subject to joint control.
Based on what is laid down by IAS 28.6, significant influence is presumed when the shareholder owns, directly or indirectly, at least 20% of the voting rights exercisable at the associate's shareholders' meeting.
Using this procedure, the consolidated balance sheet only incorporates the relevant share of the associate's net book equity inclusive of the result for the period, but not the values of the individual balance sheet items.

- Other consolidation operations

Other consolidation operations mainly consist either of essential harmonisation, i.e. relating to valuation criteria for balance sheet items, or formal harmonisation, i.e. relating to the recording and representation criteria used to construct the consolidated balance sheet.

In particular the use of a rigid accounting format, as laid down by the Supervisory Authority, together with the use of a common reporting package for all Group companies, guarantee adherence to formal harmonisation criteria.
With reference to the adoption of substantial harmonisation criteria provision is made for:

- elimination of dividends for payment or passed by consolidated companies;
- elimination of significant inter-company asset and economic operations;
- elimination of profits and losses deriving from sale and purchase transactions between Group companies and relating to values included in the assets, even if they are consolidated using the Net Equity method;
- adjustments required to harmonise the Group's accounting principles;
- recognition, where applicable, of the tax effect of any adjustments to harmonise valuation criteria for balance sheet items or other consolidation adjustments.

DATE OF THE CONSOLIDATED ACCOUNTS

The Consolidated Accounts closed on 31 December 2006, coinciding with the date of all the fully consolidated Companies' accounts.
There are, therefore, no problems in terms of uniformity of time with regard to the Group's values system, given the absolute uniformity of the administrative periods to which the consolidated accounts relate.

CURRENCY OF ACCOUNT

These accounts are expressed in Euro (€) since this is the currency in which most of the Group's transactions are performed. Given, therefore, the substantial harmonisation of the functional currency with the currency in which the consolidated accounts are expressed, please note that accounts expressed in currencies other than that of the Euro zone were converted by applying end of year

current exchange rates.
The exchange rates used are shown, for the major currencies not belonging to the Euro zone, in the explanatory notes.
Specific information is given as to whether the amounts appearing in the accounts are in thousands or millions of Euro.

Section 4 - Accounting Principles and Valuation Criteria

The accounting principles adopted are the same as those used for the previous year.
The valuation criteria pertaining to the main balance sheet items are summarised below:

1. INTANGIBLE ASSETS

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

To this end the Group:

- has identified the cash generating units relating to the goodwill posted;
- has determined the recoverable value of the cash generating units as the greater between the fair value and the value in use;
- for goodwill for which the value in use has been used, the Group has identified the future financial flows of these cash generating units;
- has taken the opportunity to time-discount these financial flows with the aim of determining the "recoverable value" of the goodwill and to enter any loss of value.

For business combinations and other business aggregation operations completed in 2006, please refer to part G.

Other intangible assets
In accordance with IAS 38, an intangible asset is posted to the accounts only if it is identifiable, controllable, its cost can be measured and it is able to generate future economic benefits.
It follows that both set-up and enlargement costs and research and advertising costs are posted to profit or loss at the time that they are incurred.
The amount posted to this balance sheet item in accounts prepared according to Italian accounting principles on the date of transition to IAS/IFRS standards was, therefore, allocated to reduce net equity.
Intangible assets that have the prerequisites for capitalisation are amortised on a linear basis with reference to their relative useful lives, following checks to see that there are no signs of permanent losses of value. Please note that no intangible assets were generated internally.

The explanatory notes provide information on the useful lives of the various categories of intangible assets.

2. TANGIBLE ASSETS

This item includes property intended for use by the company and other tangible assets.
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 based on the cost model (paragraph 30) or the revaluation model (paragraph 31).
In line with the valuation of investment property, the Group decided to use the principle of cost to value property for own use or for use as an investment. Please refer, therefore, to what is stated in the paragraph on investment property.

Property classified as stocks and works in progress in the accounts of companies belonging to the

property segment also falls into this category. This property is valued, in accordance with IAS 2, at the lower of the cost (inclusive of acquisition, transformation and other costs incurred) and the net realisation value.
Regarding agricultural assets, for cultivation advances a valuation was made of the work carried out to the date the accounts closed, whilst for biological assets, fair value was determined by means of a comparison between production and market values.

3. REINSURERS' SHARE OF TECHNICAL RESERVES

Reinsurers' share of the reserves includes predetermined amounts applicable to them, in accordance with reinsurance contract agreements, based on gross technical reserves. In particular, the Unearned Premium Reserve is calculated on the basis of art. 32 of Legislative Decree 173/97 on gross Unearned Premium Reserves.

4. INVESTMENTS

Investment property
Investment property is represented by property owned for renting out and/or for capital appreciation.
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.
Unless otherwise indicated below, the Company has chosen to use cost as the valuation principle for all property, both for company use and 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.
On the basis of what is laid down by IAS 16 and reiterated in IAS 40 the Group:

- unbundled from the value of property owned in full, the value of the land on which the latter stands which, being of unlimited duration, is not subject to amortisation;
- recorded depreciation on the net value, thus obtained, also applying specific economic/technical percentages determined in relation to projected residual options for use of individual property components, represented by plant or by the main body of the building;
- consequently restated the value of the buildings on the date of transition to IAS, posting the difference between this and the value appearing in the accounts prepared according to Italian principles to net equity;

Investment property is also subject to an impairment test which involves comparing the book value with the estimated fair value, determined by way of apposite independent expert appraisals.

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 amortised cost in reflecting the variation in price indices or were used to approximate the fair value of the property on the revaluation date.
For property transferred to the Tikal R.E. closed property investment fund., provision was, on the other hand, made to use fair value to replace cost, since these properties, by virtue of the aforementioned transfer, were systematically overhauled, with the aim of maximising profitability, even in the short-term.
Any profit or loss deriving from the elimination of an investment property is posted to Profit and Loss for the year in which the elimination took place.

Holdings in subsidiaries, associates and joint ventures
Shareholdings in both associate companies valued using the net equity method and some holdings in subsidiaries that the Group considered to be immaterial due to their size and, therefore, maintained at cost, fall under the item "Holdings in subsidiaries, associates and joint ventures". As already reported

in the paragraph on consolidation techniques, no entity over which the Group has joint control with other individuals (joint venture) is posted under this item, due to the application of proportional consolidation criterion.

Financial instruments

IAS 39 (Financial instruments: recognition and measurement" lays down that financial instruments should be classified, not according to their nature, but on the basis of their functional intended use within the operation of the company. In particular, IAS 39 provides for the following categories of financial assets:

- “financial instruments valued at fair value through profit or loss”, which includes securities held for short-term trading and securities which, at initial recognition, present characteristics for designation to this category by the company;
- "loans and receivables" which, in addition to receivables and loans in the strictest sense, as defined by Italian principles, also includes unlisted debt securities, provided that they are not intended for sale and whose recovery depends exclusively on the creditworthiness of the issuer;
- “financial instruments held to maturity”, which includes debt securities with fixed maturity and fixed or determinable payments that the company intends, and is capable, of holding to maturity; This category does not apply to the Fondiaria-SAI Group;
- "financial instruments available for sale", the remaining category which includes securities which cannot be classified in the previous categories.

During first recognition, financial assets are entered at fair value, which generally corresponds to the price paid for their acquisition. Subsequently, different valuation criteria are applied to the individual categories, again in accordance with IAS 39. In particular:

- financial instruments at fair value through profit or loss, as, however, explained 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;
- financial instruments held to maturity and loans and receivables are valued at amortised cost, calculated using the effective interest method;
- financial instruments available for sale are valued at fair value, the difference compared to the initial value being posted to an appropriate net equity reserve. This reserve is reversed in a counter-entry in the profit and loss account when the financial instrument is realised or in cases of impairment.

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

- for financial instruments listed on active markets: normally the stock market value on the last day of 2006 is used (so-called mark to market) in any event checks are made to ensure that the value used is representative of the fair value of the financial instrument;
- for unlisted financial instruments it is the price determined on the basis of appropriate valuation techniques, requiring the valuation to be carried out by independent counterparties (so-called mark to model);
- should the fair value fail to be determined in a reliable way, the financial instrument is valued at cost.

It is also shown that ordinary sales and purchases of financial assets are posted to the accounts on the date that the transaction is settled, i.e. on the date when the Group actually receives or delivers the aforementioned assets.

In addition, we should remember that, in accordance with IAS 32, no profit or loss deriving from sales or purchases of own shares is posted to the profit or loss account, whilst the fee paid or received is

posted direct to net equity.

This method of representation is also used for transactions to dispose of equity shares that do not involve loss of control. Profits or losses from dilution, as long as control is maintained, are therefore, shown in the net equity with the aim of providing a better representation of the result for the year. This accounting strategy does not, however, apply to disposals of any holdings in subsidiaries that may be held in Life business segregated account portfolios, in view of the specific mechanism used to consolidate these profits in considerations to be allocated to policyholders. Consequently, in the event of the purchase of additional shareholdings in subsidiaries, the difference between the acquisition cost and the book value of the minority interest acquired is posted to net equity.

Loans and receivables
The item includes loans as defined by IAS 39.9, excluding trade receivables.
In particular, the item includes reinsurers' deposits with ceding companies, some debt securities held which are not listed on an active market, active loans and finance, as well as loans on life policies and repurchase agreements.
For the latter, in particular, the equivalent value of "spot" purchases of securities is posted to this item, whilst the equivalent value of "spot" sales of securities is recorded in Financial Liabilities under the Other Financial Liabilities item.
The interest and differences between "spot" and "forward" exchanges are posted to Income deriving from other financial instruments.
Loans and receivables are valued by means of amortised cost criterion, using the effective interest rate method.

Financial assets available for sale
This item includes all non-derivative financial assets, designated as available for sale. It contains the majority of the Group's Financial Assets, represented mainly by listed capital securities, unit trusts, debt securities (both listed and unlisted), that the Group has designated as belonging to this category.

As illustrated above, profits and losses deriving from the change in fair value of these assets are posted direct to net equity provided that they have not been ceded or have suffered a permanent loss in value. At this point, the profits or losses, already posted to net equity, are allocated to profit and loss for the period.

Financial assets at fair value recognised through profit or loss
The item includes financial instruments held with the aim of being traded in the short term, as well as assets that the Group has allocated to this category in accordance with the requirements of IAS 39, amended by EC Regulation no. 1864/2005 which placed significant limits on the use of the so-called fair value option. The category does, therefore, include both debt securities and listed and unlisted capital securities, as well as positions taken on derivative finance contracts held both for reasons of efficient management and to hedge fair value or cash flow.

This item also includes so-called structured securities or hybrid financial instruments for which the derivative component of the host financial instrument has not been removed or recognised as a separate entity, since the derivative, due to the very nature of its characteristics has a significant influence on the financial flows of the instrument as a whole.

Finally, it includes financial instruments to hedge insurance or investment contracts issued by insurance companies where the investment risk is borne by the policyholder, as well as financial assets deriving from pension fund management (so-called class D investments according to Italian accounting criteria).

5. OTHER RECEIVABLES

This item includes trade receivables as exemplified in IAS 32 AG4 (a) regulated by IAS 39.
The main receivables posted to this item relate to positions in respect of: policyholders for premiums in the process of being collected, agents and other intermediaries, coninsurance and reinsurance companies.
Receivables are valued at amortised cost calculated using the effective interest method, identified by

calculating the rate that makes the current value of future flows of credit equal to the amount of credit granted. The amortised cost method is not used for short-term receivables where the effect of time-discounting logics would be negligible. These receivables are valued at historical cost which is the same as the nominal value and are periodically subjected to impairment tests. The same criterion is used for unconfirmed receivables or those without a fixed maturity.
A periodic estimate is made of receivables at risk of not being paid. Bad debts are written off as soon as they are identified, taking into account the financial effects relating to projected realisation times, where these are significant.

6. OTHER ASSETS

Non-current assets or assets belonging to an HFS disposal group
This item includes non-current assets or assets belonging to a held-for-sale disposal group, on the basis of IFRS 5. These assets are entered at cost and valued at the lower of the book value and the fair value, net of projected disposal costs.

Deferred acquisition costs
Pre-calculated commission due to intermediaries for the acquisition of multi-year policies is capitalised and amortised on the basis of the average duration of the related contract. In the Life sector, amortisation is within the limits of the policy loadings. The future utility of the pre-calculated amount still to be amortised is reviewed periodically. Any other charge incurred for the acquisition of risks relating to multi-year contracts and their management is reflected in the profit and loss account in the year in which it is incurred.

Current and deferred tax assets
The current tax assets item includes assets of a fiscal nature as defined and regulated by IAS 12.
The Group recognises the effects of taxes on current and deferred income on the basis of the relevant tax liability calculation determined on the basis of current tax legislation. If there are temporary differences between the result for the year and the taxable income, the tax temporarily deferred is calculated by taking into account the nominal tax rate and making appropriate adjustments in the event of rate changes in respect of the current year.

Assets for taxes paid in advance are posted only insofar as there is a likelihood that they will be recovered, relating to their ability to continue to generate positive taxable income.
This item also includes assets arising from payment of the 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 conforms to what is laid down by ISVAP Instruction no. 2404/05 even if the aforementioned assets do not relate to income tax.

At year end, current and deferred tax assets are shown net of corresponding tax liabilities in accordance with the offsetting rules laid down by IAS 12.

Other assets
This item includes deferred reinsurance accounts payable, deferred commission liabilities relating to contracts not falling within the scope of application of IFRS 4 and other residual assets not included in the previous items.

Service contracts linked to insurance policies of a financial nature
Index-linked and unit-linked products of a financial nature are considered to be subdivided into a financial contract (IAS 32 and 39) and a service contract (IAS 18) component for insurance administration.
With reference to the service component of index and unit-linked contracts, IAS 18 requires

- revenue and costs relating to the same transaction to be recorded simultaneously;

- associated revenue and costs for an operation which involves the provision of services to be recorded with reference to the stage of completion of the operation.

The stage of completion can be measured in various ways and, in particular, when services are rendered via an unspecified number of actions over a fixed period of time, revenue and costs are

recognised in equal instalments, unless it is clear that other methods would represent the stage of completion more accurately.

On the basis of these considerations, the quota of costs incurred on financial contracts to be amortised using the straight-line method and, conversely, the quota of contract-related revenue that has not yet matured, is determined.
As regards the income components of other multi-year contracts, in particular, for "unit-linked" policies, the compatibility of the criteria already used in preparing the consolidated accounts with IAS/IFRS principles was checked.

Liability for the financial contract component is, therefore, valued at Fair Value whilst for the service contract component, since the income flow (loading) is not aligned to the flow of costs (commission and operating costs), the revenue (Deferred Income Revenue) and purchase commission (Deferred Acquisition Cost) are deferred.

For index-linked contracts, estimates of both DIR and DAC, amortised for the period from attachment until the valuation date, are made direct on the existing portfolio, taking into consideration the total loading and the purchase commission for each tranche.
For unit-linked contracts of a financial nature, income flows, loadings and management commission, the latter in random amounts, are always considered to be higher than the flow of costs and, in any event, it is thought that there already exists a per se matching accrual for each year of the contract still left to run.

7. CASH AT BANK AND IN HAND AND EQUIVALENTS

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

NET EQUITY AND LIABILITIES

1. NET EQUITY

Group share of net equity
The macroitem includes instruments which represent capital and the related Group share of equity reserves.
The item **Profit and other equity reserves** comprises, amongst other things, the reserve arising from the first-time application of international accounting principles, the consolidation reserves and catastrophe and equalisation reserves referred to in IFRS 4.14 (a), as well as, from this year onwards, reserves arising from payments on shares.
The **Profits or losses on financial assets available for sale** includes profits or losses deriving from the valuation of financial assets available for sale net of both related deferred taxes where applicable, the part attributable to policyholders and the part attributable to policyholders and posted to insurance liabilities (so-called shadow accounting).
The **Own shares** item includes, as an adjustment to the Group's net equity, the accounting book value of instruments representing the capital of the entity that prepares the consolidated accounts, held by said entity and by consolidated companies.

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

2. PROVISIONS

This microitem includes the liabilities defined and regulated by IAS 37. Provisions for risks and

charges are only set aside when the Group has to meet a current obligation (legal or implicit) arising from a past event and for which it is possible to make a reliable estimate of the presumed financial sacrifice. Future financial flows are only discounted if this effect is significant: in this event, the adjustment of the fund for the passing of time is recognised as a financial charge on the basis of a discount rate that reflects the current market valuation of the cost of money, in relation to the passing of time.

3. TECHNICAL RESERVES

This microitem includes commitments deriving from insurance contracts gross of reinsurance cessions. In particular, it includes reserves set aside further to the adequacy test on liabilities and deferred liabilities to policyholders.
General rules on technical reserves, as stated in art. 31 of Legislative Decree 173/97, sanction the principle whereby the amount of the reserves must always be sufficient to enable entities to meet their obligations, as far as is reasonably foreseeable, in respect of insurance contracts. Reserves are, therefore, calculated in accordance with individual balance sheet criteria and the technical reserves were not, therefore, restated in accordance with IFRS 4. In particular:

Non-life Unearned Premium Reserve
Art. 32 of Legislative Decree 173/97 states the obligation to enter the unearned premium reserve broken down into two components, “reserve for premium portions” and “reservefor unexpired risks”.
The reserve for premium portions is calculated for all classes, by applying the pro rata temporis method, based on the gross premiums posted to the accounts, net of acquisition costs, as identified by articles 51 and 52 of the aforementioned Decree and subsequent measures.
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, to meet all costs for claims that may affect the contracts that have given rise to the formation of reserves for premium portions.
The calculation procedure used to allocate funds to this reserve reflects the empirical method suggested by the Supervisory Authority in its circular no. 360/D of 21/1/99, applied separately to each class of business and, within the scope of some of these classes, for each type of risk included. The loss experience report used was also valued by taking into consideration a retrospective timescale in relation to individual classes of business.

Non-life Claims Reserve
The claims reserve represents the total amount of sums which, from a prudent valuation made on the basis of objective factors, are required to meet the payment of claims opened at the end of the year, as well as related settlement expenses.
The claims reserve was valued according to paragraph 2 of art. 33 of Legislative Decree 173/97, taking final cost as the valuation method, to take into consideration all future foreseeable charges, based on historic and prospective data. It also includes the estimate relating to losses which have occurred but have not been reported on the date the financial year closes.
The claims reserve posted to the balance sheet is the result of a complex, multi-phase technical valuation which starts from an initial valuation made by means of an analytical examination of individual positions taken, or by looking at average costs for current Motor TPL claims generated, followed by a process, entrusted to the company’s managerial structures, which uses statistical/actuarial methods with the aim of determining the final cost of claims.

Other technical reserves
In compliance with art. 25 of Legislative Decree 175 of 17/3/1995, the reserve for increasing age set up for insurance contracts providing cover against long-term illness and for which the company has waived the right of withdrawal. The reserve was calculated in accordance with the provisions of the 3rd paragraph of the aforementioned article.

Catastrophe and equalisation reserves
IFRS 4 "Insurance contracts" defines the insurance liability as a clear contractual obligation on the part of the insurer under the terms of an insurance contract.
Based on this definition, no components of the unearned premium reserve can be maintained in accounts prepared according to IAS/IFRS standards which, whilst obligatory according to Italian accounting principles as they are set aside to meet specific legislative requirements, relate not just to

individual insurance contracts but to all contracts covering certain catastrophe-type risks and are set aside, on the basis of fixed rates, in addition to the reserve for individual contract premium portions, calculated using the pro-rata temporis method, with the aim of reinforcing the reserves intended to cover these catastrophe-type risks.
These additional reserves are, however, not set aside following losses that have already occurred (which would trigger a contractual obligation on the part of the insurer, to be entered as a provision for outstanding claims) but to meet the possibility that losses of this nature could arise in the future. According to IFRS 4, such eventualities are not met with a liability but with a greater allocation to net equity.

Life Business Technical Reserves
Technical reserves for direct insurance relating to Life business are calculated analytically for each contract, purely on the basis of commitments without deductions for policy acquisition costs and by referring to actuarial assumptions (technical interest rates, demographic hypotheses of eliminations due to death or incapacity and operating expenses) adopted to calculate premiums for existing contracts. In any event, the mathematical reserves are not less than the surrender values. Premiums carried forward relating to portions of annual premiums appertaining to the subsequent year are not included in the technical reserves.
The technical reserves include, amongst other things, the additional reserve for service contracts subject to revaluation, as laid down by ISVAP Instruction 1801-G of 21/02/2001 and by art. 25 paragraph 12 of Legislative Decree 174/95.
These reserves fulfil obligations relating to life policies of an insurance nature and those with discretionary profit-sharing.

Shadow Accounting
In order to provide a better representation of the data we have used the option given in paragraph 30 of IFRS 4 to correlate the value of the mathematical reserve relating to contracts with discretionary profit-sharing by the policyholder (which include Life Business segregated accounts), with the value of related assets determined in accordance with IAS 39.
Securities included 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.

In addition, as we know, the return on securities entered under segregated accounts determines the return to be retroceded to policyholders and, therefore, influences the mathematical reserve amount.
An adjustment was, therefore, made to the technical reserves of contracts included in segregated accounts in line with the valuation of related assets, posting the difference to net equity (or to profit or loss). In this way, the technical reserves for these contracts take account of the policyholders' share of latent capital gains on securities included in segregated accounts which, on the basis of contractual clauses and current legislation, will only be paid to policyholders if, and when, the capital gains are realised with the disposal of the related assets, but which, in this context, is made clear, since the latent capital gains on said securities, as already stated, were recorded as an increase in net equity.

Please note that the methodology of recognition is adopted within the limits of safeguarding the minimum guaranteed return paid contractually, within each segregated account, for each guaranteed minimum line, so as not to prejudice policyholders' rights.
The aforementioned accounting approach makes it possible to reduce the mismatch in valuation between assets and liabilities, albeit partially.

"Liability Adequacy Test" or L.A.T.
According to IFRS 4, the insurance company must perform an adequacy test on the technical reserves posted to the accounts. This test must comply with some minimum requirements based on the best current estimate of flows relating to contracts in the portfolio at year end and related flows (such as, for example, settlement costs), as well as taking account of financial flows deriving from guarantees and implicit options.

Any shortfall in the technical reserves posted to the accounts in relation to the estimate of future cash flows, must be fully recognised in the profit and loss account.

On this point, please note that Italian legislation does not explicitly provide for specific adequacy tests on technical/insurance reserves. Special Italian provisions on insurance do, however, provide for some requirements which may be consistent with what is required by IFRS 4, although not meeting all the requirements.
In particular, for the Life sector, mathematical reserves are determined using demographic and financial analyses in order to determine the pure premium (first order technical bases), in turn supplemented by the so-called additional and supplementary technical reserves based on current hypotheses at the time of valuation (second order technical bases). In particular, these include:

- the reserve for projected yields referred to in ISVAP instruction no. 1801 which does not, however, extend the review to the entire duration of the contract;
- the supplementary reserve for demographic risk (ISVAP Instruction no. 1380);
- additional reserves for guaranteed results and/or return of capital (ex art. 30 Legislative Decree 174/95).

The Group has, therefore, developed a model which measures the adequacy of Life sector insurance liabilities the methodology and results of which are shown in section F on the uncertainty of insurance financial flows.

With reference, however, to the Non-life sector, the component of the unearned premium reserve which can be allocated to the reserve for unexpired risks, which must be set aside every time that the projected Non-life loss ratio is higher than that used to construct the tariff premium, is thought to represent a reasonable approximation of the liability adequacy test. As regards the claims reserve, however, Italian legislation lays down that this must be determined using final cost criterion, in the sense of the total sum paid to the beneficiary at the time of compensation. Even in this case, claims reserves determined using Italian accounting criteria based on the principle of final costs are considered to be inclusive of principal future cash flows without taking any discounting factors into consideration and so can be considered to be higher than the amount that would result from the application of the L.A.T. under IFRS 4.

4. FINANCIAL LIABILITIES

This microitem includes the financial liabilities regulated governed by IAS 39 other than trade payables as exemplified in IAS 32 AG4 (a).

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. In particular, the item includes obligations to policyholders for investment contracts not falling within the scope of application of IFRS 4, as well as those arising from pension fund management.
These categories include, therefore, liabilities relating to those products which have the features indicated in art. 30, paragraphs 1 and 2 of Legislative Decree 174/95, of the unit and index-linked type, whose limited significance in terms of the underlying insurance risk has led to the contract being reclassified from insurance to financial, as well as technical reserves arising from open-ended pension fund management.

In this case, the allocation to the profit and loss account of changes under fair value makes correlation with the valuation of the underlying assets possible, and this is in line both with what is stated by the European Commission on correlated valuations of assets and liabilities in the Explanatory memo of 19/11/2004, and with the version of IAS 39 updated in November 2005 as well as with the instructions given by ISVAP in Instruction no.2404/05.
The item also includes negative positions on existing derivative finance contracts at year end.

The item includes financial liabilities defined and governed by IAS 39 but not included in the previous category. In particular, this item includes the Group's financial and operating debt, such as subordinated loans (only for the financial component), deposits received from reinsurers and

miscellaneous loans and other financial payables.
It also includes investment contracts not falling within the scope of application of IFRS 4, other than those of a unit or index-linked type, such as, for example, the contracts referred to in art. 23 paragraph 5 of Legislative Decree 173/97.
These liabilities which, at first-time recognition, are posted at fair value, are subsequently valued at amortised cost determined using the effective interest method.

5. PAYABLES

This microitem includes the trade payables as exemplified in IAS 32 AG4 (a) governed by IAS 39. In particular, payables deriving from direct and indirect insurance operations as well as amounts set aside for payables to employees for staff-leaving indemnity are included.

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 while we await specific guidelines from the authorities, it was deemed appropriate to deal with staff-leaving indemnity under IAS 19 (employee benefits).
In particular, since this is a complex obligation, in so far 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.

Under EU Regulation No. 1910 published in the EUOJ on 24/11/2005 some amendments were made, amongst other things, to IAS 19 "Employee benefits". In particular, the possibility of recognising actuarial profits and losses direct under equity in the year in which they occur was laid down.

Long service bonuses under art. 30 CCNL *[National Collective Labour Agreement]*
The fund was set up for all insurance company employees who, at year end, have completed their 25th or 35th years of active service with the company on the basis of the annual salary due for payment on the date of disbursement. According to Italian accounting principles, the amount due for payment is set aside annually for each employee in service on that date. The fund is used for bonuses actually paid. This also falls within the scope of IAS 19, as it can be described as “other long term employee benefits”.

6. OTHER LIABILITIES

Current and deferred tax assets
The items include liabilities of a fiscal nature, as defined and governed by IAS 12.
Current and deferred tax liability for income taxes is valued on the basis of national tax rates in force on the date of the accounts.
In particular, deferred tax liabilities are, generally speaking, recognised in all cases of temporary differences, whether asset related or economic, intended to be repaid in future years. This includes taxes set aside for those reserves qualifying for holdover relief posted to share capital for the part which is assumed to be subject to taxation by virtue of decided or projected reductions in said capital.
At year end, current and deferred tax liabilities were shown net of corresponding tax assets in accordance with the off-setting rules laid down by IAS 12.

Profit and loss account

Insurance Contracts
From the date that IFRS 4 came into force (1 January 2005) all contracts have been classified by identifying those which, having an insignificant insurance-type risk component, although legally defined as insurance contracts, do not fall within the scope of application of IFRS 4. In particular, all contracts relating to Life Business, (apart from those with discretionary participation for which IFRS 4 lays down that accounting principles in force on the date of transition to IAS should be adopted) which do not come under the previous definition, must be entered in the same way as financial contracts

and, therefore, according to the rules laid down by IAS 39 (using the "deposit accounting" method). Contracts which do, however, comply with the definition laid down by IFRS 4 are entered according to the current rules laid down by Italian accounting principles and related reserves are subject to an adequacy test.

On the basis, therefore, of IAS/IFRS standards, insurance policies are classified in the following categories:

- insurance contracts and financial instruments with discretionary participation, which are subject to IFRS 4 (Insurance Contracts).
- other financial instruments, which are covered by IAS 39 (Financial instruments: recognition and measurement" and by IAS 18 "Income", for any service component.

Based on analyses performed on policies in the portfolio, all Non-life contracts fell within the scope of application of IFRS 4, and all Life contracts, with the exception of the prevalence of index-linked or unit-linked policies, were valued on the basis of the aforementioned IAS 39 and IAS 18 standards, or by unbundling the financial liability (valued at fair value through profit or loss) from the premium component relating to the service provided to policyholders, in accordance with IAS 18.

Premiums for the year
Gross premiums posted to the accounts include amounts accrued during the year for Insurance contracts, as defined by IFRS 4 (Insurance Contracts). This item does not, however, include revenue relating to policies which, although insurance contracts in legal terms, do not present a significant insurance risk and do not, therefore, fall within the scope of application of IAS 39 (Financial instruments: recognition and measurement) and IAS 18 (Revenue). These contracts are, in fact, dealt with using the "deposit accounting" method which provides, amongst other things, only for explicit and implicit loadings entered under the “commissions receivable” item to be posted to profit or loss.
Contracts which, on the other hand, fall within the scope of application of IFRS 4 are treated according to principles applicable to annual accounts. In particular, in accordance with art. 45 of Legislative Decree 173/1997 and the instructions contained in the ISVAP provision 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;

While they do not include the following, because they are allocated to the "other technical charges" item:

- write-downs due to inability to recover receivables from policyholders for premiums for the year, implemented 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.

Commissions receivable/payable
The items include commissions relating to investment contracts not falling within the scope of application of IFRS 4. As already referred to in the premiums item this relates to:

- index-linked contracts coming under class V “Capitalisation”,
- unit-linked contracts, for which the loadings on the contract and the management commissions receivable are entered under commissions receivable and, commission paid to intermediaries are entered under commissions payable.

Investment income

Net income deriving from financial instruments at fair value recognised through profit or loss

These include profits and losses, including dividends and net trading results and positive and negative changes in the value of financial assets and liabilities included in the "fair value through profit or loss" category. Changes in value are determined on the basis of the difference between the fair value and book value of financial instruments posted to that category.

Income and expenditure deriving from holdings in subsidiaries, associates and joint ventures
These include income 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 said participating interests.

Income and expenditure from other financial instruments and investment property
These items include:

- income and capital gains realised (and, corresponding charges and capital losses realised) on investments classified as "available for sale";
- income and expenditure for loans and receivables;
- income and expenditure relating to investment property.

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 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 assets.

Net charges relating to claims
This item includes:

- amounts paid, net of recoveries,
- changes in claims reserves and other Non-life technical reserves;
- changes in mathematical reserves and other Life technical reserves;
- changes in technical reserves relating to contracts for which the investment risk is borne by policyholders in relation to insurance contracts and financial instruments falling within the scope of application of IFRS 4.

The amounts posted include settlement costs, both paid and posted to reserves, which include all expenses relating to the investigation, assessment, valuation and settlement of claims and which were allocated to individual classes of business depending on the claim amounts and the sums paid, taking account of their different impacts.

Investment charges

Charges from holdings in subsidiaries, associates 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 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, in particular:

- interest payable recorded using the effective interest method;
- other charges and, in particular, costs relating to investment property, such as shared 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 value adjustments (impairment).

Operating expenses

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 custody and administration costs

Other administration costs
This item includes general and staff costs not allocated to charges relating to claims, to acquisition costs for insurance contracts and to investment management costs. It includes, in particular, general and staff costs of entities which perform financial activities which differ from those of insurance companies, not allocated elsewhere, as well as general and staff costs incurred for the acquisition and administration of investment contracts not falling within the scope of application 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;
- amounts set aside over 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 assets.

Taxes

Income taxes posted to profit or loss include all current and deferred taxes calculated on Group income on the basis of nominal tax rates in force on the date of the accounts, excluding those which can be posted direct to net equity since they relate to adjustments to balance sheet assets and liabilities posted direct to net equity.
In greater detail, this item includes:

- charges (or income) for current taxes applicable to the financial year and any adjustments made over the year for current surplus taxes relating to previous years;
- deferred tax charges (o income) relating to the emergence and repayment over the year of temporary tax differences as well as deferred tax adjustments set aside in previous years, particularly following changes in tax rates;

- the amount of deferred or advance taxes drawn or repaid over the year to meet the failure to fulfil the conditions for the cancellation, in years to come, of the temporary tax differences from which they originated;
- the amount of tax charges (or income) relating to changes in accounting principles, valuation processes, estimates or errors in respect of in previous years.

Other information

Stock option plans
Accounting standard IFRS 2 “Share-based payments” provides for mandatory posting to profit or loss of implicit costs linked to employee stock ownership plans. In the case of stock options, regulations require the Company to recognise in the accounts the service received, or else the occupation of the individuals benefiting from the stock options, the latter being valued at the fair value of the shares/options paid. The consequence of this accounting policy is that stock option plans have to increase the labour cost recorded in the consolidated accounts. To this end, it was necessary to identify appropriate valuation models to determine the fair values of options and, indeed, of the labour cost to be recorded in the accounts. Calculation methodologies and information required by IFRS 2 are given in the notes to the accounts.

The fair value of the option was calculated by using the Black-Scholes-Merton model. This is the most widespread European-type option valuation model, on the basis of 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 time, whilst it is a decreasing function of the strike price and projected dividends.
In other words, an option’s value is given by the difference between two amounts:

- the current market value of the underlying security discounted at the same rate as the projected dividend;
- the strike price of the underlying security discounted at the same rate as for the use of risk-free capital;

both amounts were, in turn, probabilised to measure the probability that the value of the underlying security would remain higher than the option’s strike price.

In particular, the plans adopted by Fondiaria-SAI fall within the requirements of said IFRS 2 - Appendix B paragraph 5 – which permits the use of this valuation method for non long-term options or options which, in any event, have to be exercised within a short space of time after the option maturity date. In addition, the fact that the two stock option plans examined did not provide for the possibility of exercising the option prior to maturity permits, by express provision of IFRS 2, the application of the Black-Scholes model.

The results deriving from use of the model are also validated by means of the application of alternative numerical procedures. In particular, use was made of the method of binomial and trinomial tree methods as validation and auditing tools. Part H of the notes to the accounts gives further details of stock option plans.

Segment information disclosures
The Group's primary reporting is by business segment as shown:

- Non-life sector comprising companies which supply insurance to cover the events indicated in art. 2 paragraph 3 of Legislative Decree 209/2005;
- Life sector which includes companies which offer insurance consisting of the payment of capital or of a return should an event appertaining to human life occur;
- Property sector comprising companies which rent out offices, buildings and dwellings that are surplus to the requirements of the Group’s technical/insurance reserve cover and are active in the investment property management and development market;
- the Other Activities segment which includes the remaining activities performed by Group companies.

Inter-company credits/debits and income/expenditure are cancelled out directly within the business sector to which the companies belong if they operate within the same sector: if the inter-company operation relates to companies operating in different sectors, related data is shown under “Intersegmental overlap”.

The following are dealt with elsewhere:

- profit-sharing accounts, cancelled out within the scope of the sector in which the companies holding the assets operate;
- dividends, cancelled out within the segment in which the companies collecting said dividends operate;
- realised capital gains/losses, cancelled out within the sector to which the companies that have realised the related profits/losses belong;

even if the counterparties operate in different sectors.

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 from estimates made under different operating conditions.

The use of estimates and valuations mainly relates to the following items:

- technical reserves
- employee benefits
- goodwill;
- VOBA (value on business acquired).

Please refer to previous references to accounting principles and valuation criteria for detailed information on the methodologies used to determine the items mentioned above and for the performance of impairment tests on goodwill posted.

Section 5 – Basis of consolidation

As at 31/12/2006 the Fondiaria-SAI Group consisted of a total of 122 companies, including the Parent Company, 21 of which operate in the insurance sectors; 2 in the banking sector,; 45 in the property and agricultural sectors; 20 in the financial sector; 3 in SIM and SGR with the remainder being various service sector companies. 15 companies have their registered office abroad.

There are 86 fully consolidated companies, including the Parent Company, 15 are consolidated using the net equity method whilst the rest are valued at book value or consolidated using the proportional method.

There are 99 subsidiaries, 39 of which are controlled direct by the Parent Company.

Due to the introduction of IAS/IFRS the Group fully consolidates all subsidiaries even if they perform dissimilar activities.
Only subsidiaries which, due to their limited size or the nature of the activity performed, are totally immaterial for the purposes of these accounts, are excluded.
In particular, companies excluded from the basis of consolidation, for which please refer to the analytical list at the bottom of this paragraph (subsidiaries and associates valued at cost), present balance sheet values that are individually and cumulatively irrelevant to the Group's consolidated accounts. There are 21 of these companies in total.
These exclusions are, therefore, a direct result of the requirement that balance sheet information must be significant, in line with both the requirements expressed in the Framework, and with IAS 1.

With reference to the main variations in the basis of consolidation please note:

- acquisition of 99.97% of the LIGURIA S.p.A. insurance company and, consequently, control of LIGURIA VITA S.p.A. and the subsidiaries LIGURIA DIREZIONE S.p.A. and GLOBAL CARD

SERVICE S.r.l;

- purchase by Fondiaria-SAI S.p.A of a 51% capital share of FINECO ASSICURAZIONI S.p.A. (now known as CAPITALIA ASSICURAZIONI S.p.A.);
- purchase of a 60% holding in BANCA GESFID S.A..
- acquisition via Milano Assicurazioni S.p.A. of a 50% holding in the BIPIEMME VITA S.p.A. insurance company;
- acquisition by Casa di Cura Villanova S.r.l. of control of the company FLORENCE CENTRO DI CHIRURGIA AMBULATORIALE S.r.l.;
- final dissolution of LAWRENCE LIFE AG, already placed in liquidation on 31/12/2005, .

For further details of the aforementioned operations please refer to "PART G – Information relating to business combinations".

The Fondiaria-SAI Group basis of consolidation also presented the following additional variations:

- acquisition by Scai S.p.A. of a 100% shareholding in the DIANOS S.p.A service company;
- purchase of 18% of the EX VAR S.C.S. property company, Immobiliare Lombarda also holding a 10% interest;
- acquisition by Immobiliare Lombarda of a 20% holding in the newly formed company PENTA DOMUS and a 40% holding in the SVILUPPO CENTRO EST property company;
- increase in Immobiliare Lombarda S.p.A.'s holding in the BORSETTO S.r.l. property company from 31% to 44.93%, with the Group interest rising from 16.825 to 24.38%;
- acquisition by Fondiaria-SAI S.p.A. of a 100% capital interest in MANTEGNA S.r.l. from Immobiliare Lombarda S.p.A.;
- acquisition by Fondiaria-SAI of a 51% holding in the newly formed service company FONDIARIA-SAI SERVIZI TECNOLOGICI S.r.l.;
- elimination of the interest held by Effe Finanziaria S.p.A. and reduction in the interest held by Fondiaria-SAI (down from 58.27% to 57.21%) in MILANO ASSICURAZIONI S.p.A.;
- disposal of the interest held by Siat S.p.A. in LOGISTIQUE, CONSEILS, SERVICES S.A.;
- sale of the interest held by Immobiliare Lombarda in S.E.P.I. - SERVIZI E PROGETTAZIONI IMMOBILIARI 97 S.r.l.;
- full disposal of the interest held by Group companies in the RITA S.c.a.r.l. service company;

With the aim of continuing with corporate integration so as to make the most of structural and procedural synergies, please note that during the course of 2006, SAIFIN-SAIFINANZIARIA S.p.A. sold its 100% holding in FINITALIA S.p.A.,to BANCASAI Sp.A..
Although the operation did not change the structure of the Group, it was a major operational initiative aimed at greater coordination of the Group's non-insurance activities. In addition, the formation of the Banking Group has made it possible to add value in the medium/long-term due to Finitalia taking the opportunity to keep supply costs down.

Please note that the subsidiary Italiberia Proyectos y Promiociones Immobiliaria S.A. has changed both its company name (to ITALIBERIA INVERSIONES FINANCIERAS SL), and its area of business (becoming a holding company) following the increase in capital by means of the transfer of goods in kind (Spanish bonds) subscribed for by Fondiaria-SAI. The company is now fully consolidated, in so far as it has resumed operations.

We also note that the subsdiaiary Uniservizi S.c.a.r.l. controls, pursuant to art. 2359, paragraph 1 no. 3 of the Italian Civil Code, the service companies Wave Technology S.r.l. and Wave Logistica S.r.l. (the Parent Company has a 15% interest in the latter).

Finally, full consolidation of the Tikal R.E. closed-end investment fund, in which the Group has a controlling interest and determines management policy guidelines, continues. This approach is in line with the requirements in this respect laid down by IAS 27 and, in particular, with its Basis for conclusion.

	Sector	Percentage control		Group holding
		Direct	Indirect	
SUBSIDIARIES				
Fully consolidated companies:				
BANCA GESFID S.A. Lugano (CH) Share Cap. Swiss francs 10,000,000	Banking	60.00		60.00
Fondiaria-SAI S.p.A. Turin Share Cap. € 116,677,161	Banking	100.00		100.00
BIM VITA S.p.A. Turin Share Cap. € 7,500,000	Life Insurance	50.00		50.00
BRAMANTE S.r.l. Milan Share Cap. € 10,000	Property		IMMOBILIARE LOMBARDA S.p.A. 100.00	54.22
Campo Carlo Magno S.p.A. Trento Share Cap. € 1,312,500	Property		MILANO ASSICURAZIONI S.p.A. 100.00	60.10
Carlo Magno Sport s.r.l. Pinzolo (TN) Share Cap. € 87,000	Other		MILANO ASSICURAZIONI S.p.A. 100.00	60.10
CAPITALIA ASSICURAZIONI S.p.A. (Formerly FINECO ASSICURAZIONI) Milan Share Cap. € 5,.200,000	Non-life insurance	51.00		51.00
CARPACCIO S.r.l. Milan Share Cap. € 10,000	Property		IMMOBILIARE LOMBARDA S.p.A. 100.00	54.22
CASA DI CURA VILLA DONATELLO S.p.A. Florence Share Cap. € 361,200	Services	100.00		100.00
CASA DI CURA VILLANOVA S.r.l. Florence Share Cap. € 182,000	Services	100.00		100.00
CASCINE TRENNO S.r.l. Turin Share Cap. € 10,000	Property		IMMOBILIARE LOMBARDA S.p.A. 100.00	54.22
COLPETRONE S.r.l. Umbertide (PG) Share Cap. € 10,000	Agriculture		SAIAGRICOLA S.p.A.100.00	97.29

	Sector	Percentage control		Group holding
		Direct	Indirect	
CONSORZIO CASTELLO Florence Share Cap. € 51,000	Property		NUOVE INIZIATIVE TOSCANE S.r.l. 99.66	98.42
CONSULENZA AZIENDALE PER L'INFORMATICA SCAI S.p.A. Turin Share Cap. € 1.040.000	Services	30.07		30.07
COS.ED S.p.A. in liquidation Milan Share Cap. € 120,000	Property		IMMOBILIARE LOMBARDA S.p.A. 100.00	54.22
CRIVELLI S.r.l. Milan Share Cap. € 10,000	Property		IMMOBILIARE LOMBARDA S.p.A. 100.00	54.22
DIALOGO ASSICURAZIONI S.p.A. Milan Share Cap. € 8,831,774	Non-life insurance		MILANO ASSICURAZIONI S.p.A. 99.85	60.01
DOMINION INSURANCE HOLDING Ltd London (GB) Share Cap. GBP € 35,438,267.65	Financial	100.00		100.00
EFFE FINANZIARIA S.p.A. Florence Share Cap. € 516,500	Financial		THE LAWRENCE RE IRELAND Ltd 100.00	100.00
EFFE VITA COMPAGNIA DI ASS.NI SULLA VITA S.p.A. Florence Share Cap. € 6,240,000	Life Insurance	100.00		100.00
EUROPA TUTELA GIUDIZIARIA S.p.A. Milan Share Cap. € 5,160,000	Non-life insurance	100.00		100.00
EUROSAI FINANZIARIA DI PARTECIPAZIONI S.r.l. Turin Share Cap. € 1,305,600	Financial		SAIFIN-SAIFINANZIARIA S.p.A. 100.00	100.00
FINITALIA S.p.A. Milan Share Cap. € 15.376.285	Financial		BANCA SAI S.p.A. 100.00	100.00
FINSAI INTERNATIONAL S.A. Luxemburg Share Cap. € 22,801,140	Financial	38.53	SAILUX S.A. 61.474	100.00
FLORENCE CENTRO DI CHIRURGIA AMBULATORIALE S.r.l. Florence Share Cap. € 10,400	Services		CASA DI CURA VILLANOVA S.r.l. 100.00	100.00

	Sector	Percentage control		Group holding
		Direct	Indirect	
FONDIARIA NEDERLAND B.V. Amsterdam (NL) Share Cap. € 19,070	Financial	100.00		100.00
FONDIPREV - Compagnia di Assicurazioni sulla Vita S.p.A. Florence Share Cap. € 6,240,000	Life Insurance	40.00	MILANO ASSICURAZIONI S.p.A. 60.00	76.06
IMMOBILIARE LITORELLA S.r.l. Milan Share Cap. € 10,329	Property		IMMOBILIARE LOMBARDA S.p.A. 100.00	54.22
IMMOBILIARE LOMBARDA S.p.A. Milan Share Cap. € 697,907,753.59	Property	50.12	MILANO ASSICURAZIONI S.p.A. 6.83	54.22
INIZIATIVE VALORIZZAZIONI EDILI – IN.V.ED. S.r.l. Rome Share Cap. € 10,329	Property		IMMOBILIARE LOMBARDA S.p.A. 100.00	54.22
INSEDIAMENTI AVANZATI NEL TERRITORIO I.A.T. S.p.A. Rome Share Cap. € 2,580,000	Property		IMMOBILIARE LOMBARDA S.p.A. 100.00	54.22
ITALIBERIA INVERSIONES FINANCIERAS SL Madrid Share Cap. € 62,030,000	Financial	100.00		100.00
LIGURIA SOCIETA' DI ASSICURAZIONI S.p.A. Segrate (Mi) Share Cap. € 23,000,000	Non-life insurance	99.97		99.97
BIM VITA S.p.A. Segrate (Mi) Share Cap. € 6,000,000	Life Insurance		LIGURIA S.p.A. 100.00	99.97
MAA FINANZIARIA S.p.A. Milan Share Cap. € 774,000	Financial		MILANO ASSICURAZIONI S.p.A. 100.00	60.10
MANTEGNA S.r.l. Milan Share Cap. € 10,000	Property	100.00		100.00
MASACCIO S.r.l. Milan Share Cap. € 10,000	Property		IMMOBILIARE LOMBARDA S.p.A. 100.00	54.22
MERIDIANO AURORA S.r.l. Milan Share Cap. € 10,000	Financial	100.00		100.00

	Sector	Percentage control		Group holding
		Direct	Indirect	
MERIDIANO BELLARMINO S.r.l. Turin Share Cap. € 10,000	Property		IMMOBILIARE LOMBARDA S.p.A. 100,00	54.22
MERIDIANO BRUZZANO S.r.l. Turin Share Cap. € 10,000	Property		IMMOBILIARE LOMBARDA S.p.A. 100.00	54.22
MERIDIANO EUR S.r.l. Milan Share Cap. € 10,000	Property		MILANO ASSICURAZIONI S.p.A. 100.00	60.10
MERIDIANO ORIZZONTI S.r.l. Milan Share Cap. € 10,000	Financial		MILANO S.p.A. 100.00	60.10
MERIDIANO PRIMO S.r.l. Turin Share Cap. € 10,000	Property		IMMOBILIARE LOMBARDA S.p.A. 100.00	54.22
MERIDIANO QUARTO S.r.l. Turin Share Cap. € 10,000	Property		SAI HOLDING ITALIA S.p.A 100.00	100.00
MERIDIANO RISPARMIO S.r.l. Milan Share Cap. € 10,000	Property	100.00		100.00
MERIDIANO SECONDO S.r.l. Turin Share Cap. € 10,000	Property		IMMOBILIARE LOMBARDA S.p.A. 100.00	54.22
MERIDIANO TERZO S.r.l. (formerly FINANZA & PREVIDENZA S.p.A.) Turin Share Cap. € 10,000	Property		SAI HOLDING ITALIA S.p.A 100.00	100.00
MILANO ASSICURAZIONI S.p.A. Milan Share Cap. € 242,980,050.04	Mixed Insurance	57.21	FONDIARIA NEDERLAND BV 1.91 NOVARA VITA 0.02 PRONTO ASSISTANCE 0.07 SAI HOLDING 0.65 SAINTERNATIONAL 0.25	60.10
MIZAR S.r.l. Rome Share Cap. € 10,329	Property		IMMOBILIARE LOMBARDA S.p.A. 100.00	54.22
NOVARA ASSICURA S.p.A. Novara Share Cap. € 13,000,000	Non-life insurance		MILANO ASSICURAZIONI S.p.A. 100.00	60.10
NOVARA VITA S.p.A. Novara Share Cap. € 54,000,000	Life Insurance		SAI HOLDING ITALIA S.p.A 50.00	50.00
NUOVA IMPRESA EDIFICATRICE MODERNA S.r.l. Rome Share Cap. € 10,329	Property		IMMOBILIARE LOMBARDA S.p.A. 100.00	54.22

	Sector	Percentage control		Group holding
		Direct	Indirect	
NUOVE INIZIATIVE TOSCANE S.r.l. Florence Share Cap. € 26,000,000	Property	96.88	MILANO ASSICURAZIONI S.p.A. 3.12	98.76
PORTOBELLO S.p.A. Milan Share Cap. € 5,536,000	Property		IMMOBILIARE LOMBARDA S.p.A. 100.00	54.22
PORTOFINO VETTA S.r.l. Florence Share Cap. € 10,400	Property	100.00		100.00
PROGETTO BICOCCA LA PIAZZA S.r.l. Milan Share Cap. € 3,151,800	Property		IMMOBILIARE LOMBARDA S.p.A. 74.00	40.12
PRONTO ASSISTANCE S.p.A. Turin Share Cap. € 2,500,000	Non-life insurance	100.00		100.00
PRONTO ASSISTANCE SERVIZI S.p.A. Turin Share Cap. € 516,000	Services		PRONTO ASSISTANCE S.p.A. 60.00 SAIFIN-SAIFINANZIARIA S.p.A. 40.00	100.00
RISTRUTTURAZIONI EDILI MODERNE – R.EDIL.MO S.r.l. Rome Share Cap. € 10,329	Property		IMMOBILIARE LOMBARDA S.p.A. 100.00	54.22
SAI ASSET MANAGEMENT SGR S.p.A. (FORMERLY EFFE GESTIONI) Milan Share Cap. € 5,000,000	Asset Management	100.00		100.00
SAI HOLDING ITALIA S.p.A 100.00 Turin Share Cap. € 143,100,000	Financial	100.00		100.00
SAI INVESTIMENTI S.G.R. S.p.A. Turin Share Cap. € 3,913,588	Asset Management Company	40.00	MILANO ASSICURAZIONI S.p.A. 40.00	64.04
SAI MERCATI MOBILIARI SIM S.p.A. Milan Share Cap. € 20,000,000	Securities firm	100.00		100.00
SAIAGRICOLA S.p.A. SOCIETA' AGRICOLA Turin Share Cap. € 50,000,000	Agriculture	92.004	MILANO ASSICURAZIONI S.p.A. 6.804 PRONTO ASSISTANCE S.p.A. 1.192	97.29
SAIFIN-SAIFINANZIARIA S.p.A. Turin Share Cap. € 102,258,000	Financial	100.00		100.00

	Sector	Percentage control		Group holding
		Direct	Indirect	
SAILUX S.A. Luxemburg Share Cap. € 30,000,000	Financial		SAIFIN-SAIFINANZIARIA S.p.A. 99.99 FINSAI INT. 0,010	100.00
SAINTERNATIONAL S.A. Luxemburg Share Cap. € 154,000,000	Financial	99.99		99.999
SALEVOX S.r.l. Turin Share Cap. € 50,000	Services		STARVOX S.p.A. 100.00	100.00
SANTA MARIA DEL FICO S.r.l. Umbertide (PG) Share Cap. € 78,000	Agriculture		SAIAGRICOLA S.p.A. 100.00	100.00
SASA ASSICURAZIONI RIASSICURAZIONI S.p.A. Trieste Share Cap. € 52,000,000	Non-life insurance	99.99		99.99
SASA VITA S.p.A. Trieste Share Cap. € 10,000,000	Life Insurance	50.00	SASA ASS.NI RIASS.NI S.p.A. 50.00	100.00
SERVICE GRUPPO FONDIARIA-SAI S.r.l. Florence Share Cap. € 104.000	Services	70.00	MILANO ASSICURAZIONI S.p.A. 30.00	88.03
SIAT SOCIETÀ ITALIANA ASSICURAZIONI E RIASSICURAZIONI S.p.A. Genoa Share Cap. € 38.000.000	Non-life insurance		SAI HOLDING ITALIA S.p.A 88.33	88.33
SIM ETOILE S.A. Paris Share Cap. € 3,049,011.34	Property	99.99		99.99
SOGEINT S.r.l. Milan Share Cap. € 100,000	Other		MILANO ASSICURAZIONI S.p.A. 100.00	60.10
SRP Asset Management S.A. Lugano Share Cap. Swiss francs 1,000,000	Services		SAINTERNATIONAL S.A. 100.00	100.00
STARVOX S.p.A. Turin Share Cap. € 258,000	Services	100.00		100.00
STIMMA S.r.l. Florence Share Cap. € 10,000	Property	100.00		100.00

	Sector	Percentage control			Group holding
		Direct	Indirect		
SYSTEMA COMPAGNIA DI ASSICURAZIONI S.p.A. Milan Share Cap. € 5,164,600	Non-life insurance		MILANO ASSICURAZIONI S.p.A.	100.00	60.10
THE LAWRENCE RE IRELAND LTD. Dublin (IRL) Share Cap. € 635,000	Non-life insurance		FONDIARIA NEDERLAND	100.00	100.00
THE LAWRENCE LIFE ASSURANCE CO. LTD. Dublin (IRL) Share Cap. € 802,886	Life Insurance		FONDIARIA NEDERLAND	100.00	100.00
TIKAL. R.E. FUND			MILANO ASSICURAZIONI S.p.A. MERIDIANO RISPARMIO S.p.A. MERIDIANO EUR S.p.A.	15.31 5.72 19.11	
	Property	50.68			77.09
TRENNO OVEST S.r.l. Turin Share Cap. € 10,000	Property		IMMOBILIARE LOMBARDA S.p.A.	100.00	54.22
UNISERVIZI Gruppo Fondiaria S.c.a.r.l. Milan Share Cap. € 5,.200,000	Services	63.37	MILANO ASSICURAZIONI EFFE VITA SYSTEMA COMPAGNIA DIALOGO ASSICURAZIONI EFFE GESTIONI EUROPA TUTELAGIUDIZIARIA FINITALIA THE LAWRENCE RE IRELAND THE LAWRENCE LIFE ASSURANCE BANCA SAI S.p.A. FONDIPREV IMMOBILIARE LOMBARDA PRONTO ASSISTANCE SAI AGRICOLA SAINVESTIMENTI SAISIM SASA SASAVITA SERVICE GRUPPO FONDIARIA-SAI SIAT SISTEMI SANITARI STARVOX	28.00 0.02 0.18 0.20 0.02 0.02 0.02 0.02 0.02 0,02 0.02 0.02 0.90 0.02 0.02 0.02 5.85 0.34 0.02 0.84 0.02 0.02	88.51
VILLA RAGIONIERI S.r.l. Florence Share Cap. € 78,000	Property	100.00			100.00

Companies consolidated using the proportional method:

Bipiemme Vita S.p.A. Milan Share Cap. € 45,500.000	Life Insurance		MILANO ASSICURAZIONI S.p.A.	50.00	30.05

	Sector	Percentage control		Group holding
		Direct	Indirect	
PO VITA COMPAGNIA DI ASSICURAZIONI S.p.A. Parma Share Cap. € 114.200.000	Life Insurance		SAI HOLDING ITALIA S.p.A 50.00	50.00
Companies valued at book value:				
AGRISAI S.r.l. Turin Share Cap. € 61,000	Services		SAIAGRICOLA S.p.A. 99.00 SAIFIN-SAIFINANZIARIA S.p.A. 1.00	97.31
BELTION GESTIONI PATRIMONIALI S.A. (in liq.) Chiasso Share Cap. CHF 1,000,000	Financial		BANCA GESFID S.A. 100.00	60.00
DELTAPRIME S.r.l. Turin Share Cap. € 24,500	Services		SCAI S.p.A. 51.02	15.34
DIANOS S.p.A. Collegno (To) Share Cap. € 120,000	Services		SCAI S.p.A. 100.00	30.07
EURO C.S. S.r.l. Venice Share Cap. € 400,000	Services		SCAI S.p.A. 51.00	15.34
FONSAI MB&A- SPA MERCANT BANKING & ADVISORY Milan Share Cap. € 800,000	Financial	100.00		100.00
GLOBAL CARD SERVICE S.r.l. Segrate (Mi) Share Cap. € 98.800	Services		LIGURIA VITA S.p.A. 51.00	50.98
LIGURIA DIREZIONE S.r.l. (in liquidation) Treviso Share Cap. € 36,400	Services		LIGURIA S.p.A. 100.00	99.97
NEXT SOLUTION S.r.l. Bologna Share Cap. € 60,000	Services		SCAI S.p.A. 63.00	18.94
SAI Sistemi Assicurativi S.r.l. Turin Share Cap. € 51,000	Services	99.00	SAIFIN-SAIFINANZIARIA S.p.A. 1.00	100.00
TELVOX S.r.l. Turin Share Cap. € 150,000	Services		SCAI S.p.A. 100.00	30.07
WAVE TECHNOLOGIES* Bedizzole (BS) Share Cap. € 99,500	Services	15.00		15.00

Company controlled by UNISERVIZI GRUPPO FONDIARIA pursuant to art. 2359, paragraph 1 no. 3, of the Italian Civil Code, even though it does not have any shares in said company

	Sector	Percentage control		Group holding
		Direct	Indirect	
ASSOCIATE COMPANIES				
Companies valued using the net equity method:				
A 7 S.r.l. Milan Share Cap. € 200,000	Property		IMMOBILIARE LOMBARDA S.p.A. 20.00	10.84
BORSETTO S.r.l. Turin Share Cap. € 1,255,322.11	Property		IMMOBILIARE LOMBARDA S.p.A. 44.93	24.26
CITY LIFE S.r.l. Milan Share Cap. € 150,000	Property		IMMOBILIARE LOMBARDA S.p.A. 26.67	14.44
EX VAR S.C.S. Luxemburg Share Cap. € 307,692	Financial	18.00	IMMOBILIARE LOMBARDA S.p.A. 10.00	23.42
FIN. PRIV S.r.l. Milan Share Cap. € 20,000	Financial	28.57		28.57
FINADIN S.p.A. Milan Share Cap. € 50,000,000	Financial		SAIFIN-SAIFINANZIARIA S.p.A. 40.00	40.00
FONDIARIA-SAI SERVIZI TECNOLOGICI S.r.l. Florence Share Cap. € 10,000	Services	51.00		51.00
GARIBALDI S.C.S. Luxemburg Share Cap. € 1,001	Financial		MILANO ASSICURAZIONI S.p.A. 47.952	28.82
METROPOLIS S.p.A. Florence Share Cap. € 120,000	Property		IMMOBILIARE LOMBARDA S.p.A. 29.73	16.12
PENTA DOMUS S.p.A. Turin Share Cap. € 120,000	Property		IMMOBILIARE LOMBARDA S.p.A. 20.00	10.84
PROGETTO ALFIERE S.p.A. Rome Share Cap. € 120,000	Property		IMMOBILIARE LOMBARDA S.p.A. 19.00	10.30
SERVIZI IMMOBILIARI MARTINELLI S.p.A. Cinisello Balsamo (Mi) Share Cap. 100,000	Property		IMMOBILIARE LOMBARDA S.p.A. 20.00	10.84

	Sector	Percentage control		Group holding
		Direct	Indirect	
SISTEMI SANITARI S.p.A. Milan Share Cap. € 1,872,000	Other	22.54	MILANO ASSICURAZIONI S.p.A. 25.71	37.99
SOCIETA' FUNIVIE DEL PICCOLO SAN BERNARDO S.p.A. La Thuile (AO) Share Cap. € 9,213,417.5	Other		IMMOBILIARE LOMBARDA S.p.A. 27.38	14.85
SVILUPPO CENTRO EST S.r.l. Rome Share Cap. € 10,000	Property		IMMOBILIARE LOMBARDA S.p.A. 40.00	21.69

Companies valued at book value:

CESTAR CENTRO STUDI AUTO RIPARAZIONI Scarl Pero (MI) Share Cap. € 2,040,000	Services	14.664	SASA S.p.A. 0.006 MILANO S.p.A. 11.35 Liguria S.p.A. 0.149	21.64
INFOMEDIA ITALIA IMI S.r.l. Turin Share Cap. € 52,000	Services		SCAI S.p.A. 20.00	6.01
MB VENTURE CAPITAL FUND I PARTECIPATING COMPANY DI N.V. Amsterdam Share Cap. € 50,000	Other	30.00		30.00
SOCIETA'FINANZ PER LE GEST.ASSICURATIVE S.r.l. in liquid. Rome Share Cap. € 47,664,600	Financial	14.907	MILANO S.p.A. 7.504	19.42
SOAIMPIANTI - ORGANISMI DI ATTESTAZIONE S.p.A. in liquidation Milan Share Cap. € 588,892	Other	21.637		21.637
UFFICIO CENTRALE ITALIANO S.c.a.r.l. Milan Share Cap. € 510,000	Other	14.136	SIAT S.p.A. 0.095 MILANO ASSICURAZIONI S.p.A. 10.975 NOVARA ASSICURA S.p.A. 0.001 LIGURIA S.p.A. 0.309	20.82

PART B – Notes to the 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	1,013,370	872,393	140,977
Other intangible assets	160,117	54,132	105,985
TOTAL	**1,173,487**	**926,525**	**246,962**

Goodwill
In accordance with what is laid down by IFRS 3.75, a reconciliation of goodwill book value at the beginning and end of the financial year is given below

(€K)	2006	2005
Value at the start of the financial year	872,393	865,263
Accumulated impairment losses (-)	-	-
Increases over the period	141,662	7,130
Reductions for disposals and reclassifications	-	-
Losses in value for the period	(685)	-
Exchange differences	-	-
Other variations	-	-
Value at the end of the financial year	**1,013,370**	**872,393**

Increases over the period relate solely to business acquisitions and combinations carried out in 2006. In particular, please note the following:

- € 68.8m relating to the acquisition of the Liguria Assicurazioni Group;
- € 51.0m relating to the purchase of 51% of Capitalia Assicurazioni S.p.A.;
- € 20.6m relating to the purchase, by the subsidiary Milano, of 50% of the joint venture in BPM Vita S.p.A.;
- € 1.3m relating, finally, to the purchase, by the subsidiary Casa di Cura Villanova S.r.l., of a holding in the company Florence Centro di Chirurgia Ambulatoriale S.r.l..

The loss in value recorded over the period relates to residual goodwill for the Profilo Life portfolio.

On the other hand, no provision was made to record any goodwill following the purchase of 60% of

Banca Gesfid S.p.A. since the difference in price in respect of the participating interest's assets expressed at fair value, was posted, in full, to specific intangible assets.

A summary is given of the origin of each individual goodwill-related posting:

(€K)	31/12/2006	31/12/2005	Variation
Goodwill deriving from the incorporation of La Fondiaria	504,763	504,763	0
Goodwill relating to the subsidiary Milano Assicurazioni	167,379	167,379	0
Other goodwill	2,709	3,394	(685)
Consolidation differences	338,519	196.857	141,662
TOTAL	**1,013,370**	**872,393**	**140,977**

The same items are shown in greater detail below:

(€K)

	2006	2005
Fondiaria-SAI: incorporation of Fondiaria assicurazioni in 2002	276,592	276,592
Fondiaria-SAI: capital contribution 1990	162,684	162,684
Fondiaria-SAI: incorporation of Fondiaria Assicurazioni in 1995	65,488	65,488
Milano Ass.ni: acquisition of Card premiums portfolio in 1991	33,053	33,053
Milano Ass.ni: incorporation of Lloyd Internazionale in 1991	17,002	17,002
Milano Ass.ni: acquisition of Latina Assicurazioni business in 1992	34,522	34,522
Milano Ass.ni: contribution of the La Previdente Assicurazioni life portfolio in 1992	16,463	16,463
Consolidation Difference:		
On Milano Assicurazioni consolidation	179,201	179,201
On Milano Assicurazioni for the former Previdente Vita	3,275	3,275
On Milano Assicurazioni for Dialogo Assicurazioni	49	49
Total Fondiaria-SAI Group goodwill arising from the aggregation of the Fondiaria Group	**788,329**	**788,329**
Milano Group goodwill prior to aggregation of the Fondiaria Group		
Milano Ass.ni: acquisition of the MAA Ass.ni portfolio by Nuova MAA	65,134	65,134
Milano Ass.ni: acquisition by SIS of the Ticino portfolio in 1995	152	152
Total	**853,615**	**853,615**

(€K)

Other goodwill	2006	2005
Goodwill relating to the transfer, in 2001, of the portfolio of the subsidiary Profilo Life	3,761	4,447
Consolidation differences:		
On Gruppo Liguria Assicurazioni	68,793	0
On Capitalia Assicurazioni	51,003	0
On SASA Danni S.p.A.	8,424	8,424
On Immobiliare Lombarda for Portobello S.p.A.	5,908	5,908
On Milano Assicurazioni for Bipiemme Vita S.p.A.	20,587	0
On Florence Centro di Chirurgia Ambulatoriale S.r.l.	1,279	0
Total other goodwill	**159,755**	**18,779**
Total Group goodwill	**1,013,370**	**872,393**

The Group verifies the recoverability of the goodwill allocated to CGU - Cash Generating Units - at least once a year or more frequently if there are signs of losses in value.
In fact, on the basis of IAS 36 “Impairment of assets”, IAS 38 “Intangible assets” and IFRS 3 “Business combinations”, since goodwill is an asset with an undefined life, it is no longer systematically amortised but is subject to a recoverability check, known as an impairment test, for the purposes of identifying any loss in value.

Goodwill allocated during first-time adoption on the date of transfer to IFRS-IAS (1 January 2004) amounted to the total goodwill “inherited” as-is on 31/12/2003, in the absence of preconditions required by IFRS 1 – Appendix B, with regard to adjustments.

Goodwill, irrespective of its origins, was allocated to the CGU that were expected to benefit from the synergies of business combinations, as laid down by IAS 36 paragraph 80.

Book value of CGU for goodwill existing on 01/01/2004
Goodwill existing on the date of changeover to IAS/IFRS was almost entirely related to the business combination of the Sai Group with the Fondiaria Group. Added to this was the goodwill, existing prior to the merger, deriving from the purchase, by Nuova Maa (then incorporated into Milano) of the Maa Assicurazioni business complex.
In this respect, six Cash Generating Units (CGU) were identified as significant beneficiaries, represented by Life and Non-life business operating under the Sai, Fondiaria and Milano Assicurazioni brand names.
In particular, CGUs deemed to have benefited from the synergies of the combination were identified. Goodwill allocated to remaining CGUs was not significant, when considered either individually or cumulatively.
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. These CGUs are, therefore, no greater than the segment definition based on primary segment reporting in accordance with what is laid down by IAS 14.
The Group operates with different sales networks, each with a separate brand name: The existence, therefore, of an active market for branded products has made it reasonable to separate CGUs on the basis not only of the business operated, but also on the basis of the aforementioned brands.

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

Goodwill allocated, taking into consideration changes occurring in the meantime, underwent the impairment test on the date of changeover to IFRS (1 January 2004) and on 31 December 2004 and 31 December 2005 without preconditions for a reduction in their value.

And so, on 31 December 2006, goodwill allocated to CGUs was the same as that allocated during first-time adoption and, therefore, comprised:

(€K)

CGU	Fondiaria-SAI			Milano			TOTAL
	SAI Danni	Fondiaria Danni	SAI Vita	Fondiaria Vita	Milano Danni	Milano Vita	
	1	2	3	4	5	6	Σ (1-6)
Goodwill allocated	273,898	138,872	50,971	41,023	296,060	52,791	**853,615**

Goodwill allocated contributes to calculation of the book value of the respective CGUs which, for the purposes of the impairment test, was compared with the related fair value.

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 listed entities (Fondiaria-SAI and Milano Assicurazioni), for which there is an active retail market, the Group considered it opportune, in this phase, to identify this value on a preliminary basis.

In particular, the CGU's book value, on which the goodwill was allocated, was compared with the market value of same, calculated using the stock market capitalisation of the Parent company and of the listed subsidiaries Milano Assicurazioni and Immobiliare Lombarda as a reference parameter, and by making appropriate technical adjustments to same so as to render them uniform with respective book values.

Overall fair values calculated in this way were then allocated to CGUs in line with respective net book equity.

Since the fair value for each CGU proved to be greater than the related book value, the preconditions for a reduction in the value of the goodwill allocated do not exist and so the value in use of the CGUs was not calculated.

Other goodwill

With reference to the goodwill posted subsequent to the acquisition, in past years and in 2005, of some minority holdings in the subsidiary SASA Assicurazioni, the Group identified the acquired company as the CGU and made provision to calculate the recoverable value of the goodwill by estimating its value in use, using Discounted Cash Flow-type methodologies. Tests performed again confirmed what was posted to the accounts.

With reference to goodwill chargeable to the subsidiary Portobello S.p.A., the posting of same is justified by the anticipated margins on the construction of the Port of Loano (SV).

In particular, the impairment test was performed by discounting incoming cash flows, assuming the sale of 100% of the moorings and retail and service sector areas constructed, by 2009. A 9.5% discounting factor was used. All costs relating to construction works still to be carried out as well as the costs of managing the initiative itself, were subtracted from the discounted value, thereby determining the current value of the works up to 31 December 2006.

This value was higher than the initiative's book value, thereby justifying the continued existence of the related goodwill item.

With reference to significant business combinations formed in 2006, i.e.:

- Gruppo Liguria Assicurazioni (100%);
- Capitalia Assicurazioni S.p.A. (60%);
- BPM Vita S.p.A. (50%);

- Florence Centro di Chirurgia Ambulatoriale S.r.l. (100%),

the Group decided that it was appropriate to identify said companies as CGUs. The recoverable value of CGU s is represented by their fair value: when treating recent acquisition is was not thought appropriate to calculate the fair value since this value had already been proven to be justified and well-founded in the valuation processes implicit in the contractual agreements with the vendors, in turn supported by relevant independent experts' reports compiled by third parties. The methodologies used are attributable to best professional practice in this area.

Other intangible assets
Other intangible assets amount to € 160,117K (€ 54,132K as at 31/12/2005) and are made up, by type, of the following:

(€K)	**Gross book value**	**Accumulated amortisation and impairment**	**Net value**	**2005 Net value**
Research and development expenditure	179,740	(145,753)	33,987	40,882
User rights	32,286	(28,912)	3,374	8,791
Other intangible assets	154,960	(32,204)	122,756	4,459
TOTAL	**366,986**	**(206,869)**	**160,117**	**54,132**

Please note that none of the intangible assets appearing above proved to have been generated internally.

The intangible assets posted to the accounts have a definite useful life and are, consequently, amortised over said life. Research and development costs are constituted by the capitalisation, in 2006 an in previous years, of costs incurred for the preparation of technological and applied infrastructures with a multi-year duration.
In particular, these include liabilities for the preparation and operation of the Group's claims system, for the functional and IT integration of various legal entities involved in corporate merger processes, as well as costs incurred throughout 2006 for the development of an on-line platform.
Their amortisation period is three or five years depending on their characteristics and useful life. These charges were mainly incurred by the subsidiary Uniservizi S.c.a.r.l., which is responsible for management of all existing and newly acquired resources, goods and services relating to I.T., Services, Group Purchases and Logistical and Organisational Services.

User rights mainly relate to the purchase of user licenses for software used by the Group. They have a three year amortisation period.

The significant increase in other intangible assets arises from the fact that, from this year onwards, these also include securities relating to client portfolios acquired by Liguria Assicurazioni (€ 49.7m), Bipiemme Vita (€ 45.6m) and Banca Gesfid S.A. (€ 20.3m).
This mainly involves the recognition of VOBA (Value On Business Acquired) or, in the case of life companies, VIF (Value In Force).
In particular, the VOBA for Liguria Assicurazioni is represented by cash flows that will be generated by the insurance portfolio purchased, within a set period of time. The VOBA for Banca Gesfid was determined by valuing the client list, which takes into consideration both the time series of the intermediation margin value, and estimates of the value of administered and managed funds. These figures were, in turn, related to loyal customers.
Finally, the VIF value for Bipiemme Vita was determined on the basis of actuarial methodologies applied to the portfolio at the time of acquisition.

With reference to the amortisation of these assets, this is determined on the basis of the turnaround

time of anticipated earnings: in particular, for Liguria and Gesfid, average amortisation is 7 and 10 years, respectively.
For Bipiemme Vita, the average life of the contracts portfolio was initially calculated at ten years.
Amounts posted to profit or loss on the aforementioned assets in 2006, amounted to € 4,447K and do not include Banca Gesfid VOBA, in view of the fact that the acquisition took place at year end.

A reconciliation of the book value at the start , and end, of the financial year appears 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	40,882	47,935	8,792	3,697	4,458	19,954	54,132	71,586
Increases:								
• *acquired and generated internally*	16,132	19,979	2,907	3,427	9,495	1,560	28,534	24,966
• *deriving from business combinations*	-	-		4,853	116,957	252	116,957	5,105
Decreases for disposal or reclassifications	-	(1,271)	(5,076)	-	-	(15,680)	(5,076)	(16,951)
Impairment losses recorded over the period	-	-	-	-	-	-	-	-
Write-ups recorded over the period	-	-	-	-	--	125	-	125
Amortisation over the period	(23,027)	(25,761)	(3,249)	(3,185)	(8,154))	(1,753)	(34,430)	(30,699)
Variations due to exchange differences	-	-	-	-	-	-	-	-
Other variations	-	-	-	-	-	-	-	-
Book value at the end of the period	**33,987**	**40,882**	**3,374**	**8,792**	**122,756**	**4,458**	**160,117**	**54,132**

Please note that, subsequent to the tests carried out, no impairment loss was recorded over the financial year.
This financial year, the decreases item includes € 4,853K for the reclassification of urbanisation costs paid by the subsidiary Portobello to the Comune of Loano for approval of the draft agreement for the construction of the port in the same Comune. Once the final agreement has been issued, this item will be reclassified as “Property”, under “Tangible Assets”.
The values already given for consolidated companies are included in the increases in other intangible assets arising from business combinations.

2. TANGIBLE ASSETS

These amount, in total, to € 1,164,620K (€ 1,086,135K as at 31/12/2005) down by € 78,485K.

Tangible assets can be broken down as follows:

(€K)	Property		Land		Other tangible Assets		Total	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Gross book value	981,581	949,223	78,150	72,115	441,638	373,690	1,501,369	

								1,395,029
Accumulated amortisation and impairment	(73,481)	(61,924)			(263,268)	(246,969)	(336,749)	(308,893)
Net Value	**908,100**	**887,299**	**78,150**	**72,115**	**178,370**	**126,721**	**1,164,620**	**1,086,135**

Movement over the period is shown below:

(€K)	Property		Land		Other tangible Assets		Total	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Book value at the start of the period	887,299	253,931	72,115	78,517	126,721	122,935	1,086,135	455,383
Increases	69,946	36,772	3,575	63	59,809	35,201	133,330	72,036
Disposal or reclassifications	(57,007)	100,264	-	(5,826)	(1,422)	(20,184)	(58,429)	74,254
Premises deriving from business combinations	14,189	504,190	2,460	-	1,518	93	18,167	504,283
Impairment losses recorded over the period	-	-	-	-	-	-	-	-
Write-ups recorded over the period	-	-	-	-	-	-	-	-
Amortisation over the period	(6,327)	(5,601)	-	-	(8,256)	(11,836)	(14,583)	(17,437)
Variations due to exchange differences	-	-	-	-	-	-	-	-
Other variations	-	(2,257)	-	(639)	-	512	-	(2,384)
Book value at the end of the period	**908,100**	**887,299**	**78,150**	**72,115**	**178,370**	**126,721**	**1,164,620**	**1,086,135**

The item relating to land is a component with an indefinite useful life unbundled from buildings for direct use owned outright. The unbundling was done on the basis of appropriate expert reports written by independent experts with reference to the transition date (01/01/2004).

Premises appearing as tangible assets include premises intended for company use (premises for direct use). These premises are recorded at cost and are systematically amortised on the basis of their useful life solely for components with a defined useful life.

The increase in the value of premises arising from business combinations amounts to € 16,649K and follows the acquisition of Liguria Assicurazioni S.p.A. and Banca Gesfid S.A..
In particular, Liguria Group property amounts to € 8,658K, whilst Banca Gesfid S.A. property amounts to € 7,991K:both values represent the fair value of the premises on the date of purchase, treated as assets arising from business combinations. For capital gains allocated please refer to the section on "Business combinations". The item also includes premises owned by the Immobiliare Lombarda Group which are considered to be inventories and so are valued in accordance with IAS 2. Their contribution amounted to € 740,893K.
Via the subsidiary Portobello, the Group owns the tourism-related property initiative for the

construction of the new port of Loano (SV). Over the year, Portobello S.p.A. acquired the concession until 2073 and so the company is in the process of starting on the ground work, the "marine" work having been completed in 2006.

The property item also, therefore, includes works in progress amounting to € 43,478 (€ 34,979 as at 31 December 2005), which represent the state of progress of the works to extend the tourist port of Loano, for which Portobello S.p.A. has the concession until 2073.
In particular, the item includes works to complete the outer structures and all the direct incremental costs as well as the share of the financial charges on loans specifically received for works to extend the port.
The "Disposals" items includes the reclassification of the property sold by the subsidiary Masaccio to the Tikal R.E. property investment fund.
No Group property is subject to particular restrictions of title or ownership, nor has significant redress obtained for drop in value, losses or disposals or damages been posted to profit or loss. At year end there were no existing contractual obligations for the acquisition of tangible assets represented by property

The Group instructs accredited independent experts to calculate the fair value of its own land and buildings on an annual basis. In particular, this practice responds, for the Group's insurance companies, to specific Supervisory Authority provisions.
With reference to property intended for company use, please note that the book value at year end was € 380m less than the expert valuation determined on the basis of market values (was € 271m as at 31/12/2005).

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. These transactions, implemented in previous financial years, resulted in the sale to third parties, by the subsidiary 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 same. The rise in value compared to
31 December 2005 was mainly due to advance payments over the year for the aforementioned property transactions.

The remaining other tangible assets mainly comprise the allocation of the Group's capital goods for the performance of its business, such as hardware, furnishings, plant and office equipement, as well as final stocks and inventories of companies performing agricultural activities in accordance with IAS 2.

3. REINSURERS' SHARE OF TECHNICAL RESERVES

These amount, in total, to € 895,703K(€ 896,948K as at 31/12/2005) with a negative variation of € 1,245K.They are made up as follows:

(€K)	31/12/2006	31/12/2005	Variation
Reinsurers' share of non-life premium	129,669	129,163	506
Reinsurers' share of non-life claims	554,840	569,573	(14,733)
Reinsurers' share of other non-life claims	-	-	-
Reinsurers' share of mathematical reserves	208,485	196,305	12,180
Reinsurers' share of reserve for amounts payable	2,707	1,905	802
Reinsurers' share of other life reserves	2	2	0

TOTAL	**895,703**	**896,948**	**(1,245)**

€ 693.5m relates to outward reinsurance, whilst € 202.2m relate to retrocessionaires' share of the reserves.

From this financial year, reinsurers' share of reserves includes, with regard to Non-life business, the balance sheets of the newly consolidated Liguria and Capitalia Assicurazioni amounting to € 30.8m. On the other hand, Life business includes the balance sheet of the newly consolidated Liguria Vita amounting to € 15.5m and BPM Vita amounting to around € 2m.

4. INVESTMENTS

Comprising:

(€K)	**31/12/2006**	**31/12/2005**	**Variation**
Investment property	2,125,628	2,041,721	83,907
Holdings in subsidiaries, associates and joint ventures	155,921	71,675	84,246
Investments held to maturity	-	-	-
Loans and receivables	1,305,863	1,408,658	(102,795)
Financial assets available for sale	23,067,611	20,972,111	2,095,500
Financial assets at fair value recorded in P&L account	7,157,453	5,570,855	1,586,598
TOTAL	**33,812,476**	**30,065,020**	**3,747,456**

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 on the date of transition to international accounting standards, possibly updated to take subsequent events into consideration.
The part of the property relating to the building is systematically amortised in line with the remaining useful life of the components characterising said building. Significant components amortised separately include the plant with which the building is equipped. Please note that the amortisation rate used for the "building" component was, on average, between 1.39% and 3% inclusive, whilst the amortisation rate for the "plant" component fluctuated between 3.70% and 16.67%.

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 third party experts offering specialist valuation services for these types of investment. Market value was determined by valuing each source of income separately, applying equity-type methodologies, supplemented by factors that take into consideration the profitability of the property in line with Supervisory Authority requirements.
In total, the book value of investment property as at 31/12/2006 proved to be over € 691m lower than the expert valuation carried out as per the above.

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

(€K)	31/12/2006	31/12/2005
Gross book value	2,350,462	2,232,308
Accumulated amortisation and impairment	(224,834)	(190,587)
Net Value	**2,125,628**	**2,041,721**

Movement in the book value of Investment property appears below:

(€K)	2006	2005
Book value at the start of the period	2,041,720	2,017,000
Purchases and incremental expenditure	175,900	225,048
Premises deriving from business combinations	9,699	26,636
Disposals and reclassifications	(57,962)	(36,584)
Amortisation over the period	(37,429)	(37,526)
Impairment losses/Write-ups recorded over the period		-
Variations due to exchange differences		-
Transfers from/to other categories (IAS 2 or IAS 16)	(6,300)	(91,307)
Other variations	-	(61,547)
Book value at the end of the period	**2,125,628**	**2,041,720**

During the course of the financial year, the following properties, amongst others, were purchased

- Turin – Corso Vittorio Emanuele II;
- Milan – Via Vittor Pisani;
- Milan – Via Fara 41 (Torre Galfa);
- Milan – Via Cardano 6;
- Rome – Via Clitunno 34/36.

The increases include incremental expenses of € 62m.

Please note that the contribution made by property arising from business combinations relates entirely to Liguria Assicurazioni investment property.
Property relating to the Tikal R.E. closed-end property investment fund contributed over € 594m to the final balance sheet.

Please note that, during the course of the financial year, income from investment property rentals amounted to over € 94m (€ 90m as at 31/12/2005).

The “transfers to other categories” item relates:

- to the posting under “Non-current assets or those held in an HFS disposal group” for the property located in Turin at Via Lagrange and owned by the Tikal R.E. Investment property fund: the sale of the aforementioned property was completed during the course of the first quarter of 2007.
- to the reclassification of the “Tangible assets” item for purchase of the properly located in Milan at Via Monte Grappa, sold by the subsidiary Masaccio to the Tikal R.E. property investment fund.

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

With reference to the existence of any contractual obligations in respect of the acquisition or development of investment property please refer to the section on property segment notes.

Holdings in subsidiaries, associates and joint ventures
Fondiaria-Sai fully consolidates all the Group companies, including those that perform dissimilar activities. The item in question does, therefore, include the book value of some subsidiary holdings which, given their irrelevance in terms of the extent or nature of the activity performed, have no effect on the reliability of these accounts.
Please refer to the annex for details of holdings in non-consolidated subsidiaries. The remainder relate to holdings in associate companies valued using the net equity method.

Holdings included in this item totalled € 155,921K (€ 71,675K in 2005).

The most significant holdings are those held by the Parent company in the associate Fin.Priv. S.r.l. for € 68.6m and by the subsidiary Saifin-Saifinanziaria in the associate Finadin S.p.A. for € 21.6m, as well as those held by the subsidiary Immobiliare Lombarda in City Life (€ 33.4m) and Progetto Alfiere (€ 5.1m).

The extent of the variation is mainly due to the valuation of the associate Fin.Priv. S.r.l. and to the subscription to capital increases involving the aforementioned property sector associates (Citylife S.r.l., Progetto Alfiere S.p.A.).

The most significant holdings in joint ventures held by the group relate to entities operating within the life bancassurance sector and are as follows:

- 50% interest in Po Vita Assicurazioni spa, via the subsidiary Saiholding spa,
- 50% interest in Bipiemme Vita spa, via the subsidiary Milano Assicurazioni spa.

In both cases, the percentage holding corresponds to equivalent voting rights.
The value of the percentage of share capital subscribed to amounts to € 58.8m for PoVita and € 98.6m for Bipiemme Vita, respectively.
Both the joint ventures are presented in the accounts using the proportional “line by line” consolidation method (Bipiemme Vita as of 2006).

The total values relating to both companies, as included in the consolidated accounts, are shown below:

(€m)	**31/12/2006**	**31/12/2005**
PO VITA S.p.A.		
Investments	1,769.3	1,480.4
Other assets	124.3	89.7
Technical reserves	930.5	784.2
Other liabilities	889.1	715.4
Income	298.1	206.8
Expenditure	(284.2)	(198.8)

(€m)	**31/12/2006**
BIPIEMME VITA S.p.A.	
Investments	1,755.6

Other assets	85.6
Technical reserves	597.8
Other liabilities	1,205.8
Income	86.7
Expenditure	(80.3)

Since the joint venture with Bipiemme Vita was set up in 2006, please refer to the Management Report – Life sector, for greater details of the features and duration of the agreement.

Finally, with reference to what is laid down by IAS 31.55 and 31.56, please note that the Group has not incurred potential liabilities, nor has it taken on financial obligations in relation to its holdings in the aforementioned joint ventures.

Loans and receivables
These amount to € 1,305,863K (€ 1,408,658K as at 31/12/2005) and are made up as follows:

(€K)	**31/12/2006**	**31/12/2005**	**Variation**
Receivables from banks for interbank deposits and from banking customers	426,333	411,992	14,341
Debt securities	107,047	111,963	(4,916)
Repurchase agreements and carrying amounts	65,771	109,630	(43,859)
Loans on life policies	70,738	71,291	(553)
Deposits with reinsurers	35,002	36,835	(1,833)
Receivables from successor agents for recoupment of claims paid to agents who have ceased trading	213,671	192,701	20,970
Other loans and receivables	387,301	474,246	(86,945)
TOTAL	**1,305,863**	**1,408,658**	**(102,795)**

The “receivables from banks” item includes the consolidated BANCASAI and Banca Gesfid’s receivables from other credit institutions for asset deposits, as well as loans to banking customers.
In this context, the newly consolidated Banca Gesfid contributed € 111,063K.

The “debt securities” item includes the book value of some issues (in particular, securities from Ania special issues) for which a valuation at amortised cost rather than at fair value was deemed appropriate, in the absence of an active reference market. These are financial assets for which it is thought that the related fair value cannot be accurately calculated.

Repurchase agreements refers to operations instituted at year end.

Receivables from successor agents for recoupment of claims paid to agents are placed in this item both due to express provision of ISVAP with Instruction No. 2404/05, and in consideration of their interest-bearing nature in respect of the Group.

Other loans and receivables comprise, amongst others, the receivable for approximately € 159m posted for the forward sale of Banca Intesa shares owned by the Parent company via mandatory notes, exclusively convertible into Banca Intesa shares, issued by the subsidiary SAINTERNATIONAL in September 2004. This receivable has been discounted, in consideration of the timescale of the forward sale underlying the mandatory note’s issue.
This had a positive effect of around € 5.3m on the profit and loss account.

Other loans and receivables include € 23,027K relating to shareholders' loans granted by Immobiliare Lombarda to its associates. In particular, € 9,546K in interest-bearing loans, € 145K in interest accrued on the aforementioned loans and € 13,336K in non interest-bearing loans.
The latter, with a total nominal value of € 16,586K, were discounted, with the aim of taking into account the compensatory financial component of the time difference between the receivable arising and actually being received. The effective interest rate method was used, in accordance with IAS 39, which makes it possible to allocate the interest received over the relevant period.

The item also includes € 29m in loans to the associate Garibaldi s.c.s., for the property development project for the area of Milan known as "Garibaldi Repubblica".

Finally, it includes € 152.7m for consumer credit claimed by the subsidiary Finitalia from its customers.

The drop in the loans and receivables item is due, amongst other things, to the repayment of € 70m, in 2006, of the loan secured by a lien on mezzanine property granted to Ganimede S.r.l. following the property spin-off which took place in 2003.

Financial assets available for sale
Financial assets available for sale comprise bonds and shares, as well as unit trusts, not classified separately. Although this is a residual category, it represents the category with the most financial instruments, in line with the characteristics and aims of the insurance business.
The financial assets under consideration can be broken down as follows:

(€K)	31/12/2006	31/12/2005	Variation
Capital securities and unit trusts	4,204,911	3,767,474	437,437
Debt securities	18,859,785	17,200,376	1,659,409
Other financial investments	2,915	4,261	(1,346)
TOTAL	**23,067,611**	**20,972,111**	**2,098,500**

Capital securities include listed securities amounting to € 3,553.6m, whilst listed debt securities amounted to € 18.734,8.
This shows that, in the main, debt securities and capital securities, included in the category, are valued at fair value. Amongst the capital securities we note the 2% interest held by the Group in Banca d'Italia. This holding is valued at cost in the absence of an active reference market and in view of the enormous variability in possible estimates of the value of this investment.

The item includes € 844.7m, relating to financial instruments held by Liguria Assicurazioni, Liguria Vita and Bipiemme Vita (for the latter, the contribution, amounting to 50% of the financial instruments held, amounts to € 614.5m).

In particular, capital securities listed at fair value included in the section "Financial assets available for sale" included the following holdings:

(€K)	% holding (1)	Book value
Assicurazioni Generali S.p.A.	2.42	1,032,193
Capitalia S.p.A.	3.51	651,605
Italmobiliare S.p.A.	1.54	27,608
Mediobanca S.p.A.	3.85	559,640
Monte dei Paschi S.p.A.	1.28	190,327
RCS S.p.A.	5.19	144,149
Pirelli & C. S.A. p.a.	4.33	171,707

Total	**2,777,229**
Other holdings	776,429
Sum total	**3,553,658**

(1) Percentage calculated on total shares constituting the Voting Capital.

The book value is aligned with stock market listings on the last day of the Group's financial year. This shows that the overall effect of the fair value valuation which had a positive impact of € 829.5m (compared with € 580.7m in 2005) for capital securities and unit trusts and a negative impact of € 18.8m (compared with a positive impact of € 357.8m in 2005) for debt securities.

Financial assets at fair value recognised through profit or loss

Comprising:

(€K)	31/12/2006	31/12/2005	Variation
Capital securities and unit trusts	1,450,313	739,663	710,650
Debt securities	5,416,753	4,661,888	754,865
Other financial investments	290,387	169,304	121,083
TOTAL	**7,157,453**	**5,570,855**	**1,586,598**

Please note that the component relating to financial assets described at fair value recorded in the profit and loss account amounts to € 5,842,665K (€ 4,195,956K as at 31/12/2005) and that included in same are investments where the risk is borne by the life policyholders and deriving from pension fund management for € 5,751m (€ 4,065m as at 31/12/2005).

Other financial investments include € 264.8m for stock options linked to guaranteed returns on financial instruments (represented by index-linked products) where the risk is borne by policyholders. For the purpose of explaining the significant nature of the variation, please note that the item includes € 1,141m relating to 50% of the assets included in this category, relating to Bipiemme Vita S.p.A.. Added to this is around € 8m relating to Banca Gesfid.

Investment activities, the book values of which are given above, are represented by investments in shares and bonds in listed and unlisted companies, as well as in unit trusts, held with the aim of making a profit from same or via dividends and coupons or trading. Their fair value was calculated by using stock marking listings as a reference.

5. OTHER RECEIVABLES

These are made up as follows:

(€K)	31/12/2006	31/12/2005	Variation
Receivables from direct insurance operations	1,941,642	2,034,610	(92,968)
Receivables from reinsurance operations	192,575	160,642	31,933
Other receivables	512,511	615,791	(103,280)
TOTAL	**2,646,728**	**2,811,043**	**(164,315)**

The Group believes that the book value of trade receivables and other receivables approximate their fair value. Trade receivables do not bear interest and generally have a due date of less than 90 days. The net balance of sales tax does not generally bear interest and is regulated by the relevant financial authorities on a monthly basis.

With reference to receivables deriving from direct insurance operations, these can be broken down as

follows:

(€K)	31/12/2006	31/12/2005	Variation
Receivables from policyholders for premiums for the year	850,435	859,718	(9,283)
Receivables from policyholders for premiums for previous years	79,028	99,532	(20,504)
Receivables from insurance brokers	762,535	787,662	(25,127)
Current account receivables from companies	155,286	195,224	(39,938)
Sums to be recovered from policyholders and third parties	94,358	92,474	1,884
TOTAL	**1,941,642**	**2,034,610**	**(92,968)**

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.
Receivables deriving from reinsurance contracts include receivables of € 109,166K (€ 111,489K in 2005) from insurance and reinsurance companies for reinsurance operations and € 83,409K (€ 49,153K in 2005) from reinsurance brokers. Please note that during the course of the financial year there were no significant write-downs of reinsurance assets.

Please note that the extent of the variation in receivables for direct insurance and for reinsurance operations was influenced, to the tune of € 68.9m, by the inclusion of new insurance companies in the basis of consolidation.

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.

Other receivables includes trade receivables amounting to € 128,911, mainly comprising receivables from clients, as well as receivables from the Tax Authorities amounting to € 287,672K, the latter being mainly for positions for which repayment is requested, VAT receivables and advance payments for tax on insurance (Legislative Decree 282/04).

Please note that, in the first few days of 2007, the Parent company reached an out-of-court settlement with the Agenzia delle Entrate – Direzione Regionale della Toscana – [Tuscany local Revenue office] aimed at accelerating and optimising the receipt of some tax credits receivable, relating to pre-defined positions.
The amount paid totalled € 54,149K and will be received in equal half-yearly instalments by 31 December 2009 without accrual of interest. As a result of this agreement, the Company has arranged to discount projected financial flows, adjusting the aforementioned receivable to € 50,532K.

6. OTHER ASSETS

In total, these amount to € 807,325K (€ 1,667,976 in 2005) and were down by € 860,651K compared with the previous year.

They comprise:

(€K)	31/12/2006	31/12/2005	Variation
Non-current assets or those held in a disposal group for sale	**15,390**	**6,450**	**8,940**

Deferred acquisition costs	**320,972**	**306,954**	**14,018**
Current tax assets	**89,775**	**449,841**	**(360,066)**
Deferred tax assets	**96,978**	**673,490**	**(576,512)**
Other assets	**284,210**	**231,241**	**52,969**
TOTAL	807,325	1,667,976	(860,651)

Non-current assets or those held in a disposal group for sale
As at 31/12/2006, assets in the process of being disposed of, amounted to € 15,390K (€ 6,450m as at 31/12/2005). € 9,067K of these relate to the decision, by the Group's Property Management Team, to put the property owned by the Tikal R.E. closed-end property investment fund, located in Turin at Via Lagrange, up for sale. The disposal was formalised, in the last quarter of 2006, by the relevant Administrative Authority and was completed this February. The property located at Pieve Emanuele, Via Delle Rose 6, remains as an asset held for disposal with a value of € 4,924K for which, in view of the formalisation of the disposal at the end of 2005, no changes have been recorded in respect of the original plan which it is thought will be implemented during the course of 2007.

The remainder, amounting to € 1,400m, relates to properties located in Pescara, V.Salaria Vecchia 119 and 162 owned by Liguria Assicurazioni, for which a preliminary contract has already been stipulated with the purchasers.

It is estimated that payment for the sale will, in any event, be higher than the book value of the asset being sold and so no write-down was made when this asset was classified as being held for sale.

Finally, please note that the Group did not consider the complex of assets for management of the I.T. infrastructures of said Group, for which a joint venture has been stipulated with the EDS Group, being finalised in February 2007, as being held for sale.
In fact, the special structure of the operation, which was made concrete with the transfer of the aforementioned line of business to a New-co, in which the Group has a 51% interest, does not make it possible to qualify said line of business as an asset held for disposal, since it is expected that the latter will be recovered by means of its continued use, even if this is via different operating procedures.

Deferred acquisition costs
Deferred acquisition costs of € 320,972K (€ 306,954K as at 31/12/2005), mainly relate to purchase commissions to be amortised on multi-year contracts to run from the 1999 financial year. These amounts are deferred and amortised in approximately seven years for Non-life business and in six years for Life business, as resulting from recent analyses of the average duration of portfolio contracts. All of which conforms to principles responding to matching concepts

The variation compared with the same date in 2005 amounts to € 14,018K.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	284,521	22,433	306,954	294,255
Increases over the period	111,435	5,646	117,081	110,129
Amortisation over the period (-)	(82,336)	(8,457)	(90,793)	(89,671)
Impairment losses recorded over the financial year (-)	(12,270)		(12,270)	(7,759)
Other variations			0	-
Amount at the end of the period	**301,350**	**19,622**	**320,972**	**306,954**

Impairment losses recorded over the financial year relate to the reduction in the future utility of capitalised front-loading for cancelled or amended insurance contracts. Please note that there are no deferred acquisition costs for inward reinsurance contracts.

Current tax assets
Current tax assets, amounting to € 89,775K (€ 449,841K as at 31/12/05) relate to receivables from tax authorities for advance taxes, withholdings and income tax receivables.
Also posted to this item are amounts paid for tax referred to in art. 1 paragraph 2 of Legislative Decree No. 209/02 as converted by art. 1 of law 265/2002 and subsequent amendments. This being in accordance with what is laid down by Isvap Instruction no. 2404/05, although the aforementioned assets do not, strictly speaking, come under the application of IAS 12, since they do not relate to income t axes.

The sharp drop compared with the end of the previous year was mainly due to the off-setting, over the year, between tax assets and liabilities by virtue of the legal right to settle these items net, both on the part of individual Group companies and on the part of the Parent company on behalf of all the companies which, participating in fiscal consolidation, settle and pay IRES in joint form.
To this can be added the amount reclassified, under the "Other Receivables" item, relating to receivables for taxes of various kinds for which repayment has been requested from the Tax authorities.

Deferred tax assets
These amount to € 96,978K (€ 673,490K 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.
The amount recorded at year end takes into consideration the off-setting, by each of the Group's companies, with corresponding deferred tax liabilities, in line with what is laid down by IAS 12.

Other assets
Other assets amount to € 284,210K (€ 231,241K at 31/12/2005) and are made up as follows:

(€K)	31/12/2006	31/12/2005	Variation
Deferred reinsurance accounts payable	**3,463**	**7,328**	**(3,865)**
Deferred commissions payable for investment management services to life policyholders	**104,737**	**67,682**	**37,055**
Assessment of advance tax on mathematical reserves Legislative Decree 209/03	**43,105**	**46,017**	**(2,912)**
Refunds paid but not applied	**6,847**	**9,102**	**(2,255)**
Other assets	**126,058**	**101,112**	**24,946**
TOTAL	284,210	231,241	52,969

7. CASH AT BANK AND IN HAND

In total, these amount to € 723,032K (€ 526,505K 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 include, therefore, liquid assets in the strictest sense (cash and demand deposits), either equivalent liquid assets or those short-term financial investments with high liquidity, readily convertible into known cash values which are, therefore, subject to a negligible risk of change in value.
The book value of these assets is a significant approximation of their fair value. Deposit and current bank accounts bear interest at both fixed and variable rates which is accrued and credited on a quarterly basis or in relation to the lesser duration of any unavailability constraint on fixed-term deposits.

Balance Sheet – Net Equity and Liabilities

1. NET EQUITY

The consolidated Net Equity, amounting to € 5,054,542K, inclusive of the result for the year and minority interests, rose by € 545,653K compared with 2005.

The composition of equity reserves is given below:

(€K)	2006	2005	Variation
Group Net Equity	**3,896,991**	**3,459,660**	**437,331**
Capital	177,681	173,114	4,567
Other equity instruments	-	-	-
Capital reserves	207,410	193,729	13,681
Profit and other equity reserves	2,643,229	2,378,368	264,861
Own Shares	(359,987)	(270,057)	(89,930)
Reserve for net exchange differences	(126)	(441)	315
Profits or losses on financial assets available for sale	694,538	535,891	158,647
Other profits and losses recorded direct under equity	53,042	(16,227)	69,269
Group profit (loss) for the financial year	481,204	465,283	15,921
Minorities Net Equity	**1,157,551**	**1,049,229**	**108,322**
Minorities' capital and reserves	972,179	892,353	79,826
Profits and losses recorded direct under equity	65,808	35,809	29,999
Minorities' profit (loss) for the financial year	119,564	121,067	(1,503)
TOTAL	**5,054,542**	**4,508,889**	**545,653**

The information required by IAS 1.76 is given below:

	Ordinary 31/12/2006	Savings 31/12/2006	Ordinary 31/12/2005	Savings 31/12/2005
Number of shares issued	134,563,790	43.310,622	131,605,377	42,098,578

The ordinary and savings shares issued both have a nominal value of € 1.

Please note that as at 31/12/2006, 192,840 ordinary shares and 750 savings shares had been issued which were listed in the register of companies on 25 January 2007. For 24,290 of these ordinary shares the request for issue was received by 31/12/2006 with the exercise of 97,160 02/08 warrants, but the actual delivery of same was completed in January. The table below does not, therefore, include shares in circulation.

Movement of shares in circulation	Ordinary	Savings	Total
Shares existing as at 01/01/2006	131.605.377	42.098.578	173.703.955
Own shares (-)	14.637.769	-	14.637.769
Shares in circulation: existing as at 01/01/2006	116.967.608	42.098.578	159.066.186
Increases:			
Sale of own shares	-	-	-
Exercise of warrants	2.934.123	1.212.044	4.146.167
Decreases:			
Purchase own shares	2.855.000	-	2.855.000
Shares in circulation: existing as at 31.12.06	117.046.731	43.310.622	160.357.353

Capital reserves amounting to € 207,410K rose by € 13,681K and 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 separate accounts, increased by the allocation of the profit for 2005 (please refer to the notes to the Parent company's separate accounts for comment on changes to same) plus consolidation reserves. In addition, please note that the same item includes the effect of the cost of the stock options recorded in the accounts at € 5.5m for the Group share whilst another € 0.8m is included in minorities' reserves.

Own Shares
These amount to € 360m (€ 270.1m as at 31/12/2005). This item includes the book value of instruments representing capital belonging to the Parent company Fondiarai-Sai amounting to 182.3m whilst the remainder relates to positions held by the subsidiaries Milano Assicurazioni S.p.A. (€ 149.4m) and Sai Holding S.p.A. (€ 28.3m).
The item is negative according to what is laid down by IAS 32. Please note that, further to buy/sell transactions occurring over the financial year no profit of loss was recorded in the profit and loss account.

Reserves for net exchange differences
The item, negative to the tune of € 126K (€ 441K as at 31/12/2005), includes conversion differences deriving from the translation into foreign currency of accounts for foreign subsidiaries residing in countries outside the Euro zone.

Profits or losses on financial assets available for sale
The item, amounting to € 694.5m, includes profits or losses deriving from the valuation of financial assets available for sale. It is expressed net both of the related deferred taxation and of the part attributable to policyholders and allocated to insurance liabilities.

Other profits and losses over the year recognised direct under equity
The item, amounting to € 53.0m includes the valuation, using the net equity method, of some associates, amounting to € 39.5m.
This includes € 2.9m for profits or losses on instruments held for hedging a financial flow, plus € 16.3m of reserves which include the reversal of capital gains realised on controlling interests.
In fact, as illustrated in the accounting policies, transactions relating to shares in controlling interests and not involving the loss or acquisition of control do not affect the income arising from the consolidated accounts, in so far as they are interpreted merely as a change to the Group's ownership structure. The only exceptions are profits acquired on Life business segregated accounts.
The remainder relates, in the main, to profits and losses of an actuarial nature further to the application of IAS 19.

Minorities' net equity
Minorities' net equity, inclusive of the result, recorded a rise of € 108.3m, due to Milano Group minorities' interests, as well as those of the subsidiary Immobiliare Lombarda.

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

Reconciliation tables for Parent company and Consolidated Accounts
In accordance with Consob communication no. DEM 6064293 the reconciliation table for the Group's result and net equity, at year end, is given below, with the same values as the Parent company.

(€K)	**Profit/loss over the year**	
	31/12/06	**31/12/05**
Fondiaria-SAI S.p.A. accounts according to Italian accounting principles	272,072	300,603
IAS 38 "Intangible assets"		
Goodwill	47,962	47,962
Other intangible assets	16,049	10,783
IAS 16 -40 "Property and investment property"		
Property	(13,187)	(15,771)
IAS 19 "Employee benefits"		
Staff leaving indemnity and other employee benefits	1,.312	202
- IAS 37 "Provisions, contingent liabilities and contingent assets"		
Provisions for risks	676	4,129
- IAS 39 "Financial instruments"		
Financial assets:	42,954	20,551
Financial liabilities	(8,619)	(1,508)
IFRS 4 "Insurance contracts"		
Premium and equalisation reserves	4,836	5,033
Mathematical reserves	16,510	2,664
Service component linked policies (IAS 18)	175	299
IFRS 2 "Share-based payments"		
Stock options	(4,496)	-
Fiscal effect of IAS/IFRS adjustments	(36,761)	(23,717)
Fondiaria-SAI S.p.A. accounts in accordance with IAS/IFRS	339,483	351,230
Consolidation adjustments		
Results for the year for companies consolidated:		
Fully	380,125	334,567
Using the net equity method	3,348	195
Application of group accounting principles, conversion of accounts in foreign currencies and miscellaneous accounts	20,742	(3,508)
VOBA amortisation	(4,139)	-
Elimination of inter-group transaction effects:		
Inter-group dividends	(131,536)	(89,379)
Other inter-group transactions	(14,877)	(13,382)
Fiscal effects of consolidation adjustments	7,624	6,627
Consolidated result according to IAS/IFRS	**600,768**	**586,350**

MINORITY INTERESTS	**(119,564)**	**(121,067)**
Group result according to IAS/IFRS	**481.204**	**465.283**

(€K)	**Net equity net of result**	
	31/12/06	**31/12/05**
Fondiaria-SAI S.p.A. accounts according to Italian accounting principles	2.547.373	2.394.070
IAS 38 "Intangible assets"		
Goodwill	95.924	47.962
Other intangible assets	(11.437)	(22.220)
IAS 16 -40 "Property and investment property"		
Property	(70.910)	(55.139)
IAS 19 "Employee benefits"		
Staff leaving indemnity and other employee benefits	(38.667)	(42.711)
- IAS 37 "Provisions, contingent liabilities and contingent assets"		
Provisions for risks	4.129	
- IAS 39 "Financial instruments"		
Financial assets:		
Available for sale	641.229	702.438
Fair value through profit or loss	(16.211)	(13.532)
Other financial assets	5.224	
Financial liabilities	(4.389)	(2.881)
IFRS 4 "Insurance contracts"		
Premium and equalisation reserves	50.778	45.745
Mathematical reserves	(37.458)	(218.947)
Service component linked policies (IAS 18)	(381)	(680)
IFRS 2 "Share-based payments"		
Stock options	4.496	
Fiscal effect of IAS/IFRS adjustments	(27.023)	(30.243)
Fondiaria-SAI S.p.A. accounts in accordance with IAS/IFRS	3.142.677	2.803.862
Consolidation adjustments		
Differences between book value and net equity of companies consolidated:		
Fully	1.500.432	1.288.512
Using the net equity method	37.788	(186)
Elimination of inter-group transaction effects:		
Inter-group dividends	61.480	22.426
Other inter-group transactions	(87.244)	(72.945)
Application of group accounting principles	233.119	232.550
Conversion effect for accounts in foreign currencies	(126)	(441)
Fiscal effects of consolidation adjustments	(74.365)	(81.182)
Elimination own shares	(359.987)	(270.057)
Consolidated Net Equity according to IAS/IFRS standards	**4.453.774**	**3.922.539**

MINORITY INTERESTS	**(1.037.987)**	**(928.162)**
Group Net Equity according to IAS/IFRS standards	**3.415.787**	**2.994.377**

2. PROVISIONS

In total, these amount to € 236,677K (€ 229,075K as at 31/12/2005) and can be broken down into:

(€K)	**2006**	**2005**	**Variation**
Provisions relating to tax issues	121	592	(471)
Other provisions	236,556	228,483	8,073
TOTAL	**236,677**	**229,075**	**7,602**

The Group does not show any significant tax disputes resulting in current obligations linked to past events.
Other provisions include amounts where there is doubt over the due date or the extent of future expenditure required for completion. Movement and composition are shown below.

(€K)	**Urbani-sation charges**	**Non-tax related disputes**	**Employee-related costs**	**Recoupments not recoverable from intermediaries**	**Other liabilities**	**Total**
Book value at the start of the period	**7,480**	**132,526**	**34,842**	**8,788**	**44,847**	**228,483**
Increases over the period including:						
• for provisions		9,270	11,485	8,711	7,846	37,312
• for other reasons		5,840	(9,790)		4.414	464
Withdrawals over the period for costs incurred	(327)	(7,953)	(5,294)		(8,415)	(21,989)
Withdrawals transferred to the profit and loss account		(1,334)			(6,380)	(7,714)
Increases for financial charges falling due or for variations in rates						
Book value at the end of the period	**7,153**	**138,349**	**31,243**	**17,499**	**42,312**	**236,556**

With reference to other provisions, some considerations appear below.

Non-tax related disputes
The fund includes the best possible estimate made by the Group to meet the cost of existing disputes relating to intermediaries, policyholders, employees and third parties.
Total provisions are consistent with costs estimated as a result of all litigation to which the Group is party. Provisions were estimated in reference both to past internal experience and to technical appraisals made by the Group's legal department.
With reference to the total number of existing disputes, it is thought that the planned timescale for disbursements is not extensive enough to involve time-discounting.

The fund also includes amounts set aside for so-called takeover bids, an analysis of which is given in the Management Report in the section relating to disputes in progress. Having considered the

criticality of the dispute, even though the Milan Court of Appeal recently found in favour of the Group, it was deemed appropriate, in accordance with IAS 37.92, not to supply details of the extent of the amounts set aside.

Employee-related expenditure
The fund includes all probable liabilities resulting from work already performed by own employees. In particular, the fund includes both expenditure for holidays not taken and the cost of leaving incentives already formally signed by the employee and by company management.
Again, having considered the limited timeframe for financial repayment of these costs, its was deemed appropriate not to proceed with any time-discounting. The decrease for other reasons is a result of the reclassification of some obligations to employees as other payables.

Recoupments not recoverable from intermediaries
The fund includes the best estimate of the value of current liabilities deriving from possible liabilities further to the debiting of recoupments, as per the industry-wide agents' agreement, from intermediaries taking over agency mandates that have expired.
The estimate was made following the process of time-discounting the benefit accrued by Group agents on the date the accounts closed. The Group's historical experience determined the possible loss on this amount which was, in turn, time-discounted using, as a financial hypothesis, a free-risk rates curve.

Urbanisation charges
Accounts for certain liability, but estimated in terms of the amount, for urbanisation work to be deducted, as well as for charges to be paid. This is an item that relates to the subsidiary Immobiliare Lombarda S.p.A., active in the property industry. The drop in comparision with 31/12/2005 relates to works carried out over the year.

Other liabilities
These are provisions relating to various phenomena with low unit amounts and include, amongst others, maintenance funds contractually provided for by companies operating within the property sector or already scheduled by Group companies that own property.
Also includes staff leaving indemnities to be paid to co-workers who are not employees.

Increases for other reasons includes provisions.

With reference to what is laid down by IAS 37, please note that the Group is not aware of significant contingent assets and liabilities for which it is necessary to supply specific information.

3. TECHNICAL RESERVES

These amount to € 26,926,593K and record a rise of € 1,566,991K compared with the same date in 2005.

Details of the technical reserves appear below:

(€K)	31/12/2006	31/12/2005	Variation
NON-LIFE BUSINESS			
Premium reserve	2,567,470	2,490,917	76,553
Claims reserve	9,083,916	8,949,726	134,191
Other	10,501	10,825	(324)
Total Non-life business	**11,661,887**	**11,451,468**	**210,420**

LIFE BUSINESS

Mathematical reserves	13,746,586	12,336,050	1,410,536
Reserve for sums payable	206,255	104,711	101,544
Technical reserves where the investment risk is borne by policyholders and deriving from pension fund management	1,126,403	950,944	175,459
Other	185,462	516,430	(330,968)
Total Life business	**15,264,706**	**13,908,135**	**1,356,571**
TOTAL TECHNICAL RESERVES	**26,926,593**	**25,359,603**	**1,566,991**

The premium reserve includes the reserve for premium portions amounting to € 2,565,918K and the reserve for unexpired risks amounting to € 1,552K.
Other technical reserves relate entirely to the ageing reserve referred to in art. 25 of Legislative Decree 175/95.

The non-Life claims reserve includes the IBNR claims reserve (IFRS 4 IG22C) amounting to € 940,754K.
The overall variation in the Non-life business reserves is due to the contribution made by newly consolidated Liguria in the amount of € 215,027K and Capitalia in the amount of € 35,598K.

The mathematical reserves include the additional financial risk reserve amounting to € 111,522K (€ 118,107K as at 31/12/2005), as indicated in Isvap Instruction no.1801-G of 21/02/2001, and already governed by art. 25 paragraph 12 of Legislative Decree 174/95.
Life Business reserves from this financial year onward include the reserves of the participating interest Bipiemme Vita in the amount of € 598,390K and of the subsidiary Liguria Vita in the amount of € 69,176K.

Life business "other technical reserves" include € 74,522K(€ 408,127Kas at 31/12/2005) of deferred liabilities in respect of policyholders for contracts with discretionary profit-sharing components (IFRS 4.IG22f). Comparison with the 2005 financial year was affected by the upturn in segregated account yield rates. The remainder was mainly due to the reserve for future expenses.

In particular, the Group has considered property-linked Life contracts, linked to returns from segregated accounts, as contracts containing an element of discretionary profit-sharing. In this case, the insurer may, in fact, intervene on a discretionary basis, either by determining the retrocession quota or by influencing the return. At the same time, the shadow accounting method has been applied to these contracts.

With reference to financial liabilities relating to contracts with discretionary profit-sharing components, as defined by IFRS 4.2 b, these are classified within the technical reserves and their book value amounts to € 6,217,920K (€ 5,481,762K as at 31/12/2005). Together with deferred liabilities to policyholders, the total value amounts to € 6,291,812K (€ 5,889,889K as at 31/12/2005), and is a reasonable indication of the fair value of the contracts in question. A group methodology adapted to supply specific data is being researched.

The movement of reserves over the course of the year is shown below:

(€K) **31/12/2006**

	Non-life business	**Life Business**	**Total**
Reserve at the start of the period	11,451,468	13,908,135	25,359,603
Increases over the period	5,344,325	3,378,876	8,723,201
Payments (-)	(5,129,690)	(1,871,209)	(7,000,899)
Profits or losses recorded in the profit and loss account	(7,050)		(7,050)

Reserves acquired from, or transferred to, other insurers	2,834	(155,928)	(153,094)
Exchange differences	(5,377)	(4,832)	(545)
Reserve at the end of the period	**11,661,887**	**15,264,706**	**26,926,593**

4. FINANCIAL LIABILITIES

(€K)	2006	2005	VARIATION
FINANCIAL LIABILITIES AT FAIR VALUE RECOGNISED THROUGH PROFIT OR LOSS	**4,842,032**	**3,231,858**	**1,610,174**
OTHER FINANCIAL LIABILITIES	**2,237,863**	**1,940,520**	**297,343**
TOTAL	7,079,895	5,172,378	1,907,517

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

Financial liabilities held for trading
In total, these amount to € 217,677K (€ l,117,665K as at 31/12/2005).
These relate to € 61,568K in repurchase agreements stipulated by the subsidiary SAI Mercati Mobiliari (was € 89,808K as at 31/12/2005): these transactions are hedged by investment repurchase agreements. The item also includes € 152,991K (€ 28,515K as at 31/12/2005) relating to derivative hedging contracts stipulated by the Parent company and by the subsidiary Milano Assicurazioni, in respect of which, financial instruments owned by the Group recorded a similar positive variation impacting on the profit and loss account.

Financial liabilities at Fair Value recognised through profit and loss
In total, these amount to € 4,624,354K (€ 3,114,193K as at 31/12/2005).
As governed by IAS 39, the item includes investment contracts not falling within the scope of application of IFRS 4 and posted to the accounts using Deposit Accounting. For these deposits, which amount in total to € 4,624,354K (€ 3,113,868K as at 31/12/2005), this allocation eliminates and considerably reduces accounting asymmetry with the financial assets serving these contracts.
From this financial year, the item includes 50% of deposit accounting attributable to the participating interest Bipiemme Vita S.p.A., amounting to € 1,132K.

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
These amount to € 2,237,863K (€ 1,940,520K as at 31/12/2005).
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 amounting to € 324,499K (€ 279,659K as at 31/12/2005) and subordinated liabilities amounting to € 807,386K. € 162,505 relate to the Milano Assicurazioni Group (which also includes 50% of the subordinated liabilities of Bipiemme Vita). Please refer to the Management Report chapter on debt for a specific illustration of the features of these issues.

With reference to other loans from banks and other financers, amounting to € 1,105,978K (692,360 in 2005) the most significant amounts are given below:

- € 203.7m (€ 228.2m as at 31/12/2005) relates entirely to the consolidated debt of the subsidiary Immobiliare Lombarda. The rate of interest on the loans was, generally speaking, the spread Euribor + 0,9% rate. Due dates are variable up to 2012.
- € 173.4m relates to the loan stipulated by Fondo Chiuso Immobiliare Tikal R.E. with Banca

Intesa, the latter in the capacity of Organising Bank, Agent and Financier. The aim of the loan was to improve the return on the fund's capital funds and, thus, on the capital invested by members. The amount disbursed, which does not exceed the guarantee given, amounting in total to the nominal amount of € 280m, was used both for investments in new initiatives and to make improvements with a view to future realisations or revenue increases. The cost of the funding is equal to the Euribor rate plus a variable credit spread of between 70 and 110 b.p..

- € 178m relates to the loan stipulated by the subsidiary Sainternational, due in 2010.

The item also includes deposits accessed by customers from the subsidiary BANCASAI of € 203m, whilst € 81.4m relates to the same positions in respect of the newly consolidated Banca Gesfid. Finally, the item includes € 12.8m relating to investment contracts stipulated by life policyholders valued using the amortised cost method and then € 95.3m relating to repurchase agreements stipulated by the subsidiary SAI Mercati Mobiliari.

5. PAYABLES

These amount to € 1,069,419K and are made up as follows

(€K)	2006	2005	Variation
Payables deriving from direct insurance operations	177,205	210,047	(32,842)
Payables deriving from reinsurance operations	113,102	113,541	(439)
Other payables	779,112	776,992	2,120
Total	**1,069,419**	**1,100,580**	**(31,161)**

With reference to payables deriving from direct insurance operations, these can be broken down as follows:

(€K)	31/12/2006	31/12/2005	Variation
Payables to insurance brokers	152,301	171,527	(19,226)
Current account payables in respect of insurance companies	22,303	35,182	(12,879)
Payables for policyholders' deposits	460	1,473	(1,013)
Payables for guarantee funds for policyholders	2,141	1,865	276
Total	**177,205**	**210,047**	**(32,842)**

Payables deriving from reinsurance operations relate to reinsurance companies and amount to 57,308K (€ 61,410K in 2005) and €. 55,794K payable to reinsurance brokers (€ 52,131K in 2005).

Details of "other payables" are given below:

(€K)	2006	2005	Variation
Trade payables	212,945	219,328	(6,383)
Staff-leaving indemnity	127,092	138,256	(11,164)
Payables for taxes payable by policyholders	106,598	105,558	1,040
Payables for sundry tax liabilities	95,111	79,603	15,508
Payables to social security and welfare institutions	16,188	28,092	(11,904)
Other payables	221,178	206,155	15,023
Total	**779,112**	**776,992**	**2,120**

Trade payables include payables for advance payments and confirmatory down payments received on preliminary contracts stipulated and relating to the residential units constructed and sold by Progetto Bicocca La Piazza S.r.l. (a subsidiary of Immobiliare Lombarda S.r.l.) amounting to around €

19,633K (€ 20,813K as at 31/12/2005).

Payables for other tax liabilities includes the sum of € 43,105K relating to the payment on account due for tax on Life mathematical reserves as laid down by art.1, paragraphs 2 and 2BIS of Legislative Decree 209/2002 (converted into Law 265/2002).

Other payables include transfers from the subsidiary Banca SAI S.p.A. amounting to € 70m, payables to employees amounting to € 41m, insurance payables amounting to € 25m, payables to customers for cash deposits for investments amounting to € 14m, property-related payables of € 11m, payables to the Milan Comune for urbanisation charges of € 6m and payables for asset management commissions of € 2m.

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)	**31/12/2006**	**31/12/2005**	**Variation**
Existing at the start of the period	**138,256**	**122,369**	**15,887**
Allocations to Profit and Loss Account for Interest Cost	5,712	3,353	2,359
Allocations to Profit and Loss Account for Service Cost	7,938	7,952	(14)
Actuarial Gains/Losses	(12,645)	14,580	(27,225)
Withdrawals	(15,286)	(11,034)	(4,252)
Transfers between Group companies	-	59	(59)
Changes in basis of consolidation	3,118	977	2,141
Existing at the end of the period	**127,092**	**138,256**	**(11,164)**

Please note that the rise in market rates observed in 2006 produced greater projected cash flow discounts and so a reduction in the Actuarial Gains/Losses component and in IAS liabilities. Please remember that profits or losses of an actuarial nature derive from the shift in assumptions, including financial assumptions, made in the model for the previous calculation in respect of what actually happened during the course of the valuation period.

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

(values expressed in %)	Staff leaving indemnity			
	1	2	3	4
FONDIARIA-SAI	4.21	3.35	1.50	6.79
NOVARA VITA	4.27	3.35	1.50	6.79
PO VITA	4.28	3.35	1.50	6.79
PRONTO ASSISTANCE	4.32	3.35	1.50	6.79
SASA	4.21	3.35	1.50	6.79
SASA VITA	4.17	3.35	1.50	6.79
SIAT	4.19	3.35	1.50	6.79
BANCASAI	4.27	3.35	1.50	6.79
SAI MERCATI MOBILIARI	4.28	3.35	1.50	6.79
SCAI	4.31	3.35	1.50	6.79
STARVOX	4.31	3.35	1.50	6.79
IMMOBILIARE LOMBARDA	4.27	3.35	1.50	6.79
PORTOBELLO	4.25	3.35	1.50	6.79
LIGURIA DANNI	4.21	3.35	1.50	6.79
LIGURIA VITA	4.17	3.35	1.50	6.79
CASA DI CURA VILLA DONATELLO	4.27	3.35	1.50	6.79
CASA DI CURA VILLANOVA	4.25	3.35	1.50	6.79
DIALOGO	4.28	3.13	1.50	4.27
SAI A.M. SGR (ex EFFE GESTIONI)	4.25	3.13	1.50	4.27
EUROPA	4.21	3.13	1.50	4.27
FINITALIA	4.27	3.13	1.50	4.27
MILANO ASSICURAZIONI	4.19	3.13	1.50	4.27
SYSTEMA	4.31	3.13	1.50	4.27
BPM VITA	4.00	2.50	1.50	3.50

1 = Discount rate
2 = Anticipated wage-rise rate
3 = Anticipated inflation rate
4 = Turnover

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 rates: use of an interest rate curve on the valuation date, rather than a constant rate, representative of bond issues from leading companies (Bloomberg).
- Anticipated wage-rise rate: analysis of historical movement of company wages over the last five years (2000-2004 period) and their adjustment on the basis of what is laid down by the industry-wide wage agreement and the anticipated inflationary scenario. Wage-rise hypotheses were differentiated by contractual rating and employee's length of service with the company.
- Turnover: analysis of historical movement over the last five years (2000-2004 period) relating to the departure from the company of employees and their standardisation on the basis of any "extraordinary" phenomena occurring in the past. Turnover hypotheses were differentiated by contractual rating, age details and sex of the employee.
- Rate of inflation: the inflationary scenario appearing in the current Economic and Financial Planning document on the valuation date.

Healthcare benefits for retired employees
The Group has implemented some healthcare benefit programmes for retired managers and their nuclear families. This benefit is reversible to surviving spouses and dependent children. The accounting method and actuarial hypotheses are similar to those usable for fixed benefit pension

funds.
The tables below provide analytical information on movements in liabilities relating to Health Cover for Retired Managers, as well as the main demographic and financial hypotheses adopted to quantify the Fund in line with the "Projected Unit Credit Method".

Company (€K)	Fund as at 31/12/2006	Service Cost 2006	Fund as at 31/12/05	Service Cost 2005
Fondiaria-SAI	17,916	191	16,355	151
Milano	8,294	79	7,963	54
Siat	203	11	-	-
Sai A.M. Sgr	47	8	-	-
Sasa	44	10	-	-
Group Total	**26,504**	**299**	**24,318**	**205**

(values expressed in %)	Executive Benefits			
	1	**2**	**3**	**4**
FONDIARIA-SAI	4.21	6.30	1.50	6.79
MILANO ASSICURAZIONI	4.21	6.30	1.50	4.27

1 = Discount rate
2 = Anticipated wage-rise rate
3 = Anticipated inflation rate
4 = Turnover

As regards hypotheses relating to the rise in healthcare costs, an analysis of historical data on refunds (2001 – 2004 period) was conducted. The rise in refunds can, essentially, be broken down into two parts:

- adjustment for inflation;
- "natural" increase due to ageing

The analyses conducted showed an average annual growth of 4.8% which brings the anticipated wage-rise rate, gross of planned inflation to 6.3%

6. OTHER LIABILITIES

Comprising:

(€K)	2006	2005	Variation
Current tax liabilities	31,474	272,838	(241,364)
Deferred tax liabilities	256,777	724,243	(467,466)
Liabilities for a group spin-off held for sale			
Other liabilities	567,996	612,546	(44,550)
Total	**856,247**	**1,609,627**	**(753,380)**

Current tax liabilities
These amount to € 31,474K (€ 272,838 as at 31/12/2005) and relate to taxes on income set aside in full by the Group at year end and calculated by applying current nominal tax rates on the accounting date to respective basic taxable amounts, the latter being determined by means of prudent estimates.

Remembering what has already been reported in the notes to current and deferred tax assets, please note that the sharp drop compared with the amount recorded at the end of the previous financial year takes into consideration the off-setting, with corresponding current tax assets, by individual companies and, within the Group, by subsidiaries participating in fiscal consolidation with the Parent company.

Deferred tax liabilities
Deferred tax liabilities, amounting to € 256,777, include the tax impact of all temporary differences relating to items of an equity-related or economic nature, intended to be repaid in future years.
The balance shown takes into consideration off-setting, where permitted, with corresponding deferred tax assets, in accordance with IAS 12.
The net impact of deferred liabilities transferred to the profit and loss account for the year amounts to € 58,357K.

Other liabilities

Other liabilities amount to € 567,996K (€ 612,546K as at 31/12/2005) and are made up as follows:

(€K)	31/12/2006	31/12/2005	Variation
Commission on premiums in the process of being collected	139,342	134,367	4,975
Deferred commissions payable for investment management services to life policyholders	153,795	103,425	50,370
Cheques issued for claims and life sums collected from beneficiaries after year end	38,881	102,003	(63,122)
Deferred reinsurance accounts payable	887	6,002	(5,115)
Other liabilities	235,091	266,749	(31,658)
TOTAL	**567,996**	**612,546**	**(44,550)**

The subitem "Other liabilities" includes expenses presumed to be guaranteed amounting to € 99m, assets payable to reinsurers amounting to € 30m, remittances from brokers waiting to be matched up of € 16m and current accounts at peripheral network branches of € 13m.
In addition, there remains another € 3m for the payable that the subsidiary Immobiliare Lombarda S.p.A. has estimated for charges due for the submission of applications for condonation in accordance with Law 724/94 which permits the change of building use for some property units.

Disclosure of risks and charges not recorded in the Profit and Loss account
In accordance with what is laid down by IAS/IFRS international accounting standards, the Accounts must not only contain information on data recordable in the accounts but also on risks and uncertainties brought to bear on the company as well as any resources and obligations not appearing in the Profit and Loss Account.
The classification proposed by the aforementioned accounting standards days down that memorandum items reported "under the line" of the Profit and Loss Account should be separate from risks and charges assumed by the company and third party assets on its premises.

Collateral securities given by the Group to third parties
These amount to € 458,085K compared with € 443,318 for the previous year and are made up as follows: € 408,748K comprise first mortgages registered on owned premises (separately for each property and for a value that is double that of the related payable allocated), following renegotiation of the bank exposure within the company Immobiliare Lombarda S.p.A.; € 12,132K comprise deeds of ownership, mainly settled on the Milan Comune to guarantee commitments assumed in respect of the latter for urbanisation charges and for the issue of planning permissions; € 28,790K for collateral securities relating to bank deposits on which a right of lien has been registered, relating to situations where there is a dispute over claims; € 8,067K relate to assets constituted by deposits guaranteeing inward reinsurance contracts.

Other guarantees given by the Group to third parties
Other commitments amount to € 35,196K, slightly down on 2005 (-1.64%) and mainly account for

guarantees given to Credit Institutions for the issue of declarations of indemnity as well as guarantees in the interest of third party companies, mainly comprising joint obligations in respect of the Tax authority for the early repayment of VAT credits.

Guarantees given by third parties in the interest of the Group
At year end, these amounted to € 79,917K, recording a rise of 16.47% on 2005. These mainly comprised bank guarantees for obligations respect of third parties, with particular reference to institutional investors (for property sales) made in previous years and to the Milan Comune (for the construction of urbanisation works).

Guarantees received
The balance at year end amounted to € 289,748K and comprised sureties for guarantees issued by agents in performance of related mandates for € 225,803K and € 50,000K for the guarantee received over the year in the form of collateral security, to hedge any losses due to the purchase of Liguria Assicurazioni. The drop recorded in comparison with 2005, of € 115,801K, was also impacted by the cancellation of the guarantee received on a discharged loan and the drop in bank guarantees given by third parties to guarantee the obligations of former Nuova Maa agents.

Commitments
These mainly comprise € 107,816K still to pay in relation to property sale and purchase transactions; securities to be delivered amount to € 31,686K, those to be received amount to € 1,758K: these are registered for purchases/sales made in 2006, but settled in the first few days of 2007. In addition, there are commitments of € 31,174K for options on Capitalia, RCS Mediagroup and Mediobanca shareholdings.

With reference to the convertible bond loan (Mandatory) existing commitments amount to € 180,400K for delivery to noteholders, upon expiry of the loan, of the Banca Intesa Sanpaolo shares, to which the conversion relates.

Finally, please note that, with reference to the Po Vita holding, our share of the commitments assumed was € 48,230K, corresponding to the equivalent value of commitments for the purchase of two zero coupons, with related optional parts, underwritten by the Company to hedge Index-Linked products placed in January 2007.

PART C – Notes to the Consolidated Profit and Loss Account

NET PREMIUMS

Consolidated net premiums amount to € 9,649,837K (€ 9,096,306K in 2005).
The Group's gross premium income amounts to € 9,975,266K, up by 6.90% on 2005, broken down as follows:

(€K)	2006	2005	Variation
Life-business gross premiums	2,670,472	2,360,942	309,530
Non-life business gross premiums	7,304,794	7,144,316	160,478
Variation in gross amount of premium reserve	(11,439)	163,457	(174,896)
Total Non-life business	7,316,233	6,980,859	335,374
Gross earned premiums	**9,986,705**	**9,341,801**	**644,904**

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

Premiums ceded, totalling € 331,942K, account for 3.3% of total premiums written (2.8% in 2005).

(€K)	2006	2005	Variation
Life Business	24,288	13,863	10,425
Non-life business	307,654	247,766	59,888
Variation in reinsurers' share of the premium reserve	4,926	(16,134)	21,060
Total Non-life business	312,580	231,632	80,948
Earned premiums ceded under reinsurance	**336,868**	**245,495**	**91,373**

The Group's reinsurance policy had a positive impact on the consolidated accounts of € 86,696K (€ 89,155K in the Non-life segment).
In accordance with IFRS 4.36 b ii please note that, on existing reinsurance contracts, there is no deferral and amortisation of profits and losses.

For further illustrations of item 1.1 of the Profit and Loss account, broken down into Life and Non-life segments, please refer to the Annex at the end of the accounts.

COMMISSIONS RECEIVABLE

Commissions receivable in 2006 amounted to € 76,499K, up on 2005 by € 23,046K.

(€K)	2006	2005	Variation
Commissions receivable	76,499	53,453	23,046

The item includes both explicit and implicit loadings relating to investment contracts written by Group companies and, as such, not falling within the scope of the application of IFRS 4, as well as internal fund management fees. In particular, approximately € 45m relates to the subsidiaries Novara Vita and Po Vita. Also included are approximately € 26m of accrued commissions receivable from companies operating within the asset management and consumer credit industry.

NET INCOME FROM FINANCIAL INSTRUMENTS AT FAIR VALUE RECOGNISED IN THE PROFIT AND LOSS ACCOUNT

These amount to € 80,265K, down on 2005 by € 46,296K.

(€K)	Interest	Other net income	Profits	Losses	Capital gains from valua-tion and write-ups	Capital losses from valuation and value adjust-ments	Total 2006	Total 2005	Variatio n
Result of investments deriving from:									
Financial assets held for trading	41,969	101,149	13,066	(105,347)	136,219	(147,593)	39,463	64,775	(25,312)
Financial assets at fair value recognised through profit or loss	27,246	(3,953)	15,736	(6,641)	169,218	(160,804)	40,802	61,786	(20,984)
Total	**69,215**	**97,196**	**28,802**	**(111,988)**	**305,437**	**(308,397)**	**80,265**	**126,561**	**(46,296)**

NET INCOME DERIVING FROM FINANCCIAL INSTRUMENTS AT FAIR VALUE RECOGNISED IN THE PROFIT AND LOSS ACCOUNT

(€K)	Net interest	Other net income	Profits	Losses	Capital gains from valua-tion and write-ups	Capital losses from valua-tion and value adjust-ments	Total 2006	Total 2005	Variation
Result deriving from:									
Investment property	-	40,766	22,964	(318)	-	(37,429)	25,983	62,467	(36,484)
Holdings in subsidiaries, associates and joint ventures	-	8,283	11,168	(5)	-	-	19,446	43,862	(24,416)
Loans and receivables	44,034	1,060	-	(2,889)	284	-	42,489	56,021	(13,532)
Investments held to maturity	-	-	-	-	-	-	-	-	-
Financial assets available for sale	624,910	130,130	173,090	(50,819)	-	-	877,311	711,786	165,525
Sundry receivables	14,372	(2,048)	842	-	-	-	13,166	12,895	271
Cash at bank and in hand and equivalents	27,346	81	21	(555)	-	-	26,893	5,588	21,305
Other financial liabilities	(88,097)	(19,137)	-	-	-	-	(107,234)	(54,381)	(52,719)
Total	**622,565**	**159,135**	**208,085**	**(54,586)**	**284**	**(37,429)**	**898,054**	**838,238**	**59,816**

The economic impact of the sale of various financial instruments is shown in the profits and losses columns. Profits made on holdings in subsidiaries, associates and joint ventures relate to the capital gain on the sale of the Milano Assicurazioni minority interest already allocated to Life Business Segregated Account Assets.
Capital losses from the valuation of investment property include depreciation allowances recognised over the year.
Negative interest on other financial liabilities includes the heavy burden of the Group's financial debt: the rise in these liabilities is due to a new subordinated loan of € 300m being taken out by the Parent company and by the subsidiary Milano Assicurazioni, the features of which are illustrated in the Management Report.
No accrued interest was received on financial assets written down for impairment in previous years (IAS 32.94h).
With regard to annex 11, please refer to the end of the accounts.

OTHER REVENUE

Other revenue amounted to € 400,946K (€ 393,594K in 2005) and is summarised in the table below:

(€K)	**2006**	**2005**	**Variation**
Capital gains relating to non-current assets	144	24	120
Other technical income	75,699	72,348	3,351
Fund withdrawals	46,664	73,244	(26,580)
Exchange differences	17,256	16,261	995
Contingent assets	44,419	30,110	14,309
Profits realised on tangible assets	282	61	221
Other revenue	216,482	201,546	14,936
Total	**400,946**	**393,594**	**7,352**

In particular, the following revenue is included in the subitem "other revenue" in the table below: € 92m in revenue from the subsidiary Immobiliare Lombarda, relating to the property segment, whose premises, being considered as inventories, are classified as tangible assets; revenue for sales of hardware and provisions of an IT nature outside the Group, relating to subsidiaries operating in this industry of € 12m, revenue from care homes in which the Group has a controlling interest of € 29m and revenue relating to agricultural holdings of € 9m.

NET CHARGES RELATING TO CLAIMS

Claims paid, including life business amounts and related expenses reached, gross of units ceded to reinsurers, the sum of € 7,063,900K, up by 6.80% over the previous year.

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

(€K)	**2006**	**2005**	**Variation**
Non-life business			
Amounts paid	5,192,691	5,145,986	46,705
Variation in recoveries	(104,434)	(121,226)	16,792
Variation in other technical reserves	424	(1,477)	1,901
Variation in claims reserve	7,592	(72,433)	80.025
Total Non-life business	**5,096,273**	**4,950,850**	**145,423**

Life Business			
Amounts paid	1,871,209	1,468,238	402,971
Variation in mathematical reserves and other technical reserves	715,188	1,180,182	(464,994)
Variation in technical reserves where the investment risk is borne by policyholders and arises from pension fund management	234,742	28,681	206,061
Variation in the reserve for payables	100,762	35,528	65,234
Total Life	**2,921,901**	**2,712,629**	**209,272**
Total Non-life + Life	**8,018,174**	**7,663,479**	**354,695**
Amounts paid	**6,959,466**	**6,492,998**	**466,468**
Variation in reserves	**1,058,708**	**1,170,481**	**(111,773)**

Reinsurers' share of claims-related charges

(€K)	**2006**	**2005**	**Variation**
Non-life business			
Amounts paid	187,544	262,572	(75,028)
Variation in other technical reserves	(938)	(3,094)	2,156
Variation in recoveries	0	0	0
Variation in claims reserve	(26,521)	(89,020)	62,499
Total Non-life business	**160,085**	**170,458**	**(10,373)**
Life Business			
Amounts paid	26,926	31,474	(4,548)
Variation in mathematical reserves and other technical reserves	(3,266)	(17,207)	13,941
Variation in the reserve for payables	601	(1,866)	2,467
Total Life	**24,261**	**12,401**	**11,860**
Total Non-life + Life	**184,346**	**182,859**	**1,487**
Amounts paid	**213,532**	**290,952**	**(77,420)**
Variation in reserves	**(29,186)**	**(108,093)**	**78,907**

The variation in Non-life business net technical reserves amounts to € 34,537K, up on 2005 by € 19,427K.

Life Business net technical reserves, including the reserve for payables, varied by € 1,053,357K (€ 1,263,464K in 2005).

For further details of item 2.1 of the Profit and Loss account, broken down into Non-life and Life business, please refer to Annex 10 at the end of the accounts.

COMMISSIONS PAYABLE

Commissions payable in 2006 amounted to € 39,754K, up on 2005 by € 8,917K.

(€K)	2006	2005	Variation
Commissions payable	39,754	30,837	8,917

This item includes acquisition costs relating to investment contracts written by insurance companies and not falling within the field of application of IFRS 4.

OPERATING EXPENSES

(€K)	2006	2005	Variation
Non-life business			
Purchase commissions and variations in deferred acquisition costs	1,044,057	992,230	51,827
Other acquisition costs	159,047	146,670	12,377
Collecting commissions	52,623	52,789	(166)
Commissions and profit shares received by reinsurers	(63,340)	(64,937)	1,597
Total Non-life business	**1,192,387**	**1,126,752**	**65,635**
Life Business			
Purchase commissions and variations in deferred acquisition costs	53,469	48,149	5,320
Other acquisition costs	30,501	28,375	2,126
Collecting commissions	15,717	18,082	(2,365)
Commissions and profit shares received by reinsurers	(2,486)	(1,494)	(992)
Total Life	**97,201**	**93,112**	**4,089**
Investment management expenses	10,462	74,522	(64,060)
Other administration expenses	344,228	308,263	35,965
Total	**1,644,278**	**1,602,649**	**41,629**

Acquisition costs accrued over the financial year amount to € 1,287,074K.

Details are given below:

(€K)	2006	2005
Portion incurred and disbursed over the year	1,214,406	1,137,064
Portion arising from amortisation of capitalised costs in previous years	72,668	78,360
Total acquisition costs	**1,287,074**	**1,215,424**

For annex 12, please refer to the end of the accounts.

OTHER COSTS

Other costs amounted to € 678,863K (€ 562,918K in 2005) and are summarised by type in the table below:

(€K)	2006	2005	Variation
Other technical charges	317,069	158,643	158,426
Provisions	67,002	117,371	(50,369)
Losses on receivables	10,830	34,916	(24,086)
Contingent liabilities	40,842	45,444	(4,602)
Amortisation tangible fixed assets	14,583	17,437	(2,854)
Amortisation intangible fixed assets	35,115	30,699	4,416
Exchange differences	19,612	7,388	12,224
Other costs	173,810	151,020	22,790
Total	**678,863**	**562,918**	**115,945**

In particular, the following charges are included in the subitem "other costs" appearing in the table below, € 80m relating to typical liabilities incurred by the subsidiary Immobiliare Lombarda; € 44m relating to production and labour costs for the subsidiaries Scai, Salevox and Starvox. Costs of €20m incurred by Pronto assistance servizi to provide Group policyholders and clients with call centre and support services in the event of a claim were also included; € 18m relates to costs incurred by Care Homes in which the Group has a controlling interest for typical activities and related labour costs; cost of typical management of the subsidiary Saiagricola of € 6m.

TAXES

(€K)	2006	2005	Variation
Charges (income) for current taxes	249,016	241,902	7,114
Adjustments recorded over the financial year relating to current taxes and taxes for previous years	(5,034)	-	(5,034)
Deferred tax liabilities arising over the year	136,823	117,815	19,008
Deferred tax liabilities used over the year	(78,466)	(134,911)	56,445
Deferred tax assets arising over the year	(110,690)	(124,590)	13,900
Deferred tax assets used over the year	119,811	154,606	(34,795)
Income for deferred tax assets arising in previous years and not previously recorded used to reduce current taxes	-	-	-
Income for deferred tax assets arising in previous years and not previously recorded used to reduce deferred taxes	(8,020)	(10,044)	2,024
Charges (income) relating to write-downs (write-ups) of assets for deferred taxes recorded in the previous year	4,676	-	4,676
Variations following estimate changes according to IAS 8	-	-	-
Total	**308,116**	**244,778**	**63,338**

Taxes for the financial year amount to € 308,116K (€ 244,778K in 2005) being the combined effect of current taxes of € 243,982 and net deferred taxes of € 64,134K.

Current taxes (Ires and Irap) are calculated by applying current nominal rates of 33% for Ires and 4.25% for Irap to basic taxable amounts on the accounting date. When calculating Irap for the financial year, consideration was also given, again by prudent valuation, of any increases or reduction in rates decided upon by some regions with regard to particular categories of economic agents.

Current taxes include positive variations relating to tax adjustments for previous years as a net effect of withdrawals from surplus taxes set aside by the Parent company of € 6,305K and higher taxes paid over the year by the subsidiary Fondiaria Nederland of € 1,271K.

With regard to deferred taxation, the latter generated a tax liability of € 64,134K.
€ 4,676K of this related to adjustments to deferred tax assets set aside in previous years by the Parent company.

Deferred tax liabilities showed a negative net balance of € 58,357K and, generally speaking, relate to all the taxable temporary differences arising, or repaid, over the year.

As for the movement of deferred tax liabilities, please note that the setting aside of the latter mainly correlates to value adjustments for goodwill and other intangible assets, made in accordance with IAS 38 of € 31,548K and, € 32,683K, with the consolidation adjustments of 2006 commissions posted to the accounts in previous years.
On the other hand, the cancellation of deferred liabilities previously set aside was mainly due, in the amount of € 41,129K to the taxability of capital gains payable in instalments posted to previous years and € 26,144K for the allocation, during consolidation, of amortisations on multi-year commissions.

On the other hand, deferred tax assets arising over the year, net of those repaid, resulted in a greater tax liability of € 1,101K. The latter were set aside according to the likelihood of repayment, less related temporary differences in subsequent years.

€ 11,346K of these represent the net impact of deferred assets relating to the deduction of write-downs on receivables from policyholders due to the exemption of deferred assets of € 33,340K against the cancellation of pre-payments of € 21,995K.
Also included in the cancellation of prepaid taxes please note over € 49,148K relating to the deduction, in 2006, of adjustments made on capitalised holdings in accordance with art 1 of Legislative Decree 209/2002.

Failure to set aside deferred tax assets for fiscal losses arising over the year as well as for the immediate absorption of losses made by consolidated companies involved in national taxation of the Group as laid down by article 124 and subsequent articles of Presidential Decree 917/1986 (known as the Consolidated income tax code) relating to Fondiaria-SAI, was not significant.

On the accounting date, the aggregated amount of temporary differences relating to profits not distributed by subsidiary companies had not given rise to the posting of deferred tax liabilities. i.e. since the Group was in a position to monitor the cancellation times of these temporary differences. Temporary differences deriving from associates and joint ventures were negligible.

To supplement the balance sheet disclosures required by IAS 12 – Income taxes, please not that deferred tax assets and liabilities at year end amounted, respectively to € 96,978K and € 256,777K. These amounts take into consideration offsetting by some companies due to the existence of a legal right to offset related current assets and liabilities and the option or obligation to settle these taxes on a net basis.

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	2005	Variation
Pre-tax result	908,884	831,128	77,756
Tax on theoretical income (excluding Irap)	299,932	274,272	25,659
Tax impact deriving from permanent changes in tax liability	(40,365)	(20,249)	(20,116)
Tax impact of use of previous fiscal losses	(513)	(6,420)	5,907
Tax impact deriving from shares in associated company results	(331)	(162)	(169)
Tax impact deriving from foreign tax rates	(3,964)	8,131	(12,095)
Other differences	(10,784)	(61,513)	50,729
Income tax (excluding Irap)	**243,975**	**194,059**	**49,915**
Irap	64,141	50,719	13,422
Total income taxes posted to the accounts	**308,116**	**244,778**	**63,337**

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 considerations 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. Reductions include € 18,071K for detaxation of the income of the subsidiary TIKAL R.E. Fund which, taking into consideration consolidation adjustments, is exempt from tax.

The theoretical tax liability is, in addition, reduced by recovery of previous fiscal losses by some Group companies, in particular, by the subsidiary Immobiliare Lombarda and some direct subsidiaries, for which it was not deemed appropriate to set aside, in respective year-end accounts, the related prepaid taxes.

Likewise, the neutralisation of the impact on the theoretical tax liability due to the different tax system applied to foreign subsidiaries resulted in a tax saving of € 3,964K. This variation was mainly due to lower corporate tax on income for the Irish company Lawrence RE and the subsidiary Effe Finanziaria. For other non-resident subsidiaries, including Fondiaria Nederland, the differential between theoretical national Ires at 33% and respective nominal foreign rates proved to be smaller, as the economic results achieved were impacted by some income components that were irrelevant for tax purposes or were adjusted due to consolidation entries.

Other differences relate, amongst other things, to € 8,020K for greater provisions for deferred tax assets made, in particular, by the subsidiaries Milano Assicurazioni and Sasa Assicurazioni, against € 4,676K in prepaid taxes cancelled by the Parent company and for which there are no temporary differences, arising or repaid, in the financial year and € 2,454K in net adjustments of deferred liabilities.
Other differences also include, the adjustment of current taxes relating to previous years already referred to and the reduction in tax on the income of companies operating under the transparency system ex art. 115 of Presidential Decree 917/1986, for the portion attributed to the Group's foreign companies. € 3,295K of this relates to the subsidiary Novara Vita.

FURTHER INFORMATION

With reference to the nature of the year's expenses (IAS 1.93), in addition to what has already been listed in the details on the balance sheet item "Other costs", please note that the Group's total staffing costs amounted to € 379m (€ 345m as at 31/12/2005)
In particular, the rise was due both to acquisitions already noted, and to stock option plans approved in 2006.

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 held by Gruppo Fondiaria-SAI.

Diluted earnings per share was calculated by dividing the net profit for the year attributable to the Parent company's ordinary shareholders by the weighted average number of shares in circulation during the year, adjusted for the diluting effects of Fondiaria SAI warrant options in circulation and, therefore of all potential shares. In calculating the diluted profit, shares used for stock options were not, on the other hand, taken into consideration, since requirements have not yet been verified (the period during which options may be exercised will start in 2008).
In addition, please note that dividends distributed in 2006 to Parent company savings shareholders were deducted from the Group's consolidated net profit.

Share results and information for the purposes of calculating basic and diluted earnings per share are given below:

(€K)	**2006**	**2005**
Net profit attributable to the Parent company's ordinary shareholders	435,641	422,774
Weighted average number of ordinary shares for the calculation of basic earnings per share	117,629,014	117,433,266
Basic earnings per share	3.70	3.60
Dilution effect:		
Adjusted weighted average number of ordinary shares for the purposes of diluted earnings per share	119,877,665	124,685,647
Diluted earnings per share	3.63	3.39

Please note that it was not thought necessary to adjust the profit for discontinued business or business in the process of being hived off and that Warrants have a diluting effect in so far as the average market price of ordinary shares exceeds their strike price.

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

(€K)	**2006**	**2005**
Declared and paid over the year		
Dividends on ordinary shares	119,359	91,515
Dividends on savings shares	42,678	33,544
Proposals for approval by the Shareholders' meeting		
Dividends on ordinary shares	125,172	119,359
Dividends on savings shares	45,563	42,678

Please note that dividends amounting to € 1 for ordinary shares and 1.052 for savings shares

proposed for approval by the Shareholders' meeting were not recorded as liabilities as at 31/12/2006. The dividend proposed are the result of an estimate that did not take into consideration any warrant conversions between the date of the decision and the date of the dividend coupon date, nor of any acquisitions of own shares over the same period.

Stock option plans
On 14/07/06, the Fondiaria-SAI Board of Directors decided to allocate the options referred to in the Fondiaria-SAI 2006-2011 Stock Option plans to executive directors and management of said Fondiaria-Sai, its subsidiaries and parent company, to purchase Fondiaria-SAI savings shares.

Accounting standard IFRS 2 "Share-based payments" provides for mandatory posting to profit or loss of implicit costs linked to employee stock ownership plans. In the case of stock options, regulations state that the service received should be shown in the accounts as the occupation of the individuals benefiting from the stock options, the latter being valued at the fair value of the corresponding options.
Consequently, stock option plans contribute to increasing the labour cost recorded in the consolidated accounts. To this end, therefore, it was necessary to identify appropriate valuation models to calculate the fair values of the options and, therefore, the labour cost to be recorded in the accounts.

The accounting principles have already defined valuation criteria for stock option plans, whilst the Management Report illustrates the plans' essential features. Here it is shown that, in line with the three different vesting periods, three different fair values were calculated for the option. Option fair values were calculated using the Black-Scholes model which takes into consideration, in addition to information such as the strike price and the life of the option, the current price of the shares and their projected volatility, projected dividends and the risk-free interest rate, as well as the specific features of the existing plan.

Most of the information on which the fair value calculation is based is shown below:

- the nominal value of each option is € 1;
- the unit issue price is Euro 21.546 which is the arithmetical mean of the benchmark prices for the Fondiaria-SAI savings share recorded on the market in the thirty days prior to the date on which the rights were transferred;
- the share price at the time of transfer was Euro 22.060;
- the vesting period varies according to the following:
    - 40% of the options cannot be exercised within 24 months of the allocation date;
    - 30% of the options cannot be exercised within 36 months of the allocation date;
    - 30% of the options cannot be exercised within 48 months of the allocation date;
- the historical volatility of the share price over the most recent period which is usually commensurate with the option's projected term. In fact, a practical rule that is often used is that of making the period of time over which the volatility is measured correspond with the period of time to which it is to be applied. Due to requirements of uniformity, we went back to 1.1.2003, thereby only taking into consideration the post-merger period. Having, in our case, three vesting periods, there were three different historical volatilities, starting from closing prices for Fondiaria-SAI savings shares:

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

- the dividend yield is equal to the ratio between the value of the dividends and the share price at the time of launch. IFRS 2 (Appendix B, paragraph 35) stresses that in these cases the historical trend of rises in dividends should be taken into consideration. From the moment that the stock option plan became dependent upon the achievement of some of the 2006/2008 Industrial plan ob-

jectives, including the projected rise in dividends, the numerator was increased by 25%, in line with the rise in the Plan's projected ay-out. And so, the dividend yield amounted to:

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

- the risk-free interest rate corresponds to the implicit return currently available on zero-coupon government issues in the country in whose currency the strike price is expressed, with a residual term equal to the projected term of the option being valued (IFRS 2 – Appendix B, paragraph 37). Consequently, three different Annual Euro Swaps were considered depending on the vesting period:

	2 years	3 years	4 years
Risk free rate %	**3.735**	**3.829**	**3.901**

With reference then to the effects of share-based payment transactions on the Group's economic result and balance sheet, the table below shows the total cost to the Group:

	No. options allocated	Residual life	Option value	Total cost	Cost 2006
Tranche A	**5,178,560**	**2**	**2.792**	**14,460,460**	**3,362,898**
Tranche B	**3,883,920**	**3**	**2.708**	**10,516,563**	**1,631,219**
Tranche C	**3,883,920**	**4**	**2.809**	**10,908,669**	**1,269,318**
Total	12,946,400			35,885,692	6,263,435
Options allocated to subsidiaries	**2,053,600**				
TOTAL	15,000,000				

The cost of options allocated to Directors and Management of the Parent company was recorded under same.

From an equity perspective, since the plan is not cash settled, the cost recorded in the accounts increases a corresponding net equity reserve. The table below gives details of the position of the options plan as at 31 December 2006:

in circulation at the start of the year	allocated over the year	cancelled over the year	exercised over the year	expired over the year	in circulation at year end	exercisable at year end
0	**12,946,400**	**0**	**0**	**0**	**12,946,400**	**0**

In accordance with art. 78 of CONSOB Decision no. 11971 of 14 May 1999 and subsequent supplements, here is the information required on stock option plans:

Stock options allocated to Executive Directors and Management

		OPTIONS HELD AT THE START OF THE YEAR			OPTIONS ALLOCATED OVER THE YEAR			OPTIONS ALLOCATED OVER THE COURSE OF THE YEAR			OPTIONS EXPIRED	OPTIONS HELD AT THE START OF THE YEAR		
Name and Surname	Position held	Number of options	Average strike price	Average expiry	Number of options	Average strike price	Average expiry	Number of options	Average strike price	Average market price when exercised	Number of options	Number of options	Average strike price	Average expiry
Jonella Ligresti	CEO	-	-	-	1,900,000	21.546	2011	-	-	-	-	1,900,000	21.546	2011
Fausto Marchionni	Managing director/ CEO	-	-	-	1,900,000	21.546	2011	-	-	-	-	1,900,000	21.546	2011
Giulia Maria Ligresti	CEO	-	-	-	1,900,000	21.546	2011	-	-	-	-	1,900,000	21.546	2011
Gioacchino Paolo Ligresti	CEO	-	-	-	1,900,000	21.546	2011	-	-	-	-	1,900,000	21.546	2011
Antonio Talarico	Managing director	-	-	-	1,100,000	21.546	2011	-	-	-	-	1,100,000	21.546	2011
Group Management		-	-	-	6,300,000	21.546	2011	-	-	-	-	6,300,000	21.546	2011

PART D – Segment information

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

The Group's primary reporting is by business segment. Group companies are organised and managed separately on the basis of the nature of the products and services supplied, for each business segment representing a strategic business unit offering different products and services.
In order to identify primary segments, the Group conducted an analysis of the risk/return profile of these segments and took into consideration the internal disclosure structure. The Non-life segment provides insurance cover for the events shown in art. 2 paragraph 3 of Legislative Decree 209/2005. The Life segment, on the other hand, offers substantial insurance cover with payment of a capital amount or of a return upon the occasion of an event appertaining to human life.

The Property segment rents out offices, premises and dwellings that exceed the hedge requirements of the Group's technical/insurance reserves and is active in the investment property management and development market;
The Other Business segment, being of a residual nature, offers products and services within the scope of managed savings and asset management, as well as in the agricultural segment. Identification of the remaining segment is the result of a discretional valuation aimed at showing the primary source of risks and benefits to which the Group is exposed.
Transactions between segments are generally concluded under the same terms applied to third parties.
Lastly, it should be considered that ISVAP, with Instruction 2404/05, deemed it opportune to show the Non-life and Life segments as de minimis disclosure for the purposes of segment reporting.

Also, please note that, in accordance with the geographical breakdown of the Group's business during the course of 2006, this was developed mainly in the European Union and that there are, therefore, no other geographical segments which satisfy the requirements laid down by IAS 14 par.69.

A Balance Sheet and Profit and Loss Account broken down by segment are shown below:

PART E – Information on financial risks

Objectives and criteria
The Group's financial instruments mainly comprise debt and capital securities, represented by bonds, shares and unit trusts. Added to these are current bank accounts and bank deposits as well as receivables from policyholders, agents and other intermediaries. Financial instruments deriving from insurance and reinsurance companies' business operations are, therefore, included, the major reversal of the monetary cycle within the industry being noted.
With regard to the Group's insurance companies, whether within the Non-life or the Life segment, similar financial instruments are mainly intended to guarantee adherence to commitments to policyholders that have matured or are in the process of maturing. In particular, financial instruments represented by securities are mainly intended to hedge technical reserves in accordance with the criteria and procedures laid down by the Supervisory Authority with its own specific standards.

The main risks generated by financial instruments are: interest rate risk, liquidity risk, exchange risk, credit risk and the market price risk (fair value). The Parent company's Board of Directors reviews and periodically approves policies to manage these risks.

Over the years, the Group has developed a plan for mapping and estimating financial risks. The plan was born of the need to supply appropriate support for management and financial choices, in terms of asset allocation. From an operational point of view this monitoring is facilitated by the fact that the Finance and Risk Management departments operate on a centralised model.

Interest rate risk, market risk and V.a.R.
The Group's exposure to market risk due to interest rate changes mainly relates to debt securities held and, in particular, long-term securities. In order to limit this risk, the Group uses a balanced mix of fixed and variable rate securities.

The Group's monitoring system provides for assessment of the risk of interest rate fluctuation and market risk, inherent in portfolios and measured by "Value at Risk" (V.a.R.). Using this measurement, the existing portfolio's loss in value can be estimated in the light of significant risk factor fluctuations over a predetermined timeframe and with a predetermined level of probability of the damaging event occurring.

The asset portfolio's risk profile is also determined by the structure of the liabilities being hedged by these securities.
Moreover, on an operational level, for Life business, the sensitivity of the value of the reserves to interest rate changes is determined and then the hedged asset portfolio is structured so that its sensitivity is in line with said risk value.
As for assets hedging Non-life reserves, these are selected in line with the portfolio's asset allocation, taking into consideration forecasts regarding trends in the settlement of the claims to which the reserves relate.

Financial instruments AFS – Analysis of the sensitivity of the bond component (bonds, income bond funds) by maturity band

	Composition %	Dur.	VaR rate %	Exchange VaR %	Rate sensitivity	Shift sensitivity
Government Euro	**89.65**	**4.44**	**0.59**	**0.00**	**(1.07)**	**0.04**
Variable rate	19.49	0.53	0.08	0.00	(0.36)	0.01
Fixed rate	70.16	5.53	0.74	0.00	(1.26)	0.05
0.0< ≤1.5	16.75	0.85	0.27	0.00	(0.63)	0.01
1.5< ≤3.0	11.49	2.01	0,67	0.00	(1.17)	0.02
3.0< ≤5.5	14.87	3.32	0.86	0.00	(1.44)	0.03
5.5< ≤7	1.22	5.45	0.95	0.00	(1.56)	0.05
>7	25.83	11.36	0.99	0.00	(1.6)	0.11
Corporate Euro	**9.13**	**4.39**	**0.68**	**0.00**	**(1.14)**	**0.04**
Variable rate	2.13	0.17	0	0.00	(0.15)	0.00
Fixed rate	7	5.65	0.89	0.00	(1.44)	0.06
0.0< ≤1.5	0.53	0.91	0.31	0.00	(0.66)	0.01
1.5< ≤3.0	1.29	2.26	0.72	0.00	(1.24)	0.02
3.0< ≤5.5	1.35	4.04	0.92	0.00	(1.5)	0.04
5.5< ≤7	1.35	5.58	0.98	0.00	(1.58)	0.05
>7	2.49	9.19	1.02	0.00	(1.6)	0.09
Euro income bond funds	**0.71**	**2.15**	**0.49**	**0.00**	**(0.92)**	**0.02**
Fixed rate	0.71	2.15	0.49	0.00	(0.92)	0.02
0.0< ≤1.5	0.35	0.34	0.03	0.00	(0.29)	0.00
1.5< ≤3.0	0.03	1.9	0.66	0.00	(1.16)	0.02
3.0< ≤5.5	0.33	4.11	0.96	0.00	(1.57)	0.04
Government Non Euro	**0.36**	**3.43**	**0.32**	**2.50**	**(2.37)**	**0.03**
Fixed rate	0.36	3.43	0.32	2.50	(2.37)	0.03
0.0< ≤1.5	0.13	0.74	0,00	2.52	(0.72)	0.01
1.5< ≤3.0	0.10	1.92	0.18	2.99	(1.64)	0.02
3.0< ≤5.5	0.03	3.31	0.48	1.85	(1.99)	0.03
5.5 < ≤7	0.01	5.59	0.64	3.46	(5.09)	0.05
>7	0.09	8.83	0.82	2.10	(5.46)	0.08
Corporate Non Euro	**0.15**	**2.12**	**0.35**	**2.12**	**(1.35)**	**0.02**
Variable rate	0.02	0.08	0	3.08	(0.08)	0.00
Fixed rate	0.12	2.52	0.42	1.93	(1.61)	0.02
0.0< ≤1.5	0.02	1.25	0.32	1.39	(0.86)	0.01
1.5< ≤3.0	0.07	2.03	0.39	1.87	(1.39)	0.02
3.0< ≤5.5	0.04	4.1	0.52	2.33	(2.42)	0.04
Total	**100.00**	**4.41**	**0.60**	**0.01**	**(1.08)**	**0.04**

The table above shows the consolidated bond portfolio "Available for sale" (AFS) broken down by maturity band, distinguishing between government and corporate securities.
Securities in foreign currency are aggregated in a "non Euro" segment.
The financial duration of the securities exposed, as well as the VaR (Value at Risk) is also shown.
The VaR shows the maximum loss to which the portfolio is exposed, with a 10 day timeframe, with a 99% level of probability.
For securities in foreign currency, the component of risk appertaining to exchange is shown in the Exchange VaR column.

The rate sensitivity measurement shows the change in value in the event of a variation in short-term rates of 100 base points.
The variation is calculated and estimated right the way along the rates structure using a stochastic model and reduces when the maturity timescale increases.

The risky nature of interest rate fluctuations is also represented by the percentage change in bond quotes for a standard shift of one base point over the entire curve due to interest rate expiry (as shown in the "Shift Sensitivity") column.
The portfolio's potential yield is summarised by the immediate return calculated as the ratio between the coupon flow and the quotation, as is, on the processing date.

With reference to the table above, it is interesting to note that around 94% of the Group's listed bonds portfolio is exposed to trends in market rates.
An analysis by investment category is given below, which shows that a 50 b.p. rate drop would have a positive impact on the portfolio's overall fair value totalling € 385.2m. This amount rises to € 797.8K for an interest rate drop of 100 b.p..
In contrast, a rise of 50 b.p. in returns of the same size would have a negative effect totalling € 360.6m. The negative effect rises to € 699.0 m for a rate rise of 100 b.p..

Interest rate risk

			31/12/2006			
(€m)	**Total Fair Value**	**Composition % %**	**Drop of 50 b.p.**	**Rise of 50 b.p.**	**Drop of 100 b.p.**	**Rise of 100 b.p.**
Government Euro	15,749.7	89.65	347.3	(324.4)	720.0	(628.3)
Corporate and Euro Income bond funds	1,730.0	9.85	36.6	(34.9)	75.1	(68.2)
Non-Euro area	88.5	0.50	1.3	(1.3)	2.7	(2.5)
Total	**17,568.2**	**100.00**	**385.2**	**(360.6)**	**797.8**	**(699.0)**

For comparative purposes, the same table relating to sensitivity values as was shown in the previous financial year (97% of the Group's listed portfolio) is given.

			31/12/2005			
(€m)	**Total Fair Value**	**Composition % %**	**Drop of 50 b.p.**	**Rise of 50 b.p.**	**Drop of 100 b.p.**	**Rise of 100 b.p.**
Government Euro	14,263.6	86.4	309.4	(289.6)	640.8	(561.5)
Corporate and Euro Income bond funds	2,131.0	12.9	53.7	(51.1)	110.2	(99.6)
Non-Euro area	121.0	0.7	1.5	(1.4)	3.0	(2.8)
Total	**16,515.6**	**100.0**	**364.6**	**(342.1)**	**754.0**	**(663.9)**

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

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

NON-LIFE BUSINESS

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

Procedures for underwriting risks differ from segment to segment, distinguishing between mass risks, corporate risks and special risks. Mass risks, such as, for example, motor TPL, Land Vehicles and all those relating to the individual (Accident and Health), the family (Accommodation and Third Party Liability) and small companies (businesses, trades) are related, for our Group, to over 96.9% of the total number of premiums underwritten. These risks are covered with standard predetermined conditions which are set by central technical offices on the basis of existing standards, the experience of the Insurance market and the Group's specific experience.

Generally speaking, with mass risks and, in any event, all those risks where there are predetermined standard conditions and tariffs, the risk is taken on using relevant IT procedures used by the various Agency networks set up for this purpose. Within predetermined parameters, the sales networks can avail themselves of 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 agency networks have limited autonomy in terms of value and typology, when it comes to taking on risk. In excess of these values or for different typologies, assistance is given by an appropriately trained network of Company Technicians who evaluate the risk and fix the terms on a case by case basis.

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

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

Motor TPL
For Motor TPL business, for which the Group is the market leader, the sizeable mass of statistical data held makes it possible to draw up sophisticated customised tariffs which take account of a wide range of subjective and objective risk factors. The database used is, in fact, statistically significant and makes possible the use of multivariate analysis which, using "General Linear Models", can assess the interrelationship between risk factors, by showing all those phenomena that are not directly identifiable just by analysing individual factors.

By 2005, the new Motor TPL product known as "Nuova Prima Global" had already introduced additional risk selection and offered differentiation factors such as distance travelled, profession and the possibility of opting for a single driver. During the course of 2006, however, the geographical factor was further differentiated by introducing the Postal Service Code, with the aim of dividing the province up into more detailed areas of uniform risk: this approach will be fine-tuned during the course of 2007.
The Parent company is, in addition, committed to the "Check-Box" project which will experiment, for three years, as part of an appropriate Agreement with ISVAP, with new electronic positioning and monitoring devices to be installed on motor vehicles to assess any positive effects on loss ratio trends and on ascertaining the extent of losses.

With regard to the Company Milano, a gradual convergence of Nuova MAA and Milano tariffs is in the process of being completed via a final harmonisation stage in 2007, thus minimising any effects on the portfolio. The first standardised Milano product is planned for the start of 2008.

All the Group's 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 system of Direct Compensation.

Similar attention has been paid to the best Clients whose loyalty is increased with incentivising initiatives not just in respect of existing contracts but also with initiatives aimed at acquiring niche markets.

Land vehicles
In the Land Vehicles class, which traditionally represents a very significant area of business for the Group, the modular product "Nuova Prima Global" makes it possible to activate all the cover possible with tariff formulae which, at the client's discretion, make it possible to select the level of cover desired in line with the spending budget.
Tariffs are set, for Fire and Theft cover, according to geographical area, the types of vehicles insured and the extent of the cover given. The price of Casco cover is, on the other hand, also set on the basis of No-claims bonus together with the age of the owner and the vehicle insured. The Client can, in addition, choose between various exposures and minimums which permit him/her to modulate, even slightly, the prices of the various covers.

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

Generally speaking, with mass risks and, in any event, all those risks where there are predetermined standard conditions and tariffs, the risk is taken on using relevant IT procedures used by the various Agency networks set up for this purpose.

Within predetermined parameters, the sales networks can avail themselves of 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.
The agency networks have limited autonomy in terms of value and typology, when it comes to taking on risk. In excess of these values or for different typologies, assistance is given by an appropriately trained network of Company Technicians who evaluate the risk and fix the terms on a case by case basis.

For more complex cases either in terms of size or the cover required, risks are only taken on by the Group's centralised specialist technical departments.
In some classes such as, for example, bonds, transport and aviation, the intervention of specialist departments is permanent 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 provision of the guarantee, aims, in the first instance, to trace back the transactions being examined to the categories of risk covered by the Class on the basis of standards governing their operation. In the second instance, particular attention is reserved for checking the characteristics of the guarantee contract which must always respect the principle of accessoriness in respect of the principal obligation;

- from a subjective point of view, the examination relates to valuation of the extent of the assets as well as all those factors pertaining to morality, professional ability and solvency of the Contracting party/principal..

Both the objective and subjective aspects are closely evaluated via the acquisition of specific asset disclosure documentation (accounts, memorandum of association and articles, Chamber of Commerce registration certificates, Unique Shareholder model agreements etc.) forwarded by the Agencies to Technicians in the field or to Management.. This documentation is supplemented both with relevant information concerning commercial updates via specialist companies and with further investigations relating to the "historicity" of the relationship with the Client, compiled from Class databases for the purposes of checking total exposure in respect of the named parties.
The aforementioned activity is aimed at quantifying an overall "underwriting limit" on said name, requested, within precise and contained limits, from individual Technicians; over these limits, practices are subject to a collective decision taken within the Class, represented by the "Comitato Fidi" [Guarantee committee].
The guarantee policies are then written by Agencies, using a computer program which checks overall exposure in advance, to see that the underwriting limits agreed are not exceeded.

All guarantee policies written by the class are appropriately protected by 50% placement in a "proportional" reinsurance treaty. In addition, further cover is planned via a "claims excess" treaty over € 2,500,000, to protect individual policyholders.

Also, for the purposes of guaranteeing an appropriate distribution of risk, limiting points of exposure, the Group uses Coinsurance on a recurrent basis, making use of a system of reciprocal treatment solely with Companies adopting risk taking policies that are similarly marked by principles of caution and careful risk selection.

Risk Management 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, hydrogeological 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 are then analysed with the help of international operations, to arrive at a level of protection adjusted on the basis of the two models used.
In this case, a return time per catastrophic claim of approximately 250 years was adopted.

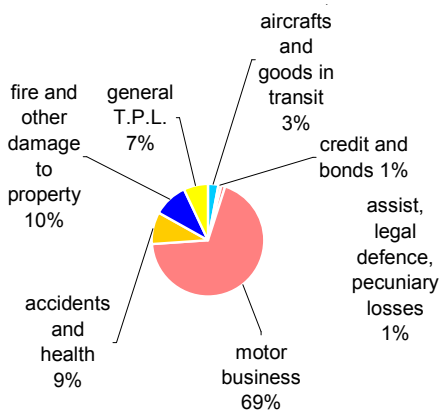
The flood risk is considered with greater reference to the existing portfolio, in so far as at the moment there are no suitable models capable of supplying an objective appraisal. As is known, the insurance and reinsurance industries are in the process of equipping themselves with a specific tool, known as Sigra, which will be available from 2007.

Land Vehicle business has lots of similarities with Fire business and because of this, benefits from the same reinsurance cover per event.

Technological Risks, because of the specific proportional programmes used, give no particular cause

for concern, in so far as the risks are protected on the basis of the year of underwriting.
The potential concentration of risk following the failure of 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 percentage composition of the Group's Non-life premiums for 2006 was:



The importance of Motor business within the Group in determining future financial flows is clear.
This is a stable portfolio not subject to significant fluctuations likely to impact on future forecasts.

Motor products were recently reviewed with a view to standardisation at Group level and are the most up-to-date that the Market has to offer.
The Motor TPL sector, due to its particular characteristics, does not present any particular concentrations of risk. Individual events of particular seriousness can occur but the dimensions of the portfolio, geographically distributed uniformly throughout the national territory, are such that they can absorb these events without significant repercussions on results.

An 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.

For some business, such as Assistance and Legal protection, underwriting at Group level is focused on specialist "single business" companies such as Pronto Assistance and Europa Tutela giudiziaria. For other business such as Transport, Goods and Marine classes, SIAT, which has specific and recognised skills in these areas, acts as the point of consolidation for the entire Group.

Other Non-Life Non-Motor risks are, generally speaking, underwritten in all Group Companies, mainly via exclusive agency networks, but also via brokers and, in some cases, via networks of independent agents and bancassurance agreements.

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

major risks.
Over the last few years, the percentage of risks coinsured, especially by delegation to other companies, has dropped 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 has again resulted, in the last few years, 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 8.5%, whilst claims totalled 10.1%.

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.
From 2006 the subsidiary Liguria Assicurazioni S.p.A. is also to be included.
The tables below are compiled from official data taken from the forms supplied to the Supervisory Authorities by the Fondiaria-SAI Group (ref. forms 29 and annex 1/29).
Each piece of data appearing on the "triangle" represents a snapshot of the cost of generation as at 31/12 of the observation year, represented summarily by the sum of the following components:

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

The "Estimated final cost", the "Payments made" and the "Amount in reserve" relate to the most recent observation year, i.e. to the greatest diagonal of the triangle.
It was thought appropriate to represent the claims trend solely for Third Party business (Motor and TPL) in so far as these are the classes that are most representative of the Group i.e. over 75% of claims paid can be attributed to these two classes of business.
General TPL business, in particular, is characterised by slow dismantling and by a high number of late claims. These peculiarities cause objective difficulties in determining the cost of generation, above all, in the first years of observation. This phenomenon, whilst common to all classes, is particularly marked for General TPL.

CLASSES 10 + 12 (Motor)

(€m)	2001	2002	2003	2004	2005	2006*	Total
Estimated cost							
At the end of the event year	2,686.0	2,906.7	3,154.5	3,177.5	3,274.0	3,300.0	
After one year	2,697.2	2,857.9	3,021.6	3,107.4	3,109.8		
After two years	2,744.9	2,922.0	3,047.3	3,056.6			
After three years	2,755.3	2,942.7	3,077.3				
After four years	2,774.9	2,996.3					
After five years	2,813.4						
Estimated final cost	2,813.4	2,996.3	3,077.3	3,056.6	3,109.8	3,300.0	18,353
Payments	2,537.0	2,616.9	2,591.7	2,423.9	2,102.1	1,085.2	13,357
Amount in reserve	276.4	379.4	485.6	632.7	1,007.7	2,214.9	4,997

CLASS 13 (General TPL)

(€m)	2001	2002	2003	2004	2005	2006*	Total
Estimated cost							

At the end of the event year	265.4	297.9	309.7	321.9	341.1	382.0	
After one year	274.3	279.7	336.7	321.8	347.8		
After two years	278.4	283.8	309.7	335.2			
After three years	281.3	290.8	318.5				
After four years	292.7	297.4					
After five years	297.0						
Estimated final cost	297.0	297.4	318.5	335.2	347.8	382.0	1,978
Payments	174.5	158.2	162.2	152.7	121.7	51.7	821
Amount in reserve	122.5	139.2	156.3	182.5	226.1	330.3	1,157

PLEASE NOTE:

* **FROM 2006 INCLUDES LIGURIA ASS.NI S.P.A.**

- Each amount in the triangle is made up of:
  total amount paid in the event year (from the event year to the observation year)
  + amount reserved relating to the event year for known claims (in the observation year)
  + amount reserved relating to the event year for late claims (in the observation year)

- "estimated final cost" is the cost of the final observation year
- "payments" is the total payments for the event year in the final observation year
- "amount in reserve" is the reserve relating to the event year in the final observation year

The table below shows the claims position for Fondiaria-SAI Group companies and Milano Assicurazioni still open at the end of 2006, compared with the number claims filed in various years.

Generation	Claims filed	Number of claims opened	% of claims filed
1998	1,023,602	1,517	0.15
1999	981,312	2,449	0.25
2000	1,017,239	3,651	0.36
2001	996,787	5,857	0.59
2002	987,098	10,051	1.02
2003	959,946	15,520	1.62
2004	929,973	24,741	2.66
2005	929,388	49,978	5.38
2006	912,798	213,766	23.42

(overall number of delegations to other companies expressed as a coinsurance percentage, excluding mandatory direct indemnity agreement claims filed)

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 cash flows in the existing contracts portfolio.

LIFE BUSINESS

In the Individuals 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 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 Company's portfolio.

In the corporate policy sector, risks typically insured by the insurer are those relating to cover known conventionally as "assistential" cover and, therefore, with particular reference to the event of death and disability to which has recently been added the risk of loss of independence (LTC)
In consideration of the tariff structures used by Group companies for this type of contract, the demand for insurance cover has to emerge from objective situations such as a legal obligation or a corporate regulation involving, in a uniform manner, a whole group of subjects. All requests for insurance cover made on the basis of the requirements of individuals are, therefore, methodically excluded so as to eliminate, right from the start, any form of risk antiselection.
This basic rule governing risk assumption is supplemented by further restrictions consisting of the fact that the determination of the capital or amount insured must also be the result of an external rule so as to always prevent the individual from having any input when 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 numerosity of the group of individuals.
In any event – over a specific threshold of capital/amount insured – a health assessment performed on the basis of predetermined medical documentation is always required.
It should, in addition, be pointed out that, 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 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 trend s both of the entire portfolio acquired and of individual policies deemed to be sensitive in terms of exposure either overall or per capita.
The technical trend borne out by the portfolio confirms – tendentially – the extent to which this has been applied historically in terms of customisation of the statistical database used compared to the generic ISTAT database.
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 supplementary benefit 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 possible.
With regard to the overall portfolio trend, this was marked by a substantial number of policies dedicated to covering the risk of death/disability and by policies for corporate reserves regulated by law (staff-leaving indemnity etc.) and supplementary benefits (pension funds) due to advice given by our sales network, with an upward trend related to the upturn in salaries.
On the other hand, the portfolio relating to corporate liquidity management is made up of specific financial capitalisation policies relating to the premium paid by the contracting party under the system of guaranteed minimum return and annual performance consolidation and, what's more, shows a sharp acceleration in line with the market trend.
On this front, particular attention is given to the concentration of commitments to individual contracting parties so as to avoid negative impacts on the company 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 the segregated account investments 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
To determine the LAT (Liability Adequacy Test) for the purposes of evaluating the adequacy and sufficiency of the reserves posted to the accounts using local Gaap, a model which generates annual projected flows, developed in Visual Basic for FONSAI, MILANO, PO VITA and NOVARA VITA, was adopted. As for BPM Vita, the data shown was supplied direct by the Company which used the same criteria as the Parent company.

Level of test cover and aggregation criteria
Firstly, by subdividing the portfolio in question into standard groups according to the product's technical characteristics, (capitalisation, risk, savings and welfare benefit contracts) appropriate model points were subsequently created with regard to standardisation constraints relating to characteristic contractual parameters. Po Vita risk products have two pure risk tariffs for hedging loans which, for these purposes have not, for the moment, been analysed, since this was not thought to be a determining factor for valuation purposes.
Aggregation was, therefore, by tariff, duration, residual duration, sex, contract status and guaranteed minimum rate of return.

The table below quantifies the model points created using the aforementioned criteria for the Companies examined:

Number of policies and model points created as at 31.12.06

Division		Capitalisation	Risk products	Savings and social welfare	Total	Total 2005
Fondiaria-SAI S.p.A.	Number of policies					
	Mod.points	41,815	131,100	259,779	432,694	440,477
	constructed	14,217	39,004	47,358	100,579	100,822
Milano Ass.ni S.p.A.	Number of policies					
	Mod.points	17,489	115,107	91,886	224,482	228,003
	constructed	8,697	44,275	25,218	78,190	72,412
BPM Vita	Number of policies					
	Mod.points	484	609	74,007	75,100	
	constructed	11	78	4,235	4,324	
Po Vita	Number of policies					
	Mod.points	3,565	-	50,600	54,165	57,709
	constructed	88	-	508	596	564
Novara Vita	Number of policies					
	Mod.points	1,586	-	24,494	26,080	35,579
	constructed	198	-	674	872	952
Total	**Number of policies**					
	Mod.points	**64,939**	**246,816**	**500,766**	**812,521**	**761,768**
	constructed	**23,211**	**83,357**	**77,993**	**184,561**	**174,750**

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, as can be seen from the table below.

For unit and index-linked contracts classed as insurance contracts (IFRS4), given that they have different characteristics from traditional products, it is not possible to use the same model and so a simpler approach was used (the percentage of these types of reserves within the group proved to be quite insignificant) by comparing direct by tranche or by tariff the current value of projected performance and counterperformance flows with the relevant reserves posted to the accounts.

Composition of the traditional portfolio disaggregated by division as at 31/12/2006

Division	Reserve formed*	Total reserve*	% formed
Fondiaria-SAI S.p.A.	6,635,835	7,323,625	90.6
Milano Ass.ni S.p.A.	3,231,545	3,631,545	89.0
BPM Vita	1,169,429	1,169,429	100.0

Po Vita	1,444,876	1,704,932	84.7
Novara Vita	565,031	703,069	80.4
Total	13,046,716	14,532,600	89.8

* (values expressed in € K)

Description of the model used

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 for time-discounting of flows, a risk-free market curve on the reference date was used.

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.

For whole of life tariffs a conventional contractual term of 20 years was used.

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.

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

For further details please refer to the notes at the foot of the tables below.

Traditional portfolio

Application of the Liability Adequacy Test supplied the results given below. These results were compared with the reserves in the accounts, taking into consideration the mathematical reserves, reserves for future costs, additional reserves, additional reserves to cover interest, less commissions to be amortised for the groupings described above.

Position as at 31.12.06

(€K)

Company		Capitalisation	Risk Products	Savings and social welfare	Total	Total 2005
Fondiaria-SAI S.p.A.	LAT reserve					
	Balance sheet total					
	Balance sheet	2,415,625	1,089,536	3,259,159	6,764,319	6,459,472
	reserve	2,561,219	1,210,147	3,655,044	7,426,410	6,788,188
	Additional	2,528,752	1,192,656	3,602,217	7,323,625	6,690,236
	reserve	19,321	9,113	27,523	55,957	55,523
	Cost reserve	13,146	10,707	32,337	56,189	55,177
	DAC	-	2,329	7,033	9,362	(12,748)
Milano Ass.ni S.p.A.	LAT reserve					
	Balance sheet total					
	Balance sheet	829,432	956,693	1,637,036	3,423,162	3,443,738
	reserve	885,615	1,039,787	1,764,765	3,690,166	3,597,702
	Additional	879,397	1,020,358	1,731,789	3,631,545	3,532,799
	reserve	2,137	16,873	28,638	47,648	53,398
	Cost reserve	4,080	5,081	8,624	17,785	18,002
	DAC	-	2,525	4,286	6,811	(6,497)
BPM Vita	LAT reserve	199,279	457	883,970	1,083,706	-
	Balance sheet	288,873	477	888,772	1,178,122	-
	total	288,127	475	880,827	1,169,429	-
	Balance sheet	25	-	1,330	1,355	-
	reserve	721	2	6,615	7,338	-
	Additional	-	-	-	-	-

	reserve					
	Cost reserve					
	DAC					
Po Vita	LAT reserve					
	Balance sheet total					
	Balance sheet	530,484	-	1,102,724	1,633,208	1,414,190
	reserve	580,702	-	1,144,524	1,725,226	1,476,234
	Additional	575,949	-	1,128,983	1,704,932	1,454,646
	reserve	1,612	-	3,161	4,774	6,954
	Cost reserve	3,140	-	12,380	15,521	14,634
	DAC	-	-	-	-	-
Novara Vita	LAT reserve					
	Balance sheet total					
	Balance sheet	30,978	-	630,041	661,019	822,180
	reserve	33,105	-	679,431	712,536	863,705
	Additional	31,477	-	671,592	703,069	851,172
	reserve	1,133	-	3,398	4,530	7,363
	Cost reserve	495	-	4,441	4,937	5,170
	DAC	-	-	-	-	-

N.B.:

- Write-up of performances: According to guarantee minimums. The minimum guaranteed rate of return represents the Group's contractual financial commitment, inclusive of the technical rate.
- Inflation 2.50 %.
- Discount rate: EuroSwap Curve on the valuation date.
- Mortality: actuarial valuations were compiled by adopting the probability of survival obtained by discounting values deriving from the SIM/F 2002 table by 20%.
- Redemptions, Reductions, Rescissions: the frequency of elimination fluctuates according to the claim duration of policies, ranging from: 1.00% to 20.00% inclusive.
- Management costs: between € 18 and € 36 depending on whether these relate to individuals with a single premium, individuals with an annual/recurrent single premium, collective premium.

Index and Unit-Linked Policies

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

(€K) Company		Position as at 31.12.06 Unit-Linked	Index-Linked	Total	Total 2005
Fondiaria-SAI S.p.A.	LAT reserve				
	Balance sheet total	78,816	401,178	479,994	532,722
	Class D reserve	82,110	402,975	485,085	539,468
	Additional	80,789	398,527	479,316	531,334
	reserve	368	314	682	700
	Cost reserve	953	4,135	5,088	7,434
Milano Ass.ni S.p.A.	LAT reserve				
	Balance sheet total	-	255,270	255,270	274,785
	Class D reserve	-	258,262	258,262	281,781
	Additional	-	255,730	255,730	278,103
	reserve	-	71	71	189
	Cost reserve	-	2,461	2,461	3,489
Po Vita	LAT reserve				
	Balance sheet total	71,767	66,414	138,181	80,176
	Class D reserve	71,991	68,493	140,484	80,592
	Additional	71,076	65,710	136,786	79,434
	reserve	422	213	635	479
	Cost reserve	493	2,570	3,063	679
Novara Vita	LAT reserve				
	Balance sheet total	36,082	219,161	255,242	50,651
	Class D reserve	36,101	220,804	256,905	50,812
	Additional	35,515	217,686	253,201	50,297
	reserve	586	267	853	515
	Cost reserve	-	2,851	2,851	-

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

N.B.:

- Write-up of performances: In line with guaranteed minimums. The guaranteed minimum rate of return represents the Group's contractual financial commitment, inclusive of the technical rate.
- Inflation 2.50 %.
- Discount rate: EuroSwap Curve on the valuation date.
- Frequency of interruption of recurrent Premium: 100% premium renewal for all recurrent premium contracts with a premium amount of less than € 1549,37, in line with the payment of premiums. Recurrent premium contracts over the aforementioned threshold were considered to be single premium.
- Mortality: actuarial valuations were compiled by adopting the probability of survival obtained by discounting values deriving from the SIM/F 2002 table by 20%.
- Redemptions, Reductions, Rescissions: The frequency of elimination fluctuates, according to the claim duration of the policies, from 1.00% to 20.00%.
- Management costs: Annual costs attributable to contract management relate to personnel and to services relating to portfolio management.

Reserves for guaranteed returns

With reference to commitments made to policyholders, the disaggregation of Life reserves by Group companies below shows that more than half (approximately 54%) amounting to € 7,815m relate to policies with a guaranteed return of between l.1% and 3%, whilst approximately 37% (amounting to € 5,398.1m) relate to policies with a guaranteed rate of return of between 3% and 5%.

In comparison, the reserves intended for contracts with a guaranteed interest rate to maturity (€ 940.3m), contracts with no guarantee (€ 116.3m) and contracts with guarantees linked to specific assets (€ 12.7m) are modest.

Life segment insurance reserves: guaranteed return (*)

(€m)	(**) 2006	(***) 2005
Reserves with guaranteed annual interest rate	**13,338.7**	**12,052.5**
0% - 1%	125.6	23.7
from 1% to 3%	7,815.0	6,235.3
from 3% to 5%	5,398.1	5,793.5
Reserves with no guaranteed rate of interest	**116.3**	**142.0**
Reserves linked to specific assets	**12.7**	**60.4**
Reserves with a guaranteed interest rate to maturity	**940.3**	**757.4**
Total	**14,408.0**	**13,012.3**

(*) The total includes the gross direct amount of mathematical reserves and technical reserves where the risk is borne by the policyholders.
Po Vita and BPM Vita are considered at 50%.
(**) Companies taken into consideration: Fondiaria-SAI, Milano Assicurazioni, Po Vita, Novara Vita, Fondi prev., BPM Vita.
(***) Companies taken into consideration: Fondiaria-SAI, Milano Assicurazioni, Po Vita, Novara Vita.

PART G – Information relating to business combinations

Pursuant to IFRS 3, the following transactions took place using the purchase method and the Fondiaria-SAI Group Profit and Loss account includes income data for companies purchased from the date when control was taken.

Please refer to the Fondiaria-SAI and Group Management report for details of transactions and information relating to economic data for companies purchased.

Purchase of a 100% interest in Florence Centro di Chirurgia Ambulatoriale S.r.l.
On 14/03/2006, the subsidiary Casa di Cura Villanova S.r.l. purchased a 100% capital interest in Florence Centro di Chirurgia Ambulatoriale S.r.l. for a total of € 1,516K.
The purchase was paid for in cash and the capital gains paid was allocated to goodwill amounting to € 1,279m.

Book values of assets and liabilities acquired are summarised below:

(€K)	
Intangible and tangible assets	109
Receivables and other net assets	45
Cash at bank and in hand	13
Other provisions	(61)

Net cash flow for the purchase was as follows:

(€K)	
Payment in cash	(1,516)
Cash in hand and at bank acquired	13
Net cash outflow	**(1,503)**

The purchase had a positive effect on the Fondiaria-SAI Group Profit and Loss account amounting to € 51K.

Acquisition of Liguria Assicurazioni S.p.A.
On 30/05/2006, the Parent company acquired a 99.97% interest in Liguria Assicurazioni S.p.A. and, consequently, 100% of Liguria Vita S.p.A. and the service companies Liguria Direzione S.p.A. and Global Card Service S.r.l..
The purchase was made for cash with an initial disbursement of € 148.1m: the price paid should be taken as the provisional price and will be reviewed at a later date to take into consideration claims trends and claims filed subsequent to the date of transfer of Liguria Assicurazioni and Liguria Vita shares and technical reserves. The review will be performed with reference to the accounts of said companies as at 31/12/2010.
The total cost of the transaction amounted to € 151,053K, sine it was increased by ancillary purchase costs, and was compared with the fair value of the current and potential assets and liabilities of the Group purchased.

The difference was allocated as follows:

(€K)	
Intangible (fixed) assets	1,695
Investment property	2,310
VOBA	49,673
Goodwill	65,633
Deferred tax liabilities	(20,532)

The VOBA (Value of business acquired) is represented by the cash flows that will be generated within a fixed period of time by the insurance portfolio purchased. This asset will be subject to amortisation on the basis of the projected profits justifying its activation.

A summary of the transaction values is given below:

(€K)	
Intangible assets	3,253
Tangible assets:	7,831
Investments	240,681
Cash at bank and in hand	8,740
Receivables and other net assets	38,130
Net technical reserves	(213,458)
Financial liabilities	(28,075)
Provisions	(36)

Net cash flow for the purchase was as follows:

(€K)	
Payment in cash	(151,053)
Cash in hand and at bank acquired	8,740
Net cash outflow	**(142,313)**

Acquisition of the Liguria Group had a negative effect on the Fondiaria-SAI Group amountng to € 5,415K: this amount includes relevant amortisation for the capital gain attributed to VOBA and to property of € 2,630K.

Purchase of a 51% capital interest in Capitalia Assicurazioni S.p.A. (formerly Fineco Assicurazioni S.p.A.)

On 07/09/2006, Fondiaria-SAI completed its purchase from Capitalia of a 51% capital interest in Fineco Assicurazioni S.p.A. for a total of € 56m, corresponding to a comprehensive valuation of Fineco Assicurazioni amounting to approximately € 110m.

The purchase was made in cash and price adjustment mechanisms were specified in relation to whether or not specific total volumes of actual gross premiums are achieved between 01/01/2007 and 31/12/2011 inclusive.

The capital gain paid was allocated to goodwill amounting to € 51m.

The value of the assets and liabilities acquired is given below:

(€K)	
Investments and tangible assets	29,790
Cash at bank and in hand	16,552
Receivables and other net assets	(7,412)
Net technical reserves	(29,132)

Net cash flow for the purchase was as follows:

(€K)	
Payment in cash	(56,000)
Cash in hand and at bank acquired	16,552
Net cash outflow	**(39,448)**

Capitalia Assicurazioni participated in the Fondiaria-SAI Group consolidated result in the amount of € 354K (Group share € 181K).

Purchase of a 60% interest in Banca Gesfid S.A.
On 28/12/2006, Fondiaria-SAI purchased a 60% capital interest in Banca Gesfid S.A., a banking institution governed by Swiss law, for a total of CHF 54m, amounting to € 34m.
The difference between the total cost, paid in cash, and the fair value of current and potential assets and liabilities of the company acquired, was allocated as follows:

(€K)	
Tangible (fixed) assets	2,427
VOBA	20,593
Deferred tax liabilities	(4,641)

The VOBA is represented by the cash flows that will be generated within a fixed period of time by the client portfolio purchased. This asset will be subject to amortisation on the basis of the projected profits justifying its posting in the accounts.

Net assets and liabilities acquired are shown below:

(€K)	
Intangible assets	130
Tangible assets:	6,167
Investments	119,555
Cash at bank and in hand	4,088
Receivables and other net assets	(6,070)
Financial liabilities	(84,022)
Provisions	(1,500)

Net cash flow for the purchase was as follows:

(€K)	
Payment in cash	(33,605)
Cash in hand and at bank acquired	4,088
Net cash outflow	**(29,517)**

The acquisition of Banca Gesfid did not have any effects on the Fondiaria-SAI Group Profit and Los account since the transaction was completed in the last few days of the year.

Liquidation of Lawrence Life AG
In June the liquidation procedure for the subsidiary Lawrence Life AG was concluded.
The company's liquidation accounts showed the following net assets:

(CHF K)	
Loans and receivables	311
Other receivables	14
Cash at bank and in hand and equivalents	129
Tax provisions	15
Other payables	12
Book value of net assets liquidated	**427**

PART H – Information relating to transactions with related parties

Disclosure in the consolidated accounts of information on “Related Parties” is governed both by IAS 24, and by related Consob communications on the subject.

The Parent company’s main equity, financial and economic transactions with its subsidiaries (whether or not they fall within the scope of application referred to in article 2497 and subsequent articles of the Italian Civil Code) are shown in the Management Report in the latter’s separate accounts.

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)	31/12/2006		31/12/2005	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Parent company	-	1,283	-	-
Associated companies and joint ventures	65,585	-	-	-
Affiliated companies	1	20	3,005	826
Other related parties	194,516	13,341	154,325	1,619

(€K)	31/12/2006		31/12/2005	
	Income	**Expenditure**	**Income**	**Expenditure**
Parent company	358	-	9,720	1
Associated companies and joint ventures	1,683	-	2,166	-
Affiliated companies	19	-	41	5
Other related parties	7,172	45,394	22,688	35,738

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

With reference to major operations undertaken please note the following:

The main transactions resulting in assets for Related companies and joint ventures related to

- € 29m in respect of Garibaldi S.c.s. for the interest-bearing loan granted by Milano Assicurazioni S.p.A.;
- € 15m in respect of Ex Var S.c.s. for an interest-bearing loan granted by Fondiaria-SAI S.p.A and for a shareholder loan granted by Immobiliare Lombarda S.p.A.
- € 8m in respect of Borsetto S.r.l. for a shareholder loan granted by Immobiliare Lombarda S.p.A..

The main transactions resulting in assets for Other Related Parties mainly relate to:

- € 52m in respect of IM.CO S.p.A. from Milano Assicurazioni S.p.A. for:
  - € 28m in advance payments made this year and last year in relation to the property transaction relating to the land situated in Milan at Via Confalonieri- Via de Castillia (Lunetta dell’Isola). This transaction, implemented in 2005, involved: the sale by Milano Assicurazioni to Società *IM.CO*.

of the aforementioned land, which is awaiting relevant planning permissions and, consequently, the purchase from *IM.CO.,* by Milano, upon issue of the planning permissions, of a property adapted for service sector use which is to be built on the land in question by said *IM.CO.*, at a price of € 94m;

- advance payments of € 24m in total paid this year and in previous years, to *IM.CO.* S.p.A. in relation to the area of Milan at Via Lancetti. This transaction, going back to 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 € 36m.

  In relation to this transaction, please note that during the course of the works, the opportunity arose to make some changes to the complex being built, with the aim of adding a great deal of value to said complex, without prejudice to the intended service sector use. These changes, consisting of the construction of two transversally linked parts that will unite the newly built complex with the building already owned by Milano Assicurazioni in Via Lancetti 43 (and for which the necessary authorisations have been received from the Comune of Milan) were made possible following the transfer of the building capacity for the building at Via Lancetti 43 by means of a commitment to designate the entire 6th floor for use as a fitness/wellbeing centre. The parties are currently in the process of defining the agreements so as to make the necessary changes to the contract of sale for future transactions, relating to the case in point, and, if necessary, to amend the price.

- € 31m to IM.CO S.p.A. from Fondiaria-SAI S.p.A. for incremental expenditure incurred on buildings owned.

- € 66m claimed by Milano Assicurazioni S.p.A from the company Avvenimenti e Sviluppo Alberghiero S.r.l.:

- for advance payments made in full, over the financial year and in previous years, in relation to the area of Rome known as Via Fiorentini. 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 from the latter of the finished building complex built by same on the land in question at a price of € 96m.

- € 13 claimed by Immobiliare Lombarda S.p.A. from I.C.E.IN S.p.A., as advance payments for extraordinary maintenance work and advances for future construction works.

- € 20m incurred by the subsidiary Nit for stage payments for work on property owned and used as a warehouse.

Liabilities to Other Related Parties mainly relate to the subsidiary Immobiliare Lombarda S.p.A.'s trade payables in respect of I.C.E.IN S.p.A. amounting to € 8m, Atahotels S.p.A. amounting to € 3m and IM.CO. S.p.A amounting to € 2m.

Income from Related companies and joint ventures mainly relate to interest on loans incurred by the associate Garibaldi S.c.s. with Milano Assicurazioni S.p.A..

Income from Other Related Parties mainly relates to Atahotels S.p.A. liabilities in respect of Immobiliare Lombarda S.p.A amounting to € 4m and relates to live rentals.

Liabilities to Other Related Parties mainly relate to Directors' emoluments for positions held in Group companies amounting to € 14m and salaries for managers with strategic responsibility amounting to € 10.5m.
€ 14m was incurred, finally, by Immobiliare Lombarda (€ 8m) and Fondiaria-SAI (€ 6m) respectively, either for operating costs or maintenance costs in respect of property assets.

The Companies IM.CO S.p.A., I.C.E.IN. S.p.A., Atahotels S.p.A. and Avvenimenti e Sviluppo Alberghiero S.r.l. are related parties in so far as there is link between board members of said companies, or their parent companies, and members of the board of directors at Fondiaria-SAI and/or its Subsidiaries.

With reference to transactions implemented with related parties as a whole, please note that no significant positions or transactions deriving from atypical and/or unusual operations were noted.

Wages for directors
Wages paid during the year to directors for posts held within the Group were as follows:

(€K)	**31/12/2006**	**31/12/2005**
Wages	8,700	8,648
Bonuses and other incentives	4,950	3,300
Non-cash benefits	50	53
Total	**13,700**	**12,001**

Wages paid to directors 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,

The Fondiaria-SAI S.p.A. Extraordinary shareholders' meeting held on 28 April 2006 approved two stock option plans intended, on the one hand, for executive directors and, on the other, for the Company's management team and that of its subsidiaries and parent company.

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

These draft accounts were approved on 27.03.07 by the Fondiaria-SAI Board of Directors which, at the same time, authorised their publication on the Italian stock exchange. Also, please note that, for the purposes of IAS 10.17, Shareholders are entitled to indirectly correct this draft prior to approval during shareholders' meetings, should the separate Parent company accounts be modified.

In accordance with what is laid down by IAS 10.19, please note that any information relating to situations arising after the year end are contained in the section "Significant events occurring after the 2006 year end" contained in the Management Report to which it relates.

PART L – Other Information

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

	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

In consideration of the provisions issued by the Supervisory Authority on correct solvency margins and the application of prudential filters, further to the introduction into Italian Law of the IAS/IFRS accounting principles, please note that for 2006, the percentage excess of constituting items over correct solvency margin requirements is over 160% (159% as at 31/12/2005).

Milan, 27 March 2007

For the Board of Directors
The Chair

JONELLA LIGRESTI

Reports from independent bodies

Auditors' Report

Dear Shareholders,

As required, your Company has made provision to prepare the Consolidated Accounts as at 31/12/2006 in accordance with Legislative Decree 38/05 and Legislative Decree 173/97, by applying international accounting standards (IAS/IFRS), and taking note of the layouts and instructions issued by the Supervisory body with Instruction no. 2404 of 22/12/2005.

The Consolidated Accounts comprise the Balance Sheet, the Profit and Loss Account, the Statement of variations in Net Equity, the Financial Statement and accompanying notes to the accounts.
These accounts are accompanied by the Management Report, in line with what is laid down by Legislative Decree 173/97 and Legislative Decree 209/2005 containing information aimed at illustrating the Group's management trends.

In addition, the Consolidated Accounts and the Management Report contain exhaustive and detailed information on the management trends of the Parent company and the consolidated companies, on the Group's main business sectors (life and non-life insurance, property, other activities), on asset and financial management, on current disputes, on significant events occurring after year end and on the business outlook.

We subjected the Fondiaria-SAI Group Consolidated Accounts as at 31/12/2006 to the relevant checks and, as a result, ascertained:

- that accounting principles and valuation criteria had been correctly applied to said accounts. In particular, the accounts adhered to consolidation principles and regulations relating to the formation of the basis of consolidation and the reference date for data;

- that the Parent company's organisational/procedural structure was satisfactory in terms of managing information flows and consolidation operations and that the accounts were, indeed, valid and corresponded with accounting outcomes of the parent company and with information transmitted by companies included in the consolidation;

- that presentation was satisfactory and in accordance with presentation and disclosure requirements laid down by IAS/IFRS standards issued by the IASB and approved by the European Union (Community Regulation no. 1606/02), in turn, supplemented by specific provisions from the Supervisory Authority;

In addition, please note that the Report from the Auditors Deloitte & Touche S.p.A., issued on 11 April 2007, does not show any anomalies and/or irregularities..
In addition, the board of auditors acknowledges that the certification of subsidiaries conforms to the provisions of Legislative Decree no. 58/1998 and of Consob decision of 14/5/1999 no. 11971. In particular, it certifies that voluntary certification of subsidiary companies, not subject to mandatory certification on the basis of local regulations, also conforms to the aforementioned provisions.

The Consolidated Accounts, prepared in thousands of Euro, show a profit for the financial year and net equity appertaining to the Group of € 481,204K and € 3,896,991K respectively. In order to determine the components from which these results originate, the Consolidated Accounts include exhaustive comments on the main items.

In conclusion, we hereby certify that the structure of the consolidated accounts may be considered to be correct and in accordance with regulatory requirements.

Turin, 12 April 2007

The Board of Statutory Auditors
Dott. Benito MARINO
Dott. Giancarlo MANTOVANI
Dott. Marco SPADACINI

Audit Report

Financial instruments AFS – Analysis of Values and Value at Risk

Typology	Currency	Composition %	Rate/price VaR %	Exchange VaR %	Total VaR %
Shares	American Dollar	0.05	5.71	3.46	9.2
	Euro	16.87	5.69	0.00	5.7
	Swiss Franc	0.05	5.45	1.29	6.7
	English Sterling	0.12	6.69	1.96	8.7
Total Listed Shares		**17.08**	**3.94**	**0.03**	**4.0**
Income bond funds	Euro	0.67	0.53	0.00	0.5
Bonds	American Dollar	0.19	0.19	3.52	3.7
	Euro	79.72	0.61	0.00	0.6
	Swiss Franc	0.17	0.40	1.31	1.7
	Brazilian Real	0.00	0.37	6.94	7.3
	English Sterling	0.05	0.60	1.99	2.6
Total Securities		**80.80**	**0.61**	**0.01**	**0.6**
Shares	Euro	2.12	5.37	0.00	5.4
Total Non-listed Shares		2.12	5.37	0.00	5.4
Sum total		**100.00**	**1.28**	**0.00**	**1.3**

Please note:

Identification of all market data used: Market data as at 31.12.06 - AFS.

The Dur. Index is the Macaulay duration expressed in years.

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 above table analyses the AFS portfolio, broken down by type of investment, i.e. shares, listed and unlisted bonds and unit trusts.

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. It should be remembered that operations to hedge shares via derivatives are summarised in the report and reduce the overall riskines 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 the Euro zone, the Group mainly invests in dollars, Swiss francs and English sterling.

In this respect, there is a good balance between assets denominated in foreign currency and related liabilities, in turn, denominated in the same currency, in so far as a major part of these investments is intended to hedge commitments to life policyholders (this relates, in particular, to segregated accounts in foreign currency).

At least once a month, the Group monitors exposure in foreign currency in order to detect criticality or situations that require any corrective intervention in good time, including the stipulation of any hedge contracts.

What's more, with the sale, which took place in January 2006, of the interest in Swiss Life Holding, denominated in Swiss francs, the Group's exposure to exchange risk was considerably reduced.

Credit risk

The credit risk, arising from holding bonds, was estimated on the basis of models for valuing the portfolio's loss of value following fluctuations in bond quotes and possible failures of the issuers of said securities.

As shown by the table, “Bond component sensitivity analysis”, over 89% of the bond portfolio is made up of government securities, mainly issued by the Italian government and marginally by other the OECD states.
In addition, the fact that only the “Corporate” bond portfolio is broken down by rating class shows the absolute prevalence of investments in the classes with the highest credit rating.

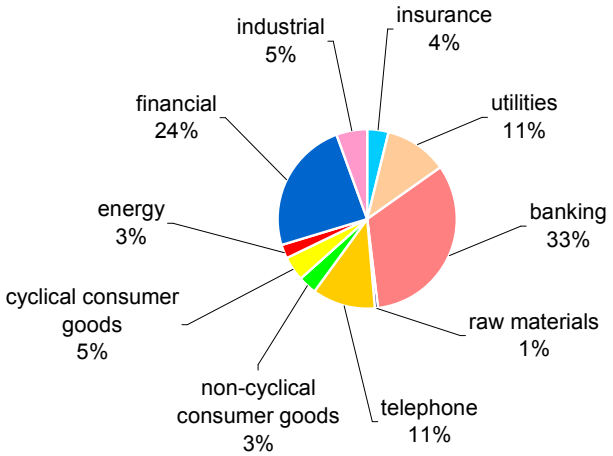
With reference to receivables from policyholders for premiums, receivables from agents and other intermediaries as well as receivables from insurance and reinsurance companies, the Group does not have significant concentrations of risk, its credit exposure being divided between a large number of counterparties and clients. What’s more, the balance of receivables is constantly monitored throughout the year so as to minimise the amount of exposure to losses.
As for reinsurers, the choice is made on the basis of counterparties’ quality and solvency criteria and is also influenced by the rating given by Standard & Poor’s.
With regard to group companies operating within the banking industry, credit risks are reduced by constant monitoring of the quality of banking counterparties.
On the other hand, loans to customers are mainly accommodated by collateral security discounted according to advance margins. The internal audit system gives ample warning of exposures not hedged by securities in advance.

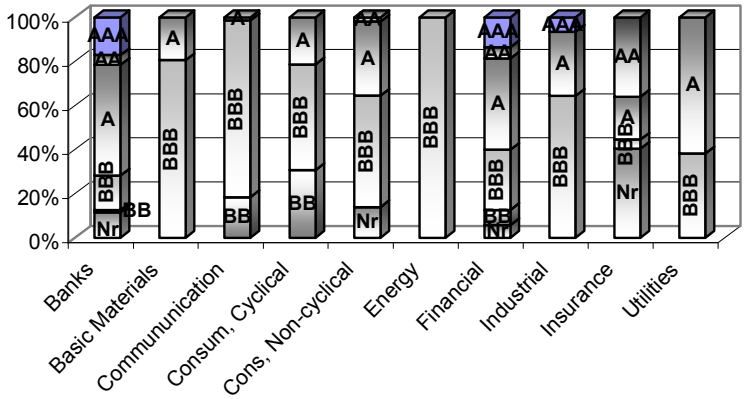
Finally, with reference to the property sector, following credit risk assessments, guarantees were requested from tenants or purchasers as sureties or deposits in property transactions.

Bad debt risk
With particular reference to risk management by Group companies operating within the consumer credit segment, for several years now Finitalia S.p.A. has used a multi-screening methodology with excellent results. Scoring is also backed-up by valuations which further profile the level of risk according to the insurance characteristics of the customers of the companies being screened. Insurance contracts for financed customers are tied in favour of the company and help to reduce the extent of the positions taken. Finally, to improve debt recovery times and costs, the IT procedures and applications required are being put in place and should be completed by the end of 2007.

Composition of the corporate portfolio
The graphs appearing below show the compositions of the Available For Sale portfolio of the Group’s two main insurance companies.
The analysis identifies both a breakdown by the commodity sector to which the issuing entity belongs and an analysis of the corporate portfolio by rating level of the issuing entity. Government securities are excluded from the analysis: for Fondiaria-SAI they represent 89.65% of the portfolio, for Milano Assicurazioni they represent 88.74% of the portfolio.
A view of both portfolios analysed is given by means of histograms, in which fundamental risks (in terms of exposure) are identified for major issuers in the largest sectors. It should be remembered that by exposure we mean the estimated loss in the event of insolvency of the issuer, taking into consideration the “recovery rate” quota estimated for each rating.

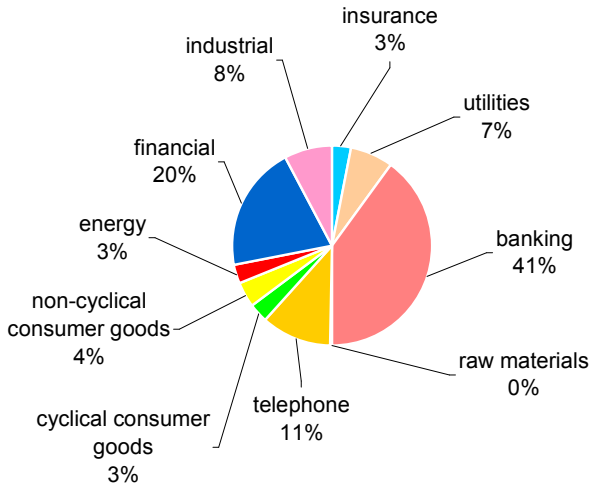
Composition of the Fondiaria-SAI S.p.A. securities portfolio (*)

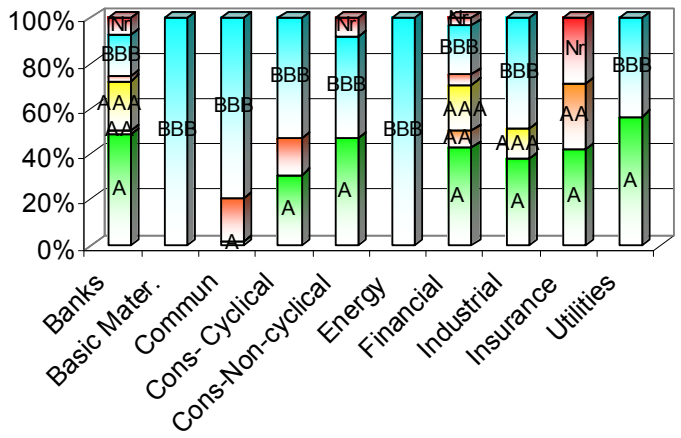




(*) excluding Government securities

Composition of the Milano Assicurazioni S.p.A. securities portfolio (*)





(*) excluding Government securities

Liquidity risk

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

opportunity to set aside excess liquidity for more profitable investment operations.
Liquidity risk management is supported on an organisational level by centralised financial resource management using the Group Treasury model and by using cash pooling techniques and tools.

Given the nature of the business transacted by Group companies and in view of Treasury management procedures, the liquidity risk is controlled by means of scheduling financial flow management using what is essentially a decadal system, in an attempt to make the most significant outflows coincide with agency remittances and by making excess funds with regard to cash flow requirements available, on a daily basis, to the Finance Department.
Excess liquidity in respect of what is not used by the finance Department is used by the Treasury in 24 hour deposits (so-called “time deposits") and consequently liquidatable with 48 hours prior notice. As a further safeguard, in the event of particular emergencies due to unforeseen and urgent needs, the Treasury holds funds at the Group’s Bank that are available to perform such operations up to a maximum amount of € 40m.

Derivatives
The Group makes a limited use of derivatives. In fact, the characteristics and peculiarities of the insurance business mean that the use of derivatives is regulated in relevant operational framework decisions provided for by the Supervisory Authority with its own Instruction No. 297/1996.
In particular, the aforementioned Instruction lays down that operating in derivatives for the purpose of so-called effective management should be kept within a tolerable quota of the available solvency margin. In this context, please note that the Groups’ derivatives operations are mainly aimed at hedging the fair value of some significant holdings classed as available for sale and at reducing the rate risk on some securities lending.

In the light of the aforementioned hedging operations, the Group has arranged to write related hedge reports, from which the high level of efficiency of said hedging can be noted.

The book values, as at 31/12/2006, of the aforementioned hedge derivatives and resultant revaluations of the Available For Sale shares hedged are listed below:

(€K)	**Assets**	**Liabilities**
Shares AFS		
Fondiaria-SAI S.p.A.	127.963	127.963
Milano Assicurazioni S.p.A.	24.575	24.575
Total	**152.538**	**152.538**

The hedge item has, therefore, been adjusted in accordance with variations in fair value attributable to the risk hedged with a contra entry in the profit and loss account. Profits and losses deriving from the valuation of hedge derivatives are also recorded in the Profit and Loss account. With regard to 2006, the impact on the profit and loss account deriving from market valuations of shares hedged and related hedge derivatives amounted to € 103,593K for Fondiaria-SAI and € 20,430K for Milano Assicurazioni.
The impact on the consolidated profit and loss account was nil since a capital loss of the same amount as the net appreciation of the financial instruments hedged was recorded for the hedge derivative.

The Group stipulates Interest Rate Swap contracts to manage the risk deriving from interest rate changes on outstanding liabilities in respect of banks, by converting part of these loans from variable to fixed rates. These derivatives are entered in the accounts as assets when the fair value is positive and as liabilities when it is negative. This fair value is re-measured periodically.
The fair value of the derivative is the current value of cash flows that the company expects to receive from said contract: these changes in value are offset in the accounts against a net equity reserve and subsequently released to the profit and loss account with the aim of neutralising the effects of the transaction.

The part of the profit or loss associated with the hedge derivative that equals, in terms of absolute

value, the variation in the fair value of the projected flows, being considered an effective hedge (80%-125% range), must be posted direct to net equity. The ineffective portion of profits and losses on the hedge derivative must be posted to the profit and loss account if overhedging is involved. If, on the other hand, the surplus value lies with the hedged instrument (underhedging), the entire variation in fair value recorded for the derivative must be posted to net equity.

If it is believed that the future transaction will not take place, all the profit and loss components allocated to Net equity must be immediately transferred to the Profit and Loss account.
To date, contracts for a notional sum of approximately € 394m (€ 108m as at 31/12/2005) have been stipulated.
On the date of writing the accounts, the fair value of IRS was estimated at around € 5.5m. These derivatives are designated as instruments to hedge future cash flows.
In fact, the five derivative contracts and the underlying financial instruments share the same reference amount, due dates, currency and rate. Consequently, the hedge proved to be highly effective.

Details of IRS opened as at 31/12/2006 are shown below:

(€K)

Company	Notional	Expiry	Fixed rate %	Variable rate	Fair value as at 31/12/2006
Fondiaria-SAI S.p.A.	200,000	23.07.13	3.970	Euribor 6 month Act/360	2,025
Tikal R.E.	50,000	31.12.09	3.160	Euribor 6 month Act/360	1,306
Tikal R.E.	58,000	31.12.09	3.120	Euribor 6 month Act/360	1,581
Immobiliare Lombarda S.p.A.	42,857	31.12.12	3.770	Euribor 6 month 30/360	244
Immobiliare Lombarda S.p.A.	42,857	31.12.12	3.695	Euribor 6 month 30/360	340

The Group does not stipulate foreign currency contracts to hedge future transactions and cash flows, since exposure to the exchange risk is, on the whole, absolutely immaterial and is itself, already hedged via the mechanism of congruence between foreign currency assets and liabilities.

Within the scope of non-hedge contracts, the Group stipulated the following Range Accrual Swap contracts:

(€K)

Company	Notional	Expiry	Counterparty	Fair value as at 31/12/2006
Fondiaria-SAI S.p.A.	10,000	15.11.07	Jp Morgan	74
Fondiaria-SAI S.p.A.	10,000	20.11.07	Calyon	-
Milano Assicurazioni S.p.A.	10,000	16.11.07	Jp Morgan	-

With these contracts, the counterparties still receive the 3 month Euribor rate and pay the 3 month Euribor rate, plus 110 b.p. provided that, for calculation purposes, only days when the difference between the 12 month Euribor rate and the 3 month Euribor rate is positive, are taken into consideration.

During the course of the financial year, the Group stipulated credit default swap contracts to protect itself from the risk of insolvency of a counterparty issuing financial instruments acquired by the Group itself.
With regard to contracts stipulated and closed in the current financial year, please note that the hedge relates to an issuer of a financial instrument underwritten by the Group, a leading financial operator of international standard, with a Standard & Poor's A+ rating. The cost for the hedge amounted to € 329K and was allocated, in full, to the profit and loss account for the year.

At year end the following Credit Default Swap contracts were open:

(€K)

Company	Notional	Expiry	Counterparty	Issuer hedged	Cost
Fondiaria-SAI S.p.A.	31,500	20.09.09	Morgan Stanley	Telecom Italia	47 b.p. per year
Fondiaria-SAI S.p.A.	15,000	20.09.09	Jp Morgan	Telecom Italia	47 b.p. per year
Milano Assicurazioni S.p.A.	32,500	20.09.09	Morgan Stanley	Telecom Italia	47 b.p. per year
Milano Assicurazioni S.p.A.	15,000	20.09.09	Jp Morgan	Telecom Italia	47 b.p. per year
Po Vita S.p.A.	13,100	20.10.09	Morgan Stanley	Telecom Italia	46 b.p. per year
Po Vita S.p.A.	35,000	13.7.07	Intesa Sanpaolo	Lehman Brothers	83 b.p. per year
Po Vita S.p.A.	50,000	12.10.07	Intesa Sanpaolo	Lehman Brothers	84 b.p. per year

Costs relating to hedges still open at year end amounted to € 479K and were posted to the profit and loss account.

The Parent company also had the following existing contracts as at 31/12/2006:

Purchase and sale of Forward Variance Swap contracts on the Eurostoxx50 index; purchase of 1,139.6 variance units from Goldman Sachs expiring on 21 September 2007, purchase of 3,000 variance units from Société Generale expiring on 18 December 2009 and, at the same time, the sale of 3,000 variation units to Goldman Sachs with the same expiry date. The purchase of Forward Variance Swap contracts makes it possible to take a bullish position on the volatility of the underlying instruments. The fair value as at 31/12/2006 relating to the valuation of the position of 1139.6 units, was € 22K.

Equity Swaps on 70,177,902 Immobiliare Lombarda shares with the counterparty Scontofin and expiring on 4 June 2007, extendable on the basis of contractual terms for a further 60 working days. With this contract, the counterparty pays if there is a rise in the underlying shares in respect of the price of € 0.215 and receives if there is a drop. The counterparty is, in any event, paid an amount equal to the 3 month Euribor rate on the notional reference amount pegged to the duration of the contract. The fair value as at 31/12/2006 shows a capital loss of € 521K.

SAI Mercati Mobiliari Sim S.p.A.
With reference to unlisted derivative transactions, SIM buys and sells options on exchanges and rates, on orders received from its own corporate customers and acts as an intermediary for said transactions with leading international credit institutions with which it has signed relevant ISDA contracts.

As at 31/12/2006, the rate and exchange options listed below appeared in the SIM profit and loss account:

- 14 foreign exchange option contracts
- 12 interest rate option contracts (strangle step-down structure).

These also include positions in listed derivatives on Futures, Options on shares for trading purposes and Futures transactions on rates, in turn cross-referenced with existing positions on bonds.