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# BUSINESS ACTIVITY REPORT FOR THE THIRD QUARTER OF THE FINANCIAL YEAR 2004



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

FONDIARIA-SAI S.p.A. – FLORENCE OFFICE - P.ZA DELLA LIBERTA' 6 – TURIN OFFICE - COR - SO G. GALILEI, 12 –  
REGISTERED CAPITAL €170.553.893 FULLY PAID UP – TAX CODE, VAT NUMBER AND REGISTRATION NUMBER IN  
THE COMPANIES' REGISTER OF FLORENCE 00818570012 – COMPANY AUTHORISED TO OPERATE IN THE  
INSURANCE BUSINESS ACCORDING TO ART. 65 R.D.L. 29 APRIL 1923 NO. 966, CONVERTED INTO LAW NO. 473 OF 17  
APRIL 1925

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## BOARD OF DIRECTORS

Salvatore Ligresti	<i>Honorary Chairman</i>
Jonella Ligresti*	<i>Chairman</i>
Giulia Maria Ligresti*	<i>Vice Chairman</i>
Massimo Pini*	<i>Vice Chairman</i>
Antonio Talarico*	<i>Vice Chairman</i>
Fausto Marchionni*	<i>Managing Director and General Manager</i>
Andrea Broggin	
Carmelo Caruso	
Mariella Cerutti Marocco	
Carlo d'Urso	
Vincenzo La Russa*	
Gioacchino Paolo Ligresti*	
Lia Lo Vecchio	
Siro Lombardini	
Enzo Mei	
Giuseppe Morbidelli	
Cosimo Rucellai	
Oreste Severgnini	
Salvatore Spiniello	
Oscar Zannoni	

Alberto Marras	<i>Secretary of the Board and Executive Committee</i>
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## AUDITORS

Benito Giovanni Marino	<i>Chairman</i>
Giancarlo Mantovani	<i>Stat. auditor</i>
Marco Spadacini	<i>Stat. auditor</i>
Sergio Castellini	<i>Alternate aud.</i>
Giorgio Di Giulio Maria	<i>Alternate aud.</i>
Maria Luisa Mosconi	<i>Alternate aud.</i>

## INDEPENDENT AUDITORS

DELOITTE & TOUCHE S.p.A.

## COMMON REPRESENTATIVE OF THE SAVINGS SHAREHOLDERS

Sandro Quagliotti

## GENERAL MANAGEMENT

Fausto Marchionni

\* Comprising the Executive Committee

The Chairman of the Board of Directors, each of the Vice Chairmen and the Managing Director are granted all the powers according to art. 21 of the Articles of Association. The Board of Directors has granted to the Executive Committee in accordance with art. 19 of the Articles of Association all the powers of the Board, except those expressly reserved by the law for the Board itself, notwithstanding the exclusive competence of the latter for each decision with regard to operations with co-related parties as defined by the Board of Directors.

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## **FOREWORD**

The quarterly report as of 30 September 2004, prepared on a consolidated basis, consists of the accounts tables drafted in accordance with the principles dictated for annual and consolidated accounts.

The accounts tables contain economic data compared with the same period of the previous financial year and the equity data compared with 31 December 2003 and 30 June 2004.

These tables and the corresponding information provide the information required by Consob according to instruction number 11971 of 14 May 1999 and subsequent amendments and additions, in accordance with the laws implementing legislative decree no. 58 of 24 February 1998.

The quarterly economic and equity situation is not audited by the independent auditor.

All the values shown are expressed in millions or thousands of euros with the usual rounding off.

## **CONSOLIDATION AREA**

The quarterly report of the group includes the data of the parent company and of the 111 Italian and foreign subsidiaries and associated companies. The following changes occurred in the 3<sup>rd</sup> quarter of 2004:

- change in the holding in the ordinary capital of the subsidiary MILANO ASSICURAZIONI S.p.A. to 65.36%;
- sale of the entire holding in the subsidiary MERCANTILE LEASING S.p.A.;
- merger through incorporation of the subsidiary COFIMO SIM S.p.A. in SAI GESTIONI SIM S.p.A. and change of company name of the holding company to SAI MERCATI MOBILIARI SIM S.p.A..

In addition, the initiatives aimed at rationalising the consolidation framework with a view to greater operating integration between the companies of the group are continuing.

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## VALUATION CRITERIA

The editing principles and the valuation criteria used for the year-end accounts have been applied to the quarterly report.

Therefore, for further information, specific reference is made to those published in the balance sheet documentation of 31.12.2003.

However, the quarterly report is influenced by a greater valuational approach and greater use of simplification; consequently, methodologies have been used which, though making more use of estimates, are nevertheless suitable essentially to safeguard the end of year principles.

In particular:

### **Financial investments**

The valuation of certificates of indebtedness and capital securities is made according to the accounting principles adopted for the preparation of the balance sheet, on the basis of the quotations of the last day of the quarter. Any valuation loss of the short-term securities, net of the obligatory increases, is recorded in the profit and loss account.

The long-term securities are maintained at book value, with the exception of those items for which permanent value losses have occurred at the end of the quarter.

### **Technical reserves of direct business:**

- Premium reserve – non-life business  
Within this reserve, the component of the reserve for current risks is kept unchanged compared with 31 December 2003 in the branches in which it was allocated at the end of the last financial year, if the current generation trend does not show significant deterioration of the loss value.
- Claims reserve – non-life business  
The multi-stage technical valuation process undergoes some changes in terms of simplification of procedures, essentially because of the impossibility of carrying out – like end of year practices – the analytical revision of residual expenses.  
In the land vehicle TPL, the 2004 generation has been determined, both for the SAI portfolio and for the Fondiaria portfolio, by means of five different actuarial statistical methods. In other non-life business, the damage estimate of the technical offices has been included by using the parameters adopted for the end of year accounts for 2003, when there were no substantial changes compared with the consolidated trends as the statistical basis. For the previous generations, in the case in which the examination of the operations throughout the third quarter does not reveal significant sufficiency or insufficiency phenomena, the following reserve expenses are maintained, adjusted for the period payments. In other cases, the valuation of the adjuster has been included as a precaution.

## EQUITY DATA

The following table shows the investments and net technical reserves as of 30/09/2004, compared with the corresponding amounts as of 30.6.2004 and 31.12.2003.

(Euro K)	30/09/04	30/06/04	Var.%	31/12/03
<b>INVESTMENTS:</b>				
Land and buildings	2,008,384	2,384,895	(15.79)	2,385,169
Investments in companies of the group and other participating int.	361,906	452,860	(20.08)	519,392
Other financial investments	20,281,030	19,208,501	5.58	18,709,991
Deposits with ceding undertakings	52,832	58,537	(9.75)	57,645
Investments benefiting insured of life branches who bear the Risk and deriving from pension fund management	3,433,076	3,245,027	5.79	2,708,485
<b>Total investments</b>	<b>26,137,228</b>	<b>25,349,820</b>	<b>3.11</b>	<b>24,380,682</b>
Liquidity	554,170	552,393	0.32	580,033
<b>Total investments and liquidity</b>	<b>26,691,398</b>	<b>25,902,213</b>	<b>3.05</b>	<b>24,960,715</b>
<b>NET TECHNICAL RESERVES:</b>				
Non-life business				
Premium reserves	2,196,785	2,406,096	(8.70)	2,274,063
claims reserves	8,279,857	8,180,327	1.22	7,999,185
other technical reserves	23,621	23,586	0.15	26,749
Life business				
Technical reserves	10,977,367	10,930,262	0.43	10,674,669
Technical reserves if the investment risk is borne by The insured and reserves deriving from pension fund Management	3,430,913	3,240,092	5.89	2,704,525
<b>Total net technical reserves</b>	<b>24,908,543</b>	<b>24,780,363</b>	<b>0.52</b>	<b>23,679,191</b>
<b>Financial debts</b>	<b>209,763</b>	<b>37,747</b>	<b>-</b>	<b>562,917</b>

The structure of the investments shows a reduction in the weight of the "Land and buildings" component following the transfer, completed during the third quarter, by the parent company and the subsidiaries Milano Assicurazioni, Meridiano Risparmio and Meridiano EUR to the closed property fund managed by the subsidiary SAI Investimenti. This reduction shows a correlated increase in the "Other financial investments" component.

With reference to “Investments in group companies and other participating interests” the reduction is due to the sale of the complete holding in Mercantile Leasing, already valued as net equity, with a positive effect on the profit and loss account of €34 m.

The component relating to bonds and other fixed income securities amounts to more than € 16,268m and represents approximately 62% of the total investments.

## DEBTS

The debts of the group Fondiaria-SAI on 30 September 2004 is as follows:

(Euro m)	30/09/2004	30/06/2004	31/12/2003
Subordinated loan	400.0	400.0	400.0
Mandatory Sainernational	180.4	-	-
Exchangeable Sainernational	-	-	465.5
Exchangeable Fondiaria Nederland	-	-	45.4
Debts to banks and other finance	29.4	37.7	52.0
<b>Total debts</b>	<b>609.8</b>	<b>437.7</b>	<b>962.9</b>

On 27 September 2004, the Luxembourg subsidiary SAINTERNATIONAL S.A. launched Mandatory Exchangeable Guaranteed Notes exclusively with BANCA INTESA ordinary shares of FONDIARIA-SAI, maturing on 29 September 2010.

The issue was favourably received by the market. MEDIOBANCA was responsible for the placing, which acted as sole bookrunner for the operation completed on 27 September.

The notes, with a total nominal value of € 180,400,000, will be repayable on maturity by means of 44,000,000 BANCA INTESA ordinary shares, currently owned by FONDIARIA-SAI, at the exchange price of €4.10 per share and then with a bonus of 35.13% compared with the price of the BANCA INTESA ordinary shares at the time when the offer price is determined.

The annual warrant of the notes and the return on maturity are equal to 6.10%.

FONDIARIA-SAI and SAINTERNATIONAL have granted a lock-up period of 90 days on the BANCA INTESA shares, in the course of which they will refrain from setting up any operation aimed at this security. On 21 October, the notes were admitted to the Luxembourg stock exchange.

The undertaking of the issuer, SAINTERNATIONAL, deriving from the loan in question, essentially relating to the payment, in favour of the noteholders, of the warrants for the entire life of the loan, is covered by a suitable surety policy issued by FONDIARIA-SAI, with contracting party SAINTERNATIONAL, and insured by the THE LAW DEBENTURE TRUST CORPORATION p.l.c., in its capacity as trustee, in its own interest and that of the noteholders.

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But with regard to the undertaking on the part of SAINTERNATIONAL to deliver to the noteholders the BANCA INTESA shares that are the subject of conversion, FONDIARIA-SAI has assumed directly vis-à-vis the noteholders the undertaking to deliver the shares.

This operation allows the group Fondiaria-SAI to re-balance the investment mix by subsequently re-dimensioning the share component of the portfolio.

On 12 December 2002, the holding company SAI signed a finance contract with MEDIOBANCA on the basis of which the latter issued in favour of the company the sum of € 400m in order to increase the elements constituting the solvability margin. On the basis of the agreements made with Mediobanca and following authorisation by ISVAP, FONDIARIA-SAI then acquired, again in July 2003, a new subordinated finance of the same amount, with simultaneous advance repayment of the existing finance, the characteristics of which are illustrated in the balance sheet literature, to which reference is made.

As already illustrated in the half-yearly report of 28/06/2004, the subsidiary Sainternational S.A. repaid the convertible bond loan issued in June 2001 for a nominal €465 m.

In the course of the first nine months of 2004, the finance and mortgage contract signed by the subsidiary I.S. s.r.l. with The Royal Bank of Scotland amounting to € 14.8m was also repaid. This item, including the item “Debts to banks and other finance”, now amounts to a remaining € 25.4m, to which is added € 4m attributable to temporary debt items of insignificant unit amount.

Therefore, on 30 September 2004, the group debteds totalled € 609.8 m with an increase, compared with 30/06/2004, of € 172.1m and a reduction, compared with 31/12/2003, of € 353.1m.



## ECONOMIC DATA

The economic situation for the quarter and the first nine months compared with similar periods last year is given below:

Third quarter (Euro K)	First nine months	2004	2003	2004	2003
<b>NON-LIFE BUSINESS</b>					
Relevant premiums		1,650,897	1,600,964	4,977,140	4,811,328
Charges relating to claims		(1,191,428)	(1,227,583)	(3,586,387)	(3,556,408)
Other net technical income		(14,861)	(13,223)	(138,977)	(101,621)
Management costs		(306,887)	(278,965)	(946,704)	(906,417)
<b>Result of technical account, non-life business</b>		<b>137,721</b>	<b>81,193</b>	<b>305,072</b>	<b>246,882</b>
<b>LIFE BUSINESS</b>					
Premiums retained		574,283	392,386	2,037,471	1,496,418
Charges relating to claims and var, tech, res,Life		(666,235)	(469,073)	(2,334,092)	(1,737,957)
Other Net technical income		1,690	(1,298)	(6,454)	(9,596)
Management costs		(38,022)	(31,485)	(122,798)	(103,124)
(+) Share of Life investments		93,160	104,791	334,227	343,573
Non-real income and gain net of charges and non-real loss relating to life insurance investments		37,739	4,599	144,313	71,528
<b>Result of technical account, life busines</b>		<b>2,615</b>	<b>(80)</b>	<b>52,667</b>	<b>60,842</b>
Invest. Income net of equity and fin. charges		191,876	179,814	624,346	569,182
(-) Profit share of Life investments		93,160	104,791	334,227	343,573
Other income net of charges		(70,347)	(51,368)	(140,562)	(141,791)
<b>Result of ordinary activity</b>		<b>168,705</b>	<b>104,768</b>	<b>507,296</b>	<b>391,542</b>
Income and extraordinary expenses		42,000	17,655	32,802	19,451
<b>Result before tax</b>		<b>210,705</b>	<b>122,423</b>	<b>540,098</b>	<b>410,993</b>
Taxes on income		(99,548)	(50,949)	(236,770)	(190,781)
<b>Consolidated result</b>		<b>111,157</b>	<b>71,474</b>	<b>303,328</b>	<b>220,212</b>
Shares of third party results		23,474	14,726	71,568	45,868
<b>Group result</b>		<b>87,683</b>	<b>56,748</b>	<b>231,760</b>	<b>174,344</b>

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## MANAGEMENT ACTIVITIES AND COMMENTS

During the third quarter of the financial year 2004, FONDIARIA-SAI group activity shows increasing results compared with 30 September 2003, which are also in line with the objectives fixed in the business plan for the entire current financial year.

In particular, the development of the activity in the first nine months of the financial year was constant and selective, particularly in the motor business, in an environment where it is still difficult to combine profitability and development.

However, in this scenario, the group is showing an increase in premiums and an improvement in the management indices, which result from the comparison with the same period last year.

With reference to the essential management aspects, as resulting on 30 September 2004, it is therefore pointed out:

- the technical account of the non-life business shows a positive result of more than €305m (€247m on 30/09/2003), to which the success in the motor business contributes. The technical balance of Motor TPL of the parent company has improved, whereas the subsidiary Milano shows a Motor TPL result that is essentially in balance compared with the loss recorded on 30 September 2003;
- an optimum trend in achieving **life business premiums** (+35%), benefiting among other things from satisfactory increases in achieving traditional products via the agency channel;
- **management costs** amount to approx. €1,070m and represent 15.2% of the relevant premiums (15.1% on 30/06/2004, 16% on 30/09/2003);
- **ordinary returns on investments**, net of the corresponding expenses were equal to €624m. Of these, more than €334m are attributed to life insured. Net gains were achieved in the short-term portfolio totalling €113 m, of which approx. €58 m attributable to the parent company;
- the item **other income** net of expenses, negative for approx. €141m (negative for €142 m on 30/09/2003) includes approx. €89m relating to the depreciation rates of relevant intangible assets for the period;
- the **investments**, net of the property depreciation funds, are equal to €26,137 m, compared with €25,350m on 30/06/2004 with an increase of 3.11%, greater than that of the net technical reserves. The securities portfolio of class C investments, equal to a total of €20,056m, consists of shareholdings for €3,788m and indebtedness certificates for €16,268m. The investments in long-term stocks and shares in class C III are equal to approx. €5.638m. The class III listed portfolio shows gross deferred losses of approx. €561m and deferred gains of €522m; of the latter, €147m relate to the short-term part. The deferred losses on the listed portfolio are entirely attributed to immobilised positions and are therefore not regarded as an expression of a permanent loss of value.
- the amount of the **net technical reserves** has reached €24,909m, with an increase compared with 30/06/2004 of approx. €128m. Of these, in the life business, the increase is €238m, whereas in the non-life business, the reduction is approx. €110m.

At the end of the month of September, the FONDIARIA-SAI group had achieved premiums totalling €7,156,360K (+10.29% compared with the third quarter of 2003).

Of these, €5,098,050K (+2,69% compared with 30/9/2003) is attributable to non-life business and their sub-division is shown in detail in the following table:

(Euro K)	30/09/2004	30/09/2003	ar. %	30/06/2004
<b>NON-LIFE BUSINESS</b>				
<b>DIRECT BUSINESS</b>				
Accident and health	441,989	436,610	1,23	319,725
Land vehicle TPL	3,143,388	3,069,875	2,39	2,199,532
Motor insurance, other branches	531,027	519,271	2,26	373,457
Marine, aerospace and transport insurance	140,867	124,219	13,40	98,762
Fire and other damage to property	433,599	425,810	1,83	314,823
General TPL	293,660	278,147	5,58	215,156
Credit and sureties	47,797	44,021	8,58	33,866
Miscellaneous money losses	19,750	12,681	55,74	12,475
Legal defence	10,076	9,479	6,30	7,212
Assistance	20,392	17,937	13,69	13,641
<b>TOTAL</b>	<b>5,082,545</b>	<b>4,938,050</b>	<b>2,93</b>	<b>3,588,649</b>
<b>INDIRECT BUSINESS</b>	<b>15,505</b>	<b>26,538</b>	<b>(41,57)</b>	<b>10,892</b>
<b>GENERAL TOTAL</b>	<b>5,098,050</b>	<b>4,964,588</b>	<b>2,69</b>	<b>3,599,541</b>

The premiums collected in the quarter amount to €1,498,509I and represent 29.4% of those collected on 30/09/2004.

In September, the parent company collected direct business premiums worth €2,787,421K (+1.53%), of which more than €2,028,964K (+1.55%) in the Motor sector.

The Milano Assicurazioni group contributed to the result, achieving €1,939 m of premiums (+2.05%).

The claims paid for the direct Italian business as of 30/09/2004 amount to €3,025 m, of which €1,693 m relating to the parent company.

The claims to premiums ratio for the period, equal to 72.06% approximately, has improved by approximately two points compared with the third quarter of 2003. The management costs to premiums ratio remains stable.

Consequently, the combined ratio is approximately 93.9%, an improvement of one point compared with the figures on 30 September 2003.

With reference to activities in Motor TPL business, the data as of 30 September 2004 show a slight reduction in claims frequency, accompanied by a more significant reduction in the number reported. This in turn is accompanied by an increase in the speed of settlement, also for the purpose of containing the increase in the average cost of payment, which continues to show variations well above the rate of inflation.

Therefore, against this background, the work of improving efficiency and rationalisation in claims management and assistance to policyholders is being continued in order to contain the increase in costs, which cannot be countered by a simple increase in rates.

With regard to Motor TPL business, the collection of premiums is also influenced by the new way of working, which is running at high levels (580,729 new policies for the parent company).

On 30 September 2004, the claims reported in the Motor TPL branch for the parent company show a drop of approximately 3.9%, whereas the average cost of payment of the current generation shows an increase of approximately 6.6%; the corresponding rate of settlement is 58.7%, an increase compared with 30.9.2003. Activity in the CVT branch is still positive, with a reduction in claims reported (-3%) and an average cost of payment of the current generated down 2.74%.

With reference to the Milano subsidiary, the technical account of non-life business shows a significant improvement, mainly resulting from activities in Motor TPL business, which shows a technical result more or less in balance compared with a loss on 30 September 2003. Land vehicle TPL continues to show an extremely satisfactory trend, with an excellent claims to premiums level, though showing a slight dip compared with the corresponding period last year.

Regarding Motor TPL business only, the reports as of 30 September are down (-0.5%)  
As are the compensation payments (-2%).

Particularly significant is the increase in the premiums collected by the subsidiary Sasa (€ 252.7m, with a growth rate of approximately 32%). The increase in Motor TPL premiums, equal to more than 25% for €136 m, positively reflects the effect produced by the opening of new sales channels as well as specific commercial initiatives involving Land Vehicles TPL.

With reference to activities in parent company non-marine business, the quarter shows a substantial drop in claims reported (-2.1%) and an increase in the cost of payment of the current generation (+3.2%). Particular mention is made of the following for the main branches:

- Other damage to property: the number of claims reported compared with the third quarter of 2003 is up 6.8%, whereas the average cost of payment of the current generation is up 1.38%.
- Fire and natural events: the number of claims reported is down 3.1%, whereas the average cost of payment of the current generation is down 7.69%.
- Health: the claims reported show a reduction of 4.7% in terms of number and an increase of 10.37% in the average cost of payment of the current generation.
- General TPL: the claims reported show a reduction of approximately 7% in number and an increase of 2.09% in the average cost of payment of the current generation.
- Accidents: the claims reported show a 0.9% reduction in number and a 4.82% increase in the average cost of payment of the current generation.

Regarding Transport business, the subsidiary SIAT has collected direct business premiums of €100m, representing a good increase due both to the price trend and the acquisition of new business. The claims in the financial year continue to show a generally favourable trend.

The gross **premiums** recorded in **life business** amount to €2,058,310K with an increase of 35.06% compared with 30/09/2003.

The premiums are subdivided as follows:

(Euro K)	30/09/2004	30/09/2003	var. %	30/06/2004
<b>LIFE BUSINESS</b>				
<b>DIRECT BUSINESS</b>				
I - Human life insurance	741,798	817,061	(9.21)	539,573
III - Insurance according to I and II connected with investment funds	714,941	281,823	153.68	522,693
IV - Health insurance				
Acc. to art, 1 letter EU Dir, 79/267	88	89	(1.12)	67
V - Capitalisation operations				
Acc. to art, 40 of Leg, D 17/3/95 no, 174	577,649	401,843	43.75	398,232
VI - Pension fund management operations	15,563	14,608	6.54	12,748
<b>TOTAL</b>	<b>2,050,039</b>	<b>1,515,424</b>	<b>35,28</b>	<b>1,473,313</b>
<b>INDIRECT BUSINESS</b>	<b>8,271</b>	<b>8,537</b>	<b>(3.12)</b>	<b>5,805</b>
<b>GENERAL TOTAL</b>	<b>2,058,310</b>	<b>1,523,961</b>	<b>35.06</b>	<b>1,479,118</b>

The premiums collected in the quarter amount to €579,192m and represent 28.1% of those of 30/09/2004.

The direct business premiums collected by the parent company in the third quarter of 2004 amount to approx. €794.081K (+42%).

The premium mix shows a marked increase in the products with a high financial content (index and unit linked) and premiums relating to pure capitalisation products. This phenomenon is most pronounced in the distribution via the bank channel, whereas the traditional networks of the parent company and of the subsidiary Milano show significant increases in the collection of branch I products, which are more biased towards the protection of capital invested.

Among the companies of the group, we would point out that within the bank insurance companies, the collection of premiums of Novara Vita S.p.A. has exceeded €491m (+30,35%), whereas Po Vita S.p.A. has exceeded €471m (-17.77%). Milano Assicurazioni has collected premiums for €370 m (+46.86%).

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**The amounts paid** in direct business have shown an increase compared with 30/09/2003 of 16.73% and total € 1,214m.

**The management costs**, up compared with the third quarter of 2003, are affecting premiums by 6.0% (6.9% at 30/09/2003).

## **INVESTMENT MANAGEMENT**

### **Financial management**

In the third quarter of 2004, the trend of the economic indicators in the euro zone indicates a moderate deterioration of activity and a slowing down of the growth otherwise evident in the services sector compared with previous quarters.

In this situation, the financial management of the parent company has tried to take advantage of the volatility of the markets in order to grasp trading opportunities in government securities and thereby achieve capital gains, particularly on the non-life portfolios of the group companies. In the corporate sector, it has also been decided to diversify the asset allocation in order to avoid concentrations of risk.

With reference to securities transferred to the separate management of Life business, an attempt has been made to take up the numerous opportunities offered by the primary market via activities in the corporate sector. The share of corporate bonds of the Life branches is relatively high (approx. 30% of the bond portfolio). The latter, together with the government securities, allow a good diversification of security portfolios at the same time as a good risk/return ratio. Also, the bonds in portfolio have a sufficient rating to limit the risk of the issuer.

Finally, it is also pointed out with regard to the PIRELLI & C. shares put on sale by the RCS Mediagroup that the company has proceeded to exercise its right of pre-emption as a member of the PIRELLI & C. association agreement and on 8 July, bought 9,508,536 PIRELLI & C shares, which were tied to the agreement, for an investment of €7.8m. As the result of this purchase, the holding of FONDIARIA-SAI in PIRELLI & C, attached to the agreement, has risen to approx. 4.46% of the ordinary capital (compared with 4.17% previously), corresponding to approximately 10.6% of the capital conferred on the agreement (compared with the previous 9.93%).

### **RCS MEDIAGROUP association agreement**

At the meeting on 21 June 2004, the members of the RCS Mediagroup agreement agreed that on renewal of the agreement, no objections would be made to the possible entry to the agreement of parent companies of FONDIARIA-SAI, Capitalia, Diego della Valle and Francesco Merloni, in the way, time and shares to be defined.

On 7 July, the members of the RCS agreement, on renewing it until 30 June 2007, agreed to update it to take into account the reduction of the GEMINA share, subject to confirmation by CONSOB, the supervisory authority (obtained on 6 August 2004), that the joining of the agreement by four new members, bearing in mind current regulations, would not give rise to assumptions of an OPA obligation.

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On 9 September, the Management of the RCS agreement met and, with regard to the assumptions mentioned, admitted to the association, subject to the unconditional acceptance of all the provisions of the agreement, four new members, namely:

- Group FONDIARIA-SAI, with a total share of 5% of the ordinary capital, of which 1.66% held by MILANO ASSICURAZIONI;
- PAFLUX S.A. (DIEGO DELLA VALLE), with 2.04% of the ordinary capital and with the right to increase its own shareholding, with a contribution obligation to the agreement up to 5%;
- CAPITALIA, with 2% of the ordinary capital;
- MERLONI INVEST S.p.A. (FRANCESCO MERLONI), with 1.50% of the ordinary capital.

The shares contributed to the agreement by the group FONDIARIA-SAI – equal to 5% of the RCS ordinary capital – are mainly owned by FONDIARIA-SAI ( 14,187,627 shares), MILANO ASSICURAZIONI (12,134,650 shares) and SAINTERNATIONAL (10,000,000 shares), the remainder being held by other subsidiaries and representing a total of 8.97% of the association capital.

On 14 October 2004, the RCS Board of Directors met and appointed new directors to represent new members of the agreement. In particular, signora Jonella Ligresti joined the RCS Board of Directors to represent the group FONDIARIA-SAI.

### **Own shares and those of the holding company**

With reference to the authorisation to buy and sell own shares and shares of the parent company approved by the meetings of 29 April 2003 and 28 April 2004, from the beginning of the financial year on 30/09/2004, 956,500 ordinary FONDIARIA-SAI shares have been bought with an outlay of € 17,838K; the number of own ordinary shares in portfolio was 4,808,212 shares, equal to 3.735% of the ordinary registered capital.

Also taking into account the FONDIARIA-SAI shares owned by the subsidiaries Milano Assicurazioni and Saifin- Saifinanziaria (3,611,557 and 1,060,000, respectively), the percentage shareholding rises to 7.364%. The positive difference between the accounting cost of the own shares in portfolio of the parent company on 30 September and the corresponding price, amounted to € 20,109K, entirely relating to the ordinary shares. No other operations were performed following the closing of the quarter, so the situation remains unchanged.

From the beginning of the financial year on 30 September 2004, FONDIARIA-SAI has not performed any transactions with the shares of the holding company Premafin Finanziaria S.p.A.. Consequently on 30.9.2004, the parent company held 17,512,527 shares of the holding company, equal to 5.631% of the registered capital.

This percentage rose to 6.762% at group level, also taking into account the Premafin Finanziaria shares held by the subsidiaries Milano Assicurazioni and Saifin-Saifinanziaria (3,449,700 and 66,588, respectively).

On 3 November 2004, the group percentage rose to 6.999 taking into account the Premafin Finanziaria shares held by the subsidiaries Milano Assicurazioni and Saifin-Saifinanziaria (4,194,700 and 66,588, respectively).



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## Property management

On 16 April 2004, the Board of Directors of the subsidiary SAI INVESTIMENTI SGR S.p.A decided to set up a closed property unit trust called TIKAL R.E. Fund. On 27 July 2004, the Banca d'Italia issued its own licence to the Fund Regulation, managed by SAI INVESTIMENTI SGR.

The fund is reserved for qualified investors who have subscribed shares of the fund by contributing property: the shares, with a life of seven years, and subscribed by FONDIARIA-SAI and companies of the group, must be held by the companies for an amount of not less than 30% of the value of the subscription for a period of at least two years from the date of transfer, as provided by current legislation.

The policy of the fund is aimed at achieving the objective of high returns on maturity (8% p.a. gross) through the management of a prudent and optimum combination of investments both in property already providing income and property to be completed or refurbished, with the aim of renting or possibly selling it.

The total commitment made by the subscribers has reached the maximum amount of the fund established by the Regulation of approximately €400m. The total value of the contribution in kind amounts to €394.2m approximately, whereas the subscription undertakings in money by FONDIARIA-SAI and MILANO amount to €4m and €2.1m, respectively.

Finally, it is pointed out that on 28 October 2004, subject to the authorisation of Banca d'Italia, FONDIARIA-SAI transferred 40% of the capital of SAI INVESTIMENTI SGR to MILANO ASSICURAZIONI.

On 2 July, the group known as CITYLIFE, to which the group Fondiaria-SAI belongs via the subsidiary PROGESTIM S.p.A., was awarded the tender organised by SVILUPPO SISTEMA FIERA S.p.A. on behalf of Fondazione Fiera Milano relating to the sale and urban requalification of part of the area of Fiera di Milano. The project is regarded as very important internationally, because it will constitute a radical transformation of the city of Milan.

The offer of the group CITYLIFE of €523m meant that it was awarded the contract, which was also bid for by the group PIRELLI and the group ZUNINO. Once the tender had been awarded, the preliminary contract was signed, with the obligation of the winner to pay in cash a sum equal to 10% of the selling price as a confirmatory down payment (€52,3m) and to grant the vendor, as a further guarantee of signing the final purchase and sale agreement, a first request bank guarantee equal to 10% of the selling price (€52.3m).

PROGESTIM's share, equal to 26.64%, corresponding to the share in the capital of CITYLIFE, was approximately €28m, of which €14m relates to the above confirmatory down payment, already made, and €14m to the above-mentioned bank guarantee.

The project stages schedule the completion of works by the year 2014.

The financial resources required by PROGESTIM were partly provided through the sale by the latter to FONDIARIA-SAI of its entire share held in INTERNATIONAL STRATEGY S.r.l., equal to 100% of the capital. The price of the shares of INTERNATIONAL STRATEGY was €65m, calculated on the basis of a valuation of the company made by an independent expert commissioned to do the job.



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The shares of INTERNATIONAL STRATEGY were transferred on 6 October 2004. Previously, in July, when the preliminary contract for the purchase and sale of the shares was signed, the parent company paid PROGESTIM the sum of €30 m as a down payment on the price.

## **OTHER INFORMATION**

### **Group Sales and Personnel**

As of 30.9.2004, the agencies of the group totalled 3,644.

In particular, the number of agencies of the SAI division is 832 (of which 239 city agencies and 593 general agencies) and the number of agents is 1,346.

With reference to the agencies of the FONDIARIA division, please note that on 30.9.2004, the number of agencies on contract is 576.

The regional subdivision of the agencies is as follows:

	<b>mandate SAI</b>	<b>mandate Fondiarìa</b>	<b>Total 30/09/2004</b>	<b>Total 30/06/2004</b>
North	444	262	706	718
Central	211	142	353	346
South	177	172	349	351
<b>TOTAL</b>	<b>832</b>	<b>576</b>	<b>1.408</b>	<b>1.415</b>

On 30/09/2004, the number of employees at the companies included in the scope of consolidation, was 5,966 (6,069 on 30.6.2004).

### **External relations and communication**

In the third quarter, the development of the initiatives and projects already defined in the first part of the financial year continued, aimed at guaranteeing:

- disclosing a new visual identity system for the group
- progressive integration of the different “corporate cultures” within the group
- adequate transparency of the business initiatives for the distribution networks, the clientele and the media.

With regard to the first point, the new logo of the group, its companies and divisions was also sent, via the visual logo manual, to the agency networks, according to a schedule, thereby promoting the development of a coordinated image of the group, also via the communications created in the territory of the distribution networks.

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Activities aimed at defining and subsequently implementing specific product communication packs to be distributed to the agency networks in more suitable formats for production are also in progress. These will allow the networks to activate commercial initiatives in their own territory backed by communication instruments complying with the requirements indicated by ISP (circular 533-D).

With reference to the second point, in the period examined, work has continued on the preparation and organisation of internal communication activities that will concern the group in particular in the last quarter of the year. Of particular significance is the organisation of the inaugural performance of the Teatro Regio di Torino (12 October 2004 with "La Bohème" by Giacomo Puccini) of which FONDIARIA-SAI is the founding shareholder of the Foundation, proving yet again the group's wish to promote art and culture at the highest level, its willingness to consolidate its link with the city of Turin and a renewed awareness of its corporate social responsibility, whose priorities also include the creation of cultural value for the community in which it operates.

Regarding the third point, during September, the new site of FONDIARIA-SAI was published featuring brand new graphics and a navigation tree that provides useful information both on the finance community and clients. The site will be implemented progressively with other services thanks to the contribution of company members. Regarding on-line communications, sites have also been designed and published for some of the group companies.

Also, communication activities supporting the commercial and product departments are continuing (with specific initiatives linked to the launch of new products), together with the activities of the printing office, which are targeting, at institutional level, ever greater affirmation of the group image in the Italian economic and finance world.

In the sponsorship field, the main events in the quarter include the support offered again this year to the Meeting dell'Amicizia di Rimini, in cooperation with Comunione e Liberazione. The presence of FONDIARIA-SAI in the sports arena, where Progetto Atletica won the third Italian shield and took six athletes to the Olympics, with good image feedback by the media, is also important.

## **IMPORTANT EVENTS THAT OCCURRED AFTER THE CLOSE OF THE QUARTER**

As mentioned previously, on 28 October 2004, following authorisation by the Banca d'Italia, FONDIARIA-SAI sold 40% of the capital of SAI INVESTIMENTI SGR to MILANO ASSICURAZIONI.

Also, on 6 October 2004, the shares of INTERNATIONAL STRATEGY were transferred from PROGESTIM to FONDIARIA-SAI in order to allow PROGESTIM to obtain the financial means necessary for the payment of its share of the confirmatory down payment, payable in respect of the tender – awarded by CITYLIFE – organised by SVILUPPO SISTEMA FIERA S.p.A. for the urban requalification of part of the area of Fiera di Milano.

The price of the INTERNATIONAL STRATEGY shares was €65,050K, calculated on the basis of a valuation of the company made by an independent expert commissioned for the job.

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On 6 October 2004, the parent company acquired from Eureka B.V. 49% of the capital of Fineuras S.p.A.

For the purpose of this purchase, FONDIARIA-SAI, which already held 51% of Fineuras, now directly controls the entire registered capital of the latter.

Fineuras in turn holds 42.86% of NOVARA VITA SPA, a company in which FONDIARIA-SAI indirectly holds a further 7.14%, the remaining 50% being held by BANCO POPOLARE DI VERONA E NOVARA. The purchase price for 49% of FINEURAS was set at € 20,000,000, calculated with reference to the total value of NOVARA VITA, on the basis of the embedded value on 31 December 2003, taking into account that the holding in the latter substantially constitutes the sole activity of FINEURAS.

On 3 November 2004, an agreement was signed between FONDIARIA-SAI and BANCA POPOLARE DELL'EMILIA ROMAGNA (BPER) which provides for the progressive sale by the company to the bank of the entire holdings held by the company in FINBANCHE D'ABRUZZO S.p.A. and BANCA DELLA CAMPANIA S.p.A., both controlled by BPER and with a holding of FONDIARIA-SAI of approximately 15.4% and 4.5%, respectively (the latter directly and indirectly).

In carrying out this agreement, FONDIARIA-SAI sold to BPER on 5 November 10% of the capital of FINBANCHE D'ABRUZZO at a price of €22,000,000.

## **FORESEEABLE MANAGEMENT TREND**

The results as of 30 September are essentially in keeping with the business plan of the company and therefore confirm that the objectives of profitability, efficiency and solvability duly set for the current financial year are also being achieved.

Therefore, in the absence of unforeseeable events or an abnormal or exceptional nature linked with the trend of the financial markets, the income prospects of the group are sufficiently positive for the present financial year.

Milan, 11 November 2004

*For the Board of  
Directors  
The Chairman*

**JONELLA LIGRESTI**

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