

# *Reports and Accounts*

## *Financial Year 2004*



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

FONDIARIA-SAI S.p.A. – HEAD OFFICE IN FLORENCE – PIAZZA DELLA LIBERTA 6 – HEAD OFFICE IN TURIN – CORSO G. GALILEI 12 – SHARE CAPITAL € 170,555,149 FULLY PAID UP – TAX CODE, VAT REGISTRATION NUMBER AND NUMBER UNDER WHICH THE COMPANY IS REGISTERED IN THE COMPANIES REGISTER OF FLORENCE, 00818570012 – AUTHORISED TO OPERATE AS AN INSURANCE COMPANY BY ARTICLE 65 OF THE ROYAL DECREE LAW NO. 966 OF 29 APRIL 1923, CONVERTED INTO LAW NO. 473 OF 17 APRIL 1925.

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## ***BOARD OF DIRECTORS***

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

Alberto Marras	<i>Secretary to the Board and to the Executive Committee</i>
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*\*Members of the Executive Committee*

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

- transfer and/or purchase of immovables with a value greater than € 10m for each transaction;
- transfer and/or purchase of shareholdings with a value greater than € 25m for each transaction and controlling shareholdings;
- taking on financing at a sum greater than € 50m for each transaction;
- issue of non-insurance guarantees in favour of third parties.

All the powers not already vested in the Chairman and Managing Director are conferred upon the Executive Committee, with the exception of those expressly reserved to the said Board by law or statute and without prejudice to the Board's exclusive competence for each resolution concerning transactions with related parties as identified by the Board.

The Board of Directors was appointed by the meeting on 29 April 2003.

The Board's term will end at the same time as that of the Board of Statutory Auditors, with the meeting to approve the accounts for 2005.

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## ***Notice of Extraordinary Shareholders' Meeting***

Ordinary Section:

The shareholders are hereby called to attend an Ordinary Shareholders' Meeting at 11.00 on 26 April 2005, in first call, at the offices of FONDIARIA-SAI in Florence, via Lorenzo il Magnifico no. 1, and if necessary on 27 April 2005, at the same time, in second call, at the Palazzo dei Congressi in Florence, Piazza Adua no. 1, to discuss and decide on the following

### **AGENDA**

1. Accounts as at 31 December 2004, Management Report, Report by the Board of Auditors in accordance with art. 153 of legislative decree no. 58/1998 and Report by the external Auditing Firm. Related and consequent resolutions.
2. Authorisation for the Company to take out an insurance policy to cover the public liability of the company boards.
3. Resolutions concerning the remuneration payable to the Board of Statutory Auditors.
4. Resolutions concerning own shares in accordance with articles 2357 and 2357b of the Civil Code.
5. Resolutions concerning the shares of the holding company Premafin Finanziaria Società per Azioni – Holding di Partecipazioni in accordance with art. 2359a of the Civil Code.
6. Authorisation to draw up an agreement with Finadin S.p.A., in accordance with art. 121 paragraph 2 of Legislative Decree no. 58/98 on exceeding the limit of 2% in the shareholding held by Finadin in Fondiaria-SAI S.p.A.

In accordance with art. 8 of the Company Bye-laws, shareholders may attend the meeting who hold ordinary shares and are in possession of a certificate issued by an intermediary adhering to the centralised management system of Monte Titoli S.p.A., which is being computerised.

Holders of FONDIARIA-SAI S.p.A. shares which are not centralised with Monte Titoli S.p.A. are reminded that the rights relating to the said securities may be exercised only after the securities have been delivered to an intermediary for admission into the centralised management system.

The documentation relating to the agenda will be made available to the public within the time periods and subject to the procedures provided for by the current regulations. Shareholders shall be entitled to receive a copy of this.

pp The Board of Directors  
Chairman  
(Jonella Ligresti)

# *Management Report*

*for the financial year ended 31 December 2004*

***Dear Shareholders,***

We should like to take this occasion to remember Senator Antonino La Russa, who passed away last December. From 1976 he played an active part in the Fondiaria-SAI Group as member of the SAI Board until 1979, Vice Chairman until 1989 and as Vice Chairman of Progestim and Saiagricola up to the time of his death. The entire Company once again remembers him and wishes to express its deepest sympathy to his family.

2004 represents for the Fondiaria-SAI Group the completion of the extensive and ambitious process of industrial and corporate integration which was begun in 2002; consolidation of the leadership position in non-Life business, particularly in Motor Vehicle Third Party Liability, accelerated growth in Life business to rebalance the portfolio with a view to developing pension funds, and work on efficiency as well as on selectivity in taking on risks, in order to safeguard the industrial profitability already considered to be at optimum levels.

The assets and financial and economic position in the year just ended thus show the operating progress of the Group in a very satisfactory manner, confirming, in the current year also, the achievement of the objectives of efficiency, profitability and solvency set at that time.

As part of the programme to reorganise the Fondiaria SAI Group, a policy of rationalisation was followed, subsequently utilising the synergies of process and structure and adopting at the same time a policy of careful risk selection and product improvement. By operating in this way, our vocation of leadership in Non-Life business and a significant presence in Life business has led us to set up a new organisational configuration at Group level in order to pursue, through the integration of the settlement structures of the multi-business companies, the sharing of information and communication systems, and the centralisation of financial and corporate property management, with the aim of obtaining economies of scale and investment to create value.

Despite the uncertain economic scenario in which we are having to operate, we present accounts which are very satisfactory, in terms of complying with the development programmes and objectives which, as directors, we proposed.

*Fausto Marchionni*

### ***The insurance market in 2004***

2004 was considered to be a year of transition in macroeconomic terms: the disappointing industrial production figures and uncertainties concerning increased consumption meant that the European economy, and specifically the Italian economy, grew slowly during the course of the year, and this was also because the contribution of exports to the growth of the economy was slowed down by a strong European currency against the dollar.

Italy has always been a country where the purchase of private insurance has been traditionally more modest. In non-Life business, if we exclude the Motor Vehicle Third Party Liability section, which is compulsory everywhere, the ratio between insurance premiums and gross domestic product was around 1% in 2004, a very low figure if we compare it to the general situation in the other European countries. In Life business there has been a strong acceleration in the flow of premiums in recent years; however, the total sums invested by Italian families in the insurance sector remain considerably lower than the values in the majority of the other countries in the European Union. They are around 20% in relation to the GDP, compared to values of between 30% and 60% and almost 90% in the United Kingdom.

However, despite the uncertain economic scenario and the points mentioned above, the Italian insurance sector has shown, during the course of 2004, that it is a "healthy" part of the market and this represents a particularly positive sign for the companies and policyholders.

The major international ratings agencies assigned a stable outlook to the Italian non-Life insurance market in the past year. The decision reflects the excellent technical results achieved by the companies and their good financial basis, while maintaining profitability which is closely connected to the progress of the Motor TPL business. Therefore, during 2005, Moody's rating agency states that it will be necessary to contain costs, as the income from investment is rather low, because of the uncertainty of the markets, and Italian companies will suffer from significant exposure to a possible rise in interest rates. In reality, despite the consolidation of the market, current motor tariffs would not appear to be sustainable and this could have a negative effect on the profitability of the sector. Premium income in Motor TPL business began to show a downward movement in the second half of 2004 and this trend, according to the ratings agency in question, will continue during 2005, above all because the trend in the motor market, during the second half of 2004, showed that the production cycle had reached its peak.

In 2004, even without official final data, we estimate a growth in gross premiums in the Italian insurance market of 7.8% in Non-Life business and 11.4% in Life business. Above all, the progress of the total income in the second half of the year is positive, considering that in the first half of 2004, premiums recorded for Non-Life business increased by 3.9% compared to the corresponding period in 2003 (5.5% in 2003 as a whole). The slowdown is mainly concentrated in Motor business (3.1% compared with 5.6% at the end of 2003).

There is also good news as regards the Motor TPL tariffs. After years of sometimes substantial rises, from June 2003 to December 2004, according to Istat figures, the tariff growth was below inflation. There was an increase in tariff prices of 1.1%, that is one third of the inflation rate which, in the last 18 months,



was 3%. At the time of writing, the beginning of 2005 has confirmed the trend; if we compare it with a monthly inflation rate of 1.9%, the tariff increase (for the period from January 2004 to January 2005 only) reduced further, showing an increase of 0.8%.

As regards the Italian life market, in the first ten months of 2004 new production for personal policies was substantially stable at the levels in the same period in 2003 (-0.5%). After the reduction observed in the first quarter of 2004 (-8% compared with the same period in 2003), the new production showed an acceleration in the second quarter (+1%) and above all in the third (+5.8%). New production for class I and V policies increased considerably (+15.7%) and there was a marked reduction for class III policies (- 15.3%).

Personal pension plans showed good progress with a result measured over ten months showing a volume slightly above € 117m with growth of 74.9%.

The static trend in premium income was also seen in the annual comparison, but significant recovery spurts were noted in December when monthly production, of € 5.1bn, showed an increase of 15.12% compared with the same month in 2003.

The ANIA data as at 31/12/2004 showed above all the good performance of the agency and direct networks in sustaining the new income from Life policies. Production placed directly through agents nationally grew at 11.86% (€ 5.68bn) while income through the channel of financial advisers was more negative (- 18.31%, about € 4bn).

The natural development of property-linked policies, index and unit linked policies saw their first real boom at the end of the 1990s. The reduction in the public debt, the fall in interest rates and the policy of privatisation adopted by the European countries with the intention of joining the single currency led savers at that time to look for new investment instruments, linked mainly to the share markets. The response of the insurance companies was immediate: on one hand, devising products linked to the Stock Exchanges (index policies) and on the other hand, instruments linked to unit trusts (unit linked). After the boom of 2000, when they represented more than half of the entire life business (55.8%) the linked policies reached their historical low at the end of November 2004, when their share of Life business fell to 39% and new business was € 3.9bn. The situation for traditional life products was different, as in the first 11 months of 2004 they obtained premium income of € 16.4bn. The figures would confirm the savers' wish for security and the trend, which has consolidated in recent years, to purchase products with a higher insurance content, with guaranteed capital and minimum returns.

The fair results of insurance income in the European market have also been seen in France, above all in the trends in personal insurance, with significant increases in Life business during the first three quarters of 2004 (+15%) and in policies to cover medical expenses (+18% in the same period). However, the income from non-life business was moderate (+ 4%) both due to a slowdown in the rise in the companies and professionals insurance sector (+4.5% in the same period) and in the motor sector (+ 3%), while the trend for premium income in liability classes (+ 8%) and construction insurance (+ 11%) was above average.

Based on the estimates from the association of companies in the German sector (GDV), it was also found that the German insurance market should show

moderate but positive growth at the end of 2004 (+ 3.5%, as against 4.1% in 2003). Health insurance has been particularly dynamic, increasing by about 7%, while the rise in income from Life assurance (+ 3.5% compared to 4.1% in the previous year) and other Non-Life insurance (2% compared with 3.3% in 2003) was more limited.

Finally, the third quarter of 2004 also confirmed for British life assurance the signs of recovery which had already appeared in the first part of the year. Published data shows an increase of 5% in new business, compared to the same period in 2003.

The Managed Savings market has had a year of good performances; at the end of 2004, gross managed assets reached a quota of € 918.2bn. This is an absolutely positive figure, above all if we compare it to the values at the beginning of the year when the gross assets were € 854.7bn. Given the recovery of available income, the flow of savings from Italian families was directed to financial business with limited risk.

We can see from the data on the type of product that even in December 2004, unit trusts and SICAV investment funds remained at the top showing, at the end of the year under analysis, growth of 3.3%. Their gross assets were at a quota of € 523.9bn (2003: € 507.1bn), net amount € 516.9bn (2003: € 503.8bn). Just behind them are insurance products management with gross assets of € 161.1bn (2003: € 151.6bn), net amount € 121.9bn (2003: € 119.3bn). Next come retail funds asset management with € 96.7bn gross assets (2003: € 93.8bn), net amount € 17.8bn (2003: € 13.2bn). In fourth position the remaining category of other managed funds with € 66.2bn gross (2003: € 42.4bn), net amount € 63.8bn (2003 € 40.1bn). The classification of retail monetary asset management closed with gross assets of € 58.1bn and € 46.6bn of net equity (2003: respectively € 49.0bn and € 40.3bn), finally pension fund management with € 12.2bn gross assets and € 10.9bn of net equity (2003: respectively € 10.7bn and € 9.5bn).

The following changes in insurance legislation should be noted, which will continue during 2005, presumably having an impact on the performance of companies, along with those already recorded during 2003:

- The amalgamated Law on private insurance, concerning the change to the provisions in force on insurance, with the aim of making the sector more competitive and guaranteeing, at the same time, greater protection for policyholders through the co-operation of the Supervisory Authority (legislative decree laid down in the simplification measure for 2001, law 229/03).
- The introduction of the "points licence" and the "national table for the evaluation of physical injury", to enable the number of incidents to be limited, thus improving structurally the combined ratio of the insurance companies. The "points licence" and the systematic checks carried out by the police have proved to be an effective deterrent in terms of the number of traffic accidents. The data analysed shows a fall of 7% in traffic accidents and fatalities compared with 2003.
- The extension of the Direct Indemnity Agreement to physical injury with the aim of improving customer service, reducing litigation, settlement times and legal costs.

- The proposed directive on third party liability insurance on the movement of vehicles currently being examined by the European Parliament. The fifth directive aims to fill the gaps in the previous four, adopted in the 1970s and 80s, which did not give enough attention to the increase in trade within the internal market of the European Union and the increase in cross-border traffic of citizens. With this proposed directive, it is now a case of guaranteeing the conclusion of short term insurance policies for temporary visits to a Member State other than that of the insured (for reasons of study, work or secondary residence), and to facilitate the purchase and sale of vehicles in other Member States, providing for the possibility of concluding 30 day insurance policies, that is the time necessary to register the vehicle in the country of origin of the purchaser. The insured can also change insurance company by taking advantage of the greater competitiveness in the sector. The fifth directive will also guarantee greater protection for victims of accidents caused by an unidentified vehicle, with a greater increase in the minimum amount of cover.
- Concerning pensions, a further incentive for the development of Life business could arise from the passing of the delegated legislation providing for parity between all pension instruments; pension funds (closed-end and open-end) and pension policies. In Italy to date there has been little demand for personal pensions, as up to a few years ago we had one of the most generous public pensions schemes. However, things have changed: the financial demographic risk is having a serious effect on public intervention. We must also consider that Italy has the highest percentage in the world of persons aged over sixty and the lowest number of young people under the age of 15: the demographic statistics describe a country with an increasingly ageing population which means that the current Welfare system has to be reviewed. On 13 May 2004 the Senate approved with amendments act S-2058 (which brings together respectively acts S421 "Reunification for insurance or pension purposes" and S-1393 "Prohibitions, accumulations between pension and remuneration, self-employed workers" currently begin examined by the Chamber. The draft delegated legislation to reform the pension system approved by the Government proposed to achieve two objectives, broadly shared at European level: to raise the pensionable age gradually and develop supplementary pensions, alongside the State pension. The allocation of the staff leaving indemnity to finance supplementary pensions by "tacit agreement" is one of the pillars on which the pensions reform being discussed in Parliament is based; together with the effective and full competition between negotiated funds and open-end funds, the driving force behind increasing the funds will be the transfer of the maturing staff leaving indemnity.
- At the time of writing ANIA has proposed setting up a national insurance anti-fraud agency within the Department of the President of the Council or in another ministry (presumably Justice or Home Office) which would make use of the financial funds of the companies; it would thus be a centre for all investigations of this aspect with the task of co-ordinating the activity of the individual powers of attorney. ANIA estimates losses involving fraud to the detriment of the insurance companies to be 3 % (a percentage which rises to about 19% in some areas of the country).
- The proposal was also recently put forward by the Ministry of Production Activities for greater recourse to the direct indemnity, to keep the costs of indemnities under control, by simplifying the reimbursement procedures and reducing legal costs. In fact despite the introduction of points licences and the consequent decrease in accidents (-2.5% in the first three quarters of 2004)

the average costs of indemnification continue to rise at practically double (+ 5% in the same period of the year). If this gap persists we may see a marked instability in the tariff balance.



### **Accounts for financial year 2004**

The Company's 83<sup>rd</sup> financial year shows a net profit of € 258,473K, which may be broken down as follows:

	2004	2003	Variation
Result of the non-Life technical account	324,646	295,177	29,469
Result of the Life technical account	12,327	8,375	3,952
<b>TOTAL</b>	<b>336,973</b>	<b>303,552</b>	<b>33,421</b>
Net investment income Non-Life business	116,151	(90,913)	207,064
(less shares transferred to the technical account)	(89,469)		(89,469)
Shares transferred from the Life technical account	30,382	19,818	10,564
Sundry income and charges balance	(149,406)	(127,739)	(21,667)
<b>RESULT OF ORDINARY BUSINESS</b>	<b>244,631</b>	<b>104,718</b>	<b>139,913</b>
Extraordinary income and charges balance	139,254	146,541	(7,287)
<b>PRE-TAX PROFIT</b>	<b>383,885</b>	<b>251,259</b>	<b>132,626</b>
Corporation tax for the financial year	(125,412)	(118,199)	(7,213)
<b>NET PROFIT FOR THE YEAR</b>	<b>258,473</b>	<b>133,060</b>	<b>125,413</b>
of which Non-Life	250,933	128,696	122,237
of which Life	7,540	4,364	3,176
Net profit for the year before fiscal purging (reclassification) net of tax intervention	191,690	185,285	6,405

The year just ended was quite important from the point of view both of the gradual strengthening of the Company's assets and because of the important results in terms of return, which show a further significant growth compared to last year.

It should be pointed out first of all that the net profit for the year, which was around € 258m, benefited by about € 67m from the elimination of the previous tax intervention (so called fiscal purging, or reclassification, of the accounts). In fact the reform of the regulations for corporations introduced by Legislative Decree 6/2003 (Vieti reform) made substantial changes to the criteria for drawing up the accounts; in particular the new provisions no longer allow, among other things, value adjustments and amounts set aside exclusively for the application of tax regulations. In relation to this point, in the light of the general principles of the accounts and for the purposes of the law, the values in the accounts as at 31 December 2004 were "purged" of the value adjustments of this kind carried out in previous years.

According to the guidance of the Italian Accounting Organisation the reversal of these adjustments (in the case of the company equal to € 102m) was entered under extraordinary income, while the related deferred taxes (equal to € 35m) were entered under extraordinary charges, with a positive net effect on the Company's profit and loss account of € 67m.

The net profit for the year, after the effects of this phenomenon, was therefore € 192m.

With reference to the main aspects of the year just ended, we should point out the continuing satisfactory progress of the Non-Life business, and in particular Motor. Both Motor TPL and Land Vehicles show substantial endurance in terms of the technical equilibrium, in a national context which has been made very difficult due to the modest tariff growth, increases in the average cost of pay above actual inflation, and the still significant negative effect of personal injuries. The progress of elementary business is also stable, although aggravated by the usual critical areas of the Health and General TPL classes due both to the rise in costs in the health sector and the exacerbation of the revaluation on losses relating to some important business under coinsurance policies, compared with a traditionally prudent reservations policy. Alongside this trend in direct business there is a positive result for the reinsurers (about € 38m), although it is less than last year (€ 66m), while inward reinsurance positively discounts the failure of the acceptances of some business within the group, in particular in Motor TPL business.

The gratifying growth in premium income continues in Life business with an increase in direct business of more than 23%. This shows an increase in income above the plan forecasts and allows a rebalance in the composition of the business (the proportion of Life business out of the total income has increased from about 20% to more than 23%). The development is due to tariff formulae aiming at the protection of the client, concentrated in products of the traditional type, mainly marketed through the agency network.

However this increase in terms of volume is not echoed in an adequate return in terms of technical result, which while it is higher than last year, is affected by a more limited income of a financial nature than in the past.

The reduction in total operating costs has continued; they reached € 874m (€ 908m in 2003) and represent 17.3% of the premiums compared with 18.5% last year. This incidence presents a more marked drop with reference to life business (7.1% against 8.8% in 2003).

Total technical provisions amount to € 13,873m (€ 13,345m in 2003), of which € 6,520m are in Non-Life business (€ 6,445m in 2003) and € 7,353m in Life business (€ 6,900m in 2003). The technical provisions for non-Life business, validated using well-known statistical and actuarial methods, confirm their traditional prudence and show a ratio in relation to premiums which is substantially in line with last year (168% compared with 167.2% in 2003).

Ordinary income from investments was substantially unchanged compared with last year, reaching € 443m as against € 447m in 2003. This result is partially due to the insufficiency of the financial resources used to reimburse the infra-group loan granted by the subsidiary SAInternational, which took place in June 2004 and the lower income from property recorded following the transfer of immovables owned during the course of 2003 due to the property spin-off.

Net profits from stocks and shares, including fixed asset items have benefited the profit and loss account to the sum of around € 93m, compared with € 66m last year.

The profit and loss account is therefore conditioned by the entry of capital losses as a result of the evaluation of stocks and shares of more than € 94m; this figure is decidedly less than in the past, proving the accuracy of the evaluations made in the past few years, confirmed by the recovery of share prices recorded in 2004. The total capital losses entered for class C investments include € 40m referring to shareholdings in subsidiaries, as a result of permanent losses in value, while the remainder of € 54m is mainly related to shareholdings in listed companies.

The result for ordinary business was widely positive (€ 245m compared with € 105m in 2003), including the smaller amount of write-downs in respect of last year (€ 94.4m, compared with € 299.7m in 2003) even deducting depreciation allowances on intangible assets of more than € 95m, of which € 48m was for goodwill.

Extraordinary income felt the effects of not only what has already been mentioned concerning the elimination of previous fiscal intervention, but also of about € 38m arising from property transfer, including that arising from the assignment to the Tikal RE closed property provision, an operation which is described in more detail later in this report.

The determination of the tax burden for the period takes account of the application of the main innovations due to the introduction of the new corporation tax, introduced by Legislative Decree 344/03.

The fall in the tax rate compared to the past is related in particular to the different methodology of “detaxing” dividends allocated to the profit and loss account and the failure to enter the related tax credits, abolished following the aforementioned reform. As a result there is a lower tax applicable and a consequent reduction in the tax rate for the period, while the financial outlay remains substantially unchanged, as does the impact on the profit and loss account.

Finally, it should be noted that the fact that the Parent Company and its subsidiaries have joined the group taxation scheme described in art. 117 of Legislative Decree 344/03 has involved some limited benefit relating to the immediate recovery from the taxable income of the group of the fiscal losses for the period of some of the companies in which it has shareholdings.

In order to show the fiscal purging (reclassification) operation clearly and allow the effects to be fully understood, we give below a table showing the various fiscal interventions which have been eliminated, with the proviso that the amounts as at 31 December 2003 refer to items still owned by the company as at 31 December 2004.

	2004	2003	
	Operating result	Operating result	Capital and reserves
Amounts before fiscal purging (reclassification)	191,690	133,060	2,186,526
Fiscal intervention gross of deferred taxes			
Property	32,902	9,790	23,112
Other financial investments	68,717	68,717	0
Stocks and shares	97	41	56
Net equity reserve ex Leg. Dec 124/93	101,176	78,548	23,168
TOTAL FISCAL INTERVENTION	(34,933)	(26,323)	(8,610)
Related taxes			
TOTAL FISCAL INTERVENTION, NET OF TAXES	66,783	52,225	14,558
Amounts after fiscal purging (reclassification)	258,473	185,285	2,201,084





**Premium Income**

Overall premiums written amounted to € 5,065,715K as against a figure in 2003 of € 4,901,722K, an increase of 3.35%.

Premium income from direct business amounted to € 4,998,545K, an increase of 5.75%.

Premiums produced in 2004, within the various sectors, are summarised in the following table:

(€K)	31/12/2004	31/12/2003	%Variation
DIRECT BUSINESS			
Motor Business	2,695,297	2,676,685	0.70
Other Non-Life business	1,142,331	1,108,866	3.02
Total Non-Life business	3,837,628	3,785,551	1.38
Life business	1,160,917	941,129	23.35
TOTAL DIRECT BUSINESS	4,998,545	4,726,680	5.75
INWARD REINSURANCE	67,170	175,042	(61.63)
OVERALL TOTAL	5,065,715	4,901,722	3.35
of which:			
Non-Life business	3,881,322	3,853,622	0.72
Life business	1,184,393	1,048,100	13.00

## ***Non-Life Insurance Business***

**Premium Income**

Overall, premiums written amounted to € 3,881,332K, an increase of 0.72% over the figure recorded for 2003, namely € 3,853,622.

Premium income from direct business amounted to € 3,837,628K, an increase of 1.38%.

More specifically, premium income was distributed as follows:

				% Distr.	
(€K)	2004	2003	% Var.	2004	2003
<b>DIRECT BUSINESS</b>					
Accident	231,973	227,389	2.02	5.98	5.90
Health	163,353	166,682	(2.00)	4.21	4.33
Land vehicles	410,873	412,919	(0.50)	10.59	10.72
Railway rolling stock	10	32	(68.75)	0.00	0.00
Aircraft – Hull	1,889	1,858	1.67	0.05	0.05
Marine – Hull	5,730	4,012	42.82	0.15	0.10
Goods in transit	20,153	20,202	(0.24)	0.52	0.52
Fire and other natural forces	190,864	187,139	1.99	4.92	4.86
Other damage to property	192,756	188,129	2.46	4.97	4.88
Motor T.P.L.	2,282,174	2,260,737	0.95	58.80	58.67
T.P.L. Aircraft	523	526	(0.57)	0.01	0.01
Marine T.P.L.	2,250	3,029	(25.72)	0.06	0.08
General T.P.L.	271,328	254,715	6.52	6.99	6.61
Credit	1,409	2,648	(46.79)	0.04	0.07
Bonds	32,969	29,454	11.93	0.85	0.76
Pecuniary losses	11,595	9,923	16.85	0.30	0.26
Legal protection	7,122	6,744	5.60	0.18	0.18
Assistance	10,657	9,413	13.22	0.27	0.24
<b>TOTAL</b>	<b>3,837,628</b>	<b>3,785,551</b>	<b>1.38</b>	<b>98.89</b>	<b>98.23</b>
<b>INWARD REINSURANCE</b>	<b>43,694</b>	<b>68,071</b>	<b>(35.81)</b>	<b>1.13</b>	<b>1.77</b>
of which:					
Italian business	28,263	52,838	(46.51)	0.73	1.37
Overseas business	15,431	15,233	1.30	0.40	0.40
<b>OVERALL TOTAL</b>	<b>3,881,322</b>	<b>3,853,622</b>	<b>0.72</b>	<b>100.00</b>	<b>100.00</b>

### Claims Paid and Reported

Claims paid – gross of recoveries from reinsurers – totalled € 2,376,749K, an increase of 8.71% compared with the 2003 figure.

The following table summarises the claims trends in Italian direct non-life business, gross of reinsurance and excluding indemnities under the freedom to provide services and freedom of establishment scheme:

	Claims paid (in thousands of Euro)			Claims reported (number)		
	2004	2003	%Var.	2004	2003	% Var.
Accident	117,533	111,889	5.04	52,920	52,727	0.37
Health	125,792	128,962	(2.46)	151,892	153,308	(0.92)
Land vehicles	172,612	172,813	(0.12)	135,100	139,563	(3.20)
Aircraft – Hull	870	309	181.59	16	9	77.78
Marine – Hull	2,026	2,095	(3.31)	255	254	0.39
Goods in transit	8,724	8,948	(2.50)	3,953	2,471	59.98
Fire and other natural forces	93,451	119,584	(21.85)	37,750	35,417	6.59
Other damage to property	102,646	89,313	14.93	76,666	72,366	5.94
Aircraft T.P.L.	0	56	(99.89)	6	9	(33.33)
Marine T.P.L.	2,760	1,916	44.04	322	407	(20.88)
General T.P.L.	148,256	134,345	10.35	62,710	57,244	9.55
Credit	2,672	1,611	65.84	553	602	(8.14)
Bonds	16,448	16,383	0.40	597	619	(3.55)
Pecuniary losses						
Cess.V	3,007	2,152	39.71	4,201	2,793	50.41
Legal protection	872	710	22.82	1,060	1,007	5.26
Assistance	3,581	3,099	15.55	24,680	19,687	25.36
<b>TOTAL</b>	<b>801,250</b>	<b>794,185</b>	<b>0.89</b>	<b>552,681</b>	<b>538,483</b>	<b>2.64</b>
<b>Motor T.P.L.</b>	<b>1,575,499</b>	<b>1,392,223</b>	<b>13.16</b>	<b>527,409</b>	<b>538,118</b>	<b>(1.99)</b>
<b>TOTAL NON-LIFE BUSINESS</b>	<b>2,376,749</b>	<b>2,186,408</b>	<b>8.71</b>	<b>1,080,090</b>	<b>1,076,601</b>	<b>0.32</b>

It should be noted that during 2004 the merger by incorporation of the subsidiary Azzurra Assicurazioni into Fondiaria-SAI was completed, with accounting and taxation effects, backdated to 01.01.04.

The claims reported for 2003 shown in the table do not take account of the figures of the incorporated company; in similar terms the decrease in total claims reported in non-Life business would therefore be 0.91% while it would fall by 1.99% to 4.16% in the Motor T.P.L.

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

### **MARINE THIRD PARTY LIABILITY**

#### ***Premium income***

In Motor T.P.L. business, the premiums recorded amounted to € 2,282m, an increase of 0.95% compared with 2003. In Marine T.P.L. business, premiums recorded amounted to € 2.2m, a decrease of 25.7% compared to the 2003 figure.

The reduced increase in premiums was influenced by the continuing tariff changes made in 2003 and 2004 as part of the tariff unification programme implemented by both Divisions; to make the motor tariffs uniform in the Fondiaria and SAI divisions, as from 1 May 2004, the final action to bring them together was carried out with a view to producing a single tariff at the beginning of 2005.

This operation was completed by keeping the total motor tariff revenue unchanged without the recovery of lower premiums due to the movement of the policyholders to Bonus and therefore in line with the Memorandum of Understanding on Motor Liability Insurance between the Government, ANIA and the Consumers Association, signed on 5 May 2003 on the general tariff reduction. Also, as from 1 February 2005, the Company has endeavoured to ensure that a single new motor product is available to all of the sales network and therefore to clients, based on the combined experience of the two divisions.

The vehicles in circulation insured by Fondiaria SAI Group as a whole are in line with the volumes for the previous year with almost unchanged growth. Fondiaria SAI showed a slight drop in vehicles (-1.3%) with a market share of 11%, the result of a still more focused campaign of giving notice of cancellation on those policies in the portfolio affected by several claims, and greater tailoring of tariffs to improve the quality level of the portfolio. For these reasons too, there was a 0.28% reduction in claims frequency.

The trend in cancellations for 2004 (-3.7%) had a negative influence also on the insurance market, involving an ageing of the insured vehicles and very often also little inclination to take out policies with covers other than the compulsory cover. The forecasts for 2005 are still marked by considerable caution as elements of concern remain as regards the increase in savings linked to the high Euro, the high price of oil and the impossibility for many countries in the Euro zone to launch effective policies against the economic situation due to the obligations imposed by the stability agreement. As a result a particularly weak element is the demand for consumer goods.

It should also be noted that the savings share of the Italians is continuing to decrease, and on motor there has been no cut in taxation.

The lack of a significant economic recovery could aggravate the problem of keeping consumption at acceptable levels, which already appeared during 2004, particularly relating to the sale of motor vehicles.

### **Claims**

With reference to the initial market results for the year just ended, the first nine months of 2004 continued to show a reduction in the frequency of claims ( -2.7%) which was diminished even more compared to the past, however this was offset by the increase in the total average amount settled (+5.7%), while there was a certain slowdown in growth compared to the past, shown in the lower increase in costs of claims incurred in previous years.

In the first nine months of 2004, there was a large increase in the average amount settled for claims incurred during the year (+9.6%); the rate of growth for this category of claims does not therefore appear to be slowing down and remains well above the national consumer price index (+2.1% in September 2004). This last increase is therefore probably influenced to a considerable extent by a later large increase in the average cost of indemnities for minor personal injury, and reimbursements for material damage. The average amount settled for claims incurred in previous years shows an increase, however, (+4.3%) which is decidedly lower than the growth observed in the same period in 2003 (+8.8%).

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

#### **Ex SAI portfolio:**

The number of claims reported fell by 5.52% (in 2003: -8.47%).

The speed at which claims incurred in 2004 were settled was 67.76%, a value which shows an improvement compared to the figure of 63.59% for 2003.

Alongside the decrease in claims reported there was an increase of 8.15% in the average cost of claims inclusive of costs (in 2003: +11.80%), and there are several possible reasons for this:

- sizeable reduction in the number of claims reported where the claim related to minor material damage
- increase in the cost of the various components of the material damage claim
- practically stable number of personal injury claims

As a result the incidence of personal injury claims on the total claims reported has increased.

As this type of claim has a higher average cost than claims for material damage only, and the average cost of these claims is increasing compared to 2003, the total outlays are also negatively affected by this phenomenon.

The total amount of claims incurred in 2004 was € 1,201m; the variation on claims incurred in 2003 is – 4.30% (the increase in claims incurred in 2003 compared to 2002 was 3.44%).

The loss ratio, taking account of the costs of resisting and settling claims, amounted to 74.22% (78.15% in 2003).

The number of claims incurred and settled during the year was 265,121 representing 72.10% of claims reported (69.08% in 2003).

The situation as regards claims still outstanding at the end of 2004 compared with the number of claims reported over the various years is as follows:

Year incurred	Claims reported*	No. of claims outstanding	% of claims reported
1996	433,553	730	0.17
1997	413,395	1,086	0.26
1998	419,791	1,988	0.47
1999	431,427	3,592	0.83
2000	435,996	6,134	1.41
2001	427,068	11,022	2.58
2002	424,063	21,459	5.06
2003	389,199	38,430	9.87
2004	367,720	102,599	27.90

(\*) excluding claims reported under the Mandatory DIA

The number of claims reported to SAI under the Mandatory DIA was 93,301; those under the Debtor DIA totalled 89,974.

#### ***Ex-Fondiarria portfolio***

The number of claims reported fell by 3.24% (2003: - 3.5%).

The speed at which claims incurred in 2004 were settled is equal to 69.57% (2003: 68.69%).

Given the reduction in claims reported, there was an increase in the average cost of 1.81% due, among other things, to the increase in the incidence of personal injury on the total number of claims.

Claims incurred during the year amounted to € 485m (€ 502m in 2003). The loss ratio based on claims incurred during the year, including costs, was 72.66% (76.43% in 2003). The number of claims incurred and settled during the year was 105,426 representing 72.52% of the total number of claims reported (71.17% in 2003).

The situation as regards claims still outstanding as at 31 December 2004, compared with claims reported (excluding claims reported under coinsurance policies) is shown in the following table:



Year incurred	Claims reported*	No. of claims outstanding	% of claims reported
1996	224,546	237	0.11
1997	215,182	355	0.16
1998	175,730	486	0.28
1999	164,305	719	0.44
2000	177,259	1,329	0.75
2001	162,782	2,170	1.33
2002	154,157	3,452	2.24
2003	150,249	8,821	5.87
2004	145,385	39,959	27.48

(\*) excluding claims reported under the Mandatory DIA

The number of claims reported under the Mandatory DIA was 40,344; those under the Debtor DIA totalled 41,533.

The result obtained shows that both Divisions benefit from continually striving for maximum efficiency in claims handling and settlement, in order to cope with the steady rise in the average cost of the claims; rigorous criteria have moreover been maintained when evaluating claims outstanding at the end of the financial year, with average costs increasing (+14%).

Finally, it should be noted that in order to comply with article 2 of L. 273/02 the Company appointed Prof. Riccardo Ottaviani as actuary; he will also work for the Group's subsidiaries.

### ***Land Vehicles***

Premiums amounted to €410.8m, a decrease (- 0.50%) compared to 2003 showing a certain amount of difficulty in the market due to the unfavourable economic conditions.

As regards the technical trend excellent profitability margins were recorded. The technical balance was more than € 147m as against around € 124m in 2003.

Furthermore, all coverages included under this class showed positive trends, and in particular, the number of claims reported fell by 3.2% and the number of claims settled fell by 0.2%.

The average cost of claims incurred and settled during the period increased by 0.4%; the speed with which claims were settled increased compared to 2003, rising from 84.7% to 86.2%.

The technical balance was maintained owing to extremely satisfactory values confirming the high quality level of the portfolio, obtained by maintaining selective underwriting policies.

### ***Other Non-Life Business***

Premium income from Italian direct business amounted to € 1,142m, an increase of 3.0%, compared to the 2003 figure. The growth in premium income was due to the Retail Sector, while in Corporate there was a slight decrease.

Taking into account the fact that the change in the consumer price index was + 1.7%, the real growth was + 1.3%.

While 2004 presented a positive balance, it was considerably worse than the result for last year. The technical balance was above all penalised by the revaluation of the reserves for General T.P.L. claims relating to previous years; it should also be noted that a significant number of contracts generating these losses are no longer in the portfolio; the phenomenon was particularly negative on coinsurance policies. Aircraft Hull had a negative influence because of a claim in reserve of about € 5m (entirely reinsured).

In the Corporate area the situation in the property and casualty sections of the market showed a return to a cycle of strong competition on rates and contractual conditions, which can be seen above all amongst the companies assisted by brokers. This factor, along with the national economic situation which is in a stagnation phase, prevented significant progress in these classes.

In Technological Risks the start-up of many large-scale building works was favourable to the increase in the portfolio of CAR policies under conditions which appear technically adequate.

During the course of 2004, in Retail five new Group products were created. For the choice of products to be achieved, in respect of all of the Retail offer, both the size of the portfolios affected and the areas with the greatest critical points in terms of return were considered.

In February, the first two products were put on the market: Health Protection and Accident Protection, which are intended to fulfil the primary insurance needs of broad population bands; in the second half of the year two products were introduced to the Professional segment of the technical, liberal and medical area and one which completed the range of Health covers offering a daily allowance. In the next few years the work to redesign the products with a Group viewpoint will continue, taking account of the increasingly competitive market.

The action to reform and streamline the portfolio which the Company has been implementing since 2002 continued. This involved General T.P.L. and Health in particular; the initiatives for technical re-balance also concerned the remaining classes, in a selective way.

A significant fact which could have a considerable effect (as from 2005) on the Fire and Other Damage to Property classes consisted of the insurance scheme for natural disasters, as provided for in paragraph 202 of the Finance Law of 2005, but for which there is still no implementing regulation.

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

**ACCIDENT:** the technical balance remained particularly positive (€ 40.4m) and confirms the class as being the most profitable, even though the technical balance decreased compared to 2003 (€ 50.8m) due to a worsening of the situation on claims for previous years; the improvement relating to claims incurred during the year by virtue of a careful underwriting policy and the sale of policies that provide for an excess continues.

**HEALTH:** the result remains negative (€ -16.9m) but shows an improvement on 2003 (€ - 20m) reducing the negativity by 15%. The improvement is due to a decrease in claims, both in the numbers and in the amounts due to the combined effect of more selective underwriting, streamlining the portfolio and marketing the Group's new products. On the other hand, these activities have also meant a decrease in premium income, with a consequent reduction in acquisition charges.

**FIRE AND NATURAL EVENTS:** the technical balance improved considerably (€ 28.4m) confirming the positive trend already recorded in 2003 (€ 10.4m). The premiums increased to a reduced extent compared to expectations; parallel to this the burden of claims decreased, both in claims incurred during the year and relating to previous years, and also due to the decrease in catastrophe claims.

**GOODS IN TRANSIT:** the technical balance for this class improved due to the effect of a decreased need for provisions for claims for previous years (€ 8.7m as against € 6.4m in 2003).

**OTHER DAMAGE TO PROPERTY:** The result for 2004 financial year remained positive (€ 3.3m) but is worse than the 2003 figure due to the negative trend of losses for the current year and previous years (€ 29.1m).

**GENERAL T.P.L. :** the technical balance worsened considerably for the reasons given above (€ 83.4m as against € - 5.4m in 2003).

The increase in premiums was modest compared to the potentiality of the market where, with reference to particular sections such as the Medical area, there are new competitors and the prospect of new insurance sectors with increased participation by policyholders. The underwriting policy also had an influence on the premium income; this policy was necessarily prudent from the technical point of view, and there was also continuing monitoring of the policies already in the portfolio.

**BONDS:** the positive result of the technical balance doubled compared to 2003 due to the combined effect of an increase in premiums, a decrease in losses both incurred during the year and in previous years, and an increase in the recovery forecasts.

REMAINING CLASSES: the results of the remaining classes in the accounts show a positive balance, but worse than 2003. The cause of the loss of profitability can be attributed to Aircraft Hull for the catastrophic loss mentioned previously and Credit.

### **Non-Life Reinsurance**

The different reinsurance programmes presented in 2003 have been replaced by unified protection for both Divisions so during 2004, the following occurred:

#### **Outward reinsurance**

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

On the basis of consolidated practice and experience, the portfolios relating to Fire, Theft, Accident, Land Vehicles T.P.L. and General T.P.L. were protected on a non-proportional basis, while the proportional basis for the portfolio for Technological Risks was confirmed.

However, as regards the Bonds and Credit classes we preferred to opt for a mixed form of protection, both proportional and non-proportional, similar to what has already been done and reconfirmed for the current year for the Transport and Aviation classes.

Hail continued to have catastrophe cover, on a stop loss basis.

Amongst the main covers we should point out the Property programme which jointly gives protection from catastrophic events to the portfolios in the classes of Fire, Land Vehicles and the net retention from the property sector of Technological Risks, and the T.P.L. Motor programme.

#### **Inward Reinsurance**

In line with previous years, we continued not to accept non-Group business; the data shown refer to 31/12/2004 as regards business within the group, while the run-off of past acceptances is reported one year in arrears.

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

***Litigation Non-Life insurance***

Claims litigation relating to 2004 financial year shows a steadily rising trend in terms of the percentage increase over and above previous years.

In Motor T.P.L. this increase is also attributable to the greater incidence of claims involving injuries that lead to minor permanent disabilities. With regard to this category of claims we have noted an increase in at times objectively unfounded claims from customers which are subsequently settled during litigation.

The number of cases (motor and non-motor) settled during 2004 was 28,625. 93% concern Motor T.P.L. Claims litigation as at 31/12/2004 concerns some 60,835 civil cases, 83% of these were in the class of Motor T.P.L. Motor T.P.L. cases in litigation as at 31/12/2004 represent 29.5% of claims outstanding at that date. In 2004, the cost of legal expenses for claims litigation was € 63,484K.

***Life Business, Pension Funds  
and Managed Savings***

With reference to the Life market, during 2004 the amount of premiums was substantially static when compared year on year, but showing significant spurts of recovery in December when production, amounting to € 5.1bn, recorded an increase of 15.12% over the same month in 2003.

The ANIA survey showed above all the good performance of the agency and direct networks in sustaining the new income from life policies. Production placed directly through agents at national level increased at a rate of 11.86% (€ 5.6bn) while the income through financial advisers was more negative (-18.31%, about € 4bn).

The most comforting news for the insurance sector came from the composition of products sold to customers; the best performances were seen in policies with regular premiums (+22.78% at € 3.12bn) which, because of payment plans normally spread over long periods, generate higher income for the companies. However, the income from single premiums remained substantially unchanged, where the majority of insurance production is concentrated (+ 0.13% at € 43.16bn).

Class I, characterised by traditional policies with a specific insurance content, grew by 12.68% (€ 18.37bn) while there was a fall in class III (-15.22% at € 19.06bn), linked to “financial” policies (conventional index-linked and unit-linked products either with capital or with guaranteed return).

The decrease in class III confirms the trend of savers (already in evidence for two years) to continue to move towards products with a higher insurance content, with guaranteed capital and minimum returns, substantially as a result of the heavy losses on the share markets.

A decisive impact for the development of the Life section could arise from the passing of the delegated legislation which provides for parity between all social protection instruments: pension funds (closed-end and open-end) and pension policies.

The delegated legislation to Reform the social security system was approved by law 243 (23/8/2004). In short, the reform will gradually raise the pensionable age, principally on a voluntary basis and develop supplementary pensions using tax inducements.

With particular reference to the most important changes for the insurance sector, with a significance as regards tax and supplementary pensions, the main changes are:

- allocation of staff leaving indemnity to finance supplementary pensions by “tacit agreement”; together with effective and full competition between negotiated funds and open-end funds, the driving force behind increasing the funds will therefore be the transfer of the maturing staff leaving indemnity;
- equivalence of forms of supplementary pensions; thus the sanctioning of the worker's right to join or transfer his position to any of the three forms of pension, closed-end fund, open-end fund or individual pension eliminating legal and fiscal obligations. On this point, everyone can choose a closed-end fund, open-end fund or insurance policy with the certainty that the same conditions will apply;
- tax relief on forms of supplementary pensions;
- possibility of pension funds adopting lines of investment with guaranteed return, commensurate with the revaluation stated for the staff leaving indemnity.

The measures described above aim to make the pensions market more transparent, more competitive and more easily understood by savers, in order to eliminate



the obstacles to free membership and the movement of workers within the supplementary pensions system, at the same time protecting the recipients' expressly intentional membership.

A few months after the entry into force of Isvap circular 533/D (11/10/2004) which introduced new rules for accuracy and caution in favour of policyholders, the parent Company is making preparations with a working group to be able to comply with the new standards of transparency proposed by the Supervisory Authority. The Isvap circular aims to have a profound effect on a section of the financial industry which has up to now been criticised for its opacity; the new provisions will substantially bring the insurance sector into line with the other managed savings sectors, particularly as regards unit linked and index linked policies and life capitalisation policies with profits.

The primary objective of these provisions is the schematic representation of the types of insurance services, using language which is "immediately comprehensible" to the insured, in which the guarantees of minimum return and capital must be expressed, and the financial risks for the policyholder must be shown clearly. In the case of index linked, the summary schedule must show in tabular form the breakdown of the premium into the components used to purchase the underlying financial instrument and into the cost components. For unit linked, the new document must contain historical data on the returns from segregated accounts management and internal funds, or compare the progress of the funds with a reference benchmark.

**Premium Income**

Overall, premiums written amounted to € 1,184,393K, compared to € 1,048,100K in 2003, an increase of 13%.

Premium income from direct business amounted to € 1,160,917K, an increase of 23.35%, distributed as follows:

(€K)	2004	2003	% Var.	% distribution	
				2004	2003
DIRECT BUSINESS					
I – Life assurance	599,903	554,018	8.28	50.65	52.86
III – Life assurance linked to investment funds	102,171	129,168	(20.90)	8.63	12.33
IV – Health insurance	54	47	14.89	0.00	0.00
V – Capitalisation operations	440,286	240,136	83.35	37.17	22.91
VI – Pension fund management operations	18,503	17,760	4.18	1.56	1.70
TOTAL	1,160,917	941,129	23.35	98.01	89.80
INWARD REINSURANCE	23,476	106,971	(78.05)	1.99	10.20
of which:					
- Italian business	21,929	105,890	(79.29)	1.86	10.10
- Overseas business	1,547	1,081	43.11	0.13	0.10
OVERALL TOTAL	1,184,393	1,048,100	13.00	100.00	100.00

The premiums from direct business are made up as follows:

- € 687,662K from Individual policies (+3.94%)
- € 454,752K from Group policies (+73.73%)
- € 18,503K from Open-End Pension Funds (+4.19%)

Class I (life assurance) has shown a clear increase of 8.28% compared to 2003, which is particularly noticeable compared to previous surveys, with premiums of about € 600m, continuing to be the class with the highest turnover and an incidence on the total life premium income which as in 2003, was over 50%. Class III (Life assurance with a high financial content linked to investment funds, share indices or other reference values), above all because of the prolonged period of uncertainty affecting the share markets, and the trend of savers to move towards products with a greater insurance content, has shown a decrease of 20.90% compared to 2003. It should be pointed out that the policy of inward reinsurance, while maintaining an unchanged structure, has changed in content, because as from the current year new premiums relating to the quota treaty and capitalisation of the subsidiary Novara Vita will no longer be taken on. Reinsurance of the risk portfolio remains in force for that company.

Income allocated to the technical account amounted to € 298.9m compared to € 274m in the previous year. € 264.2m refers to financial income on traditional products (€ 246.1m in 2003) and € 34.7m to class D products (€ 27.9m in 2003).

### Sums Paid and Related Charges

Payments made under the item of direct business totalled € 840,104K including the change in the provisions for amounts payable.

A comparison with similar data from the previous year (€ 733,097K) shows an increase of 14.6%.

(€K)	31/12/2004	31/12/2003	% Variation
<b>CLASS I</b>			
Claims	19,037	17,599	8.2
Sums assured and matured annuities	390,446	381,317	2.4
Surrendered policies	172,334	180,928	(4.8)
Settlement costs	-	-	-
TOTAL	581,817	579,844	0.3
Change in provision	(5,382)	2,119	(354.1)
<b>TOTAL</b>	<b>576,435</b>	<b>581,962</b>	<b>(0.9)</b>
<b>CLASS III</b>			
Claims	1,482	1,667	(11.0)
Sums assured and matured annuities	4,139	11,759	(64.8)
Surrendered policies	14,611	7,080	106.4
Settlement costs	-	-	-
TOTAL	20,233	20,507	(1.3)
Change in provision	(785)	824	(195.2)
<b>TOTAL</b>	<b>19,448</b>	<b>21,331</b>	<b>(8.8)</b>
<b>CLASS V</b>			
Claims	4,074	456	793.7
Sums assured and matured annuities	116,556	32,137	262.7
Surrendered policies	119,243	92,637	28.7
Settlement costs	-	-	-
TOTAL	239,873	125,230	91.5
Change in provision	(1,051)	3,127	(133.6)
<b>TOTAL</b>	<b>238,822</b>	<b>128,356</b>	<b>86.1</b>
<b>CLASS VI</b>			
Claims	-	-	-
Surrendered policies	5,400	1,448	273.0
Settlement costs	-	-	-
TOTAL	5,400	1,448	273.0
Change in provision	-	-	-
<b>TOTAL</b>	<b>5,400</b>	<b>1,448</b>	<b>273.0</b>
<b>TOTAL FOR ALL CLASSES</b>			
Claims	24,594	19,722	24.7
Sums assured and matured annuities	511,140	425,213	20.2
Surrendered policies	311,588	282,093	10.5
Settlement costs	0	-	-
TOTAL	847,322	727,027	16.5
Change in provision	(7,218)	6,069	(218.9)
<b>OVERALL TOTAL</b>	<b>840,104</b>	<b>733,097</b>	<b>14.6</b>

### ***Technical performance***

Given the general scenario of the Italian managed savings market as described above, as regards the Parent Company, 2004 was characterised by a high demand for insurance products with greater security, in terms of guarantee or capital protection, driving the saver towards products which could be cashed short term, with minimum guaranteed return and with protection of the capital invested.

To meet that demand, the distribution networks focussed mainly on the sale of products linked to the Company's Segregated Accounts. The Life Division pursued its own activity of "product manufacture" completing and consolidating the range offered by the sales networks for the Life Companies in the Group.

As part of the constant monitoring of products offered on the market, the existing products aimed at managers and employees were restyled, introducing changes to respond effectively to the operational suggestions from the Distribution Networks (agency and broker).

Throughout the year attention continued to be paid to protecting the sector on an individual basis of maturing capital amounts under traditional life policies and capitalisation products; in the third quarter the "Afrutto" product which had already been sold by the Fondiaria Division was extended to SAI Division.

With a view to unifying the range of retail products, during the first half of the year the Company also launched a new Individuals Temporary Death Cover product based on a tariff created on the basis of the Group's experience and brought together for both Divisions. During the year four tranches of Index Linked products were also launched characterised by predetermined and variable annual coupons.

The sale of collective capitalisation products on the Company list continued efficiently (Open Corporate for Sai Division and Conto Aperto for Fondiaria Division, to be integrated for all the companies in the Group), with high demand from Institutional clients with large sums for management of their funds.

In November two Long Term Care products for groups, LTC VITA and LTC TEMPORANEA were launched, in a market scenario which is increasingly keen on this particular type of cover because of the requirements relating both to the progressive ageing of the population and the related social phenomena, and the Collective Contracts of Employment which have begun to provide for the inclusion of these covers compulsorily.

As for the previous year, the consolidation and development of the Customer portfolio continued, by operations to recover sums due and by tailoring the product on offer.

This led to the collective portfolio of the traditional type (pensions for employees and staff leaving indemnity/directors retirement allowance) being substantially maintained.

As regards pure risk covers (temporary cover for death and disability) the acquisition of new customers and the gradual replacement of the old tariffs with the new products launched at the end of 2003 for existing clients, has efficiently balanced the physiological trend of cancellations in these contracts, allowing this portfolio to be substantially maintained.

The financial returns realised throughout the year by the Segregated Accounts Fondivita and Fondicoli were 4.04% and 4.43% respectively and for the segregated accounts Press and Nuova Press 2000 4.05% and 4.34% respectively. Despite the trends in the financial markets in 2004, these returns should be considered to be positive and will certainly appreciate.

During the course of the year, through the gradual and complete migration of the SIVI computer application of the Retail and Corporate portfolios, the computer platforms were integrated, allowing further synergies in product and process to be achieved. For Retail the necessary action was taken to start up the Fondiweb periphery procedure on all the Agencies as from January 2005. For the corporate sector during the course of 2004, by means of the total activation of web procedures on all the Agencies of the SAI Division, the integration of the computer platforms allowed the effective decentralisation of activities pre and post sales on some listed products, carried out directly from the points of sale.

The distribution relations with some Banking Institutions, which had begun in previous years with Fondiaria, continued. Amongst the most important are Banca Lanciano e Sulmona, Cassa di Risparmio Provincia dell'Aquila and Banca della Campania.

### ***Pension Funds***

Based on the studies carried out by COVIP (Pension Funds Supervisory Commission) in 2004 the net returns from pension funds were 4.5% for negotiated funds and 4.3% for open-end funds, against a net revaluation of the staff leaving indemnity of 2.5%. In December 2004, subscribers to new pension funds (42 of the negotiated type and 92 of the open-end type) were around 1,450,000, 3% up on the same period in 2003, while the net assets managed increased by 29% to more than € 8bn. Overall, considering the pre-existing pension funds and PIP (individual policies), subscribers to supplementary pensions were around 2.8 million, and the increase in the size of the pension funds would, according to analyses carried out by the Supervisory Commission in question, allow us to offer pension services under very competitive conditions, thus setting up an efficient process which favours new subscribers.

With regard to Open-End Pensions and Personal Pension Schemes of the Parent Company implemented through open-end pension funds, 2004 was characterised again by a static situation due to a modest demand by the market, but also a new interest in the material arising from the enactment in July of the delegated legislation, whose objectives include the reform of the pensions system. This caused much political and social debate, and became a subject which was particularly high-profile in public opinion, above all due to the measures which the Government was asked to adopt finally to start up supplementary pensions.

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

In detail we can see that the Sai Open-End Pension Fund as at 31 December had 2,406 members (2,363 as at 31 December 2003). The contributions collected, through the Sai Division agency network, exceeded € 3.6m bringing the assets in the Fund to more than € 17m (€ 14m in 2003).

The Fondiaria Previdente Open-End Pension Fund, on the same date, had 7,249 members (6,923 members in 2003). The contributions collected through the intermediary of the agency Fondiaria and Milano Assicurazioni Division Agency network, some credit institutions, a Broker (Europa Benefits S.r.l.) and advisers with Effe Investimenti Sim, amounted to € 12m (unchanged compared to 2003). The Fund assets exceeded € 45.7m (€ 35m in 2003).

The Conto Previdenza Open-End Pension Fund had 807 members (786 in 2003). The Fund, reserved for placement by banking outlets in some banking institutions, collected contributions amounting to more than € 2.6m (€ 2m in 2003) and the related assets exceeded € 19m (€ 17m in 2003). The banks currently entrusted with the placement are: Banca Alpi Marittime Credito Cooperativo Carrù, Carispaq – Cassa di Risparmio della Provincia dell'Aquila, Bancapulia, Banca della Campania, Carim Cassa di Risparmio di Rimini.

Finally it should be recalled that the Financial and Economic Planning Document approved by the Government for the period 2005-2008 provides for an increase in withdrawals from the Life mathematical provisions from 0.20% to 0.30%. Unfortunately, this amount creates a competitive disadvantage for the Italian insurance sector, as it is not applied in other countries.

In particular, for the Parent Company, the increase in tax calculated on the Life mathematical provisions in the 2004 accounts amounts to about € 6m; the amount which the company paid on account as at November 2004 was around € 15.5m.

### ***Managed Savings***

The activity in the Managed Savings sector is conducted through the intermediary of the specialised companies in the Group namely, BANCASAI, EFFE GESTIONE SGR, SAI INVESTIMENTI SGR and SAI GESTIONI SIM (now SAI MERCATI MOBILIARI SIM) through the progress of the project to achieve the complete redesign of the operational structure of these companies, both by company transformations and integrations and as the result of their strategic repositioning on the market, so as to capitalise on the investments made and gradually develop the Assets Under Management, taking advantage of the insurance customer base of the Group and reinforcing the capacity and distribution skills of the networks of Agents and Financial Advisers.

Within the scope of this project, we should recall that by a process which began during 2003, the joint and individual savings management service provided to the public was decentralised to the subsidiary EFFE GESTIONI SGR. In addition, as from 1 January 2004, SAI GESTIONI SIM transferred, in favour of EFFE GESTIONI SGR, the line of business related to the individual management of investment portfolios on behalf of third parties.

Furthermore, as from the legal effects of 1 July 2004, the merger by incorporation of CO.FI.MO SIM S.p.A. into SAI GESTIONI SIM S.p.A. was carried out, the former being a 100% owned subsidiary of the latter. The incorporating company also changed its name to SAI MERCATI MOBILIARI SIM S.p.A. from the same date.

Previously the incorporating company had received authorisation from Consob to trade on its own behalf and on behalf of third parties.

Again with regard to the above process, as from 31 December 2004 the planned merger by incorporation of EFFE INVESTIMENTI SIM S.p.A. into BANCASAI took effect.

The incorporation of EFFE INVESTIMENTI SIM into BANCASAI allowed, on one side, the Group's financial advisers network (in total about 1500) to come together into one company, the Bank, and on the other, to complete the process, already partially begun, to use the best human and technological resources of the two companies, to achieve an organisational basis for the banking activities and placement of financial products and services so as to allow BANCASAI greater protection in the market, a better level of customer service and greater operating efficiency.

With the effects of the reciprocal exchange determined on the basis of the values of the net equity of the two companies as at 30 June 2004, the merger led to an increase in the shareholding of Fondiaria-SAI in the Bank from the current 70% to 80.47%.

### **Life Reinsurance**

#### **Outward Reinsurance**

Also in this sector during 2004 the various previous covers of the two Divisions were integrated.

The entire portfolio of personal and collective policies was protected with a proportional surplus programme; this structure allowed the retention of the less exposed part of the portfolio, with the consequent cession to the reinsurers of the part which could unbalance the result.

The result of this cession, which is positive for the reinsurers, was greatly mitigated by a participation in profits which allowed a considerable recovery of premiums ceded.

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

#### **Inward Reinsurance**

Underwriting activities were considerably reduced and continue to be pursued within the Group, according to the requirements of the individual companies.

***Asset and financial management***



## INVESTMENTS

As at 31 December 2004, the volume of investments reached € 14,374m against the € 14,159m entered in the accounts as at 31 December 2003, an increase of 1.52%.

This increase is affected negatively by the repayment in June 2004 of a nominal sum of € 465m, for the convertible bonded loan issued by the subsidiary Sainernational S.A. in June 2001, even though the same subsidiary had granted a new loan of € 180.4m, which relates to the liquid assets from the Convertible and Refundable Bonded Loan exclusively with ordinary BANCA INTESA shares owned by Fondiaria-SAI, due date 29 September 2010.

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

(€K)	31/12/2004	Breakdown %	31/12/2003	Breakdown %
- Real estate (1)	1,085,550	7.56	1,315,002	9.29
- Bonds and other fixed-income securities	8,114,041	56.45	7,762,761	54.82
- Shareholdings and investment funds	4,514,090	31.40	4,310,487	30.44
- Corporate financing	101,025	0.70	153,799	1.09
- Sundry financial investments	15,491	0.11	155	0.00
- Deposits with Credit Institutions (2)	162,884	1.13	184,443	1.30
- Deposits with transferor companies	381,149	2.65	432,416	3.05
<b>TOTAL</b>	<b>14,374,230</b>	<b>100.00</b>	<b>14,159,063</b>	<b>100.00</b>

(1)Gross of provisions for depreciation (2004: € 92,658K; 2003: € 146,520K)

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

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

## CLASS D INVESTMENTS

(€K)	31/12/2004	Breakdown %	31/12/2003	Breakdown %
- Fixed-income securities	536,353	74.0	431,822	71.2
- Stocks and shares	178,926	24.7	165,212	27.2
- Liquid assets	6,809	0.9	5,512	0.9
- Other business	3,140	0.4	4,296	0.7
<b>TOTAL</b>	<b>725,228</b>	<b>100.00</b>	<b>606,842</b>	<b>100.00</b>

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

(€K)	2004	2003	Variation
Income from stocks and shares	115,008	87,925	27,083
Income from land and buildings	49,202	65,384	(16,182)
Income from other investments	336,150	344,404	(8,254)
TOTAL GROSS INCOME	500,360	497,713	2,647
Management fees	57,120	50,518	6,602
TOTAL NET INCOME	443,240	447,195	(3,955)
Net profits realised on land and buildings	39,865	75,108	(35,243)
Net profits on short-term investments	41,256	16,361	24,895
Net profits realised on other long-term investments	50,120	45,549	4,571
	574,481	584,213	(9,732)

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

## FINANCIAL MANAGEMENT

2004 was the second year of international economic recovery after the American recession of 2001, and 2002 which was a year of adjustment. The trend was positive despite the fact that the world geo-political situation had again been through a difficult period. The world economy slowed down only in the second part of 2004, feeling the effects of the rise in the price of oil, but maintaining a growth rate of around 4%.

The economic growth favoured, again, the American and Asian areas. The euro area was also in recovery, and was the only one where growth speeded up compared to 2003, starting from a very low level.

The same applies to the Italian economy, even though it did not shine within the European area, which in itself was weak. However, the slowdown in the Japanese recovery was clear, after a strong rebound in the previous year.

During 2004, inflation maintained historically low levels in all the main economic areas, despite the pressure from the large increase in the prices of raw materials.

The record rises in the oil price, in particular, represented a disturbing factor for economic growth and it can be assumed that the price of crude will remain at historically high levels for some time.

Given the economic scenario described briefly above, there was only a moderate response by international monetary policy. Amongst the major countries, only Great Britain increased interest rates significantly, to slow down a property market undergoing uncontrolled growth. The American Federal Reserve also began to raise rates, now at 2.25%, but did it gradually, starting from the extremely low level of 1%. The monetary policy of the euro area remained unchanged, with reference rates firm at 2%.

Despite the uncertainties of international policy, the risk of terrorism and the substantial rise in the price of oil, 2004 was a positive year for the financial markets. Almost all the main activities show positive income, supported by the large amount of liquid assets made available by the Central Banks.

During 2004 the trend in the share markets tended to be positive particularly in the last quarter, benefiting from the general strengthening in company profits.

The European Stock Exchanges mainly drew support from the fall in bonded income, and not surprisingly, the best market was the Italian market, which is more sensitive to interest rates.

2004 was characterised by an exceptional capacity of the bond market to deal with negative shocks (the rise in interest rates in the United States, the increase in oil prices) which led to excellent positive performances in a year when there should, instead, have been crises.

Unlike 2004, which was perceived as a period of turnaround for the world economy, 2005 will show a continuation in trends which are already consolidated. The main forces, already active at different levels, which will form the economic scenario in 2005 are represented by the standardisation of interest rates in the United States, the fall of the dollar, the movement of production, and the volatility of raw materials. Together, these trends should lead to slower world growth compared to the past year and to relatively contained global inflationary pressures. However, the competitive pressures caused by the money market will

remain significant and together with the different degree of mobility of economic policies, may lead to economic outcomes which are partially divergent in the various areas.

The dollar, which has been falling for three years now, should obtain some relief from the standardisation of the interest rates and the reduction in the tax deficit which is forecast for 2005.

Moderate growth which is slowing down, low inflation and a moderate monetary restriction (not necessarily throughout the world) is not too different from the scenario at the end of 2004 and we can only forecast a significant rise in the return from State securities and risk premiums on the corporate and emerging debt market. On the other hand, the levelling off caused by raising rates in the short term will contribute to reducing the attraction of medium and long term fixed income securities, favouring a fall in prices which appear to be considerably over-valued and which offer remuneration for capital which is lower than that guaranteed only by the flow of dividends from many shares.

As regards financial management, during the year just ended, in the light of forecasts which were widely shared by the market and confirmed by clear macroeconomic signals which implied imminent rises in interest rates, we opted for a shortening of the term in the bond section of the Non-Life portfolio.

In Life business, this strategy was not used because of the longer term of the liabilities which did not allow the assets to be shortened, with the current rates curve.

Bonds business represents about 68% (over 70% in 2003) of the total bond portfolio and has a duration of a little over 3.60 (slightly lower than the same figure in 2003).

Non-Life business, with its structural characteristics, presents a prudent asset allocation with substantial balance between the fixed rate component (2004: about 53%, 2003: about 60%) and the variable rate component (2004: around 47%, 2003: around 40%) with a duration down to 2 from 2.3 in the first half of the year. Life business, with "longer" liabilities, presents slightly more aggressive asset allocation (2004: 62% fixed rate and 38% variable rate; 2003: 60% fixed rate and 40% variable rate) with a duration around 4.3.

At a strategic level, the preference was for investment in government stocks which represent around 75% of the portfolio. The corporate market, which was concentrated on during the year to obtain some margin of income in respect of the State stocks, constitutes about 25% of the bonds portfolio (unchanged compared to last year). The investments in company shares are represented almost entirely by "investment grade" shares in full compliance with the guidelines discussed.

Share business represents an important component in the investments of Fondiaria-SAI weighing in at around 24% of the portfolio (around 20% in 2003).

The use of V.a.R methodology is in line with national and international standards.

### Swiss Life Holding

In June 2004, Fondiaria-SAI and its subsidiaries FONDIARIA NEDERLAND and MILANO ASSICURAZIONI subscribed to the increase in capital of SWISS LIFE HOLDING as passed by the resolution of its general meeting on 18 May 2004.

At that meeting, as stated in their communication dated 18 May, the companies in the Fondiaria-SAI Group had voted against the proposed increase in capital in the Swiss company, stating in particular the insufficient grounds for the operation and the need for SWISS LIFE HOLDING to adopt modern corporate governance, which allows active participation in the decision-making processes, in accordance with the rules of the financial markets.

However, the operation was approved by the majority at the SWISS LIFE HOLDING meeting.

The subsequent decision of the Fondiaria-SAI Group to subscribe to the increase in capital was taken both in order not to dilute the holding in the Swiss group significantly, and to maintain an average book value of the Swiss Life Holding shares in the portfolio which was substantially in line with the embedded value per share as at 31 December 2003, recalculated taking the increase in capital into account.

The conditions of the increase in capital provided that shareholders should receive an option right to subscribe to new shares, at a nominal value of 50 francs each, and at a price of 100 francs, with 1 new share for every 3 option rights, therefore the Swiss company would obtain 834m francs from the operation, to which about 317m francs should be added from the issue of a convertible bonded loan (which unlike the previous loan, did not provide for compulsory conversion).

The subscription methods for the new shares were as follows:

Fondiaria-SAI, following the purchase of 144,500 shares and 144,500 option rights, subscribed to 48,167 SWISS LIFE HOLDING new issue shares at around € 3.1m;

- FONDIARIA NEDERLAND subscribed to 500,027 SWISS LIFE HOLDING new issue shares at around € 32.3m;

- MILANO ASSICURAZIONI subscribed to 237,177 new issue SWISS LIFE HOLDING shares at around € 15.6m.

The total financial outlay therefore increased to about € 51m.

However, neither Fondiaria-SAI nor the subsidiaries subscribed to the new issue convertible bonds which were offered first to the existing shareholders by a preferential subscription right and were then assigned to the market.

At the same time the following was carried out:

- the sale on the market of bonds convertible into Swiss Life Holding shares in the portfolio, subscribed during the previous increase in capital, for a nominal value of around € 18m (of which € 13m relates to FONDIARIA NEDERLAND and € 5m to MILANO ASSICURAZIONI);

- the sale on the market of part of the SWISS LIFE HOLDING shares in the portfolio. More specifically, the sale was carried out of a total of 312,667 SWISS LIFE HOLDING shares (of which 192,667 shares related to FONDIARIA NEDERLAND and 120,000 to MILANO ASSICURAZIONI).

Subsequently, the Parent Company reduced the shareholding in Swiss Life Holding to zero.

Consequently, there was a reduction in the unit book value of the SWISS LIFE HOLDING shares in the portfolio, specifically:

- for FONDIARIA NEDERLAND, from 311.70 to 258.78 francs
- for MILANO ASSICURAZIONI from 282.89 to 237.17 francs

The operation did, however, lead to a modest dilution in the shareholding; it fell from 9.41% to 8.375% with Fondiaria-SAI Group remaining the primary shareholder of SWISS LIFE HOLDING.

Regarding the prices at which the sales on the market of the SWISS LIFE HOLDING shares of the convertible bonds mentioned above took place, the following occurred:

- a capital gain of € 1.2m for Fondiaria-SAI;
- a net capital loss of € 12m for FONDIARIA NEDERLAND;
- a net capital loss of € 4m for MILANO ASSICURAZIONI.

We should also point out that Milano Assicurazioni and Fondiaria Nederland have written down the Swiss Life Holding shareholding aligning it to the exchange rate between the Swiss Franc and Euro as at 31/12/2004, with a further negative effect on the respective profit and loss accounts of around € 24m.

Also during the course of June 2004, the Fondiaria-SAI Group, along with the SWISS LIFE Group, considered that the conditions for completing the planned joint venture in the Life sector in Italy did not exist.

#### **Transfer of shareholding in the subsidiary Mercantile Leasing S.p.A.**

On 28 July 2004, having obtained the legal authorisations, the transfer to BANCA ITALEASE of the entire shareholding held by the Company and by MILANO ASSICURAZIONI (respectively 91% and 9%) in MERCANTILE LEASING was completed, following a competitive procedure agreed with the advisor MEDIOBANCA. The total price paid by the purchaser amounts to € 121m, as stated in the preliminary agreement signed by the parties on 21 June 2004, which was higher than the valuation of the MEDIOBANCA advisor.

This sale price allowed the FONDIARIA-SAI Group to realise total capital gains of the order of around € 36m (including around € 34m for Fondiaria-SAI) compared to a total book value of € 85m, taking into account the recent increase in capital of MERCANTILE LEASING.

The transfer is part of the aim to concentrate the investments in activities which are strictly connected to the core business, and also in view of the fact that maintaining the shareholding would have meant making further contributions of capital to sustain the development of the company.

The transfer to BANCA ITALEASE also takes account of the need to reinforce the partnership between the Fondiaria-SAI Group and the group to which the BANCO POPOLARE DI VERONA E NOVARA belongs.

The usual contractual guarantees were given to the purchasers, from which we can presume there will be no significant liabilities.

### **RCS MEDIAGROUP Syndicate agreement**

At the meeting on 21 June 2004, the participants to the RCS Mediagroup Syndicate agreement agreed that, on renewal, no objections would be made to the possible entry into the agreement of companies which are part of the FONDIARIA-SAI, Capitalia, Diego della Valle and Francesco Merloni Groups, with the ways, times and quotas to be defined.

On 7 July, the participants to the RCS Agreement, on renewal of the agreement until 30 June 2007, provided for it to be updated taking account of the reduction of the GEMINA quota, on confirmation by the supervisory body CONSOB (obtained on 6 August 2004) that the entry into the Agreement of four new members, in consideration of the current regulations, would not give rise to the conditions for a compulsory takeover bid.

On 9 September last, the Management of the RCS Agreement met, and having seen the aforementioned conditions, admitted four new members to the syndicate, following the unconditional acceptance of all the terms of the agreement, namely:

- FONDIARIA-SAI Group, with a total shareholding of 5% of the ordinary capital, of which 1.66% is held by MILANO ASSICURAZIONI
- PAFLUX S.A. (DIEGO DELLA VALLE), with 2.04% of the ordinary capital and with the right to increase their own shareholding, with the obligation to contribute 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 brought into the Agreement by FONDIARIA-SAI Group – equal to 5% of the RCS ordinary capital – are owned mainly by FONDIARIA-SAI (14,187,627 shares), by MILANO ASSICURAZIONI (12,134,650 shares) and by SAINTINTERNATIONAL (10,000,000 shares) with the rest owned by other subsidiaries, and represent a total of 8.97% of the syndicated capital.

On 14 October the Board of Directors of RCS finally met, and appointed the new Board members to represent the new parties to the agreement. In particular, Signora Jonella Ligresti became a member of the Board of Directors of RCS, representing the FONDIARIA-SAI Group.

### **OTHER SIGNIFICANT FINANCIAL TRANSACTIONS**

On 6 October 2004 the Parent Company purchased 49% of the capital of Fineuras S.p.A. from Eureka B.V.

By making this purchase, FONDIARIA-SAI, which already held 51% of Fineuras, now has direct control of the entire share capital of that company.

Fineuras in turn held 42.86% of NOVARA VITA S.p.A., a company in which FONDIARIA-SAI holds indirectly a further 7.14%, the remaining 50% being held by BANCO POPOLARE DI VERONA E NOVARA. The purchase price of 49% of FINEURAS was fixed at € 20m, determined with reference to the total value of NOVARA VITA, on the basis of the embedded value as at 31 December 2003, taking into account that the shareholding in the latter substantially constitutes FINEURAS' sole asset.

Then on 25 December 2004, the subsidiary Fineuras was incorporated into the subsidiary SAI HOLDING, to rationalise the chain of control further.

On 3 November 2004 an agreement was entered into between FONDIARIA-SAI and BANCA POPOLARE DELL'EMILIA ROMAGNA (BPER) which provided for the gradual transfer by the Company in favour of the Bank of the entire shareholdings held by the Company in FINBANCHE D'ABRUZZO S.p.A. and BANCA DELLA CAMPANIA S.p.A. both subsidiaries of BPER and in which FONDIARIA-SAI has, respectively, shareholdings of 15.4% and 4.5% approximately (the latter directly and indirectly).

In execution of that agreement, FONDIARIA-SAI thus transferred to BPER in two tranches, on 5 November and 9 December 2004, the entire shareholding in Finbanche d'Abruzzo, at the total price of € 34m.

With reference to the listed shareholdings:

- MILANO ASSICURAZIONI SPA: sale of 14,136,567 shares realising a capital gain of € 8,555K. The direct shareholding is 61.11%.
- BANCA INTESA: subscription to the increase in Share Capital of 2,055,071 shares with an outlay of € 5,376K. The percentage direct shareholding is 0.747%.
- PIRELLI & CO.: purchase of 9,508,536 shares, 7,131,406 rights and subscription to increase in capital with conversion of the rights held of 27,834,136 shares; total outlay was € 22,960K. The percentage direct shareholding is 4,506%.
- SCHW LEBENSV & RETENANST-RE (SWISS LIFE): purchase of 144,500 shares and subscription to increase in capital, following purchase of 144,500 rights, for 48,167 shares; total outlay was € 19,605K; subsequently the entire shareholding was released, realising a capital gain of € 1.2m.
- ENEL: purchase of 13,970,000 shares with an outlay of € 98,341K; sale of 13,875,000 shares realising a capital loss of € 3,765K; during the course of the year the company distributed dividends of € 4,621K. The percentage direct shareholding is 0.035%.
- MELIORBANCA: purchase of 1,443,825 shares with an outlay of € 4,854K. The percentage direct shareholding is 6,497%.

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

- AZZURRA ASSICURAZIONI SPA: losses paid off with an outlay of € 10,309K; subsequently the Company was incorporated by the Parent Company.
- BANCA SAI SPA: losses paid off and subscription to the increase in Share Capital with a total outlay of €24,428K. Direct shareholding is 80.47%.
- CASA DI CURA VILLA DONATELLO: incorporation of the company Taro for a sum of € 4,609K. Direct shareholding is 100%.
- HAAG SPA: losses paid off with an outlay of € 6,873K. Subsequently the company was incorporated by the Parent Company.
- INTERNATIONAL STRATEGY: purchase of 26,000 shares with a total outlay of € 65,052K. Direct shareholding is 100%.
- PROGESTIM: subscription to increase in share capital with an outlay of € 34,000K. The direct shareholding is 100%.
- SASA ASSICURAZIONI E RIASSICURAZIONI: purchase of 3,222,309 shares with an outlay of € 6,088K. Direct shareholding is 94.98%.



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

During 2004 financial year, a total of 1,977,500 own ordinary shares were purchased for an outlay of € 36,987K.

Therefore at the closure of 2004, there were 5,829,212 ordinary shares in the portfolio equal to 4.528% of the ordinary share capital.

Following the closure of the year, 861,000 ordinary shares were purchased for an outlay of € 17,242K; on 14/03/2005 there were 6,690,212 ordinary shares in the portfolio equal to 5.197% of the ordinary share capital, while the subsidiary Saifin-Saifinanziaria S.p.A. holds a further 1,060,000 ordinary shares, equal to 0.823% of the ordinary share capital and the subsidiary Milano Assicurazioni S.p.A. owns a further 3,611,557 shares, equal to 2.806% of the ordinary share capital.

Shares in the holding company:

during 2004 financial year no purchase or sale transactions were carried out on the shares of the holding company Premafin Finanziaria S.p.A.

At 31/12/2004 your company owns 17,512,527 shares in the holding company, equal to 5.597% of the share capital.

Subsequently at the closure of the year 827,500 shares were purchased with an outlay of € 1,269K; therefore on 14/03/2005 your Company owns 18,340,027 shares equal to 5.854% of the share capital, while the subsidiary Saifin-Saifinanziaria S.p.A. owns a further 66,588 ordinary shares, equal to 0.021% of the share capital and the subsidiary Milano Assicurazioni owns a further 5,789,700 ordinary shares, equal to 1.848%.

## PROPERTY MANAGEMENT

During 2004 there was a slowdown in price increases, compared to the last few years; however, recent studies have shown that house prices, in the second half of last year, still grew in all the major cities (+4.1%), showing general rises even though they were lower than the previous figures.

Over a year, the total increase has been estimated at around 9.7%, which means that the last seven years (1998-2004) have seen increases on the residential market of around 70.4%, with an upward trend, especially in the last three years, due to the abundant liquidity looking for "safe" investments, and to advantageous interest rates, as shown by the regular increases in the number of loans granted.

There are no signs of a slowdown as regards mortgages to purchase residential property, and the latest data available from the Banca d'Italia (referring to the first half of 2004) shows an annual increase of mortgages in existence of 26%, helped by the aforementioned advantageous interest rates and high profitability from property investment, which have become competitive compared with the other traditional forms of investment.

The residential sector thus continues to be lively; not even the measures in the last Finance Law have discouraged anyone from choosing property as an investment.

At the same time, the trend of domestic and international investors towards the non-residential markets remains positive. However, there was no improvement in the industrial sector, where due to increasing difficulties, demand is continuing to fall with a consequent drop in property prices. In the operational properties market, the increase in prices on an annual basis was a little lower than in the residential market: offices +7.9%, shops + 8.6% and commercial premises +6.7%.

The demand for immovables through vehicles such as property funds also remained particularly lively, and saw an increase in their share of the market which was sometimes exponential. These new operators in the system (property funds and pension funds) are making substantial changes to the property market, with a consequent improvement both on the transparency of the market itself, and on the method of valuing assets which are to be transferred, due mainly to the possibility of using financial leverage of up to 60% of the total value of the fund, not to mention the review of taxation.

It should be noted that the major traditional investors (Banks, Insurance Companies, State administrations) are continuing with the programme to sell off property, especially residential property.

The forecasts for the next few months do not expect the much feared property "bubble" to burst, but predict a further increase in values even though there may be growth rates of about 5%, lower than those in the past; therefore the number of sales should remain at current levels. For property intended for business use the reference picture ought to show some problems, above all in relation to the weak national economic development.

With reference to the property assets of the Parent Company, and the Companies in the Group, the year just ended saw the following events.

On 16 April 2004, the Board of Directors of the subsidiary SAI INVESTIMENTI SGR S.p.A. passed a resolution to set up the closed mutual property investment fund TIKAL R.E. Fund. On 27 July 2004 the Banca d'Italia issued its own authorisation for the Regulation of the Fund, managed by SAI INVESTIMENTI SGR.

The Fund is reserved for qualified investors who have subscribed to the quotas of the Fund by contributions of property; the quotas, for a duration of seven years and initially subscribed by FONDIARIA-SAI and the companies in the Group, must be held by the Company for a sum not less than 30% of the value of the subscription for a period of at least two years from the date of assignment, as laid down in the current legislation.

The policy of the Fund is to reach the objective of high returns on expiry (8% gross per annum) through the management of a prudent and optimum combination of investments both in property already providing income and in property to be completed or restructured, with the aim of leasing it or possibly disposing of it.

The total commitment of the subscribers has reached the maximum amount of the Fund laid down in the Regulation at around € 400m; the total value of the contribution in kind amounts to € 394.2m approximately, while the commitments to subscription in cash by FONDIARIA-SAI and MILANO amount respectively to € 4m and € 2.1m. The property assigned to the Tikal fund provided a capital gain for the Parent Company of around € 20m, which overall is around € 57m.

On 28 October 2004, following authorisation by the Banca d'Italia, FONDIARIA-SAI ceded 40% of the capital of SAI INVESTIMENTI SGR in favour of MILANO ASSICURAZIONI, at a price of € 1,655K, determined on the basis of the net equity of the SGR as at 30 September 2004.

Subsequently, during the course of the year, in order to allow the gradual broadening of the subscribers of quotas to persons who are not part of the Group, FONDIARIA-SAI ceded part of its own quotas to third party institutional investors, totalling € 38m, equal to the nominal value of the quotas ceded.

Tikal R.E. represents the first closed property fund with shares issued launched by a savings management company operating within an insurance group. Compared to the contribution value, in the period August-December 2004, the Net Asset Value of the fund showed a growth of 19.24%, therefore the unit value of the quota rose from € 250,000 to around € 298,091. In the light of this result, the Board of Directors of Sai Investimenti SGR passed a resolution to distribute total income of € 4m, equal to a pro-quota income of € 2,500 and corresponding to a return of 2.4% on an annual basis.

Twelve properties mainly for office use were brought into the fund portfolio, located in the main Italian cities, with a total income in terms of rent of more than € 25m. In the first five months of operation of the fund, the management activity of the property portfolio concentrated on monitoring the intrinsic characteristics to be valued by means of ordinary and extraordinary maintenance for the functional-legislative adjustment. In some cases feasibility studies were carried out for better valuation and consequently profitability of the spaces. However no sales transactions involving property were carried out.

On 31 May 2004, FONDIARIA-SAI debated the sale in portions of the building located at via S. Giovanni sul Muro in Milan, with a book value of € 11.7m; the related marketing activity began at the end of the year.

On 2 July of last year, the grouping called CITYLIFE, of which the Fondiaria-SAI Group is part through the subsidiary PROGESTIM S.p.A. won the competition set by SVILUPPO SISTEMA FIERA S.p.A. on behalf of the Milan Fair Foundation relating to the sale and urban redesignation of a part of the Milan Fair area. The project is considered to be one of the most important internationally as it will constitute a radical transformation for the city of Milan.

The bid from the CITYLIFE group, of € 523m, allowed the group to win the competition, which was also contested by the PIRELLI Group and the ZUNINO Group. Following the judging of the competition the preliminary contract was drawn up with the grantee obliged to pay in cash a sum equal to 10% of the sale price as a confirmatory deposit (€ 52.3 m) and to lend to the vendor, as a further guarantee of the signing of the final contract of sale, a first call bank guarantee equal to 10% of the sale price (€ 52.3m).

The quota to be paid by PROGESTIM, equal to 26.64%, corresponds to the capital shareholding in CITYLIFE and was in total around € 28m, of which € 14m relates to the aforementioned confirmatory deposit, already paid, and € 14m to the aforementioned bank guarantee.

The phases of the project provide that the work will be completed by 2014.

The financial resources needed by PROGESTIM were provided partly by the sale by FONDIARIA-SAI on 6 October 2004 of the entire shareholding in INTERNATIONAL STRATEGY S.r.l. equal to 100% of the capital. The price of the INTERNATIONAL STRATEGY quotas was € 65,050K, determined on the basis of a valuation of the company drawn up by an independent expert, employed for that purpose.

During the course of the year Fondiaria-SAI sold residential and office units in Turin, Padua, Rome, Genoa, Foggia and Milan, totalling € 6.98m. They also sold an entire building in Rome for a value of € 33m. Also portions of buildings were purchased in Milan for € 2.6m, and entire buildings in Trieste by the subsidiary Sasa for € 7.5 m.

Given the above and considering normal operations, property transactions carried out in the year by the Parent Company can be summarised as follows:

	(€m)
- purchases	11
- increased costs and improvements	20
- current assets	5
- sales	(265)
with a decrease of	<u>229</u>

## DEBTS

As at 31/12/2004, the debt situation of Fondiaria-SAI S.p.A. was as follows:

(€K)	31/12/2004	31/12/2003	Variation
Subordinated loan	400.0	400.0	
Sundry loans and other financial payables	310.1	558.2	(248.1)
Total debts	710.1	958.2	(248.1)

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

Subsequently, again following authorisation from ISVAP, some of the conditions of the financing were renegotiated to give its structure more stability. In particular, a gradual reduction in the interest rate was decided, for a total of 35 bps. The smaller annual amount is € 600,000 for the first year and a further € 400,000 for each of the three following years and thus, a total of € 1,800,000 annually up to the tenth year, reducing, as from the eleventh year, to € 1,600,000 annually due to the effect of an increase in the step-up with the Company having the right to early repayment.

As regards the item "Sundry loans and other financial payables", during the course of 2004, € 465,461K were reimbursed relating to loans received from the subsidiary Sainternational S.A. and € 30,813K relating to loans received from the subsidiary Fondiaria Nederland B.V. These loans relate to the liquid assets from the convertible bonded loans issued respectively by Sainternational S.A. and Fondiaria Nederland B.V. in 2001; the amount of the financing received from Fondiaria Nederland B.V. entered was net of the amounts paid off in the first half of 2003, equal to € 507,302K.

In the same item a new loan is also included, granted by the subsidiary Sainternational S.A. for € 180,000K, relating to the liquid assets from the Convertible and Refundable Bonded Loan (Mandatory Exchangeable Guaranteed Notes) with ordinary BANCA INTESA shares owned by FONDIARIA-SAI, due date 29 September 2010. For more details, please refer to the report on consolidated debt.

In addition, in the first half of 2004 a loan was granted by the subsidiary Finsai International S.A. for € 27,000K and another by the subsidiary Sai Holding Italia S.p.A. for € 8,000K while a sum of € 5,500K was repaid for the interest-bearing loan granted by the subsidiary Sainternational S.A.

Finally during the second half further financing was granted in favour of Fondiaria-SAI S.p.A. by the subsidiary Sainternational S.A. of € 40,000K.

The remainder of the item "Sundry loans and other financial payables" is for financing to the Parent Company from Jena Presbourg S.A. for € 12,553K, from Sim Defense S.A. for € 24,954K, from Sainternational S.A. for € 16,411K, and from Italiberia for € 503K. For the economic conditions underlying the various loans please refer to the Notes to the Accounts.

## ***Other Information***

## **STRUCTURE OF SALES ORGANISATION AND CLAIMS SETTLEMENT**

With reference to 2004, the territorial distribution of the Agencies of Fondiaria-SAI as at 31/12/2004 was as follows:

	<b>SAI Authority</b>	<b>Fondiaria Authority</b>	<b>Total as at 31/12/04</b>	<b>Total as at 31/12/03</b>
North	444	260	704	723
Central	211	144	355	350
South	177	172	349	353
<b>TOTAL</b>	<b>832</b>	<b>576</b>	<b>1,408</b>	<b>1,426</b>

The number of SAI authorised agencies is 832, made up of 239 Town agencies and 593 General agencies; the number of Agents is 1,322 (General Agents and Town Agents).

With reference to the Fondiaria Assicurazioni S.p.A. authorised agents it should be noted that as at 31 December 2004 the management agencies of Milan, Rome and Vicenza were added to the existing agencies under contract.

The average portfolio of the SAI authorised agencies in 2004 was around € 3,896K; that of the La Fondiaria authorised agencies was around € 3,051K.

Following the redevelopment of the architecture of the computer systems linked to agency business, in the first few months of 2004 a new agreement was signed relating to the computerisation of the former SAI Division Agencies.

Under this agreement, the agencies agreed to implement the computer system supplied by the Company; the software package, known as the "Pacchetto Delta", thus became the property of the Company, while the agents are allowed access to all the files and data contained therein. To ensure the effective and efficient transfer of information, in the financial year 2004 and also in 2005 Fondiaria –SAI will grant a contribution for the upgrading of the current network to ADSL technology, providing hardware support to guarantee the proper functioning of the "Pacchetto Delta".

The secondary offices of the company are as follows: MILAN (Via Senigallia 18/2), NAPLES (Via Tommaseo 4), PADUA (Piazza De Gasperi, 65), ROME (Via Colombo 70).

With a view to achieving the strategic objectives identified by the company, a new corporate agreement was signed with the Sai Agents Executive Committee on 8 January 2004, maintaining the legislative structure of the previous agreement and introducing changes of note such as: provision for reductions in TPL and Miscellaneous Risks commissions with recovery mechanisms, introduction of a further Miscellaneous Risks commission linked to the loss ratio of the individual Agency, increase in non motor claims contributions, introduction of social security contributions, promotion of family members to become successors in title to the agency, introduction of a contribution for agencies which open new sub-agencies. Finally, in February 2004, an agreement was drawn up with a second Corporate Agents Group (set up at the end of 2003) maintaining the same terms as those agreed under the Agreement with the SAI Agents Executive Committee but making allowance for a fixed amount for each TPL policy in CIP (Interdepartmental Committee on Prices) classes from 1a to 9a, with the provision that the hardware for the agency to function will be the property of the Company.

Within the Fondiaria-Sai merger process the new Integrated Structure for Group Claims Management was launched, called UNICA, which consists of 4 Organisational Departments

SETTLEMENT NETWORK

LEGAL AND LITIGATION

HEAD OFFICE AND SPECIALIST CLAIMS

PLANNING: NETWORK INTEGRATION AND PROGRESS.

The main features of the claims management process are the multitude of channels for opening a claim and the precise division of claims according to their characteristics.

The new operating model is based on diversified processes for claims management subdivided into Simple Claims and Complex Claims.

Activity on the territory is organised according to 12 Claims Zones, which by the application of the Management's settlement policies, co-ordinate and supervise 73 Claims Areas and 13 Simple Claims Settlement Centres.

The integration of the experience and knowledge of the various sections has allowed two new operating posts to be created, the first to deal with the management and settlement of complex claims under dispute (Professional Litigation) and the second dealing with the management and settlement of complex claims with major losses (Professional Serious Losses).

During 2004 the work to activate the IES system within the Companies and Divisions of the Group also continued, as did the steady implementation of the system both for its efficient use by the structures, and made necessary by the development of the specific portfolio data base of the SAI Division, which has migrated on to the Group systems.

The action undertaken in 2004 had amongst its main objectives the elimination of claims incurred during previous years and careful management of claims incurred during the current year.

Apart from that there was a considerable rise in the settlement of claims with a physical component in particular for those with injuries leading to minor permanent disabilities.

Initiatives were also noted such as:

- the constitution of TRUSTEES REGISTER and the MEMBERS SITE, instruments still undergoing development, but already producing common processes of selection, management, control and integration of third parties co-operating with the Group's Divisions and Companies;



- the constitution of a network of AGREED CAR REPAIR WORKSHOPS, to be completed during 2005, which offers a new way of speeding up and implementing the investigation and early settlement of simple claims.

## **MANAGEMENT AND DEVELOPMENT OF HUMAN RESOURCES**

As at 31/12/2004 the Company employed 2,749 staff including 66 managers, 2,668 insurance officers and clerks and 15 people assigned to the caretakers' lodges of the buildings owned by the Company whose employment is regulated by the contract for employees of buildings owners.

Of these, 1,797 (including 13 caretakers) are employed by the incorporating company (1,843 as at 31/12/2003) while 952 (including 2 caretakers) come from the incorporated company (963 as at 31/12/2003).

It should be noted that the data relating to the employees of Fondiaria-SAI, equal to 2,734 insurance employees as at 31 December 2004, takes into account 56 employees from other Companies in the Group and 8 taken on due to the legal obligation of companies put into compulsory liquidation.

During 2004, there was a further boost for the implementation of the voluntary redundancy scheme directed towards staff who had the necessary requirements for entitlement to seniority/old age pension, which enabled the number of insurance employees to be reduced from 2,783 as at 31/12/2003 to 2,734 as at 31/12/2004 (not including 56 employees hired by companies in the Group).

This plan meant that 90 employees ended their employment and 38 others signed the agreement to leave in 2005, in addition to the normal forecasts for termination of employment.

Personnel costs increased to € 209,715K of which € 209,042K relates to insurance personnel, an increase of 5.7%.

The economical part of the CCNL (Industry Wide Agreement) of 18 July 2003 for officers and clerks, which expired on 31 December 2003, was renewed on 2 March 2004 for the 2004-2005 two-year period. As from 1 January 2004, the salary scales were increased by 4% taking into account the inflationary differential for the previous two years and the inflation forecast for 2004 of 1.7%. As from 1 January 2005 the salary scales were increased by 1.5%.

The SAI Company Integrated Contract which expired on 31 March 2004, was extended with the signing of the so-called "Bridge Agreement" which took place on 1 June 2004, until 31 December 2004 to align the expiry date with that of the Fondiaria Integrated Contract. The Agreement concerned only company premiums with an increase of about 1% of the cost of the work of the SAI Division in 2004.

The year just ended was characterised by a strong commitment to training to support the integration between the various companies in the Group and the new systems and processes which are a feature of the new organisation.

The qualifying projects which were part of the training activity during 2003 were as follows:

- the start-up of Managerial Training which involved all managers and a first group of intermediate managers; the primary objective was to spread a homogeneous managerial culture and create operating instruments by defining values, skills and

evaluating instruments which can encourage setting up modern management models in Human Resources;

- the support for the introduction of IES (Innovation Excellence Service) in ex-SAI claims; this concerns the computer system of the Group which has made the management of claims practices more efficient and more rapid, by means of the computerisation of all the claims processes, from the acquisition of a notice of loss by management to the subsequent settlement of the claim, along with the on line availability of all the information necessary to deal with each case. The improvements made can be seen not only in greater control at territorial level, but above all in the quality of the service offered to the customer. The action has been built around various plans involving organisational knowledge, technological knowledge, and motivation of staff to the new method of working. From a purely quantitative point of view this was the area which involved the largest number of staff resources;

- support to Information and Communication Technology to encourage the understanding of the new SIG (Group Information System) which will be operative early in 2005. This is an integrated system for the management of an insurance company built on a mainframe. It contains the following sub-systems: Records; Premiums (Motor and Elementary Class portfolios); Claims; Statements of Account (accounts of agencies and management); Reinsurance; Commercial (management of sales networks). It allows the regular acquisition of policies, securities and claims by the peripheral systems and the online operation of management users;

- the completion of a distance-training platform, on which, as from 2005, various courses will be included which are flexible, with educational and logistical training characteristics based on Web technologies;

- the start-up of the technical "Faculties", or setting up Knowledge groups to rationalise the technical-professional know-how (claims and underwriting) and train a new class of teachers in these matters;

- the start-up of the on-line project by carrying out interviews with managers; what emerges will, in 2005, take on a value in terms of training to prepare the resources of the Group to manage the new operational procedures in 2007 arising from the introduction of an on-line computer system.

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

### **Management and Co-ordination – Dealings with Companies in the Group**

The Company is not subject to management and co-ordination by another source in accordance with art. 2497 and following of the Civil Code. It carries out the activities of management and co-ordination within the terms of the aforementioned regulation with regard to its own subsidiaries, including MILANO ASSICURAZIONI and its direct subsidiaries.

The Company has also applied rules of conduct to its subsidiaries, in order to ensure the fulfilment of the tasks of co-ordination and control of the companies in the Group, as well as guaranteeing compliance with the obligations of transparency and information with regard to the public which are the responsibility of the

issuers quoted by the current legislation. These rules of conduct provide, among other things, for appropriate resolutions by the Board of Directors or Executive Committee of Fondiaria-SAI on such operations concerning the subsidiaries, considered to be significant on the basis of the nature of the operation or the amount. The Company also has relations of a financial, insurance and service-providing nature with the majority of the companies in its Group.

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

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

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

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

(€m) Company name	Assets	Liabilities	Costs	Income
BANCASAI		110	2	
CASA DI CURA VILLANOVA		1		
CONSORZIO CASTELLO		2		
FINITALIA	2	1		
INTERNATIONAL STRATEGY	1	1		
MILANO ASS.NI	129	220	46	28
MY FIN	1	5		
PROGESTIM	2	2	2	2
PRONTO ASSISTANCE		4		
PRONTO ASSISTANCE SERVIZI			1	6
SAI HOLDING	9			
SAI INVESTIMENTI	12	6		
SASA		13	4	
SASA VITA		6		
SIAT	2	12	2	
STARVOX	1			8
SYSTEMA TERRA		2		
UNISERVIZI	3		1	7
OTHERS	4	8	4	2

In particular the liabilities in BancaSai refer to the correspondence current account which the Parent Company has with the subsidiary. The assets and liabilities of Milano refer mainly to the items within the group originating following its joining the national tax consolidation scheme, while the differential between costs and income represents the net burden sustained by the subsidiary following the completion and allocation of the unified services of the Group.

### **Meeting of 28 April 2004**

#### **Changes to company by-laws**

The extraordinary meeting of 28 April 2004 approved the change to some articles in the company by-laws in accordance with Legislative Decree no. 6/2003 reforming company law.

#### **Fondiarria-SAI 1992-2006 (ex 2004) Warrant**

The aforementioned meeting, again sitting in extraordinary session, also passed the extension of the period of operation of the Fondiaria-SAI warrant already in force from 1992-2004 for a further two years, therefore until 31 August 2006.

These warrants, traded in the Stock Exchange as from December 2003, give the right – as is known – to subscribe only to savings shares.

### **NATIONAL FISCAL CONSOLIDATION AND REFORM OF CORPORATE INCOME TAX (I.R.E.S.)**

Following the approval of Legislative Decree no. 344 of 12 December 2003 in implementation of the delegated legislation of 7 April 2003, no. 8, the Italian tax system has undergone an extensive reform whose effects will apply to the Company as from 2004 financial year.

Amongst the substantial innovations introduced was the right to adopt the new institution of national group consolidated taxation as regulated by arts. 117 and following of Presidential Decree 917/1986, as amended by the aforementioned Legislative Decree 344/2003 and which includes the payment of a single taxable amount, and a single tax, for the group corresponding to the algebraic sum of the taxable incomes of the member companies, possibly increased or reduced due to the effects of the consolidation adjustments provided for by the regulations under examination.

The Company therefore decided to implement this new procedure which, according to the evaluations, will allow us to manage the Group taxation more efficiently and we should benefit from the advantages, including, firstly, the possibility of immediately offsetting negative results (tax losses) obtained by some consolidated companies with positive results from the remaining companies. These are negative results which each company would otherwise have had to relate to the following years within the limits laid down by law and with the risk, which is a real one, of losing all or part of the tax saving relating to their availment.

Fondiarria-SAI therefore entered into a contractual agreement with each of the consolidated companies to manage the reciprocal relations with particular reference to assigning the advantages arising from the application of the new arrangement and identifying burdens and responsibilities with regard to the tax administration. The company has also activated an internal procedure, which it shares with the companies in the Group concerned, with the aim of regulating the operating, accounting and financial assets and the management of the flow of information between the consolidating and consolidated companies.

As regards the contractual aspect, particular attention has been given to a balanced assignment of the advantages and any disadvantages guaranteeing, among other things, that the consolidated companies in the position of “sub-holding” acknowledge those advantages which they could have obtained autonomously by their own tax consolidation.

The company has therefore, as consolidating company, arranged to carry out, within the terms of the law, the communications laid down by exercising the option, which will be extended for the entire three-year period 2004-2006.

The basis or area of consolidation will include 45 companies including Milano Assicurazioni S.p.A., in addition to the consolidating company itself.

By adopting national consolidation the Company is obliged to proceed with determining the total income of the group and the related tax on the basis of the data communicated to it by each consolidated company and, on behalf of the group itself, to provide for payment of the tax due in balance and on account net of the advance withholding tax, credits and payments made in advance, its own payments and those transferred by the individual consolidated companies.

The consolidating company is also jointly and severally liable with each consolidated company for the taxes due by it, within the limits stated in art. 127 of Presidential Decree 917/1986.

#### **Effects of joining the national tax consolidation on the accounts as at 31 December 2004**

In relation to the above, the Group Ires estimated for 2004 financial year is equal to about € 193m (of which about € 61m is payable by the consolidating company Fondiaria-SAI). This amount was shown in a tax fund and not as debits for tax burdens as, at the closure of the year, neither the declarations of income of the consolidated companies nor the declaration of the Group's income had yet been drawn up.

The expected tax saving, at Group level, would amount to about € 7.8m of which € 6.6m relates to the immediate and integral availment of the tax losses transferred by some consolidated companies and € 1.2m to the consolidation adjustments operated to take account mainly of the further tax loss of 5% of the dividends granted by the same consolidated companies within the Group.

The benefit relating to the immediate recovery of tax losses is also mitigated by the likely tax irrelevance of the write-downs of fixed holdings carried out in relation to obtaining negative results for the year.

Finally, it should be pointed out that as regards the Ires, receivables from subsidiaries relating to the transfer of positive taxable amounts of € 132.7m were noted, while receivables from the Treasury transferred in relation to the Group by consolidated companies and imputed to the accounts of the consolidating company offsetting payables to the subsidiaries amount to a total of € 84.7m.

## **CONSTITUTION OF A FOUNDATION**

On 22 April 2004 Fondiaria-SAI and MILANO ASSICURAZIONI set up a Foundation, called the Fondiaria-SAI Foundation, with an initial gift fund of € 600,000, distributed in equal parts between the two companies and to be used for cultural, welfare and charity purposes.

The size of the Group and the awareness of large companies that they have a role, including a social role, have led it to set up a Foundation whose aim may be summarised in the promotion of two fundamental values: “culture” and “solidarity”. In particular, the Foundation puts forward as an aim the promotion of culture, solidarity and the voluntary sector and supports particular cases which require social assistance. To pursue its aims, the Foundation can carry out any activity requiring support of a social or cultural nature and promote and defend culture and the arts in general (organising seminars, exhibitions, conferences, shows, concerts and events in general) as well as protecting, promoting and upgrading items of historical and artistic interest.

The Foundation has begun its work by taking initiatives as regards disadvantaged persons with the aim of social solidarity, making its own contribution in response to the social needs of the poorest sections of the population. The Board of the Foundation would like to attract personalities from the scientific world as well as some administrators and directors from both Companies.

The Board will also choose an Ethical Scientific Committee which will include important personalities from the scientific, cultural and voluntary worlds, such as those in charge of the Teatro Regio of Turin (Turin Royal Theatre) and the Teatro Comunale of Florence (Florence City Theatre).

## **COMPUTER SYSTEM INTEGRATION**

In order to rationalise the computing activity of the Group, during 2004 the following was carried out:

- consolidation of the organisational structures and operating methods, in terms of processes and procedures;
- activation of ADSL technology for the network of the ex SAI division, in order to improve the geographical telecommunications network with the Company;
- migration of equipment and resources to the district of Bruzzano, with the consequent complete closure of CED in Assago and optimisation of the operating pole in Milan with a view to server consolidation (mid range)
- development of technical WebSphere infrastructures, with the prospect of completing the operational start-up of the new claims system (IES) to be managed on line.

With particular reference to the new operating methods arising from the introduction (in 2007) of an on-line computer system, we should emphasise that this project will be translated into operating benefits in terms of efficiency, such as the replacement of the current checking of policies a posteriori in Management (with automatic checks and in real time) and the reduction of the back office activities (agency accounting and movement of paper) as well as in business terms, such as greater efficiency of future commercial development programmes aiming to reduce and control the underwriting risk, directed at reducing the time-to market and recover market shares and develop cross selling.

The new on line computer system will also reinforce the efficiency of the commercial programmes, as the Company will have a more accurate view of the provisions of services by the sales network. In particular, the Network of agents will be

in a position to operate with leaner and more flexible processes which reduce the time spent on administrative activities with greater speed and efficiency of commercial action and finally with greater control of how the sub-agencies operate.

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

Bearing in mind what is provided for in point 26 of the “Technical regulations governing security measures”, Annex B) to Legislative Decree no. 196 of 30/6/2003, Fondiaria-SAI S.p.A. declares that it has drawn up the Document relating to the Programme of Security for the year 2004, in compliance with the provisions of art. 34 of Legislative Decree no. 196 of 30/6/2003 and the technical Regulations mentioned above.

**RATING, DEALINGS WITH THE MARKET AND WITH INSTITUTIONAL INVESTORS**

In November last, the rating agency S & P confirmed the rating of the Group as being BBB-, with the outlook as stable.

This decision is supported by the leadership of the Fondiaria-SAI Group in non-Life business and by the excellent results. However the rating remains conditional upon the still limited increase in assets, which are, however, constantly improving, as well as the concentration of share investments in a small number of holdings, even though this concentration is undergoing positive development.

During 2004, meetings were held with the international financial community to improve the visibility of the Fondiaria-SAI Group, and to respond adequately to the increasing interest shown by investors.

The response of the market was certainly satisfactory, as shown by the progress of the shares throughout the year.

## **SUPPORT MEASURES IMPLEMENTED WITHIN THE SOCIAL AND CULTURAL SPHERE AND IN ORDER TO MAINTAIN THE COMPANY'S IMAGE**

2004 was a decisive year for the integration of the different entities operating within the Company and the Group; as stated in the Industrial Plan the projects which have been developed during the course of the year have had specific objectives to define a new visual identity, integrating the various company cultures in existence within the Group. At the same time, the necessary support to give adequate visibility to the business initiatives with the distribution networks, customers and the media was guaranteed.

Regarding the definition of a new system of visual identity, all the signs of recognition of the Group, its Companies and the distribution Networks were defined and distributed through the Manual, to all the targets involved (employees and agency networks) so that they could be used within a short time. The adoption of the same visual system, even in daily operational items, allowed us to promote the development of a co-ordinated image of the Group, using means of communication with a very low economic impact but with a high distribution potential.

With regard to the integration of the different company cultures within the Group, in the period under examination we planned in an integrated way the activities of Internal Communication through setting up paper and interactive instruments and organising events. We also continued to proceed with the work to integrate the Intranet, and share information through the newsletter entitled "NEWS" and the house magazine "TEAM", which are circulated to all employees of the Group and the distribution networks.

It should be emphasised that media relations are aimed at consolidating the image of strength and authority of the Group. In particular, this activity is centred on the evaluation of the results achieved and the strategic operations implemented by Top Management, showing fulfilment of the commitments taken on as regards the customers and the market, as well as adhering closely to the objectives expressed in the Industrial Plan.

Adequate visibility has finally been guaranteed for the Presto&Bene Project of the Claims Department which in the first six months of the year successfully started the pilot phase on the distribution networks; the creation of a single Network of Agreed Repair Workshops for the Group, distributed throughout the country, contributed to consolidating the image of leadership in the Non-Life business of the Group, through substantial improvement of the service to the Insureds.

The launch of the new unified Fondiaria-Sai Motor product, which took place in January 2005, required a special effort in the last quarter of 2004 to finalise a kit of promotional/publicity and information materials intended to support the Agent efficiently in his local marketing activity.

The activities of the External Relations and Communications Department have also provided the usual function of Customer Service.

The planning of sponsorship and donations provided for intervention throughout 2004 in the social and cultural areas, the arts and sport both at institutional level, and more specifically to consolidate the presence of the Group in the operational poles of Turin, Florence and Milan.



As part of External Relations, the Company organised the inaugural evening of the Teatro Regio of Turin (Turin Royal Theatre) (12 October 2004, with "La Bohème" by Giacomo Puccini) in which Fondiaria-SAI was the founding partner of the Foundation, showing once again the will of the Group to promote a very high level artistic-cultural scenario, its wish to consolidate the bond with the city of Turin and a renewed awareness of its own social responsibility which has amongst its priorities the creation of cultural value for the community in which it operates.

In culture and art, our Company has confirmed its own bond with the city of Florence through the now traditional presence, as a private member, in the "Maggio Musicale Fiorentino" Foundation (Florence May Musical Event), with the sponsorship of the final concert of the 67<sup>th</sup> festival. It should also be recalled that alongside the renewed support offered to the Guido Cantelli Orchestra of Milan Foundation and to the Puccini Festival, we have also endeavoured to restore and upgrade items of historical and artistic interest, such as the north façade of St. Mark's Basilica in Venice and the Propylaeum of St. Peter's Square in Rome.

Initiatives with a social and humanitarian content are up on last year showing the increasing attention and awareness of the Group to the values of solidarity and the Companies' principles of Social Responsibility.

We have confirmed the support to Telefono Azzurro (a 24-hour helpline for children and young people) for a "Training project for teachers in primary and junior schools" – to offer support to the teaching body in dealing with the various forms of hardship suffered by children and adolescents and ensure their healthy cognitive, emotional and behavioural development – and to prepare and distribute information leaflets in schools on the voluntary sector and public service.

Support has been renewed for Andos (Association of Women who have had Breast Surgery) and support has also been given to some organisations working in the area of social isolation and suffering, such as AMIAC – Italian Association of Cancer Sufferers and ARCA Italia, which was set up to help those with serious mental handicap in suitably equipped structures.

Amongst the initiatives undertaken in the sporting world, in sailing there has been success and good visibility for the logo in the Sai Maxi Yacht Idea, while Fondiaria-Sai Atletica and Tennis Tavolo Fondiaria-Sai Pieve Emanuele have won the Italian title in their respective disciplines of athletics and table tennis. In football we have also renewed our support for Fiorentina and technical support for Juventus, while in golf we have the Fondiaria-Sai Swing Cup.

In 2005 we will continue the process of identification begun last year; brands, visual identity and brand identity already started in the last quarter of 2004, will in the new year be expressed in appropriate combinations to give shape to a complete group of institutional instruments. As regards the Group Internal Communication (aimed at employees and the sales networks) in 2005 we intend to proceed with the centralisation and guidance – in co-ordination with the Human Resources Department – of all the flows of internal communication of all the companies in the Group, producing an appropriate "Internal Group Communications Plan".

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

The chart below shows the shareholdings held by Directors, Statutory Auditors, and General Managers under Art. 79 of CONSOB Resolution no. 11971 of 14/5/1999, containing the by-law to implement Legislative Decree no. 58 of 24/2/98 incorporating regulations governing listed companies.

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

Surname and first name	Participating interest	No. of shares owned as at 31 December 2003  Nominal value €1		No. of shares purchased	No. of shares sold	No. of shares owned as at 31/12/2003  Nominal value €1
<u>GENERAL MANAGERS</u>						
MARCHIONNI Fausto	Fondiarla-SAI	625 a) 282 a)	ord. sav.			625 a) 282 a)
<u>BOARD OF DIRECTORS</u>						
CARUSO Carmelo	Fondiarla-SAI Fondiarla-SAI	394 a) 115 a)	ord. sav.			769 a) 230 a)
LIGRESTI Giulia	Fondiarla-SAI	1,500 b)	ord.	2,000 a)		1,500 b)
Maria	Fondiarla-SAI	1,500 a)	ord.			3,500 b)
PINI Massimo	Fondiarla-SAI	9,385 a)	ord.			9,385 a)
TALARICO Antonio	Fondiarla-SAI	5,200 a)	sav.			5,200 a)
	Fondiarla-SAI	1,800 b)	ord.			1,800 b)
	Fondiarla-SAI	1,000 b)	sav.			1,000 b)
ZANNONI Oscar	Fondiarla-SAI	29,000 c)	ord.			29,000 c)

### LISTED SUBSIDIARIES

Surname and first name	Participating interest	No. of shares owned as at 31 December 2003  Nominal value 1		No. of shares purchased	No. of shares sold	No. of shares owned as at 31/12/2003  Nominal value €1
<u>BOARD OF DIRECTORS</u>						
PINI Massimo	Milano Ass.ni					10,000 a)
TALARICO Antonio	Milano Ass.ni	100 a)	ord.			100 a)
RUCELLAI Cosimo	Milano Ass.ni	8,694 a)	ord.			8,694 a)
ZANNONI Oscar	Milano Ass.ni	100,000 a)	ord.			100,000 a)
	Milano Ass.ni	93,000 b)	ord.			93,000 b)
	Milano Ass.ni	111,000 c)	ord.		37,000c)	74,000 c)

(a) shares owned directly

- (b) shares owned directly by spouse
- (c) shares owned through a subsidiary

## CURRENT DISPUTES

The appeal is still pending before the Court of Cassation filed by the Company – and by some other major Companies – against the judgment of the Council of State of 23.4.2002 which confirmed the sanction imposed by the Italian Competition Authority against 17 Companies, including the Parent Company, for the exchange of sensitive information through the company RC LOG. On 2 December 2004 the discussion hearing of the appeal was held at the Joined Sections of the Court of Cassation and we await the judgment of the Court.

The dispute arising from the known “antitrust” civil cases brought (as from April 2001) by insureds of the Company, continued in 2004 to a greater degree than expected and it is certainly a cause for concern. However the very recent favourable judgment delivered by the Joined Sections of the Supreme Court of Cassation (no. 2207 of 4 February 2005) – which declared the incompetence of the Justices of the Peace to give a judgment in the cases de quo in favour of the Court of Appeal – should, apart from a drastic reduction in the new cases (because they have to be presented before the Court of Appeal, with the consequent higher costs for our opponents) mean the termination of the cases in progress without a judgment being delivered against the Company.

In fact, the Justices of the Peace should adhere to the decision of the Joined Sections and merely declare their own incompetence, without discussing the merits. We should not exclude the possibility that some Justices of the Peace will reach a different decision.

In any case, the estimate of the costs for 2005 will certainly be quite considerably different, compared to that of the last two financial years.

At 31 December 2004 there were about 11,000 cases pending. The fund set aside for risks and charges of the Company accepts the estimate of costs which may be sustained if the cases are lost.

In June 2004, a settlement relating to the case which followed the merger by incorporation in 1995 of Latina Assicurazioni S.p.A. into La Fondiaria Assicurazioni S.p.A. was completed.

We should recall on this point that, referring for greater detail to the annual report of 2003, the Court of Milan gave a final ruling on this case, with a judgment on the quantum, following the case brought by some ex LATINA shareholders who, following the aforementioned merger, had brought a suit that the incorporating Company make good the loss which they allegedly suffered as a result of the merger.

We should recall in particular that, the judges of first instance, having received the information from the Court-Appointed Expert, evaluated the compensation for the plaintiffs at about € 1.7m, including interest, revaluation and fees.

Pending the deadline for appeal, there was the possibility of closing the case by settling out of court with a group of plaintiffs, the most in terms of numbers, to whom the Court denied or only recognised in part the right to compensation, with reference to their capacity as shareholders, for the shares owned by them

This failure to give recognition concerns more than 1.2 million savings shares and more than 200K ordinary shares, and suitable documentation was produced of their possession during the negotiations; if the shares in the appeal were admitted for compensation with the criteria laid down by the Court, the Company should have borne a further outlay, including interest and revaluation, which can be estimated at around € 1.2m.

The settlement agreement relating to the aforementioned shares amounts to € 640K, all inclusive.

This agreement brought to an end all possible further disputes with the aforementioned plaintiffs threatened by them regarding the determining of the exchange ratio, as they did not agree with the valuations which the Court reached in that judgment.

The investigations are still in progress in the seven cases brought against the Company by some shareholders of the incorporated company La Fondiaria Ass.ni S.p.A. in which they request the fulfilment of the alleged takeover bid obligations whose existence had been confirmed, according to the claimants, by CONSOB as demonstrated in the press release from CONSOB dated 18 December 2002.

In the cases in progress, apart from your Company, Mediobanca and – with the exception of one of them – Premafin, were also called as being held to be jointly and severally liable with Fondiaria -SAI.

In one of these cases, while your company was summonsed, no claim for compensation was made against it.

In the summons it is stated that the claimants suffered a loss as the Companies summonsed, carrying out an agreement between them, acquired control of La Fondiaria Ass.ni S.p.A. by evading their takeover bid obligations.

The loss was calculated by the various parties with many – and sometimes questionable – criteria even though, essentially, it was in their view, in short, shown by the differential between the value of the share based on the price of the takeover bid and the price the share had following the events considered to be of importance by the claimant parties.

The total compensation claimed from the Company jointly with the other Companies cited in the case amounts, per capital sum to about € 110m.

The Company duly appeared to challenge the reconstruction of the facts and the legal theories.

In the defence documents, apart from disputing the fact of the existence of an agreement with Mediobanca and the intermediary nature of the investors who had acquired the Fondiaria shares from Montedison, it is clear that if the need for the takeover bid were identified in time, the company would not have had as the sole solution that of launching the said bid, as the regulations provide, as an alternative, for the sale, within one year of purchase, of the shares exceeding 30% and the freezing of voting rights in the meantime.

Furthermore the sector regulations and the consequent need for authorisations from ISVAP – which had already refused them – and of the Banca d'Italia made the takeover bid a route that would be difficult to follow.

Given that the preliminary phase is not yet concluded, the outcome of the cases cannot be foreseen.

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

With effect from 1 February 2005, the Company launched the new single motor product for the SAI Division and Fondiaria Division providing the same Motor TPL tariff and Land Vehicles underwriting conditions for both Divisions.

The new product, NUOVA la GLOBAL, is different in two areas: vehicles and waterborne craft.

The main points are the more complete and current offer of covers, flexibility and modular nature of the content and price, clarity of policy wordings and inclusion of the most recent developments in legislation such as the Protocol of Understanding between ANIA, the Government and the Consumers' Association and the points licence.

As regards Motor TPL, the Bonus/Malus was introduced for every type of vehicle.

The extension of the family Bonus/Malus initiative to companies is provided for, as is the possibility of choosing the "Driver only" tariff formula.

For Land Vehicles, the customer can choose from three methods of cover: value as new (with settlement in the event of a partial loss without wear and tear), commercial value (with wear and tear) and total loss only.

Furthermore, he has the option to choose more covers from three lines of cover – independent of each other – according to his insurance preference: the "COMPACT LINE" for customers less inclined to spend on insurance, the "GLOBAL" LINE, for customers who want a complete cover and the "VIP" LINE, for those customers with greater insurance requirements.

Therefore five packages of Additional Covers and a wide range of motor assistance covers are provided.

### **Business outlook**

As already indicated, Italy has always been one of the countries in which the demand for private insurance has traditionally been lower; a plausible explanation for this is the different role which the State and family play in the various countries. For example, unlike the main countries in the European Union, in Italy, up until recently it was felt there was little need to provide for one's pension, as, until a few years ago, workers had one of the most generous public pension systems. In the same way it was felt there was little need to cover oneself for health risks, because of the protection provided by a free and universal public health system.

However, things are slowly changing: both a demographic risk and a financial risk are weighing heavily on public intervention, while the social role of the family is changing, moving from the centre of a system of social relations of "mutual support" to a less numerous and more isolated context.

In this situation, the private insurance companies therefore play a decisive role in the field of supplementary social security and private assistance, while the welfare crisis has led to the reappearance of the privatisation of assistance and the re-emergence of a social function of public protection provided by the insurance sector.

During 2005 therefore the policy of development and profitability pursued by the Group cannot depart from its social role as insurance company, further emphasising the mission of service to families and Italian companies.

Our leadership in the non-Life sector will allow us to continue to achieve economies of scale by keeping costs down and rationalising internal processes. In particular, our thorough knowledge of the market and the ability to respond to the needs of the customer by means of flexible and tailored products will allow us to establish the positive phase of the cycle in motor business, with effects also on market shares.

We will also continue the development of the non-Motor classes, with a prudent and selective approach, to increase our market share in the corporate sector.

These objectives will be supported by the development of all the distribution channels.

In Life business the company is ready to meet all the opportunities which the Welfare reform will bring: both with reference to the reform of the pension system, and as a response to the problems of a lack of self-sufficiency, but remaining aware of the importance of the social role of the private insurance system.

The efforts begun last year as regards the asset base and financial position will continue, with the aim of reinforcing the structure of the Group, continuing with the diversification and re-balancing of the mix of investments, favouring commitments with a low risk profile, and reducing debt.

Milan 23 March 2005

For the Board of Directors  
Chairman

JONELLA LIGRESTI

## **Report on Corporate Governance**

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

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

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

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

The Directors cannot be appointed for a period of more than three financial years but may be re-elected. The list voting system shall not be used for the appointment of directors. They must be in possession of the requisites prescribed in order to hold such an office as established by the special legislation applicable to insurance companies (Ministerial Decree 186/1997).

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

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

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

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

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

The Board of Statutory Auditors performs the tasks assigned to it by the Legislative Decree no. 58/98 (hereinafter also referred to as the “Consolidated Finance Act”).

The Statutory Auditors stay in office for three financial years. The procedure for their appointment is designed, in accordance with the law and statute, in such a way that one statutory member and one alternate member can be elected by the minority. The requirements of honourableness and professional competence of the statutory auditors are those established by Ministerial Decree no. 162/2000, in implementation of Legislative Decree no. 58/98, and by the Company's Bylaws, which have set limits on the number of offices held concurrently by statutory auditors. In particular, in accordance with the Company's By-laws, anyone whose circumstances are such as to render them inadmissible under the law or according to the By-laws, as well as anyone who holds the office of statutory auditor at more than ten insurance companies with their head office in Italy or companies issuing financial instruments and listed in the Italian regulated markets, with the exclusion of holding companies, their subsidiaries and subsidiaries of Fondiaria-SAI, may not be appointed as Statutory auditors and if elected, shall forfeit their office.



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

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

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

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

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

The Company is not subject to management and co-ordination by others pursuant to Article 2947 et seq. of the Civil Code. It does on the other hand carry out management and co-ordination activities in accordance with the aforementioned regulation in relation to its own subsidiaries, including Milano Assicurazioni and its direct subsidiaries.

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

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

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

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

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

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

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

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

The Board of Directors and the Executive Committee examine and approve beforehand transactions that are of economic and financial significance to the Company and its subsidiaries.

The composition of the Board of Directors, being unchanged as at today's date compared with 31 December 2004 and being made up of 19 members, is indicated elsewhere in this booklet. The current mandate will expire on the occasion of the Meeting to approve the accounts as at 31 December 2005.

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

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

As indicated elsewhere in the accounts booklet, the Executive Committee is currently made up of 7 members, including the Chairman, the three Vice Chairmen and the Managing Director, as well as 2 non-executive directors. The current composition is unchanged as compared with 31 December 2004.

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

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

Currently the Board of Directors has delegated to the Chairman and Managing Director all powers of ordinary and extraordinary administration, to be used with a single signature and with the possibility of conferring mandates and powers of attorney, with the exception of the following exclusively:

- transfer and/or purchase of immovables with a value greater than € 10m for each transaction;
- transfer and/or purchase of shareholdings with a value greater than € 25m for each transaction, and controlling shareholdings;
- taking on financing at a sum greater than € 50m for each transaction;
- issue of non-insurance guarantees in favour of third parties.

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

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

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

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

We should inform you that during 2004:  
the Board of Directors met on 9 occasions;  
the Executive Committee met on 3 occasions.

A similar frequency of meetings is foreseeable for 2005 financial year.

In addition to the Chairman and Managing Director, - as stated, vested with managerial powers of the Company assigned to them by the Board – the Vice Chairman Antonio Talarico should be considered to be an Executive Director as holder of the managerial powers and/or leadership functions within subsidiaries operating in the property sector, and amongst those, in Progestim S.p.A. which carries out the property management of the Company and the Group. All the directors other than those indicated are considered to be non-executive, as they do not have the managerial powers and/or leadership functions within the corporate framework. Other than to provide a numerical presence, non-executive directors are there due to their authority to ensure their opinion provides a significant weighting on decisions taken by the Board, to which they bring their specific competences by contributing to the decision-making process in line with the company's interests. The contribution of the non-executive directors proves to be especially useful in cases in which the interests of the executive directors and the more general interests of the shareholders might not coincide. In fact a non-executive member of the Board can have a greater degree of detachment when assessing the proposals and courses of action to be taken by the managing directors.

Still in accordance with the definitions contained in the Code, the non-executive directors are: Mr Andrea Broggin, lawyer, Mr. Carmelo Caruso, lawyer, Dr. Mariella Cerutti Marocco, Prof. Siro Lombardini, Dr. Enzo Mei, Prof. Giuseppe Morbidelli, Mr. Massimo Pini, Mr Cosimo Rucellai, lawyer, Dr. Oreste Severgnini, Dr. Salvatore Spiniello, Eng. Oscar Zannoni. The said directors do not in fact have either directly, indirectly or on behalf of third parties nor have they recently had financial dealings with the company, its subsidiaries, the executive directors and/or with the controlling shareholder which are of such significance as to interfere with the exercise of their independent judgment nor do they have sharehold-

ings, either directly, indirectly or on behalf of third parties, the size of which is such as to permit them to exercise control or considerable influence on the Company, nor do they participate in parasocial agreements with the aim of controlling the latter, nor are they close relatives of executive directors of the Company or of persons who find themselves in the situations indicated above.

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

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

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

We show below, in accordance with the code of self-regulation of listed companies, the list of the posts of Director or Statutory Auditor held by the Company's directors as at 23 March 2005 in other companies listed in regulated markets, including foreign ones, namely financial companies, banks, insurance companies or, in any event, sizeable corporates:

**Jonella LIGRESTI**

Chairman of: SAI HOLDING ITALIA S.p.A.

Vice Chairman of: PREMAFIN FINANZIARIA S.p.A.  
ATAHOTELS S.p.A.

Member of the Board of: ASSONIME Association of Italian public limited companies  
CAPITALIA S.p.A.  
FINADIN S.p.A. Finanziaria di Investimenti  
GILLI S.r.l.  
MEDIOBANCA S.p.A.  
MILANO ASSICURAZIONI S.p.A.  
RCS MediaGroup S.p.A.

**Giulia Maria LIGRESTI**

Chairman and  
Managing Director of: PREMAFIN FINANZIARIA S.p.A.

Chairman of: GILLI S.r.l.

Managing Director of: SAI HOLDING ITALIA S.p.A.  
SAIFIN SAFINANZIARIA S.p.A.

Member of the board of: MILANO ASSICURAZIONI S.p.A.

FINADIN S.p.A. Finanziaria di Investimenti  
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.  
PROGESTIM S.p.A.

Member of the Board of: FINMECCANICA S.p.A.  
FINADIN S.p.A. Finanziaria di Investimenti  
MILANO ASSICURAZIONI S.p.A.

**Antonio TALARICO**

Chairman of: ATAHOTELS S.p.A.  
FINADIN S.p.A. Finanziaria di Investimenti  
NUOVE INIZIATIVE TOSCANE S.r.l.  
SAIAGRICOLA S.p.A.

Managing Director of: PROGESTIM S.p.A.

Member of the Board of: MILANO ASSICURAZIONI S.p.A.  
FERROVIE NORD MILANO S.p.A.  
AUTOSTRADA TORINO-MILANO S.p.A.  
SAI INVESTIMENTI SGR S.p.A.  
SINA S.p.A.

Managing Director of PROGESTIM S.p.A.

Member of the Board of: MILANO ASSICURAZIONI S.p.A.  
SAI INVESTIMENTI SGR S.p.A.  
FERROVIE NORD MILANO S.p.A.  
AUTOSTRADA TORINO-MILANO S.p.A.  
SINA S.p.A.

**Fausto MARCHIONNI**

Chairman and  
Managing Director of: MILANO ASSICURAZIONI S.p.A.  
SIAT S.p.A.

Chairman of: BANCA SAI S.p.A.  
BIM VITA S.p.A.  
MY FIN 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: NOVARA VITA S.p.A.

Member of the Board of: ANIA (Welfare)  
IRSA

**Andrea BROGGINI**

Member of the Board of:       BANCA EUROMOBILIARE (Switzerland) S.A.  
FAAC S.p.A.  
FEDERAZIONE DELLE COOP. MIGROS  
GENERALI (Switzerland) HOLDING  
GESTIONI LOMBARDE (Switzerland) S.A.  
KIEGER A.G.  
MARCH LIMITED  
OERLIKON-KNORR EISENBAHNTECHNIK A.G.

**Carmelo CARUSO**

Chairman of:               SAIFIN SAIFINANZIARIA S.p.A.

**Mariella CERRUTTI MAROCCO**

Chairman of:               CERFIN S.p.A.

**Carlo d'URSO**

Vice Chairman of:       IMMSI S.p.A.

Member of the Board of:       BANCA BSI S.p.A.  
BANCA SAI S.p.A.  
G.I.M. – Generale Industrie Metallurgiche S.p.A.  
MB FINSTRUTTURE-INTERSOMER S.p.A.  
MICOS BANCA S.p.A.  
PREMAFIN FINANZIARIA S.p.A.

**Vincenzo LA RUSSA**

Chairman of Board of  
Statutory Auditors:       INNOVAZIONE ITALIA S.p.A.

**Gioacchino Paolo LIGRESTI**

Chairman of: SRP ASSET MANAGEMENT S.A.  
Vice Chairman of: ATAHOTELS S.p.A.  
BANCA SAI S.p.A.  
MILANO ASSICURAZIONI S.p.A.  
PREMAFIN FINANZIARIA S.p.A.  
PROGESTIM S.p.A.  
SAI INVESTIMENTI SGR S.p.A.  
SAIAGRICOLA S.p.A.  
Member of the Board of: FINSAI INTERNATIONAL S.A.  
GILLI S.r.l.  
SAILUX S.A.  
SAINTERNATIONAL S.A.  
TELECOM ITALIA MOBILE S.p.A.  
TIM ITALIA S.p.A.

**Lia Lo VECCHIO**

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

**Siro LOMBARDINI**

Deputy Vice Chairman: BANCO POP. DI VERONA E NOVALA S.c.r.l.

**Enzo MEI**

Chairman of: SOCIETA GESTIONE CAPANNELLE S.p.A.  
Vice Chairman of: CREDITO INDUSTRIALE SAMMARINESE S.A.  
Managing Director of: GENERAL SERVICE ITALIA S.p.A.  
Member of the Board of: BANCA GALILEO S.p.A.  
DATA SERVICE S.p.A.  
FINANTIA S.A.

**Giuseppe MORBIDELLI**

Member of the Board of: A.C. FIORENTINA S.p.A.  
CASSA DI RISPARMIO DI FIRENZE S.p.A.  
CASSA DI RISP. PISTOIA E PESCIA S.p.A.

**Cosimo RUCELLAI**

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

**Oreste SEVERGNINI**

Vice Chairman of:      BPU BANCA INTERNATIONAL S.A.

Member of the Board of:      ALI S.p.A.  
BANCA POP. COMM. E INDUSTRIA S.p.A.  
GIOCHI PREZIOSI S.p.A.  
RATTI S.p.A.  
SIDI S.p.A. Italian data-processing company

Chairman of Board of  
Statutory Auditors of:      ASTER ASSOCIATE TERMOIMPIANTI S.p.A.  
DALMINE S.p.A.  
SADI S.p.A.  
TECHINT S.p.A.

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

**Salvatore SPINIELLO**

Chairman of:      SCONTOFIN S.A.

Member of the Board of:      SASA Assicurazioni Riassicurazioni S.p.A.  
SIAT S.p.A.

Chairman of Board of  
Statutory Auditors of :      IMMOBILIARE LOMBARDO S.p.A.  
UNICREDIT Banca per la Casa S.p.A.  
Statutory Auditor of:      EDISON S.p.A.  
TELECOM ITALIA S.p.A.  
TELECOM ITALIA MEDIA S.p.A.  
UNICREDIT BANCA S.p.A.

**Oscar ZANNONI**

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

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



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

**Marco SPADACINI**

Member of the Board of: A. MONDADORI EDITORE S.p.A.  
Chairman of the Board  
of Statutory Auditors of: SORIN S.p.A.  
Statutory Auditor for: AUTOSTRADE S.p.A.  
IMMSI S.p.A.  
SNIA S.p.A.

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

### **Chairman of the Board of Directors**

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

### **Treatment of confidential information**

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

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

Any dealings with the press and other means of mass communication (or with financial analysts and professional investors), for the purposes of the disclosure of documents and information of a corporate nature, must be expressly authorised by the Managing Director. The Company belongs to the Network Information System, organised and managed by the Italian Stock Exchange for the teletransmission of information to be made available to the market.

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

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

### **Appointment of Directors**

During 2004 financial year it was still thought not to be expedient to set up within the Board a special committee for proposals for appointment to the post of director, given that the ownership of the Company is sufficiently concentrated so that there has never been any difficulty on the part of the shareholders in preparing such proposals for nomination, after being provided with a prior selection of candidates.

On the occasion of the appointment of directors, the shareholders who intend to put names forward are recommended to submit the curriculum vitae of each candidate to the registered office prior to the General Shareholders' Meeting. The list voting mechanism shall not be used for the appointment of directors.

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

In 2004 financial year the Board of Directors again did not set up within the Board a specific committee for the remuneration of directors who hold special positions. The fees payable to directors were determined in accordance with Article 2389 of the Civil Code, having obtained the favourable opinion of the Board of Statutory Auditors, with the abstention of the party concerned.

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

Fees allocated to directors under any item whatsoever during the course of 2004 are shown in a special statement contained in the Notes to the Accounts. The Company has not as yet set up a special independent committee to determine the criteria of remuneration for the Company's senior management. To date in fact, no particular procedures have been defined for the remuneration of the Company's senior management, nor have stock option schemes pertaining to shares of the Company or of the subsidiary Milano Assicurazioni been introduced.

### **Internal control**

Current legislation imposes on insurance companies the obligation to adopt adequate internal control procedures. Through a special instruction, ISVAP has in turn defined the system of internal control of the companies and the related operating procedures. The internal control system is made up of rules, procedures and organisational structures designed to ensure the proper functioning and the smooth running of the business.

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

Responsibility for verifying the adequacy, effectiveness and efficiency of the procedures adopted and of the internal control system in general forms part of the function of the Group Internal Audit Division; this operates under the remit of the Managing Director and its activities are also directed towards the identification of business risks and the content of such risks. The activities of the Internal Audit Division are therefore extended to include all the business processes of Fondiaria-SAI and the companies in the Group; the Division indicates what corrective action is thought to be necessary and it is moreover responsible for following this up in order to ensure that the corrective measures have been implemented and to check on the effectiveness of the changes made to the system.

The Board of Directors is responsible for the Company's internal control system and periodically checks on the adequacy and effective functioning of the system,

assisted in this by the Internal Control Committee. The Managing Director has the task of establishing the policy guidelines for the internal control system, of identifying the business risks and of taking care of the planning, management and monitoring of the internal control system, appointing the persons to be in charge of the said system.

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

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

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

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

#### **Internal control committee**

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

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

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

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

- assisting the Board with the periodic checking of the adequacy and effective functioning of the internal control system;
- assessing the work plan prepared by those in charge of internal control and receiving periodic reports from them;

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

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

During 2004 the Committee met three times in order to fulfil the functions in question.

In particular, on the occasion of the meeting prior to the meeting of the Board of Directors called to approve the draft accounts as at 31 December 2003, the Committee approved the plan setting out the function of the Internal Audit Division and stated its belief that the Company's internal control system was for the time being adequate. The Committee also expressed the opinion that:

- the accounting principles used, having heard the person in charge of the administrative management of the Company and the opinion of the external auditing company Deloitte & Touche S.p.A. should be considered to be adequate and homogeneous for the purposes of drawing up the consolidated accounts;
- the rules of governance adopted by the Company should be considered to have been observed, to the knowledge of the Committee.

During a subsequent meeting prior to that of the Board of Directors called to approve the half-yearly report as at 30 June 2004, the Internal Control Committee, apart from confirming its assessment of the adequacy of the internal control system, analysed, inter alia, the action set in place to implement the most recent provisions of the Supervisory Body.

#### **Organisation and management model ex Legislative Decree no. 231 of 8 June 2001**

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

The Board decided that the adoption of the Organisation and Management Model stated in Legislative Decree no. 231/2001 as mentioned, although not compulsory, could constitute a valid instrument to make all employees of LA FONDARIA-SAI and all other subjects involved aware, so that they carry out their

activities in a correct and linear way, to prevent the risk of the offences described in the decree being committed.

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

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

The Board decided to set up the Supervisory Body to which will be assigned, in general terms, the task of supervising compliance with the rules of the Model by those for whom it is intended, checking the truly efficient and effective capacity of the Model, in relation to the company structure, preventing the committing of the offences stated in Legislative Decree no. 231/2002 and updating the Model, where there is a need to adjust it for changes in corporate conditions.

On 16 February 2005 the Board finally approved the Company's Ethics Code, to confirm the fact that in carrying out its own activity, FONDIARIA-SAI is inspired by criteria of transparency and accuracy, in compliance with the law and the interests of the group.

The Ethics Code is available on the Company's website.

### **Transactions with related parties**

On 16 February 2005 the Board of Directors approved specific principles of conduct to carry out significant transactions with related parties.

#### **Significant transactions**

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

#### **Transactions with related parties**

With reference to the transactions with related parties, as defined by the CONSOB communication no. DEM/2064231 of 30 September 2002, the following should be stated:

- transactions with related parties, also concluded through the subsidiaries, are reserved to the exclusive competence and prior approval of the Board of Directors, which in their subject matter, countervalue, procedures or times for realisation may have an effect on the safeguarding of the business assets or on the completeness or accuracy of information, including accounting information, relating to the issuer, and regarding which the issuers are obliged to make an appropriate informative document available to the public, under the terms of art. 71a of CONSOB reg. no. 11971/1999;
- a series of transactions with related parties specifically identified by type and limit of amount (unlike transactions within the group as stated below) are also subject to the examination and approval of the Board of Directors or the Executive Committee, usually in advance, even if they fall within the limits of value assigned to the Chairman and the Managing Director, considered both individually and accumulated with other transactions related to them within the previous twelve months;
- finally as regards transactions within the group, these generally fall within the scope of the powers delegated by the Board to the Chairman and to the Managing Director and are therefore not reserved to the competence of the Board and/or Executive Committee, except when their value generally exceeds the limits laid down for the exercising of these delegated powers. It should be stated on this point that:
  - according to what is laid down for insurance companies by the specific legislation for the sector, the transactions within the group in which at least one of the parties is an insurance company – where these transactions are significant on the basis of quantitative parameters laid down in advance by the sector legislation – are subject to prior authorisation from ISVAP and are only carried out after the authorisation is given by the supervisory body;
  - transactions within the group concluded between two subsidiaries which are not insurance companies fall, if the conditions apply, under those which are subject to communication to the parent company for which resolutions by the Board of Directors or the Executive Committee have been passed in accordance with the rules of conduct referred to in the last paragraph of the previous section.

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

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

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

In the cases referred to in the paragraph above, the decisions of the Board of Directors adequately justify the reasons for the transaction and its benefit to the company.

The Board of Directors assesses what is the most appropriate decision to be taken in the event that keeping the directors away at the time that the resolution is passed might be considered prejudicial to the existence of the necessary constitutive quorum.

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

The Company has always been careful to attach importance to establishing an on-going dialogue with the majority of shareholders, and particularly with institutional investors, based on a mutual understanding of the reciprocal roles of each; this includes, moreover, the observance of internal procedures for the external communication of documents and information concerning the Business, an aspect that we have already examined earlier on in this report. The Chairman and Managing Director act accordingly.

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

The Investor Relations Division is responsible for providing the on-line information supplied through the Company's website, for the circulation of forecasts, dealings with the Rating Agencies and generally dealings with the institutional investors. Along with the Press Office, it also deals with the distribution of press releases and comments on market rumours. The Investor Relation Division can be contacted at the telephone number 011/6657.642 and/or the email address [investorrelations@fondiaria-sai.it](mailto:investorrelations@fondiaria-sai.it).

To promote further dialogue with shareholders, the Group's internet site has moreover been set up and is operative.

#### **General meetings**

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

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

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

#### **Statutory auditors**

The statutory changes to the procedure for the appointment of statutory auditors introduced as a result of the Consolidated Finance Act have assured the trans-



parency of this procedure, designed to permit one statutory member of the Board of Statutory Auditors to be elected by the minority.

The current Board of Statutory Auditors is made up of three statutory auditors and three alternate ones, whose names are indicated elsewhere in this booklet. They were appointed by the General Shareholders' Meeting of 29 April 2003, on the occasion of which the shareholders submitted two lists for consideration. With reference to the current composition of the Board of Statutory Auditors, it should be noted that Dr. Marco Spadacini and Dr. Sergio Castellini were elected at the aforesaid General Shareholders' Meeting as statutory Auditor and alternate Auditor respectively from the list that proved to be the second one based on the number of votes.

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

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

Three tables that summarise the procedures for the adoption of the principal recommendations of the Code are attached hereto:

- the first table sums up the structure of the Board of Directors and of the Internal Committees;
- the second table summarises the characteristics of the Board of Statutory Auditors;
- the third and final table sums up the degree of conformity with the other provisions of the Code in matters relating to the power of attorney system, transactions with related parties, appointment procedures, general meetings, internal control and investor relations



TABLE 1: STRUCTURE OF BOARD OF DIRECTORS AND COMMITTEES

BOARD OF DIRECTORS							Internal Control Committee		Remuneration Committee (a)		Any Committee appointments (b)		Executive Committee	
Post	Members	executive	non-executive	independent	***	No. of other posts *	**	***	**	***	**	***	**	***
Chairman	Jonella LIGRESTI	X			100%	10							X	100%
Vice Chairman	Giulia Maria LIGRESTI		X		67%	10							X	100%
Vice Chairman	Massimo PINI		X	X	100%	5							X	100%
Vice Chairman	Antonio TALARICO	X			100%	10							X	67%
Managing Director	Fausto MARCHIONNI	X			100%	12							X	100%
Director	Andrea BROGGINI		X	X	89%	8								
Director	Carmelo CARUSO		X	X	22%	1								
Director	Mariella CERUTTI		X	X	56%	1								
Director	Carlo d'URSO		X		78%	7								
Director	Vincenzo LA RUSSA		X		89%	1							X	100%
Director	Gicchino Paolo LIGRESTI		X		78%	14							X	67%
Director	Siro LOMBARDINI		X	X	67%	1								
Director	Lia LO VECCHIO		X		89%	4								
Director	Enzo MEI		X	X	78%	6	X	100%						
Director	Giuseppe MORBIDELLI		X	X	89%	3								
Director	Cosimo RUCCELLAI		X	X	89%	2	X	100%						
Director	Oreste SEVERGNINI		X	X	33%	12								
Director	Salvatore SPINIELLO		X	X	100%	9	X	67%						
Director	Oscar ZANNONI		X	X	67%	9								
<b>a) Summary of reasons for absence of Committee:</b> In 2004 financial year the Board of Directors did not set up a specific Committee for the remuneration of directors with special positions. The Board dealt with it directly itself or conferred a mandate to directors, in each case having obtained the favourable opinion of the Board of Statutory Auditors.														
<b>b) Summary of reasons for absence of Committee:</b> The ownership of the Company is sufficiently concentrated and there were no difficulties for the reference shareholder in preparing such proposals for nomination.														
Number of meetings held during the financial year referred to				Board of Directors: 9			Internal Control Committee: 3				Executive Committee: 3			

**NOTES:**

\* This column shows the number of posts of director or auditor held by the person concerned in other companies listed on regulated markets, including foreign ones, in finance companies, banks, insurance companies of substantial size. In the Report on Corporate Governance, the posts are indicated in full.

\*\* In this column, "X" indicates whether a member of the Board of Directors belongs to the Committee.

\*\*\* This column shows the percentage of participation of the directors in the meetings of the Board of Directors and the Committees respectively.

TABLE 2: BOARD OF STATUTORY AUDITORS

<b>Post</b>	<b>Members</b>	<b>Percentage of participation in meetings of the Board</b>	<b>Number of other posts **</b>
Chairman	Giovanni Benito MARINO	100%	-
Statutory auditor	Giancarlo MANTOVANI	100%	-
Statutory auditor	Marco SPADACINI *	100%	5
Alternate auditor	Giorgio Di GIULIOMARIA		
Alternate auditor	Maria Luisa MOSCONI		
Alternate auditor	Sergio CASTELLINI *		
Number of meetings held during the financial year referred to: 18			
Indicate the quorum required for the presentation of the lists by the minority for the election of one or more statutory members (ex art. 148 Consolidated Finance Act): 3%			

**NOTES:**

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

\*\* This column shows the number of posts of director or auditor held by the person concerned in other companies listed in Italian regulated markets. In the Report on Corporate Governance, the posts are indicated in full.

**TABLE 3: OTHER PROVISIONS OF THE SELF-REGULATION CODE**

	YES	NO	Summary of reasons for any deviation from the recommendations of the Code
<b><i>System of powers of attorney and transactions with related parties</i></b>			
Has the Board of Directors assigned powers defining their:			
a) limits	X		
b) procedures for operation	X		
c) frequency of providing information?	X		
Has the Board reserved for itself the examination and approval of transactions with a particular economic and financial importance (including transactions with related parties)?	X		
Has the Board defined guidelines and criteria for identifying "significant" transactions?	X		
Are the above guidelines and criteria described in the report?	X		
Has the Board defined appropriate procedures for the examination and approval of the transactions with related parties?	X		
Are the procedures for the approval of the transactions with related parties described in the report?	X		
<b><i>Procedures of the most recent appointment of directors and auditors</i></b>			
Did the submission of the names of the candidates for the post of director take place at least ten days in advance?		X	One single proposal was put forward by the shareholders on the day of the meeting, accompanied by the curriculum vitae of the candidates, which were distributed to the participants
Were the names of the candidates for the post of director accompanied by full information?	X		
Were the names of the candidates for the post of director accompanied by an indication of their suitability to be described as independent?		X	The Board evaluated as a whole the independence of its own non-executive members on the basis of statements made by them, and in some cases, by examining the situation of those concerned case by case.
Did the submission of the names of the candidates for the post of auditor take place at least ten days in advance?	X		
Were the names of the candidates for the post of auditor accompanied by full information?	X		

**TABLE 3: OTHER PROVISIONS OF THE SELF-REGULATION CODE**

	YES	NO	Summary of reasons for any deviation from the recommendations of the Code
<b>General Shareholders' Meetings</b>			
Did the company approve Regulations for the meeting?		X	The provisions of the Company Bylaws – which give the Chairman the power to direct the discussion and define some procedures of operation of the meeting – are considered to be suitable to allow the meeting to take place in an ordered and functional manner.
<b>Internal Control</b>			
Did the company appoint people to work in Internal Control?	X		
Are those employed hierarchically not dependent on managers from operational areas??	X		
Organisational unit in charge of internal control (ex art. 9.3 of the Code)			Function of Group Internal Audit
<b>Investor Relations</b>			
Has the company appointed an Investor Relations manager?	X		
Organisational unit and references (address/telephone/fax/email) of Investor Relations Manager			<b>Investor Relations Division</b> – Corso G. Galilei, 12 TURIN Tel 011/6657.642 email: <a href="mailto:investorrelations@fondiaria-sai.it">investorrelations@fondiaria-sai.it</a>

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*Report by the Board of Directors*  
*to the*  
*Ordinary Shareholders' Meeting*

### ***DIRECTORS' REPORT***

***- in accordance with art. 3 of Ministry of Justice Decree no. 437 of 5 November 1998 – on proposals concerning the items on the Agenda of the Ordinary Meeting called at the offices of FONDIARIA-SAI S.p.A. in Florence, at Via Lorenzo il Magnifico no. 1, for 26 April 2005 at 11 a.m., for the first call, and if necessary, for 27 April 2005, at the same time, for the second call, at the Palazzo dei Congressi in Florence, at Piazza Adua no. 1.***



## Proposals to the Ordinary Shareholders' Meeting

Dear Shareholders,

1. **Accounts as at 31 December 2004.**  
**Board of Directors' Management report.**  
**Report by the Board of Statutory Auditors in accordance with art. 153 of Legislative Decree no. 58/1998 and report from the external auditing company.**  
**Resolutions related to and resulting from the above.**

Having regard to the management report and the report by the Board of Statutory Auditors, the contents of which are regulated by the Legislative Decree no. 58/98, having regard moreover to the report from the external auditing company (all of which are available to be viewed by members at the registered office, together with the accounts, in accordance with the law) we now submit for your approval, in addition to the accounts, the following proposal for the distribution of the net profit for the year of € 258,472,822.51, which is made up of the sum of the net profit for Life business of € 7,539,682.99 and the net profit for Non-Life business of € 250,933,139.52, which includes, after making the allocations due in accordance with the law and statute, the distribution of a gross dividend of € 0.75 for each ordinary share entitled to the dividend and of € 0.802 for each savings share entitled to the dividend.

Net profit for the year	€	258,472,822.51
To the Life business legal reserve	€	150,970.20
To the Non-Life business legal reserve	€	289,324.05
to 41,825,257 savings shares: dividend of € 0.065 gross, equal to 6.50% of their nominal value	€	2,718,641.71
	€	255,313,886.55
to 122,039,680 ordinary shares (1): dividend of € 0.75 gross, equal to 75% of their nominal value	€	91,529,760.00
to 41,825,257 savings shares: last dividend € 0.737 gross, and thus in total € 0.802 equal to 80.20% of their nominal value	€	30,825,214.41
	€	132,958,912.14
to the Life business extraordinary reserve	€	7,388.712.79
To the Non-Life business extraordinary reserve	€	125,570.199.35

(1) Proposal drawn up on the basis of the shares that make up the share capital net of own shares in the portfolio.

**If you agree with this proposal, then, in accordance with the regulations established in this regard by the Italian Stock Exchange, we would invite you to declare the dividend with effect from 5 May 2005.**

## **2. Authorisation for the Company to take out an insurance policy to cover the public liability of the company boards**

We propose an authorisation to take out an insurance policy to cover the risks of public liability which the members of the company boards of FONDIARIA-SAI (Board of Directors, Board of Statutory Auditors, General Management) may incur with regard to third parties, as a result of breaches of obligations in carrying out their duties arising from the office they hold. The insurance cover would include the cost of legal and expert assistance for the insureds, while the liabilities arising from fraudulent conduct and the administrative sanctions laid down by the Supervisory Bodies would remain excluded.

This proposal has been formulated in consideration of the importance and complexity of the duties attributed to the company boards by the current legislation, which gives the members increasingly broad and onerous personal responsibilities.

The total cost of the policy per annum, for a maximum sum insured of up to € 35m, is estimated to be no more than € 600K.

## **3. Resolutions concerning the remuneration payable to the Board of Statutory Auditors**

We should recall first of all that the meeting of 28 April 2003, appointing the Board of Statutory Auditors for the three-year period 2003/2004/2005 (and therefore, until the meeting to approve the accounts for 2005 financial year), had decided to set the remuneration, on an annual basis, at a sum of € 105,000 for the Chairman and € 70,000 for each statutory auditor.

Taking into account the actual amount of work involved for the auditors, given the expansion of the Group, we propose to increase the remuneration payable to the Board of Statutory Auditors for the current year (as from 1 January last) and until the mandate expires, on an annual basis, to the sum of € 135,000 for the Chairman and € 90,000 for each statutory auditor.

## **4. Resolutions concerning own shares in accordance with articles 2357 and 2357b of the Civil Code.**

In compliance with previous resolutions on your part, your Company, as at the date of this report, holds 6,690,212 own ordinary shares, equal to 5.20% of the ordinary capital and 3.92% of the entire share capital; however it does not hold own savings shares. Moreover, again as at the date of this report, the subsidiary MILANO ASSICURAZIONI S.P.A. holds a further 3,611,557 ordinary shares in the Company, equal to 2.81% of the ordinary capital and 2.12% of the entire share capital, and the subsidiary SAIFIN-SAIFINANZIARIA S.P.A. holds 1,060,000 ordinary shares in the Company, equal to 0.82% of the ordinary capital and 0.62% of the entire share capital.

On 28 April next, the twelve-month deadline set by the Shareholders' Meeting of FONDIARIA-SAI on 28 April 2004 for the purchase and sale of own shares will expire.

***In order to continue to allow the Company to trade in own shares, obtaining, where possible, positive results taking into account the liquidity of the security from time to time and the performance of the share and the market, we propose the authorisation, in accordance with articles 2357 and 2357b of the Civil Code, of further purchases of own ordinary shares and/or savings shares, in one or more instalments and over a period of twelve months from the date of the resolution, up to a maximum increase, taking into account any sales made in the meantime, of 4,000,000 shares with a nominal value of € 1 each, but within a maximum sum of € 80m, without prejudice to the limits stated in art. 2357 of the Civil Code, referred to below.***

We also propose the authorisation, where possible, of the transfer of own shares currently in the portfolio and of those purchased on the basis of this resolution.

The maximum number of own shares to be purchased indicated above must be understood to be the difference between the own shares purchased and those sold in accordance with the authorisation by the meeting.

We propose that each purchase be made for a unit consideration of no more than 5% (five per cent) of the average reference price registered in the telematic system of the Italian Stock Exchange during the three sessions preceding each individual transaction and that the transfers be made at a price which should be no less than 5% (five per cent) of the average reference price registered in the telematic system of the Italian Stock Exchange during the three sessions preceding each individual transaction.

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

In order to realise the aforementioned purchases, we propose – following the clearing of the “Reserve for own shares to be purchased”, for the amount which will apply on 28 April next on expiry of this authorisation, to be allocated to the “Extraordinary reserve” – that an amount of € 80m be set aside to the “Reserve for own shares to be purchased”, using funds drawn from the “Extraordinary reserve”, from which we also propose to withdraw the amounts necessary to replenish the reserve as stated in art. 2357b of the Civil Code which provides for write-ups of own shares following eventual write-downs of same.

If you approve the proposal, we must inform you that, based on the provisions of art. 132 of Legislative Decree no. 58/98 and the related implementing regulation issued by the Italian Stock Exchange, the sale and purchase of own shares will be carried out in the market, following procedures agreed with the Italian Stock Exchange, to ensure parity of treatment between shareholders.

We invite you furthermore to establish any related terms and procedures.

**5. Resolutions concerning the shares of the holding company PREMAFIN FINANZIARIA Società per Azioni – Holding di Partecipazioni in accordance with art. 2359a of the Civil Code.**

In compliance with previous resolutions on your part, your Company, as at the date of this report, holds 18,340,027 ordinary shares in the holding company PREMAFIN FINANZIARIA S.p.A. – Holding di Partecipazioni (hereinafter PREMAFIN), equal to 5.85% of the share capital.

Moreover, again as at the date of this report, the subsidiary MILANO ASSICURAZIONI S.P.A. holds a further 5,789,700 PREMAFIN ordinary shares, equal to 1.85% of the share capital and the subsidiary SAIFIN-SAIFINANZIARIA S.P.A. holds 66,588 PREMAFIN ordinary shares, equal to 0.02% of the share capital.

On 28 April next, the twelve-month deadline set by the Shareholders' Meeting of FONDIARIA- SAI on 28 April 2004 for the purchase and sale of PREMAFIN shares will expire.

***In order to continue to allow the Company to trade in the shares of the holding company PREMAFIN, obtaining, where possible, positive results taking into account the liquidity of the security from time to time and the performance of the share and the market, we propose the authorisation, in accordance with article 2359a of the Civil Code, of further purchases of PREMAFIN shares, in one or more instalments and over a period of twelve months as from the date of the resolution, up to a maximum increase, taking into account any sales made in the meantime, of 6,000,000 shares with a nominal value of € 1 each, but within a maximum sum of € 10m, without prejudice to the limits stated in art. 2359a of the Civil Code, referred to below.***

We also propose the authorisation, where possible, of the transfer of shares in the holding company PREMAFIN already held as well as those purchased on the basis of the resolution by the meeting.

The maximum number of PREMAFIN shares to be purchased indicated above must be understood to be the difference between the PREMAFIN shares purchased and those sold in accordance with the authorisation from the meeting.

We propose that each purchase be made at a unit consideration of no more than 5% (five per cent) of the average reference price registered on the telematic system of the Italian Stock Exchange during the three sessions preceding each individual transaction and that the transfers be made at a price which should be no less than 5% (five per cent) of the average reference price registered on the telematic system of the Italian Stock Exchange during the three sessions preceding each individual transaction.

In any event, in accordance with the provision in article 2359a, paragraph 3 of the Civil Code, the total nominal value of the shares of the holding company, taking account of any owned by the said company and by its subsidiaries, will not exceed one tenth of the share capital of the said holding company. All purchase and/or sale transactions will also be made in accordance with all other applicable supervisory provisions.

In order to realise the aforementioned purchases, we propose – following the clearing of the “Reserve for holding company shares to be purchased”, for the amount which will apply on 28 April next on expiry of this authorisation, to be allocated to the “Extraordinary reserve” – that an amount of € 10m be set aside to the “Reserve for holding company shares to be purchased”, using funds drawn from the “Extraordinary reserve”, from which we also propose to withdraw the amounts

necessary to replenish the reserve as stated in art. 2359a of the Civil Code which provides for write-ups of holding company shares following eventual write-downs of same.

If you approve the proposal, we must inform you that, based on the provisions of art. 132 of Legislative Decree no. 58/98 and the related implementing regulation issued by the Italian Stock Exchange, the sale and purchase of the holding company shares will be carried out in the market, following procedures agreed with the Italian Stock Exchange, to ensure parity of treatment between shareholders.

We invite you furthermore to establish any related terms and procedures.

**6. Authorisation to draw up an agreement with FINADIN S.p.A., in accordance with art. 121 paragraph 2 of legislative decree no. 58/98, on exceeding the limit of 2% in the shareholding held by FINADIN in FONDIARIA-SAI S.p.A.**

The affiliated company FINADIN S.p.A. (60% of whose capital is owned directly by PREMAFIN and the remaining 40% by FONDIARIA-SAI through the subsidiary SAIFIN- SAIFINANZIARIA S.p.A.) owns, in turn, currently, a shareholding in FONDIARIA-SAI equal to about 1.7% of FONDIARIA-SAI's ordinary capital.

FINADIN has shown an interest in increasing this shareholding above 2%, and within the maximum limit of 5%, by authorisation of an agreement to that effect by the meeting of FONDIARIA-SAI, in accordance with art. 121, paragraph 2, of Legislative Decree no. 58/98, following the procedure laid down for this purpose in the current legislation on reciprocal shareholdings.

That being so, we propose to authorise that an agreement be drawn up, in accordance with the aforementioned legislation, with FINADIN, relating to exceeding the limit of 2% in the shareholding held by it in FONDIARIA-SAI, without prejudice to the maximum limit of 5% in accordance with the law.

It is our belief, given the performance of the Company and the FONDIARIA-SAI share, and its prospects, that the investment by FINADIN, if authorised, could allow an increase in the value of the shareholding held by your Company in FINADIN.

Milan, 23 March 2005

FONDIARIA-SAI  
S.p.A.  
The Board of Directors

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# *Annual Accounts 2004*



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## *Notes to the Accounts*



The accounts for the financial year closed on 31 December 2004:

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

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

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

Section A - Valuation criteria

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

Section C - Other information.

The following statements are also attached:

- Financial statement
- Change in the equity accounts
  - o Statement of property still owned on which the currency revaluation was carried out or derogation to the valuation criteria on the basis of art. 2425 3rd indent of the Civil Code now substituted the former Legislative Decree 127/91 (pursuant to art. 10 of Law no. 72 of 19/3/1983)
- Statement of property showing the changes in the financial year
- Statement of property showing the situation as at 31/12/2004.

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

## **PART A**

### **VALUATION CRITERIA OF BALANCE SHEET ITEMS**

#### **Section 1**

#### **Illustration of the Valuation Criteria**

The valuation criteria used, unchanged from the previous financial year, comply with the provisions of law in force and make reference, for interpretation, to the accounting principles issued by the Consigli Nazionali dei Dottori Commercialisti e dei Ragionieri (National Boards of Chartered Accountants and Accountants), and the Organismo Italiano di contabilità (Italian Accountancy Authority).

#### **Intangible assets**

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

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

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

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

The goodwill acquired in exchange for a consideration is recorded under the assets and systematically depreciated over a limited period of time, considered appropriate in relation to its lifetime, taking account of the forecast return on the companies to which they relate, in particular the amount of € 261,226K recorded under the goodwill item relates to the remainder of the loss on the cancellation of the investment in La Fondiaria S.p.A., net of the share attributed to the increase in the value of the property and controlling shareholdings. The share of depreciation for the financial year of € 15,366K is calculated on the basis of a depreciation period of 20 years determined in relation to the lifetime of that asset, also considering that the main factors for their determination are the value and size of the portfolio of premiums acquired with the merger and the market position of the incorporated entity.

### **Land and buildings**

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

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

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

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

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

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

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

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

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

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

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

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

Realisation value assumes:

- in the case of listed shareholdings and debentures, and for own shares, the value resulting from the arithmetic mean of the prices in the last month of the financial year;
- in the case of unlisted shareholdings, the normal value determined taking account pro-quota of the reductions in the assets shown in more recent accounts;
- in the case of unlisted certificates of indebtedness and for unit trust holdings, the normal value determined with reference to the price of the securities with similar characteristics or on the basis of other objective elements.

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

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

#### **Repurchase agreements**

The value of securities acquired “spot” with a repurchase obligation on the seller are recorded in the accounts under “Sundry financial investments” and securities sold “spot” are recorded under “Creditors and other liabilities”. Interest and differences between the “spot” and “forward” values are recorded in the accounts respectively under “Income from other investments” and “Investment management charges and interest paid”; for operations which may be current at the end of the financial year, the income is appropriated using the pro-rata temporis method.

#### **Derivative Contracts**

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

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

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

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

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

### **Income from securities**

Interest received accrued, issue spreads and spreads between the acquisition cost and nominal value collectable at maturity are recorded in the profit and loss account on the basis of the principle of collection in the current year. Dividends are recorded in the financial year in which they are paid. Dividends from subsidiaries are recorded on the basis of the "maturity" principle, that is, in the financial year in which the profits are produced by the subsidiary.

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

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

### **Premiums written**

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

### **Tangible assets**

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

### **Debtors**

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

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

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

### **Provision for unearned premiums**

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

#### **- Provision for premium portions**

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

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

In the credit branch, the stipulations of Ministerial Decree 22/6/82 were also applied for contracts entered into or renewed by 31/12/1991.

In the other property damage branches, fire, accident and goods in transit, further provisions were made for the risks of natural disaster, proceeding in accordance with the stipulations of Ministerial Decree 15/6/84.

In the bonds branch, the supplement stipulated by ISVAP Instruction No. 1978/2001 was made.

#### **- Provision for existing risks**

That component of the provision for unearned premiums intended, in accordance with art. 32 of Legislative Decree 173/97, to cover risks for which the company is liable after the end of the financial year, to meet all the costs of claims which might be made on contracts which gave rise to the formation of provisions for premium portions.

The calculation procedure used for the appropriation to that provision complies with the empirical method suggested by the Istituto di Vigilanza (supervisory authority) in its circular no 360/D of 21/1/99, applied separately for each branch and, within the scope of some of these, to any type of risk included. The claims ratio used was assessed also taking account of a retrospective time frame in relation to individual branches.

### **Provision for outstanding claims – non-life business**

The provision for outstanding claims represents the total amount which, from a prudent valuation made on the basis of objective elements, is shown to be necessary to meet the payment of claims made at the end of the financial year, and the related settlement expenses.

The provision for outstanding claims was valued in accordance with the provisions of indent 2 of art. 33 of Legislative Decree 173/97, assuming that criterion for determining the latest cost, to take account of all future foreseeable charges, on the basis of historical and forecast data. This also includes the estimate for claims made but not reported by the close date of the financial year.

The provision for outstanding claims recorded in the accounts is the result of a complex multi-phase technical valuation which arises out of a first valuation made through the analytical examination of the individual positions opened, followed by the process, entrusted to the company's managerial structures, which uses statistical and actuarial methods to determine the amount of the latest cost of the claims.

In particular:

#### **- Land vehicles TPL**

For portfolios which do not have an analytical inventory which is actually representative of the charge for claims generated in the accounts, this is valued using the average cost criterion, for groups of similar and sufficiently numerous claims, for which the projection model takes account of management experience over the last five years. The generation cost is determined using five different statistical methods (paid in the first year, average value of the generation, incidence of the first year premiums on the generation cost, trend in costs generated and an analytical method which takes account of the territorial zone, the tariff sector and the type of claims made), producing an average for the results obtained by each one.

On the other hand, for continuously inventoried portfolios, the current generation is represented by the analytical adjustment of the claims handling department, which may be supplemented by the management's valuation, for which the determining factors specifically take account of claims with average costs which are higher than the market average due to specific phenomena (physical damage and other catastrophes).

The previous generations are observed after the analytical adjustment made by the claims handling department which checks the reliability of the estimates. With regard to the former SAI claims portfolio, subject to analytical checks by the claims handling department in accordance with rotating criteria, the amount of the provisions generated previously are used as data for entering a projection model which takes account, amongst other elements, of the sufficiency/insufficiency of the provisions, the percentage incidence of the "drop" in the provision for payments, the incidence on the provision showing

the balance between eliminations “not followed up” and “re-opened”, finally taking account of write-ups, in order to define the latest cost of the claims.

In order to determine and make a final valuation of the latest cost of the claims, taking account of the longer settlement period, statistical and actuarial methods were used on the trend in the cost of claims based on historical and forecast elements, adapted appropriately to the specific type of company (methods attributed to the Fisher-Lange methodology): in particular for determining the future increase in the cost of the provision for claims not yet made, forecast inflation and the specific dynamics of the costs of the insurance sector were taken into account.

- Other non-life business

The valuations are made analytically claim by claim by the claims handling department. These valuations may have been adjusted by the management on the basis of the results of appropriate valuation models taking account of past experience and the dismantling of the provision for claims not yet made.

### **Other technical provisions**

In accordance with the provisions of art. 25 of Legislative Decree 175 of 17/3/1995, these include the provision for old age formed for insurance contracts against long-term illnesses and for which the company has waived the right of withdrawal, the provision was calculated in accordance with the stipulations laid down by indent 3 of that article.

### **Equalisation provisions**

These contain the amounts of the provisions by implementing art. 12, indent 1 of Legislative Decree no. 691 of 19/12/1994 concerning the procedures for the formation of the provision for balancing the risks of natural disasters. With reference to contracts with the characteristics referred to in art. 1 of the regulation implementing the former Ministerial Decree no. 705 of 19/9/96, the provision was made in accordance with the stipulations of the regulation. They include, amongst others, the provision for offsetting the credit branch referred to in art. 24 of Legislative Decree no 175/95.

### **Technical provisions – life business**

The actuarial reserve for direct insurance in the life business was calculated analytically for each contract, on the basis of pure commitments without deductions for policy acquisition expenses and making reference to the actuarial assumptions (technical interest rates, demographic assumptions of eliminations due to death or incapacity and operating expenses) used to calculate the premiums for the existing contracts. In each case, the actuarial reserves are not lower than the surrender values. The ratio of premiums to the share



of annual premiums in the next financial year was included in the technical provisions.

The actuarial reserves also take in the additional provision for contracts with revisable payments as laid down in ISVAP Instruction 1801-G of 21/02/2001 and stated in art. 25 indent 12 of Legislative Decree 174/95 and the additional provision for technical reasons to take account of the higher charge the company must bear for the difference between the interest rate paid to policyholders and the trend in foreseeable income from segregated management over the next four years.

As stipulated in Legislative Decree 174/95, the actuary's report states the principles and technical procedures used to determine the provisions and the statement that they are sufficient.

#### **Technical provisions where the investment risk is borne by the policyholders and provisions arising from pension fund management**

The provisions for all products with the characteristics stated by art. 30, indents 1 and 2 of Legislative Decree 174/95 come within that category. Their calculation, as it is analytical by contract, follows the general procedures for other technical provisions in the life business. These provisions most accurately represent the assets.

#### **Reinsurers' technical provisions**

Reinsurers' provisions include amounts in the year determined in accordance with contractual reinsurance agreements, on the basis of the gross amounts of the technical provisions.

In particular, the provision for unearned premiums on proportional cessions is calculated on the basis of the stipulations of art. 32 of Legislative Decree 173/97 for the gross provisions for unearned premiums.

#### **Inward reinsurance**

For reinsured risks, the premiums and costs already communicated by the ceding companies, excluding the companies which are part of the Group and any portfolios managed by your company, are partly recorded in the equity accounts and charged to the profit and loss account in the next financial year; the reason for that time difference is that it is impossible to have all the data available in time to produce the accounts. The technical provisions are recorded in the accounts on the basis of the communications from the ceding companies. On the basis of the stipulations of indent 2 of art. 39 of Legislative Decree 173/97, these communications are subject to careful and independent assessment and, where past experience shows any deficiencies, the

appropriate adjustments are made to guarantee sufficient appropriations to provisions

#### **Provision for future risks and charges**

This is formed for non-technical insurance risks, for which the amount and date of occurrence have not been determined.

#### **Provision for long service allowances pursuant to art. 30 CCNL**

The provision is formed for all employees who have completed twenty or thirty years of service with the company at the end of the financial year on the basis of the annual remuneration as at 31/12/2004 and proportional to the bonus payable on the 25<sup>th</sup> and 35<sup>th</sup> year of service. The provision is used for bonuses awarded and re-determined at the end of each financial year.

#### **Provision for property maintenance**

The provision includes the costs, in current and previous financial years, not yet borne because the relevant works, for technical and economical reasons, are carried out at periodic intervals.

The total review of the provision is made, on the recommendation of an expert, exclusively with regard to property used as dwellings.

No provisions are made for property which it is planned to dispose of or completely restructure before the normal maintenance cycle has been completed and for individual properties which, on examination, show annual maintenance costs uniformly distributed over time.

#### **Employees' severance indemnities**

This provision is made on the basis of existing contracts of employment and the criteria stipulated in article 5 of law no. 297 of 29/5/1982 governing severance indemnities.

The charge derived from contract renewals, with retroactive effect, is recorded in the accounts when these agreements come into force.

#### **Accrued income and deferrals**

Accrued income and deferrals are calculated on a time basis so as to reflect the principle of the applicable time period in the accounts.

#### **Guarantees, commitments and other memorandum accounts**

These are recorded in the accounts at the equivalent value of the commitments taken on or the guarantees provided or received.

### **Corporation Tax**

Corporation tax is determined on the basis of the valuation of the fiscal charge in the current year and deferred. Direct taxation in the period is calculated on the basis of the fiscal regulations in force.

However, when there are temporary differences between the profit for the financial year and the taxable income, the tax temporarily deferred is calculated taking account of the nominal tax rate, providing appropriate adjustments in the event of a change in the rates for the current financial year.

Advance tax is recorded only if its recovery is reasonably certain in relation to the amount of the expected taxable income.

Liabilities for deferred taxation are recorded in the accounts if they arise out of temporary tax differences. Deferred tax is appropriated to the provisions in accordance with prudential considerations relating to the higher values not recognised for tax purposes for write-ups of investments made against capital losses on the merger not taxed originating from the incorporation of Fondiaria Assicurazioni S.p.A., when it is probable that these higher values will generate higher taxable amounts.

No provisions were made for taxation against the taxable equity reserves in the event of a distribution when that distribution is not probable.

Deferred tax is recorded in the accounts under corporation tax and is offset against the equity under "Other assets" or "Provision for taxation".

With effect from this financial year, deferred tax paid arising as a result of the possibility of deducting the negative components referred to in art. 109 indent 4 b) of the new Tuir (as amended by Legislative Decree 344/03) from the taxable income outside the accounts is also recorded.

The assets and liabilities for deferred tax also include the previous balances, existing at the start of the financial year, and those arising in the course of 2004 relating to participating interests which opted for the taxation system stipulated in art. 115 of the Decree of the President of the Republic 917/1986.

In that case, the deferred taxation of the participating interest is recorded in the accounts in proportion to the percentage shareholding held.

### **Foreign currency transactions**

Transactions denominated in foreign currencies are recorded in the accounts by using multi-currency accounting. Therefore, the balances on the accounts stated in foreign currency are set out in the accounts by converting them into euros applying the exchange rates in force at the close of the financial year. The relevant effects are charged to the profit and loss account under “Other income”, if positive or “Other charges” if negative.

Only shareholdings considered to be long-term are maintained at the historical exchange rate when the exchange rate does not represent a permanent loss of value.

### **Apportionment of claims settlement expenses not directly chargeable to the Government**

On the basis of the evidence of analytical accounting, settlement expenses are apportioned between the “motor vehicle” sector and “other non-life branches” sectors.

The apportionment for each branch in law is made in proportion to the arithmetic mean of the percentage incidences of the numbers of claims settled and the amounts, the latter do not include any particularly serious events.

All amounts set out in the annexes to the accounts are stated in euros. The figures in the notes to the accounts are stated in euros with an accurate indication in cases where amounts in thousand or million euro are used with the normal rounding.

## **Section 2**

### **Fiscal adjustments and provisions – Elimination of previous fiscal interferences**

As it is well known, Legislative Decree no. 6 of 17/1/2003 deletes indent 2 of art. 2426 of the Civil Code which allowed value adjustments and provisions to be made exclusively by applying tax rules. The elimination of possible fiscal interferences, therefore, ratifies the principle in accordance with which the accounts are produced exclusively in line with civil provisions: the result of this is that there remain amounts from previous accounts derived from what was permitted by the previous rule; the company is obliged to eliminate residual amounts under headings determined by application of the repealed indent 2 of art. 2426 of the Civil Code.

Consequently, in the course of this financial year, the elimination of previous fiscal interferences (the so-called fiscal purging (reclassification) of the 2004 accounts) involved a higher result in the financial year, net of the related deferred taxation, of € 66,783K.

For more information on this, please refer to the Management Report and the Notes to the Accounts.

**PART B****Information on the balance sheet and profit and loss account****BALANCE SHEET ASSETS**

The values in the Balance Sheet compared with the corresponding amounts for the 2003 financial year are analysed below.

Where the items for the previous financial year were not comparable with those for the current financial year, the necessary adaptations were made. The comments under the individual items show the adaptations or, where this is impossible, their non-comparability.

**Section 1****INTANGIBLE ASSETS (Item B)**

All intangible assets, considered to be long-term, amount to € 551,121K net of depreciation.

Intangible fixed assets are systematically depreciated in relation to their residual useful life. No situations emerged in the financial year showing evidence of write-downs due to long-term losses of value.

The changes in the financial year are summarised in annex 4, to which please refer.

(thousand €)	31/12/2004	31/12/2003	Change
Deferred acquisition commission:			
Life business	3,921	5,264	(1,343)
Non-life business	0	0	0
Start-up and expansion expenses	36,134	36,972	(838)
Goodwill	460,970	509,627	(48,657)
Other multi-year costs	50,096	57,353	(7,257)
	551,121	609,216	(58,095)

**Deferred acquisition commission**

This item refers to the whole of the former La Fondiaria life portfolio and is in accordance with the original depreciation plan, equal to the actual term of the contracts which make it up and within the limits of the policy loading charges and in any case over a period not exceeding ten years.

Total multi-year commission arising in the financial year was charged to the profit and loss account.

### **Start-up and expansion expenses**

The item "Start-up and expansion expenses" includes:

- € 22,220K for the expenses involved in the merger by incorporation of La Fondiaria S.p.A. into SAI S.p.A. and depreciated over 5 years;
- € 9,157K concerning charges borne for the contracting of the loan and depreciated over 5 years;
- € 4,757K relating to the cost of the loan granted by the subsidiary Sainernational SA in September 2004;

In particular, in the course of the financial year, new costs of € 14m were capitalised, of which € 6 m for the cost of issuing the debenture loan by Sainernational and € 6m for the costs of the Mediobanca subordinate loan.

### **Goodwill**

"Goodwill" consists of:

- € 261,226K from the loss on the cancellation arising out of the merger by incorporation of La Fondiaria S.p.A. into Fondiaria-SAI S.p.A. (which took place in 2002) net of the share charged to property and shareholdings: those costs are depreciated over 20 years;
- € 139,443K from goodwill from the incorporated entity Fondiaria Assicurazioni and relating to the company transfer operation in 1990 and depreciated over 20 years;
- € 56,133K relating to the incorporation of Fondiaria Assicurazioni which took place in 1995 and depreciated over 16 years;
- € 4,168K for the transfer (in 2001) of the portfolio from the subsidiary BIM Vita and the company Profilo Life made in the financial year.

### Other multi-year costs

“Other multi-year costs” are as follows:

(thousand €)	31/12/2004	31/12/2003	Changes
Research and development costs	47,935	54,495	(6,560)
User licences for computer products	2,120	2,838	(718)
Increased expenses on third party assets	16	0	16
Trade marks	25	20	5
	50,096	57,353	(7,257)

Research and development costs are the result of the capitalisation of the direct costs borne in 2004 on the preparation of the technological and applications infrastructures to support projects relating to the Group’s New Claims System, and the completion of the phase of computer integration between SAI and Fondiaria, made necessary following the merger. The capitalised costs in the financial year amount to € 23 m, whereas the share of depreciation in the year is € 29.5 m.

Other research and development costs relate to specific projects for improving company computer procedures, aimed at optimising and saving data processing costs or their complete re-engineering.

These costs are depreciated over three years relating to projects already started in previous financial years, whereas the projects relating to the New Claims System, together with other projects started in the year, are depreciated over five years. The capitalisation of these amounts produces future profits it is considered can be derived from the above-mentioned activities.

The residual value of the research and development costs recorded under the assets allows dividends to be distributed as there are sufficient equity reserves available to cover the amount of the undepreciated costs.

All other multi-year costs were recorded under the assets in view of the fact that they are used for many years and are depreciated over three years for computer product user licenses and over five years for increased expenses on third party assets.

Lastly, it is pointed out that the company acquired the “Finanze e Previdenza” trade mark during 2004, with a depreciation profile of ten years with effect from the current financial year.



## Section 2

### Investments (Item C)

#### Land and Buildings

(thousand €)	31/12/2004	31/12/2003	Change
Property intended to be used by the company	159,398	175,519	(16,121)
Property to be used by third parties	919,239	1,132,580	(213,341)
Other property	4,634	4,625	9
Other rights in rem	2,279	2,279	-
Gross total	1,085,550	1,315,003	(229,453)
Depreciation	(92,659)	(146,521)	53,862
Net total	992,891	1,168,482	(175,591)

“Other property” includes the Montepulciano agricultural holding and some land in Turin (Corso Giulio Cesare), in Florence Via S. Leonardo 38-40-42 and Sanremo and property in Modena V. Buonarroti and Roma Tor Carbone.

“Property to be used by third parties” also includes fixed assets in progress.

“Other rights in rem” includes some car spaces in Florence.

The € 229m reduction of the assets, gross of depreciation, compared with the figure as at 31/12/2003 is due to:

	€ million
- acquisitions	11
- increased expenses and improvements	20
- fixed assets in progress	5
- sales	(265)
	(229)

Implementing the provisions of art. 18 of Legislative Decree 173/97 and ISVAP Instruction no. 1915-G of 20 July 2001 and on the basis of valuations by independent experts, the company decided the current value of the land and buildings it owned. The market value was determined by the separate valuation of any assets, applying equity type methodology, supplemented by elements which take account of their income, consistent with the stipulations of the supervisory authority.

In total, the current value of the property is approximately € 319m greater than its book value. Gross capital gains amount to € 333m, whereas capital losses were € 14m. The annex to the notes to the accounts sets out the current value separately for wholly owned property and cumulatively for jointly owned units. The negative differences between the book value and the current value were not considered to show a long-term loss of value for some properties owned.

Capital gains realised in the financial year gross of the selling expenses on the disposal of property amount to € 57m; capital losses realised, gross of expenses were € 17m. The assets relating to property were considered to be long-term.

The change in depreciation is due principally to the elimination of the previous fiscal interferences. Annex 4 sets out the detail of the changes in the financial year.

#### Investments in Group companies and in other participating interests

(thousand €)	31/12/2004	31/12/2003	Change
Shares	2,730,456	2,767,983	(37,527)
Debentures issued by companies	156	78	78
Corporate financing	20,086	79,519	(59,433)
	2,750,698	2,847,580	(96,882)

Class C.II of the Balance Sheet includes short-term listed assets, represented by the shareholding in the holding company Premafin Finanziaria S.p.A. – Holding di Partecipazioni.

#### Shares

The shareholdings listed in item C.II.1 of the Balance Sheet amount in total to € 2,730,456K after write-downs of € 40,365K, relating to classified shareholdings under “other long-term assets” and the increase in value of € 5,940K for the holding company Premafin Finanziaria S.p.A. classified under “short-term assets”.

This item is as follows:

(thousand €)	31/12/2004	31/12/2003	Change
Holding company	21,575	15,635	5,940
Subsidiaries	2,611,544	2,620,330	(8,786)
Associated companies	38,609	37,109	1,500
Others	58,728	94,909	(36,181)
	2,730,456	2,767,983	(37,527)

The accounting value of the listed companies set out under item C.II.1 of the Balance Sheet is € 121,455K lower than the market value, determined on the basis of the arithmetic mean of the list prices for the month of December 2004; that difference relates wholly to the subsidiary Milano Assicurazioni S.p.A..

The other detailed information on shareholdings under item C.II.1 of the Balance Sheet is set out in annexes 5-6-7 of these Notes to the Accounts.

As laid down in art. 16 point 4 of Legislative Decree no. 173/97, the following table is provided, relating to shareholdings in subsidiaries and associated companies classified as "long-term", with a book value greater than the net equity, calculated using the methodology set out in point 5 below of the above-mentioned article.

(thousand €)	% share	Accounting values	Valuation using the equity method	Difference
<u>- Subsidiaries</u>				
EFFE VITA S.p.A.	100.00	18,902	10,177	8,725
MILANO ASSICURAZIONI S.p.A.	61.11	930,724	806,743	123,981
NUOVE INIZIATIVE TOSCANE S.r.l.	96.88	156,395	148,063	8,332

These differences can be attributed exclusively to losses on shareholdings not considered to be long-term (Effe Vita), existing gains on property owned by the company (Nuove Iniziative Toscane and Milano), and goodwill paid at the time of the acquisition (Milano Assicurazioni).

#### **Debentures issued by companies**

The fixed income securities listed under item C.II.2 amount in total to € 156K and are not listed on regulated markets.

The item is as follows:

(thousand €)	31/12/2004	31/12/2003	Change
Subsidiaries	156	78	78
	156	78	78

There were no changes in the item relating to debentures issued by the holding company SCAI S.p.A..

### Corporate financing

The situation of “Loans to other companies in the group and other participating interests”, with regard to the beneficiaries, is as follows:

(thousand €)	31/12/2004	31/12/2003	Change
Holding company	0	0	0
Subsidiaries	20,086	79,519	(59,433)
	20,086	79,519	(59,433)

The loans granted may be detailed as follows (thousand €)

Sasa S.p.A.	10,000
Sim Etoile S.A.	5,466
Consorzio Castello S.r.l.	2,325
Villanova S.r.l.	1,995
Meridiano Risparmio	300
Total	20,086

The loan to Sasa S.p.A. was granted to enable the company to improve the component items of the subsidiary's solvency margin. That subordinate loan is for a period of ten years, with the option of even partial repayment with effect from the twenty-fourth month. Interest was set at Euribor six months increased by a spread of 280 basis point, to be paid half yearly. The amount reduces by approximately € 60m essentially due to nonfulfilment of the repurchase agreements with the subsidiary BancaSai.

The change is set out in annex 5.

**Other financial investments**

(thousand €)	31/12/2004	31/12/2003	Change
Shares	1,505,615	1,444,977	60,638
Unit trust holdings	278,020	97,527	180,493
Debentures and other fixed income securities	8,113,884	7,762,682	351,202
Loans	80,939	74,280	6,659
Deposits with credit institutions	17,146	11,908	5,238
Sundry financial investments	15,491	155	15,336
	10,011,095	9,391,529	619,566

**Shares included under Other financial investments**

This item is as follows:

(thousand €)	31/12/2004	31/12/2003	Change
Listed shares	1,475,505	1,417,591	57,914
Unlisted shares	30,110	27,386	2,724
	1,505,615	1,444,977	60,638

The shareholdings recorded capital losses due to an alignment of € 50,179K on investments in listed companies of € 44,926K and unlisted shareholdings of € 5,253K. The value readjustments amount to € 9,544K, € 9,246K for listed shareholdings and € 298K for unlisted shareholdings.

The accounting value of listed companies is € 106,904K less than the market value determined on the basis of the arithmetic mean of the list prices for the month of December and the exchange rates at the end of the financial year.

The most significant operations under item C.III.1 were as follows:

BANCA INTESA: subscription of the increase in the share capital of 2,055,071 shares with an outlay of € 5,376K. The percentage direct stake is 0.74%.

SCHW LEBENSV & RETENANST-RE (SWISS LIFE): purchase of 144,500 shares and subscription to the capital increase, subject to acquisition of 144,500 rights over 48,167 shares; the total outlay was € 19,605K; the whole investment was disposed of, realising a capital gain of € 296K.

ENEL: purchase of 13,970,000 shares with an outlay Of € 98,341K; sale of 13,875,000 shares realising a capital loss of € 3,765K; during the financial year, the company distributed dividends of € 5,987K. The percentage direct stake is 0.035%.

MELIORBANCA: purchase of 1,443,825 shares with an outlay of € 4,857K. The percentage direct stake is 6.497%.

PIRELLI & Co.: purchase of 9,508,536 shares, 7,131,406 warrants and subscription to the capital increase with conversion of the warrants held for

27,834,136 shares; the total outlay was € 22,960K. The percentage direct stake is 4.506%.

### Unit trust holdings

These increased by € 180,493K net (€ 278,020K as at 31/12/04 and € 97,527K as at 31/12/03); the significant increase is due to the subscription of the share in the closed real estate investment fund Tikal R.E. and € 196,603K. The capital losses recorded due to alignment amount to € 435K whereas compulsory value readjustments amount to € 519K.

### Debentures and other fixed income securities

(thousand €)	31/12/2004	31/12/2003	Change
Listed	7,862,543	7,301,620	560,923
Unlisted	245,512	433,618	(188,106)
Convertible debentures	5,829	27,444	(21,615)
	8,113,884	7,762,682	351,202

In the financial year, € 16,516K was charged for issue spreads and discounts with a positive net impact on the profit and loss account and € 2,210K for trading spreads with a positive impact on the profit and loss account

The capital losses for alignments with market values which are lower than the accounting value recorded on the profit and loss account amount to € 3,444K; the compulsory readjustments amount to € 5,058K. Listed securities are recorded in the accounts at a total value of € 228,488K lower than the market value determined on the basis of the arithmetic mean of the list prices in the last six months of 2004 for securities classified under "long-term assets" and the arithmetic mean for the month of December 2004 for securities classified as "short-term assets" and the exchange rates at the end of the financial year.

The positions of significant impact are set out below broken down by issuer:

	Thousand €
Italian State	4,998,185
State of Germany	431,245
State of France	170,308
Enel	130,953
Belgian State	107,350
S.C.C.I. Spa	100,050
State of Greece	91,866
State of Portugal	90,299
BEI Banca Europea Investimenti	78,061
State of the Netherlands	69,416
Mediobanca	64,669
Banca Monte dei Paschi	57,068
State of Spain	50,022
France Telecom	48,955
Autostrade Spa	42,873
Royal Bank Scotland	42,027
Telecom Italia Spa	38,975
Unicredit Banca	38,532
State of Finland	35,163
Société Generale SA	35,000
Kpn	30,432
Cassa di Risparmio di Firenze	29,884
Commerzbank	29,436
Banca Intesa	28,304
Bayer Hypo-Vereinsbank	28,146
Freddie Mac	27,453
Banca Lombarda e Piemontese	27,449
Banca Imi	26,244
Olivetti Finance	25,547
BMW Finance	25,518
Veolia Environnement	25,302
Mediobanca International Ltd	25,000
Bouygues	21,836
Lehman Brothers Holdings	20,976
Infrastrutture Spa	20,390
Ote	19,204
Deutsche Bank Ag	18,469
Pirelli Spa	18,235
Interbanca	18,139
Cadbury Schweppes Inv	17,929
Deutsche Pfandbriefbank Ag	17,312
Monte Paschi Vita Spa	17,150
Pinault Printemps Redoute Sa	17,129
General Motors Accept Co	16,948
Ford Motor Credit Co	16,375
Lottomatica	15,716
Pirelli & C. Luxembourg Sa	15,710
Telecom Italia Finance Sa	15,157
Generali Finance Bv	14,961

Anglian Water Services Financing PL	14,939
Banca Agrileasing Spa	14,626
Bmw	14,618
Banca Popolare dell'Emilia	14,006
Renault Credit International SA	13,989
San Paolo Imi	13,839
Banca Nazionale del Lavoro	13,548
Deutsche Telekom Int. finance	13,372
Socram	13,229
Sns Bank	12,936
TOTAL	7,490,470

As at 31/12/2004, there were the following positions in the portfolio relating to securities with subordination clauses, for a total book value of approximately € 231m:

- DE0001593531 – Commerzbank Ag. 4.75% 99/2009 - € 12,479,895.37 TIER I
- DE0003933685 – Deutsche Bank 20.09.04/2016 Tv - € 10,979,049.18 CALLABLE – TIER II
- DE000A0DCXA0 – DzBank Capital Fund 22/11/2004 Perpetual - € 2,483,309.52 CALLABLE
- FR0010128736 – Credit Logement Sa 02/11/2004 Perpetual Tv - € 2,500,000.00 CALLABLE
- IT0001178174 – Comit 97/2007 Tv - € 345,013.55 CALLABLE
- IT0001282117 – Monte dei Paschi 30/11/1998 – 01/12/2005 Variable rate - € 2,575,828.78
- IT0001282133 – Monte dei Paschi 01/12/1998 – 01/12/2005, 4.75% - € 6,909,012.03 TIER II
- IT0001387965 – Montepaschivita 01/12/1999 – 2009 Variable rate - € 17,150,000.00 CALLABLE
- IT0001426151 – B. Pop. Emilia 31/03/200 – 31/12/2005 Convertible – 4% - € 506,505.48 CALLABLE
- IT0003184758 – Vittoria Assicurazioni 12/11/2001-01/01/2016 Conv. – 5.5% Transfer - € 18,089.58 CALLABLE
- XS0089305469 – Banque Paribas 98/2008 5.625% - € 2,490,403.77 LOWER TIER II
- XS0094351151 – Bayer Hypo Vereinsbank 02/02/1999 – 21/07/2006 Z.C. - € 21,189,482.90
- XS0108763896 – Royal Bank Scotland 06/03/2000, 6.77% Perpetual - € 10,794,764.54 CALLABLE – TIER I
- XS0114165276 – Assicurazioni Generali 20/07/2000-2022 6.9% Tv - € 2,500,000.00
- XS0119298189 – Royal KPN 24/11/200 – 24/11/2005 Convertible – 3.5% - € 2,910,000.00 CALLABLE
- XS0124803775 – Banca Popolare di Brescia 23/02/01 – 2011 Tv – € 1,004,552.63 CALLABLE – LOWER TIER II
- XS0177142360 – Royal Bank of Scotland 07/10/03 – 2013 Tv - € 999,362.55 CALLABLE – TIER II
- XS0181782144 – Carifirenze 05/12/03-2013 TV - € 14,918,988.30 UPPER TIER II
- XS0188853526 – Hsbc Cap Fund 29/03/2004 Perpetual 5.13% - € 12,520,250.00 CALLABLE – TIER I
- XS0189470130 – Monte dei Paschi 30/03/2004-2006 Tv – € 13,491,931.66 TIER III



- XS0194805429 – Kaupthing 30/06/04-2014 Tv - € 6,485,432.88  
CALLABLE – LOWER TIER II
- XS0195231526 – Royal Bank of Scotland 02/07/04 Perpetual Tv -  
€20,000,000.00 CALLABLE – TIER II
- XS0195722003 – Banca Lombarda 30/06/04-2014 Tv - € 19,951,063.47  
CALLABLE – LOWER TIER II
- XS0196955909 – Unicredito 23/07/04-2014 Tv - € 9,977,249.23  
CALLABLE – LOWER TIER II
- XS0200581378 – Hsbc Holding 21/09/04-2014 Tv - € 5,397,479.66  
CALLABLE
- XS0201857595 – Skandinaviska Enskilda 06/10/04-2014 Tv –  
€ 7,482,642.86 CALLABLE – LOWER TIER II
- XS0203880991 – Natexis Banques Pop. 04/11/04-2016 Tv –  
€ 7,480,753.59 CALLABLE
- XS0208011154 – Cassa Risparmio Firenze 15/12/04-2014 Tv –  
€ 14,964,605.75 CALLABLE

In the event of liquidation of the issuer, debentures will be reimbursed only after all other equally-ranked secondary creditors have been met and only after payment of all other creditors existing on the date of the liquidation.

### Loans

(thousand €)	31/12/2004	31/12/2003	Change
Loans with tangible security	34,913	32,322	2,591
Loans on policies	40,629	36,868	3,761
Other loans	5,397	5,090	307
	80,939	74,280	6,659

Loans with tangible security refer to a loan secured by a lien on mezzanine property granted to Ganimede S.r.l. after the spin-off property operations which took place in 2003. That loan is backed by a second mortgage on the property transferred to Ganimede; the repayment of the capital and interest is subject to meeting the debtor's payment obligations pursuant to the "senior" loan acquired by it, always in relation to the transaction described; the term is for seven years from the date it is granted, therefore maturing in December 2010; advance partial repayments by the debtor are stipulated in the repayment plan for the property in the transaction and the debtor has the option to make total or partial early repayment of the loan at any time.

The interest rate is 8%. In the current situation and on the basis of the information available, it is considered that there are no risks relating to the recoverability of the above-mentioned loan.

"Loans on policies" for life insurance amount to € 3,761K compared with the 2003 accounts due to new expenditure of € 14,110K and repayments of € 10,349K.

"Other loans" consist mainly of loans granted to employees on which no guarantees are issued.

### **Deposits with credit institutions**

These increased by € 5,239K from € 11,908K in the 2003 accounts to € 17,147K. The amount includes only bank deposits from which drawings are subject to temporary fixed deposits of 15 days. Annex 10 sets out the change in loans and deposits with credit institutions in the financial year.

### **Sundry financial investments**

These amount to € 15,491K (€ 155K in 2003).

The increase compared with the previous financial year is due mainly to re-purchase agreements on investments maturing after the close of the financial year.

### **DERIVATIVES**

Pursuant to the stipulations of art. 7 point 3 of ISVAP Instruction no. 297 of 19/07/1996:

#### **Open positions**

Open positions in derivative instruments at the end of the financial year relate mainly to:

- sales of call options for a nominal amount of € 152,250K of debenture securities (BTP) for which the company collected premiums of € 221K undertaking to hand over securities of an amount of € 167,089K
- purchase of put options on a nominal amount of € 279,250K for debenture securities (BTP) for which the company paid premiums of € 449K reserving the option to sell the above-mentioned securities for an amount of € 293,714K.

At the time of the valuation, open positions with capital losses are offset under the provision for risks and charges.

#### **Closed operations**

The following operations were completed during the financial year:

- purchases of puts on shares and debentures, those exercised were recorded in the accounts as a reduction in the revenue from sales of € 179K, those not exercised were recorded in the accounts under equity and financial charges of € 3,731K;
- purchases of calls on shares, for which the abandonment cost was € 83K recorded under equity and financial charges;
- sales of puts on Generali shares involved a cost of € 3,772K recorded under equity and financial charges;
- sales of calls on shares and debentures, those exercised by the other party were recorded as an increase of sales revenue of € 550K, those not exercised were recorded as investment income of € 1,072K and € 891K under equity and financial charges;
- sales of call spreads on Fondiaria-SAI shares closed with a cost of € 2,350K recorded under equity and financial charges;

- cancellation of an asset swap by virtue of which an amount of € 13,735K was recorded under equity and financial charges counter-balanced, furthermore, by a latent capital gain of approximately the same amount on the subordinate security;
- equity swap for the purposes of covering the Banca Intesa ordinary shares placed as a guarantee for a convertible (mandatory) debenture loan, these contracts have had a neutral impact as € 3,076K is recorded under investment income and € 3,076K under equity and financial charges;
- floor options on rates which generated investment income of € 1,000K;
- swaps which generated equity and financial charges of € 463K.

The cost of closing put sales on Generali shares and sales of call spreads on Fondiaria-SAI shares of a total of € 6,122K are fully offset by the drawings from the provision for risks and charges as no provision was made for the charge in the previous financial year.

### Long-term equity

ISVAP Instruction no. 893 G dated 18 June 1998 issued stipulations on the classification and valuation of the insurance companies' securities portfolio, in particular with regard to the determination of the essential characteristics, in terms of quality and quantity, of the long-term investments and short-term investments sections.

Pursuant to art. 15 of Legislative Decree 173/97, equity intended to be maintained in the company's equity for the purposes of a stable investment is allocated to the "Long-term equity" section.

These are Class B investments "Intangible assets", C.I. "Land and buildings" and Class C.II and C.III "Securities", the latter within the limits of the "framework decision" approved by the Board of Directors on 24 September 1998 and illustrated in the Notes to the Accounts – Section B to the Accounts for the 1998 financial year, as amended by the Board of Directors on 29 September 1999; the Board of Directors' decision dated 26 March 2004 redefined the guidelines in order to re-balance the structure of the securities portfolio to contain the level of capitalisation of the assets and risks deriving from their composition, consistently with the portfolio management planning and the time profile of the commitments to policyholders. The decision states specifically that securities in the "Long-term investments" section are held in the company's equity as a "stable investment", this requirement must continue to be met at the time the security is allocated to the section.

Furthermore, another condition for capitalisation of the security is that it has a rating at least equal to BBB or equivalent.

The new guidelines were applied to allocations to sections after 1/1/2004.

Long-term assets represented by securities and shareholdings amount to € 5,659,969K, as at 31/12/2004, corresponding to 44.77% of the company's securities portfolio (classes C.II and C.III), as follows:

(thousand €)	31/12/2004	31/12/2003	Change
Shareholdings and funds	4,061,976	4,039,936	22,040
Fixed income securities	1,597,993	1,925,804	(327,811)

	5,659,969	5,965,740	(305,771)
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The comparison of the accounting value of the listed securities included in the long-term assets section and their market value determined on the basis of the arithmetic mean of the list prices for the month of December 2004 for shareholdings and the arithmetic mean of the list prices in the last six months of 2004 for fixed income securities shows net capital gains not shown of € 295,000K including € 198,528K of net capital gains on shareholdings and € 96,472K for net capital gains on fixed income securities.

Long-term equity included shareholdings in the following listed companies in particular:

Banca Intesa	44,184,083 shares
Banca Profilo	5,570,000 shares
Bim	2,683,400 shares
Capitalia	49,615,187 shares
Gemina	10,932,000 shares
Generali	15,761,100 shares
Mediobanca	25,438,686 shares
Meliorbanca	6,130,000 shares
Milano Assicurazioni ord.	261,572,337 shares
Milano Assicurazioni savings	723,790 shares
Monte dei Paschi di Siena	59,705,250 shares
Pirelli & C.	176,045,356 shares
Rcs Mediagroup	14,187,627 shares

Capital losses due to the alignment with the charge to the profit and loss account of € 83,690K were recorded under long-term assets: of these € 40,365K were unlisted shareholdings in subsidiaries, € 43,324K for other write-downs of shareholdings in listed companies as the capital loss recorded was considered to be long-term. That capital loss refers to shareholdings in Monte dei Paschi di Siena of € 39,843K and € 3,482K in Meliorbanca. The value recorded in the accounts after the above-mentioned write-downs was considered reliable on the basis of in-depth valuations carried out either within the company or by recourse to third party independent specialists; in particular, these valuations were based on the use of analytical methodologies aimed more at defining the recoverable value of individual companies than to the mere reference to market prices.

Compulsory value readjustments of € 2,664K were also recorded relating to securities and listed shareholdings.

Changes in the long-term assets in the financial year under items C.III.1, C.II.2, C.III.3 and C.III.7 are set out in annexes 8 and 9.

The main changes in the financial fixed assets as at 31/12/2004 and those as at 31/12/2003, in accordance with the approved guidelines, can be attributed to:

- acquisitions and mergers	122,252
- capital transactions	107,727
- Capitalia fiscal reclassification	68,717
- transfers from class D1	44
- discounts	16,898
- sales and mergers	(540,370)
- transfers to class D1	(12)
- value adjustments	<u>(81,027)</u>
	(305,771)

The results achieved in the financial year on derivative financial instrument transactions did not involve significant economic effects on closed transactions. Please refer to what is stated under provisions for future risks and charges for the valuation of existing risks and charges.

### **Deposits with ceding companies**

These reduced by € 51,267K from € 432,416K as at 31/12/2003 to € 381,149K as at 31/12/2004: € 301m of these relate to the holding company Novara Vita S.p.A..

That change can be attributed essentially to the reinsurance policy with the holding company Novara Vita. With effect from the current financial year, the new premiums for the quota and capitalisation treaty are no longer reinsured. The reinsurance of the risk portfolio remains in force.

### **Section 3**

#### **Investments for the benefit of holders of life policies who bear the risk of such investments and investments deriving from pension fund management (Item D)**

These amount in total to € 725,228K and € 642,533 to class D.I investments and € 82,695K to class D.II investments (as at 31/12/2003 € 606,842K, of which € 539,921K in class D.I.).

In accordance with the stipulations of ISVAP circular no. 360/D dated 21/1/1999, transfers were made from class D to class C for a total of € 66,771K because of payments of advance surrenders of policies and cancellations of contracts.

Transfers of a value of € 49,760K between class C and class D were made in the financial year because new contracts were issued, for which the payments were covered by securities already held in the portfolio. Annex 11 sets out the composition by type of investments separately for each type of class D.I product.

Investments deriving from pension fund management are stated in Annex 12. Their composition is set out by type and section, please refer to the specific statements appended to the accounts for more details.

**SAI Open-end Pension Fund**

Global management lines	Previ-mix	Previ-gest	Previ-bond	Previcapital	Previ-europa	Pre-viglobal
Shares	5,976	491		9	43	25
Debentures and fixed income securities	5,707	2,606	1,134	50	9	6
Other assets	972	240	176	15	9	19
	12,655	3,337	1,310	74	61	50

**Fondiarria Previdente Pension Fund**

Management lines	share line	balancing line	debenture line	currency line	guaranteed currency line
Shares	22,134	14,554	3,802	1,138	1,297
Other assets	1,262	930	466	74	73
	23,396	15,484	4,268	1,212	1,370

**Previdenza Pension Fund Account**

Management lines	Share line	balancing line	debenture line	currency line
Shares	3,018	8,603	2,196	4,815
Other assets	119	563	71	93
	3,137	9,166	2,267	4,908

## Section 4

**Reinsurers' Technical Provisions (Item D bis)**

These decreased in total by € 36,586K, as shown in the table below:

(thousand €)	31/12/2004	31/12/2003	Change
NON-LIFE BUSINESS	36,004	54,013	(18,009)
Provision for un-earned premiums	338,737	361,849	(23,112)
Provision for out-standing claims	374,741	415,862	(41,121)
LIFE BUSINESS			
Actuarial reserves	76,874	72,078	4,796
Provision for sums payable	2,353	2,614	(261)
Technical provisions when the investment risk is borne by policy-holders and provisions deriving from pension fund management	0	0	0
	79,227	74,692	4,535
<b>TOTAL</b>	<b>453,968</b>	<b>490,554</b>	<b>(36,586)</b>

Reinsurers' provisions for unearned premiums in the non-life business are recorded as facultative and excess of loss treaties whereas, for proportional treaties, the same criterion was used to determine the provision for unearned premiums in the direct business.

The reduction in the provision for unearned premiums ceded to reinsurers is obtained by the non-fulfilment of some important proportional type treaties, in particular in the fire branch, from the current financial year.



## Section 5

### Debtors (Item E)

(thousand €)	31/12/2004	31/12/2003	Change
Debtors arising out of direct insurance	1,207,016	1,098,476	108,540
Debtors arising out of reinsurance	78,353	11,593	66,760
Other debtors	670,307	523,525	146,782
	1,955,676	1,633,594	322,082

#### Debtors arising out of direct insurance operations

(thousand €)	31/12/2004	31/12/2003	Change
Premiums receivable from policyholders	419,887	422,970	(3,083)
Insurance intermediaries	473,078	454,547	18,531
Company receivables - current accounts	270,350	179,884	90,466
Policyholders and third parties for amounts recoverable	43,701	41,075	2,626
	1,207,016	1,098,476	108,540

Appropriations were made in the previous financial years of a total of € 49,172K (€ 42,572K for premiums written in the current year and € 6,600K for premiums written in previous financial years) to the provision for bad debts for possible non-payment by policyholders of the total gross amount of € 469,059K for premiums receivable from policyholders (including € 422,398K for premiums in the financial year and € 46,661K for premiums in previous financial years).

The apportionment of the above-mentioned provision for bad debts is set out for possible cancellations and non-payment by policyholders, for the main branches concerned:

Motor TPL	€ 16,500K
Health	€ 7,340K
Accident	€ 4,194K
Fire	€ 4,743K
General TPL	€ 6,144K
Bonds	€ 2,989K
Land vehicles	€ 3,166K
Other property damage	€ 3,201K

Amounts receivable from insurance intermediaries were mostly settled in the month of January. € 14,535K was recorded for possible unrecoverable amounts from brokers and former agents of a gross amount of € 487,613K.

The current accounts include items relating to coinsurance, Direct Compensation Agreement, payments of claims on behalf of overseas companies and on behalf of the Road Victims Fund, invoices receivable. A provision for bad debts of € 100K was made against the gross amount of € 270,450K.

**Debtors arising out of reinsurance transactions**

(thousand €)	31/12/2004	31/12/2003	Change
Insurance and reinsurance companies	78,282	11,531	66,751
Reinsurance intermediaries	71	62	9
	78,353	11,593	66,760

The gross value of debtors arising out of reinsurance transactions of € 85,853K is adjusted, in accordance with prudential considerations, by the amount of € 7,500K, recorded as the provision for bad debts for possible losses which might affect some overseas reinsurers.

**Other debtors**

The value of "Other debtors" of € 670,307K (€ 523,525K in 2003) has already been adjusted, in accordance with prudential considerations, by the amount of € 13,772K for possible losses deriving from non-payment of some trade items.

Amounts receivable from the Tax Authorities for withholdings on account, advance tax on actuarial reserves paid pursuant to Decree-Law 209/2002, advance tax on insurance pursuant to Decree-Law 282/2004, loans for which repayment was requested and interest of a total of € 394,695K were recorded under "Other debtors".

€ 84,723K of this relates to amounts due from the Revenue transferred to the company which, as a consolidating company, will arrange settlement and payment of the Group's IRES through the effect of consolidated taxation pursuant to articles 117 ff of the Decree of the President of the Republic 917/1986 in the 2004-2006 three year period.

Again, due to the effect of adopting Group taxation, amounts due from subsidiaries and companies consolidated for tax purposes are recorded to subsidiaries and companies consolidated fiscally of € 132,734K for tax in the year above-mentioned companies relating to the transfer of taxable income to the Group.

That last amount is offset by the provision for taxation at the end of the financial year, net of amounts due to consolidated companies which made fiscal losses in that financial year again and always to the extent in which the tax saving relating to the loss is allocated to the subsidiary.

With reference to what is set out in full in the management report on the use of the new fiscal consolidation, it is stressed that infra-group financial adjustments of debtor and creditor positions set out above will be made at the time fixed for payment of the balance of IRES owed for 2004.

The most significant components of the other items making up the balance of "Other debtors", gross of the provision for bad debts are set out below:

- amounts due from the Tax Authorities	€ 394,695K
- amounts due for Group IRES	€ 132,734K
- rentals and expenses being collected	€ 8,307K
- customers	€ 7,517K

## Section 6

### Other Assets (Item F)

(thousand €)	31/12/2004	31/12/2003	Change
Tangible assets and stocks	18,605	22,466	(3,861)
Cash at bank and in hand	145,941	172,738	(26,797)
Shares	86,179	49,192	36,987
Other assets	555,146	479,677	(75,469)
	805,871	724,073	(81,798)

#### Tangible assets and stocks

(thousand €)	31/12/2004	31/12/2003	Change
Furniture, office equipment and internal means of transport	13,834	17,478	(3,644)
Properties recorded at public registries	19	21	(2)
Plant and equipment	1,777	2,043	(266)
Other stocks and goods	2,975	2,924	51
	18,605	22,466	(3,861)

Stocks were depreciated as follows:

- Furniture, office equipment and internal means of transport	share depreciated	83.70%
- Properties recorded at public registries	share depreciated	91.52%
- Plant and equipment	share depreciated	90.01%

These amounts are considered to be long-term assets and, in the course of the financial year, there were the following changes gross of depreciation.

Balance as at 31/12/2003	thousand €	122,602
Acquisitions	thousand €	2,601
Sales and disposals	thousand €	(845)
Balance as at 31/12/2004		<u>124,358</u>

Depreciation of € 105,753K (€ 100,136K in 2003) increased by € 5,617K: depreciation in the year amounted to € 6,335K, whereas the use of depreciation for sales and disposals was € 718K.

#### Cash at bank and in hand

(thousand €)	31/12/2004	31/12/2003	Change
Bank deposits and post office accounts	145,738	172,535	(26,797)
Cheques and cash in hand	203	203	0

	145,941	172,738	(26,797)
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Bank deposits and post office accounts include the credit balances on the accounts and available as they are not subject to temporary deposits of more than fifteen days.

Fees of € 5,199K accrued in the financial year.

€ 107,866K under bank deposits, in 9 current accounts opened with the subsidiary BancaSai S.p.A.

### Shares

As at 31/12/2004, 5,829,212 ordinary Fondiaria-SAI S.p.A. shares were held, for a total amount of € 86,179K. 1,977,500 ordinary Fondiaria-SAI S.p.A. shares were purchased for a total outlay of € 36,987K.

### Detail of debtor items C.IV and E of the assets by maturity date and by type

The table below was produced as a supplement to the items shown previously in the assets and on the basis of the provisions of section 16 of Legislative Decree no. 173 of 26/5/1997.

(thousand €)	Premiums receivable from policy-holders	Other debtors arising out of direct insurance operations	Debtors arising out of reinsurance operations	Other loans and financing	Total
1 year term	419,887	630,131	459,501	606,059	2,115,578
2 to 5 year term	-	62,792	-	145,187	207,979
Term of more than 5 years	-	94,206	-	-	94,206
	419,887	787,129	459,501	751,246	2,417,763

€ 100,203K of debtors with a term of more than one year are amounts due from the Tax Authorities and to other debtors of more than one year are represented mainly by amounts due from agents for recoupment and instalments on loans on life policies, or loans to employees. Interest is earned on the above-mentioned loans.

### Other assets

(thousand €)	31/12/2004	31/12/2003	Change
Transitional reinsurance accounts	7,390	6,804	586

Sundry assets	547,756	472,873	74,883
	555,146	479,677	75,469

Transitional assets accounts include losses of technical income relating to direct and retroceded business and offset against operations recorded in the accounts for reinsurance companies, recorded in the technical account in the next financial year, because there is insufficient information necessary for determining the related result.

“Sundry assets” include the “connecting account” between the life and non-life businesses which shows a credit balance in the life business of € 177,151K.

“Sundry assets” include, amongst others, “Advance tax”, calculated by applying the rates of tax which will be in force at the time the inversions of the same temporary differences are found to the nominal values of the temporary differences deductible. The amount recorded at the end of the year amounts to € 198,063K and derives from transfers of a total of € 86,259K and assets in the financial year of € 39,971K and € 38,253K in the financial year and € 1,718K for previous financial years. That last change is related to the provision for previous deferred tax of the companies Haag and Azzurra Assicurazioni incorporated in the financial year in addition to the deferred tax from the participating interest Bim Vita, taxed for the sake of transparency to companies by exercising the option stipulated in art. 115 of the Decree of the President of the Republic 917/1986.

On the other hand, a provision of € 7,727K was made for taxation at the same time as the drawing from the provision for current taxation of an equivalent amount and € 2,032K for the appropriation of tax applying, for tax purposes, the effect of the multi-currency accounts on the valuation of the shareholdings capitalised which, due to the effects of the entry into force of the IRES reform, are no longer recoverable on sale as they fulfil the requirements for exemption from capital gains stipulated in art. 87 of the Decree of the President of the Republic 917/1986.

Transfers of advance tax relating to the deduction of losses in accordance with the appropriate fiscal criteria amount to a total of € 76,500K.

The detail of the main “sundry assets” are set out below (in thousand €):

Non-life/life connecting account	177,151
Assets for deferred tax received	190,063
Assets in the year	63,525
Head office/operating divisions connecting account	20,432
Tax actuarial reserves Decree-Law 209/02	672

The assets items for the year for services rendered to companies in the Group.

Item F.IV.2 “Sundry assets” includes € 2 of rounding carried out pursuant to art. 1 indent 3, ISVAP Instruction no. 1008-G of 05 October 1998.

## Section 7

### Accrued Income and Deferrals (Item G)

(thousand €)	31/12/2004	31/12/2003	Change
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For interest	104,357	96,371	7,986
For rental fees	1	1	0
Other accruals and deferrals	5,154	4,605	549
	109,512	100,977	8,535

The apportionment between accruals and deferrals was as follows:

(thousand €)	Accruals	Deferrals	Total
For interest	104,357	0	104,357
For rental fees	1	0	1
Other accruals and deferrals	363	4,791	5,154
	104,721	4,791	109,512

There were no multi-year accruals and deferrals.

Accruals for interest relate virtually exclusively to certificates of indebtedness in the portfolio.

## BALANCE SHEET – LIABILITIES

Section 8  
Equity (Item A)

(thousand €)	31/12/2004	31/12/2003	Change
Share capital	170,554	170,520	34
Issue premium reserve	190,532	190,285	247
Write-up reserve	200,025	200,025	0
Statutory reserve	33,671	27,017	6,654
Provision for own shares and of the holding company	107,754	64,828	42,926
Other reserves	1,548,571	1,533,851	14,720
	2,251,107	2,186,526	64,581

The fully paid-up share capital consists of 128,729,892 ordinary shares and 41,824,257 savings shares of a nominal value of € 1 each,

The share capital and equity reserve are allocated to the two insurance businesses as follows (in units of € ):

	Life business	Non-life business	Total
Share capital consisting of ordinary shares	42,054,747	86,675,145	128,729,892
Share capital consisting of savings shares	16,046,902	25,777,355	41,824,257
Share capital	58,101,649	112,452,500	170,554,149
Equity reserves	806,273,908	1,274,279,266	2,080,553,174
TOTAL	864,375,557	1,386,731,766	2,251,107,323

The company's total equity increased by € 64,581K.

The share capital as at 31 December 2004 increased by € 34K following the conversion of 272,448 SAI 1992-2006 warrants.

The issue premium reserve increased by € 247K following the above-mentioned conversion, whereas the increase in the statutory reserve of € 6,654K was wholly due to the appropriation of the profit for the 2003 financial year.

The details of the write-up reserves on the basis of their sources is as follows:

(thousand €)	31/12/2004	31/12/2003	Change
Special reserve pursuant to art. 26 Law no. 413 of 30/12/1991	96,837	96,837	-
Write-up reserve for stocks and shares	58,029	58,029	-
Write-up reserve Law no. 72 of 19/3/1983	38,215	38,215	-
Reserve pursuant to art. 10 Law no. 904 of 16/12/1997	6,944	6,944	-
	200,025	200,025	-

There were no changes in the write-up reserves during the financial year. The write-up reserve for stocks and shares was formed on a voluntary basis.

The provision for own shares and of the holding company of € 107,554K consists of € 86,179K of the unavailable provision for own shares referred to in art. 2357 ter of the Civil Code, this value represents the cost of the own shares held in the company's portfolio at 31/12/2004 (€ 49,192K in 2003), whereas the remainder of € 21,575K is equal to the cost of the holding company's shares in the company's portfolio at the same date (€ 15,636K in 2003) and fulfils the stipulations of art. 2359 bis of the Civil Code, as renewed by Legislative Decree 315/94.

The unavailable provision for own shares increased by € 36,987K in the financial year. The same amounts are debited from the provision for own shares to be acquired.

The unavailable provision for the holding company's shares increased by € 5,939K attributed to the value readjustment recorded with reference to the market prices for the month of December 2004. The same amounts are drawn respectively, for purchase from the reserve for the holding company's shares to be acquired and a to the value readjustments re-debited to the extraordinary reserve.



The detail of the other provisions is as follows:

(thousand €)	31/12/2004	31/12/2003	Change
Extraordinary provision	429,582	430,219	(637)
Provision for own shares	49,395	48,888	507
Provision for the purchase of the holding company's shares	15,000	-	15,000
Provision Legislative Decree 124/93	-	97	(97)
Issue premium reserve for the disposal of option rights not exercised	4,294	4.294	-
Dividend adjustment provision	2,852	2.852	-
Provision for capital gains on the merger	422	422	-
Provision pursuant to art. 20 indent 2 Legislative Decree 173/97	123	123	-
Provision pursuant to Law 742/1986	113,213	113.213	-
Loss on the merger exchange	933,686	933,686	-
Shares subscribed on increases of capital in progress	4	57	(53)
	1,548,571	1,533,851	14.720

The extraordinary provision reduced in total by € 637K following the operations described below:

- increase of € 57,797K due to the allocation decided by the meeting on 28 April 2004;
- decrease of € 75,000K, with transfer entry to the provision for own shares to be acquired as decided by the meeting on 28 April 2004;
- decrease of € 15,000K with transfer entry to the provision for the holding company's shares to be acquired by that reserve was credited at the same time with the amount of € 37,506K as that decision revoked the previous decision of 29 April 2003.
- € 5,940K debited due to the value readjustment of the holding company's shares made at the end of the financial year.

The provision for own shares to be acquired decreased by € 507K due to the provision referred to of € 75,000K decided on 28 April 2004, at the same time reducing the balance to zero by € 37,506K and the subsequent transfer due to purchases of € 36,987K to the unavailable provision for own shares. The reserve for the purchase of the holding company's shares increased by € 15,000K due to the appropriation to provisions of an equivalent amount decided on 28 April 2004.

The provision referred to in Legislative Decree 124/93 was reduced to zero following the reclassification of the accounts made pursuant to Legislative Decree no. 6/2003: the reduction to zero involved a positive effect on the profit and loss account of € 97K.

The provision referred to in the second indent of art. 20 of Legislative Decree 173/97 did not increase and corresponds to the higher current value compared with the accounting value of the securities transferred from class C to class D of the assets in previous financial years.

The provision for the gain on the merger was generated following the incorporation of La Fondiaria S.p.A. which took place in the 2002 financial year.

The “provision for shares subscribed on existing capital increases” includes capital increases not yet completed and in particular the effect of the application to convert 4,000 warrants issued on 31 December 2004 and which led to the issue of 500 savings shares in the course of the month of January 2005.

With reference to the stipulations of art. 19 indent 4b) of the Decree of the President of the Republic 917/1986, it is stated that the free provisions recorded in the accounts, other than the statutory provision, are much higher than the total negative income components deducted outside the accounts which, net of the provision for deferred taxation relating to the amounts deducted, amount in total to € 76,659K including € 9,876K for deductions made in the financial year of € 66,783K produced following the reclassification of the previous fiscal interferences.

It is pointed out, finally, also in relation to the stipulations of no. 18 of art. 2427 of the Civil Code that the share capital is as follows:

Capital subscribed and paid up	Ordinary shares	Savings shares	Total
Remainder to issue warrant 92/2006	-	1,488,944	1,488,944
Remainder to issue warrant 02/2008	7,074,215	-	7,074,215
Capital resolved	7,074,215	-	8,563,159

With regard to the capital resolved, it is pointed out that:

Your company issued 15,600,000 “Sai 1992-1996 warrants” as per the decision of the extraordinary meeting on 10 September 1992.

These warrants, with a period for exercise extended by 4 years up to 31 August 2000 by the meeting on 27/6/1996 and a further 4 years up to 31 August 2004 by the meeting on 27/4/2000, awarded the right to subscribe SAI saving shares (now Fondiaria-Sai) at the rate of one share of a nominal €1 for each warrant presented at the price of €8.26, including €7.26 as the issue premium.

With regard to the listing of the warrant on the Italian Stock Exchange, which took place on 9/12/2003, some amendments were incorporated including the option to subscribe continuously on a monthly basis; the option to exercise the warrants extended in the information leaflet up to 31/8/2006 was decided by the meeting on 28/4/2004. On 31.12.2004, there were still 11,907,552 to be exercised.

Following the merger which took place in the last financial year, 28,296,857 “Fondiaria-SAI 2002-2008 warrants” were issued. These warrants award the right to subscribe to 1 ordinary Fondiaria-SAI share at the rate of 1 ordinary share for every 4 warrants presented, at the price of €2.08.

Applications must be submitted on any working day with effect from 30 June 2005 up to 30 June 2008.

(thousand €)	Amount	Residual use	Share available
Type/Description available capital			

Capital reserves:			
Issue premium reserve	190,532	A,B,C	190,092
Write-up reserve	200,025	A,B,C	200,025
Provision for the loss on the merger exchange	933,686	A,B,C	933,686
Reserve pursuant to Law 742/1986	113,214	A,B,C	113,214
Provision for capital gains on the merger	422	A,B,C	422
Reserve pursuant to Legislative Decree 173/1997	123	-	-
Issue premium reserve for the disposal of option rights not exercised	4,294	A,B,C	4,294
Dividend adjustment reserve	2,853	A,B,C	2,853
Reserve for shares subscribed on existing capital increases	4	-	-
Provision for profits:			
Statutory reserve	33,671	B	-
Extraordinary reserve	429,581	A,B,C	429,581
Provision for the purchase of own shares	86,179	-	-
Provision for the purchase of the holding company's shares	21,545	-	-
Provision for own shares to be acquired	49,395	A,B,C	49,395
Provision for the holding company's shares to purchase	15,000	A,B,C	15,000
Total			1,938,562
Undistributable share (1)			86,230
Distributable share			1,852,332

Key:

A: for capital increase

B: to cover losses

C: for distribution to the members

(1): represents the undistributable share intended to cover multi-year costs not depreciated as stipulated in art. 16, indent 11 of Legislative Decree 173/1997.

## Section 9

### Subordinated Liabilities (Item B)

These amount to € 400,000K and there were no changes in the course of the financial year. For the new features of the loan, in terms of charges, please refer to what is stated in the management report in the chapter on indebtedness.

## Section 10

**Technical Provisions (Item C)**

These increased in total, gross of the reinsurers' share, by € 394,903K including € 334,517K in the life business and € 75,385K in the non-life business, as shown in the table below:

(thousand €)	31/12/2004	31/12/2003	Change
<b>NON-LIFE BUSINESS</b>			
- Provision for unearned premiums	1,310,287	1,301,395	8,892
- Provision for bonuses and rebates	0	3,826	(3,826)
- Provision for outstanding claims	5,193,967	5,124,933	69,034
- Other technical provisions	8,131	8,590	(459)
- Equalisation provisions	8,060	6,316	1,744
	6,520,445	6,445,060	75,385
<b>LIFE BUSINESS</b>			
- Actuarial reserves	6,505,519	6,163,150	342,369
- Provision for unearned premiums from additional insurance	897	892	5
- Provisions for sums payable	54,617	62,192	(7,575)
- Provision for rebates	2,990	5,623	(2,633)
Other technical provisions	65,014	62,663	2,351
	6,629,037	6,294,520	334,517
<b>TOTAL</b>	<b>13,134,482</b>	<b>12,739,580</b>	<b>394,903</b>

The provision for unearned premiums in the non-life business includes the provision for premium fractions and the provision for existing risks; the calculation criterion is illustrated in these Notes to the Accounts – Section A.

The provision for unearned premiums for the Italian direct business is represented only by the provision for premium fractions. The favourable trend in the business, with regard to current generation, has not required a provision to be recorded for existing risks.

The table below shows the apportionment by branch of the two components of the provision for unearned premiums:

Accounts (thousand €)	Direct Premium fractions	business Existing risks	Total	Indirect Premium fractions	business Existing risks	Total
Accident	79,947		79,947	415		415
Health	59,490		59,490	9		9
Land vehicles – own damage or loss	121,238		121,238	150		150
Railway rolling stock	4		4	-		-
Aviation hull	314		314	11		11
Marine hull	2,421		2,421	122		122
Goods in transit	3,532		3,532	-		-
Fire and natural events	111,903		111,903	132		132
Other property damage	83,701		83,701	2,384		2,384
Motor TPL	672,793		672,793	3,768		3,768
Aviation TPL	91		91	3		3
Marine TPL	425		425	-		-
General TPL	104,579		104,579	382		382
Credit	1,212		1,212	29		29
Bonds	48,846		48,846	2,340		2,340
Pecuniary losses	4,736		4,736			-
Legal protection	2,299		2,299			-
Assistance	3,011		3,011			
	1,300,542		1,300,542	9,745		9,745

The provision for bonuses and rebates is reduced to zero by the payment of bonuses to policyholders in the health branch.

The other technical provisions of the non-life business include exclusively the provision for old age referred to in art. 25 of Legislative Decree 175/98 of € 8,131K relating to the health branch.

The equalisation provisions include the provision for balancing the risks of natural disasters referred to in the Decree of the Ministry for Industry, Trade and Crafts No. 705 dated 19/11/96.

The amount of the appropriation to the provision is € 8,060K and is distributed as follows by branch in the accounts:

(thousand €)	31/12/2004	31/12/2003	Change
Accident	256	174	82
Land vehicles – own damage or loss	1,630	1,186	444
Aircraft – hull	79	72	7
Marine - hull	234	219	15
Goods in transit	627	565	62
Fire and natural events	4,671	3,574	1,097
Other property damage	482	390	92
Land vehicles TPL	20	12	8
Credit	0	88	(88)
Aviation TPL	4	3	1
General TPL	13	9	4
Pecuniary losses	44	24	20
Total	8,060	6,316	1,744

The provisions for outstanding claims in the non-life business also include the provision for claims handling expenses and claims occurring and not reported.

The different components of the provision for unearned premiums and the provision for outstanding claims are set out in Annex 13.

The actuarial reserves were determined as at 31 December 2004 in accordance with the following more significant technical bases:

a) annual compound interest rate of 4% for the majority of existing cover (newly issued contracts stipulate an annual compound interest rate of 2.5%); due to the write-up guaranteed in the contract, these technical rates are increased to 4.09% in 2004 in relation to the trend in the cost of living index, up to 4% for PRESS – Previdenza Speciale SAI and up to 4.14% for NUOVA PRESS-2000;

The financial income realised in the financial year for the special Fondivita and Fondicol businesses were respectively 4.04% and 4.43%.

b) demographic assumptions based principally on Italian statistical mortality tables 1951, 1961, 1971, 1981 and 1992 and 1971 projected and selected, RG48 and RG48 selected.

They also include the additional provision for financial risks of € 53,317K, as stated in ISVAP Instruction no. 1801-G of 21/2/2001 and already regulated by art. 25 indent 12 of Legislative Decree 174/95.

The different components of the actuarial reserve are set out in annex 14.

The detail of the "Other technical provisions" branch of the life business is set out below.

Branch I	43,739
Branch III	9,474
Branch IV	18
Branch V	11,747
Branch VI	36
	<u>65,014</u>

Provision has been made for future expenses.

## Section 11

### **Technical Provisions where the investment risk is borne by the policyholders and Provisions deriving from pension fund management (Item D)**

These amount to € 723,937K and are increased by € 118,410K. They represent the commitments deriving from insurance in the life business on which the return is determined according to investments for which the policyholder bears the risk or according to an index and commitments deriving from pension fund management.

The details of the provisions by type of product in the portfolio are set out below:

(thousand €)	31/12/2004	31/12/2003	Change
- linked to the value of an investment fund	142,917	132,837	10,080
- linked to the trend in share indices or other reference value	498,325	405,769	92,556
- deriving from pension fund management	82,695	66,921	15,774
<b>TOTAL</b>	<b>723,937</b>	<b>605,527</b>	<b>118,410</b>

With regard to open-end pension funds, the figure above is broken down into the following sections (thousand €):

SAI Open-end Pension Fund:

- Previ-bond	1,310
- Previ-gest	3,337
- Previ-mix	12,655
- Previ-europa	61
- Previ-global	50
- Previ-capital	74

Fondiaria Previdente Pension Fund

- shareholding line	23,396
- balanced line	15,484
- debenture line	4,268
- currency line	1,212
- guaranteed currency line	1,370

Previdenza Pension Fund Account:

- shareholding line	3,137
- balanced line	9,166
- debenture line	2,267
- guaranteed currency line	<u>4,908</u>
<b>TOTAL</b>	<b><u>82,695</u></b>



## Section 12

**Provision for Risks and Charges (Item E)**

(thousand €)	31/12/2004	31/12/2003	Change
Provision for redundancy transactions and similar obligations	3,137	2,872	265
Provision for taxation	374,072	289,125	84,947
Other provisions	92,722	76,729	15,993
	469,931	368,726	101,205

Annex 15 sets out the changes which took place in the financial year.

The provision for redundancy transactions and similar obligations include amounts for which provision was made in previous financial years to supplement employee severance indemnities.

(thousand €)	31/12/2004	31/12/2003	Changes
Provision for future risks and charges	82,375	66,986	15,389
Provision pursuant to art. 7 Law 738/1978	5,154	5,154	0
Provision for old age pursuant to art. 30 CCNL	2,631	2,364	267
Provision for property maintenance	2,562	2,225	337
	92,722	76,729	15,993

## a) Provision for future risks and charges

The provision increased compared with the figure for the previous financial year by € 15,389K following provisions of € 47,920 and drawings of € 32,531K.

In particular, provision was made for disputes in progress against policyholders, insurers, intermediaries and the non-insurance dispute. The total provisions for risks and charges are adequate compared with the estimated charges following all the legal disputes in which the parent company is a party, including any employment disputes. It also includes future expenses for employees and the effect of the valuations of derivative financial instruments structured at the end of the financial year.

## b) Provision for old age pursuant to art. 30 CCNL

The provision increased by € 267K due to the provision in the financial year of € 1,092K and the drawing of € 825K for premiums paid or otherwise no longer due to employees.

## b) Provision for property maintenance

The increase of € 337K follows the provision in the financial year of € 2,500K and the drawing for building maintenance and engineering made in the financial year of € 2,163K in relation to properties for use as dwellings and for other uses.

### Composition of the sub-item E2) “Provision for taxation”

The provision for taxation includes the provision for corporation tax (IRES and IRAP) for the year. Current tax is charged to the provision as the amount which will be due to the Revenue following automatic payment based on the tax return is not yet certain and/or determined. The provision for taxation also includes liabilities for deferred taxes deriving from the deferral to taxation of positive income components which contributed to determining the result for the financial year or previous financial years, net of that transferred in the year, the provision for tax at the time the loss on the merger was allocated against capital gains, not taken into account for tax purposes, allocated to property and shareholdings in the previous financial year and the provision for tax due to depreciation and only fiscal value adjustments.

The composition of the balance at the end of the financial year was as follows:

(thousand €)	31/12/2004	31/12/2003	Change
Provision for current taxation	233,672	176,000	57,672
Provision for deferred tax liabilities	140,400	113,125	27,275
Other taxes	-	-	-
	374,072	289,125	84,947

With regard to the provision for current taxation, the change compared with the previous financial year is due to drawings of a total of € 161,060K from a provision of a total of € 218,732K.

€ 153,333K of the decreases relate to the payment of IRPEG and IRAP for the 2003 financial year and € 7,727K to the drawing of surplus provision for current tax which was made for the tax settled in the tax return for that financial year.

That latter amount is offset by the cancellation, against extraordinary losses, of the provision for higher deferred taxes in relation to the same temporary tax changes in the 2003 financial year. € 86,454K of the increase in the provision, however, was due to the estimated IRES and IRAP owed by the company for the financial year closed, to which € 132,278K is added for IRES for the other companies in the Group which, together with the holding company Fondiaria-SAI, have changed over to consolidated taxation (national fiscal consolidation) and relates to the transfer of the respective tax, positive and negative for the Group.

The total provision for Group IRES for the 2004 financial year is € 193,365K.

With regard to deferred taxation, the changes made compared with the initial amount are due to the increase in tax arising in the financial year of € 60,576K and the decrease for tax transferred at the same time of € 33,3021K.

€ 34,933K of the increase in the provision for taxation due to the reclassification of the accounts by the adjustments and only fiscal depreciation in previous financial years.

Consistently with the type of underlying phenomenon, that amount is offset against extraordinary charges, to which € 161K can be added for deferred tax owed by the participating interest BIM VITA S.p.A. which, with effect from the 2004 financial year, is taxed due to transparency on Fondiaria-SAI following the exercise of the option stipulated in art. 115 of the Decree of the President of the Republic 917/1986.

The residual increase in the provision, of € 25,842K relates mainly to the deferred taxation of equity capital gains stipulated in art. 87 of the Decree of the President of the Republic 917/1986. That latest change is described in full under the "corporation tax" item in these Notes to the Accounts. Please refer to that item for a detailed analysis.

Total tax cancelled by a drawing from the provision amount to € 33,301K. € 8,530K of this is offset against extraordinary income as it relates to the drawing from the provision for deferred taxation following the merger with the former Fondiaria Assicurazioni on the gains, fiscally irrelevant, allocated to the shareholding held in Milano Assicurazioni and relates to the capital gains on property held by that company and disposed of during the 2004 financial year.

Finally, the residual use of € 24,771K refers to the transfer In the financial year of provision for taxation previously, due to the effect of the deferral of taxation of capital gains and other income which contributed to forming the result of the previous financial years, in accordance with the stipulations and allowed by specific tax rules on that subject.

## Section 13

### **Deposits received from reinsurers (Item F)**

These increased by € 9,372K (€ 152,916K in 2003 and € 162,288K in 2004).

#### Section 14

#### **Creditors and other liabilities (Item G)**

(thousand €)	31/12/2004	31/12/2003	Change
Creditors deriving from direct insurance operations	70,115	98,334	(28,219)
Creditors deriving from reinsurance operations	59,095	27,038	32,057
Sundry loans and other creditors	310,139	558,211	(248,072)
Employee severance indemnities	55,132	56,014	(882)
Other creditors	242,341	207,070	35,271
Other liabilities	581,871	445,217	136,654
	1,318,694	1,391,884	(73,190)

#### **Creditors deriving from direct insurance operations**

(thousand €)	31/12/2004	31/12/2003	Change
Insurance intermediaries	49,323	56,159	(6,836)
Company payables - current accounts	13,343	27,294	(13,951)
Policyholders for guarantees, deposits and premiums	5,956	6,614	(658)
Guarantee funds in favour of policyholders	1,493	8,267	(6,774)
	70,115	98,334	(28,219)

The guarantee funds include € 1,316K of amounts payable to the Road Victims Fund and € 177K to the Hunting Victims Fund.

**Creditors deriving from reinsurance operations**

(thousand €)	31/12/2004	31/12/2003	Change
Insurance and reinsurance companies	58,276	26,221	32,055
Reinsurance intermediaries	819	817	2
	59,095	27,038	32,057

**Sundry loans and other financial creditors**

These amount to € 310,139K (€ 558,211K in 2003) and € 180,400K relates to the loan granted by the subsidiary Sainternational S.A. (€ 72,492K relating to the non-life business and € 107,908K to the life businesses) and linked to the Mandatory Exchangeable Guaranteed Notes with ordinary Banca Intesa shares owned by Fondiaria-Sai S.p.A. maturity date 29 September 2010. That loan is due in a single instalment five working days before 29/09/2010. The interest rate paid is 5.90%.

The item also includes loans granted by the subsidiaries Italiberia S.A. of € 503K, Sainternational S.A. of € 16,411K and € 40,000K, Sim Defense S.A. of € 24,954K, Iena Presbourg S.A. of € 12,553K, Finsai International S.A. of € 27,000K and Sai Holding Italia Sp.A. of € 8,000K; their maturity date is 31/12/2005 (except than from Finsai International S.A. which is 28/06/2005 and that of Sai Holding Italia S.p.A. which is 29/06/2005) and the interest rate is calculated as the Euribor 3 month deposit type monthly average rate (6 months for Italiberia S.A.) – in the period between the month in which the loan is granted and the month prior to maturity date or any early repayment and is increased by a spread of 0.5% (Italiberia S.A.), 1.25% (Sainternational S.A., Sim Defense S.A. and Iena Presbourg S.A.) and 1.5% (Finsai International S.A. and Sai Holding Italia S.p.A.). The significant decrease of that item compared with the figure as at 31/12/2003 can be attributed mainly to the repayment of the loans received from the subsidiary Sainternational S.A. of € 465,461K and the subsidiary Fondiaria Nederland B.V. of € 30,813K. These loans can be attributed to the liquidity from the convertible debenture loans issued respectively by Sainternational S.A. and Fondiaria Nederland B.V. in 2001.

**Employee severance indemnities**

These amount to € 55,132K (€ 56,014K in 2003).

In total, the reduction of € 882K is due to provisions and other increases of € 16,569K, from drawings for payments and advance indemnities of € 17,450K.

**Other creditors**

(thousand €)	31/12/2004	31/12/2003	Change
For taxes paid by policyholders	70,946	70,863	83

For sundry tax charges	20,123	30,357	(10,234)
To welfare and social security institutions	5,205	5,477	(272)
Sundry creditors	146,067	100,373	45,694
	242,341	207,070	35,271

“Amounts due for tax paid by policyholders” include € 14,756K for the contribution to the National Health Service.

€ 672K is included under “creditors for sundry tax charges for the advance payment owed for tax on life actuarial reserves as stipulated in art. 1, indents 2 and 2bis of Decree-Law 209/2002 (converted into Law 265/2002).

Sundry creditors Include, amongst others, the following items (€ thousand):

	31/12/2004	31/12/2003	Change
Creditors for tax credits transferred to the Group	84,723	-	84,723
Suppliers	12,986	18,565	(5,579)
Guarantee deposits	4,643	7,792	(3,149)
Tax on actuarial reserves Decree-Law 209/02	672	10,313	(9,641)

Creditors for tax credits transferred to the Group include the amount due from the Revenue for withholdings, advance payments of tax, surpluses and other debtors transferred by the consolidated companies to the consolidating company due to the move to Group taxation referred to in arts.117 ff. of the Decree of the President of the Republic 917/1986.

**Detail of creditors by maturity date and by type**

The table below was produced to supplement the items set out above under the liabilities and on the basis of the stipulations contained in section 16 of Legislative Decree no. 173 of 26/5/1997.

(thousand €)	Creditors deriving from the total direct insurance and reinsurance operations	Loans with tangible security	Sundry loans and other financial creditors	Employee severance indemnities and other creditors
1 year term	270,822	-	129,740	297,473
Term 2 to 5 years	-	-	-	
Term more than 5 years	-	180,400	-	180,400
	270,822	310,140	297,473	878,438

**Other liabilities**

(thousand €)	31/12/2004	31/12/2003	Change
Transitional reinsurance accounts – liabilities	6,595	4,347	2,248
Commission on premiums being collected	63,392	66,160	(2,768)
Sundry liabilities	511,884	374,710	137,174
	581,871	445,217	136,654

Transitional reinsurance accounts include technical income for indirect and retroceded business, offset against operations recorded in the accounts of the reinsurance companies, which are recorded in the technical account and deferred to the next financial year, because there is insufficient information to determine the result.

Sundry liabilities include: debit balance on the connecting account between the head office and the peripheral network of € 124,467K, the connecting account between the life and non-life businesses of € 177,151K debited to the Life business, checks on expenses preumed to be € 78,726K for checks on the items to reinsurers of € 18,115K and checks on production expenses of € 14,163K.

## Section 15

### Accrued income and deferrals – (Item H)

(thousand €)	31/12/2004	31/12/2003	Change
Interest	3,210	5,282	(2,072)
Rentals	72	39	33
Other accrued income and deferrals	16	21,722	(21,706)
<b>TOTAL</b>	<b>3,298</b>	<b>27,043</b>	<b>(23,745)</b>

For the financial year 2004, the apportionment between accrued income and deferrals was as follows:

(thousand €)	Accrued income	Deferrals	Total
Interest	3,210		3,210
Rentals		72	72
Other accrued income and deferrals	13	3	16
<b>TOTAL</b>	<b>3,223</b>	<b>75</b>	<b>3,298</b>

The accrued interest charge relates to the share attributable to the financial year for the contractual financial charge on the loan granted by Sainternational S.A. to Fondiaria-SAI in September 2004.



## Section 16

**Guarantees, Commitments and other memorandum accounts**

These amount in total to € 13,924,546K (€ 12,861,253K in 2003)

(thousand €)	31/12/2004	31/12/2003	Change
Guarantees provided	5,854	72,194	(66,340)
Guarantees received	159,130	177,531	(18,401)
Guarantees provided by third parties to companies	21,116	21,164	(48)
Commitments	936,679	1,202,884	(266,205)
Third party assets	8,620	7,468	1,152
Securities deposited with third parties	12,470,023	11,352,314	1,117,709
Other memorandum accounts	29,411	27,698	1,713
	13,630,833	12,861,253	769,580

The guarantees provided include:

(thousand €)	31/12/2004	31/12/2003	Change
Bonds	-	41,590	(41,590)
Other personal guarantees	1,462	25,804	(24,342)
Guarantees with tangible security	4,392	4,800	(408)
	5,854	72,194	(66,340)

The decrease of € 24,342K under the item "Other personal guarantees" was achieved by the redemption of guarantees provided to subsidiaries and other participating interests.

The bond of € 41,590K in the accounts for the last financial year was cancelled following the redemption in April 2004 of the debenture loan issued by Fondiaria Nederland B.V. to which it related.

Guarantees received include:

(thousand €)	31/12/2004	31/12/2003	Change
Bonds	84,730	92,756	(8,026)
Other personal guarantees	39,114	49,489	(10,375)
Guarantees with tangible security	35,286	35,286	-
	159,130	177,531	(18,401)

Bonds refer mainly to the guarantees provided by tenants for leases and the guarantee of agents' commitments.

Commitments include mainly € 568,993K recorded in the event of forward sales on debenture securities, paid by the company for a value of less than the sales value. Sales of the above-mentioned securities were completed in the course of the first quarter of 2005; € 167,089K relate to sales of call options on debenture securities and € 180,400K for Banca Intesa ordinary shares sold forward to Sainternational S.A. to service the convertible debenture loan (mandatory); € 14,970K for investments under repurchase agreements.

Annex 17 sets out the detail of the guarantees provided and received and the commitments.

Third party assets include the nominal value of the Fondiaria-SAI shares deposited owned by employees.

Securities deposited with third parties include the book value of the securities owned by the company placed on deposit in custody with credit and other institutions. The main depositories are credit institutions for € 11,093,051K and issuing organisations for € 1,376,971K, including subsidiaries for € 1,108,202K, associated companies for € 29,840K, other participating interests € 43,149K, other depositories € 195,760K.

## PROFIT AND LOSS ACCOUNT

The values in the profit and loss account are analysed below compared with the corresponding amounts for the 2003 financial year.

Where the items for the previous financial year are not comparable with those for the current financial year, the necessary adaptations were made. The comments under the individual items show the adaptations or, where this is impossible, their non-comparability.

### Section 17

#### **Information concerning the profit and loss account for the non-life business premiums earned, net of reinsurance cessions**

(thousand €)	2004	2003	Change
Premiums direct business	3,837,628	3,785,551	52,077
Premiums indirect business	43,694	68,071	(24,377)
Gross premiums recorded	3,881,322	3,853,622	27,700
Premiums ceded and retroceded in reinsurance	(114,392)	(156,953)	42,021
Change in the gross amount of the provision for unearned premiums	(7,675)	(688)	(6,987)
Change in the reinsurers' provision	(478)	(3,117)	2,639
Total premiums for the year	3,758,237	3,692,864	65,373

The item "change in the gross amount of the provision for unearned premiums" includes € 11,475K for the change in the provision for premium fractions and € 3,800K for the provision for existing risks. The analytical evidence for this has already been commented on at the foot of the corresponding items in the Balance Sheet – Liabilities.

### Share of the return on investments transferred from the non-technical account

The amount transferred is € 89,469K and is confirmed by the definitions laid down by ISVAP Instruction no. 1140-G.

### Other technical income, net of reinsurance cessions

(thousand €)	2004	2003	Change
Other technical income gross of re-insurance	9,346	40,407	(31,061)
Other technical income ceded and retroceded	1,495	74	1,421
	10,841	40,481	(29,640)

Other technical income amounts to € 10,841K and includes € 671K of Indemnity Agreement adjustments, € 1,916K for extraordinary income from premiums cancelled in previous financial years and € 6,616K for drawings from the provision for bad debts for premiums not yet collected.

### Charges for outstanding claims, net of recuperations and reinsurance cessions

(thousand €)	2004	2003	Change
Gross amounts paid	(2,701,944)	(2,503,128)	(198,816)
Reinsurers' share	66,834	101,155	(34,321)
Change in gross recuperations	49,394	45,971	3,423
Reinsurers' share	205	(581)	786
Change in the gross amount of the provision for outstanding claims	(54,174)	(187,447)	133,273
Reinsurers' share	(25,077)	(21,601)	(3,476)
	(2,664,762)	(2,565,631)	(99,131)

The gross amounts paid include in summary:

Claims paid in the year	(793,341)	(747,456)	(45,885)
Claims paid in previous years	(1,623,093)	(1,489,962)	(133,131)
Contribution to the Road Victims Fund	(52,674)	(52,669)	(5)
Direct expenses and settlement expenses	(232,836)	(213,041)	(19,795)
	(2,701,944)	(2,503,128)	(198,816)

The change in the gross recuperations includes € 8,775K of recuperations in the financial year and € 40,619K for an adjustment for previous financial years.

The change in the gross amount of the provision for outstanding claims can be broken down as follows:

(thousand €)	2004	2003	Change
Provision at the start of the year	5,181,582	4,956,606	224,976
Exchange rates	(3,104)	(9,784)	6,680
Provision for the financial year	(1,700,827)	(1,845,492)	144,665
Provision for previous financial years	(3,493,139)	(3,279,288)	(213,851)
Balance on portfolio changes	(36,686)	(9,489)	(29,197)
	(54,174)	(187,447)	133,273

Within the scope of the direct business, the provision existing at the start of the financial year showed an increase of € 94m, as can be seen from the table below:

	2004	2003
Provision for outstanding claims at the start of the financial year	4,915,545	4,697,961
Compensation paid during the financial year, net of recuperations	1,708,655	1,567,586
Change in the claims portfolio	0	-
Provision for outstanding claims at the end of the financial year	3,300,819	3,073,192
Difference	(93,929)	57,183

That negative adjustment concentrated mainly on the General Public Liability branch and is attributable to the revaluation of claims made in previous years, however, for contracts no longer in the portfolio and to the well-known phenomenon at this time of late claims.

### Change in other technical provisions net of reinsurance cessions

(thousand €)	2004	2003	Change
Provision for old age	(458)	209	(66)
	(458)	209	(66)

The change in other technical provisions, of € 458K is attributable solely to the single provision for old age referred to in art. 25 of Legislative Decree 175/1995, determined according to the analytical criteria stipulated in art. 25 indent three of the above-mentioned decree.

### Operating expenses

(thousand €)	2004	2003	Change
Acquisition commission	(568,772)	(584,404)	15,632
Other acquisition expenses	(77,005)	(72,547)	(4,458)
Change in commission and other acquisition expenses to be depreciated	-	(9,738)	9,738
Collection commission	(28,339)	(29,326)	987
Other administration expenses	(116,432)	(119,670)	3,238
Commission and bonuses received by reinsurers	26,229	33,436	(7,207)
	(764,319)	(782,249)	17,930

Acquisition commission includes acquisition charges on multi-year contracts of € 71,632K fully charged, in accordance with prudential considerations, to the profit and loss account for the financial year.

The acquisition commission includes the costs of the sales network as defined in art. 51 of Legislative Decree 173/97.

Other acquisition expenses can be attributed mainly to the acquisition structure operating on the territory.

Other administration expenses include the share of the depreciation on property of € 4,611K (€ 5,618K in 2003) and other amounts defined in art. 53 of Legislative Decree 173/97.

### Other technical charges net of reinsurance cessions

(thousand €)	2004	2003	Change
Other gross technical charges	103,579	84,702	18,877
Other technical charges ceded and retroceded to reinsurers	41	39	2
	103,620	84,471	18,879

These amount to € 103,620K and include cancellations of premiums, issued in previous financial years, unrecoverable at the end of the financial year or cancelled because they were issued due to a technical error, and the amount of the write-downs of premiums receivable from policyholders in the financial year and previous financial years of a total amount of € 98,914K.

### Equalisation provisions - provisions and drawings

The net change amounts to € 1,743K.

The change is shown by apportioned by branch:

(thousand €)	2004	2003
Provision for risks of natural disasters (direct business)		
Other property damage	(92)	(98)
Aircraft – hull	(7)	(6)
Land vehicles – own damage or loss	(444)	(370)
Fire	(1,097)	(1,177)
Accidents	(82)	(88)
Goods in transit	(61)	(59)
Marine TPL	(15)	(11)
General TPL	(4)	(5)
Pecuniary losses	(20)	(20)
Carrier's TPL	(8)	(6)
Aviation TPL	(1)	(1)
	(1,831)	(1,841)
Provision for offsetting the credit branch	88	(88)
	(1,743)	(1,929)

Annex 19 provides a summary representation by branch concerning the profit and loss account for the non-life business.

### Section 18

#### Information concerning the technical account of the life business premiums in the financial year, net of reinsurance cessions

(thousand €)	2004	2003	Change
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Premiums direct business	1,160,917	941,129	219,788
Premiums indirect business	23,476	106,971	(83,495)
Gross premiums recorded	1,184,393	1,048,100	136,293
Premiums ceded and retroceded in reinsurance	(14,955)	(22,854)	7,899
Premiums in the financial year net of reinsurance cessions	1,169,438	1,025,246	144,192

Annex 20 sets out the composition of the premiums in the direct and indirect business, together with the balance of reinsurance.

In accordance with ISVAP Instruction no. 735 of 1/12/1997, the item “gross premiums recorded” does not include the technical cancellation of first year premiums and single premiums issued in previous financial years which are charged to “Other technical charges”.

### Investment income

In accordance with the stipulations of art. 54 of Legislative Decree 173/97, all financial equity income and expenses related to investments in the life business are shown in the relevant technical account.

(thousand €)	2004	2003	Change
Income from shares	19,940	18,471	1,469
Income from other investments	255,122	270,787	(15,665)
Increase in the value of investments	14,747	16,904	(2,157)
Profit on the realisation of investments	37,097	26,217	10,880
TOTAL	326,906	332,379	(5,473)

Within the scope of the item “Profits on the realisation of investments”, capital gains of € 7,491K are included realised on long-term investments in stocks and shares allocated here consistently with the allocations of the assets to the segregated businesses. That operation allows for the correct determination of the balance on the technical account.



The detail of investment income shown in annex 21, which also sets out the corresponding figures for the non-technical account relating to investments in the non-life business.

Income from shares includes € 7,790K for dividends decided by the subsidiary Milano Assicurazioni S.p.A..

Annex 21 shows the detail of investment income and also sets out the corresponding figures for the non-technical account relating to investments in the non-life business.

### **Income and unrealised capital gains on investments for the benefit of policyholders who bear the risk and investments deriving from pension fund management**

#### **Class D.I income**

(thousand €)	2004	2003	Change
Gross income	16,772	15,975	797
Profits on the realisation of investments	639	1,061	(422)
Unrealised capital gains	16,062	13,189	2,873
<b>TOTAL</b>	<b>33,473</b>	<b>30,225</b>	<b>3,248</b>

€ 4,463K of the amounts for unrealised capital gains relates to unit-linked policies and € 11,599K to index-linked products. The most significant capital gains show € 813K for the SAI Wap Safe Unit product and € 3,143K for the Index Startup 4 product.

#### **Class D.II income**

(thousand €)	2004	2003	Change
Gross income	288	228	60
Profits on the realisation of investments	1,835	2,028	(193)
Unrealised capital gains	2,965	2,564	401
<b>TOTAL</b>	<b>5,088</b>	<b>4,820</b>	<b>268</b>

Class DII income refers to the “SAI Open-end Pension Fund”, the “Fondiarria Previdente Open-end Pension Fund” and the “Previdenza Open-end Account Pension Fund”. Annex 22 shows the detail of Class D income.

### **Other technical income net of reinsurance cessions**

(thousand €)	2004	2003	Change
Other technical income gross of reinsurance	2,577	1,515	1,062
	2,577	1,515	1,062

Commission of € 407K received from coinsurers is included under the item again.

### Charges for outstanding claims, net of reinsurance cessions

(thousand €)	2004	2003	Change
Gross sums paid	(921,396)	(808,934)	(112,462)
Reinsurers' share	6,521	7,561	(1,040)
Gross change in the provision for sums payable	7,565	(5,902)	13,467
Reinsurers' share	(208)	348	(556)
	(907,518)	(806,927)	(100,591)

The gross change in the provision for sums payable from direct business was affected by the reclassification of sums payable for settlements already made, recorded, from 31/12/2002, within the scope of the technical provisions and not under other liabilities.

The gross sums paid include in summary:

(thousand €)	2004	2003	Change
For claims	24,594	19,722	4,872
For matured policies	508,925	420,657	88,268
For surrender (of policies)	311,588	282,084	29,504
For annuities	2,215	3,872	(1,657)
For settlement expenses	0	693	(693)
For reinsured risks	74,074	81,906	(7,832)
	921,396	808,934	112,462

### Change in actuarial reserves and other technical provisions, net of reinsurance cessions

(thousand €)	2004	2003	Change
Change in the gross amount of the actuarial reserves	(339,827)	(251,702)	(88,230)
Reinsurers' share	1,448	(9,477)	10,925
Change in the gross amount of the provision for unearned premiums for additional insurance	(5)	72	(77)
Reinsurers' share	-	-	-
Change in the gross amount of other technical provisions	282	(342)	624
Reinsurers' share	-	-	-
Change in the gross amount of class D technical provisions	(118,515)	(128,089)	9,679
Reinsurers' share		(907)	907
TOTAL	(456,617)	(390,445)	(66,172)

### Bonuses and rebates to policyholders or other beneficiaries

(thousand €)	2004	2003	Change
Net rebates	(3,885)	(2,294)	(1,591)
Bonuses net of reinsurance	(3,885)	(2,294)	(1,591)

All the rebates refer to collective direct business policies delegated to our or other companies.

## Operating expenses

(thousand €)	2004	2003	Change
Acquisition commission	(18,514)	(27,017)	8,503
Other acquisition expenses	(20,000)	(23,767)	3,767
Change in deferred acquisition commission and expenses	(1,343)	(1,614)	271
Collection commission	(10,302)	(11,241)	939
Other administration expenses	(33,616)	(28,411)	(5,205)
Commission and share of the return for reinsurers	2,663	4,798	(2,135)
	(81,112)	(87,252)	6,140

Acquisition commission includes acquisition charges on multi-year contracts of € 2,079K (€ 2,797K in 2003). The change in deferred acquisition commission of €1,343K, includes the share attributable to the financial year for pre-calculated commission for contracts entered into by the former La Fondiaria S.pA. which is in accordance with the original depreciation plan.

Other acquisition expenses include, in addition to the expenses for the acquisition structure of the commercial network, the I.C.T. expenses attributed to the new contracts acquired.

## Equity and financial charges

(thousand €)	2004	2003	Change
Investment management charges and interest paid	(14,921)	(16,186)	1,265
Value adjustments on investments	(11,745)	(47,488)	35,743
Losses on the realisation of investments	(5,628)	(2,731)	(2,897)
TOTAL	(32,294)	(66,405)	34,111

Annex 23 sets out the composition of the equity and financial charges for the life business. The investment management charges include tax of € 306K, including € 188K owed to ICI.

The size of the reduction of the investment management charges and interest paid, of more than € 1.2m achieved the improvement of charges for the debenture component of the portfolio.

The value adjustments on investments include depreciation on property of € 343K, alignments of shareholdings and unit trust holdings of € 8,355K and fixed income securities of € 3,005K.

€ 3,841K of the losses on the realisation of investments refer to fixed income securities and € 792K to shareholdings.

€ 4,710K of the alignments of shareholdings relate to subsidiaries.

**Equity and financial charges and unrealised capital losses on investments for the benefit of policyholders who bear the risk of such investments and investments deriving from pension fund management**

Class D.I. charges

(thousand €)	2004	2003	Change
Investment management charges	(376)	(2,354)	1,978
Losses on the realisation of investments	(88)	(910)	822
Unrealised capital losses	(2,262)	(2,714)	452
<b>TOTAL</b>	<b>(2,726)</b>	<b>(5,978)</b>	<b>3,252</b>

€ 100K of the amount of unrealised capital losses relates to unit-linked products and € 2,162K to index-linked and other products pursuant to art. 30 of Legislative Decree 174/93.

Class D.II. charges

(thousand €)	2004	2003	Change
Investment management charges	(34)	(18)	(16)
Losses on the realisation of investments	(769)	(1,001)	232
Unrealised capital losses	(291)	(171)	(120)
<b>TOTAL</b>	<b>(1,094)</b>	<b>(1,190)</b>	<b>96</b>

Class D.II charges relate to the “Open-end SAI Pension Fund”, the “Fonditaria Previdente Pension Fund” and the “Previdenza Account Pensions Fund”.

Annex 24 sets out the details of these charges.

**Other technical charges, net of reinsurance cessions**

(thousand €)	2004	2003	Change
Other gross technical charges	(9,526)	(559)	(4,025)
Other technical charges ceded and retroceded to reinsurers			
	(9,526)	(559)	(4,025)

Other gross technical charges relate completely to losses on amounts due for first year premiums and single premiums.

**Share of the return on investments transferred to the non-technical account**

The amount transferred totals € 30,382K.

As stipulated in ISVAP Instruction no. 1140-G art. 6, the share of the return on investments must not be less than the amount of the profits on the investments contractually paid to policyholders in the financial year. The share is, therefore, aligned with that lower value.

**Section 19****Changes in the technical items**

Annex 25 contains the summary of the technical accounts for each non-life branch of the Italian portfolio. Annex 27 contains the summary of the technical accounts for individual branches of the life business in the Italian portfolio.

In the non-life branches, the items for several branches are represented partly by the operating expenses and partly by the share of the return on investments transferred from the non-technical account; in the life branches, the items for several branches are represented by part of the operating expenses and the investment income net of the share transferred to the non-technical account. The following criteria for the apportionment of those items by branch are as follows:

- Other acquisition expenses: are joined with the costs of the commercial network and the assistance units for which the direct charging is made on the same basis as the cost centres; the other expenses which include the costs of procedures for the ICT department, on the management of the acquisition of contracts. These are allocated by an apportionment which uses statistical adjustments made on a sample of the staff employed in sales;

- claims handling expenses: these relate to the settlement network's and the claims management departments' cost centres and costs of the claims procedures of the ICT department.

The allocation of expenses not directly attributable to individual branches was made on the basis of the average number and amounts of the claims settled by employed staff.

- Other administration expenses: all other costs not in the two categories above make up the other administration expenses and relate to the costs of the head office structure.

-The criterion used for the apportionment is made, in the majority of cases, on premiums adjusted at the appropriate time whereas, for some companies, the criterion was diversified due to the specific activity carried out.

-For the share of the return on investments, reference is made to the decision in ISVAP Instruction no. 1140-G.

Further summary information on the expanded technical items of the non-life and life branches is set out in annexes 26, 28 and 29 with reference to the Italian and overseas portfolio.

## Section 20

### Information concerning the non-technical account - investment income from the non-life business

(thousand €)	2004	2003	Change
Income from shares	95,068	69,454	25,614
Income from other investments	130,230	139,002	(8,772)
Value adjustments on investments	6,314	7,645	(1,331)
Profits on the realisation of investments	39,346	10,065	29,281
	270,958	226,166	44,792

Annex 21 sets out the details of investment income with the income from the life business.

Income for shares includes € 58,230K relating to dividends decided by the subsidiary Milano Assicurazioni S.p.A.

### Share of the return on investments transferred from the technical account of the life business

Please refer to the comments in the appropriate section of the technical account of the life business.

### Equity and financial charges in the non-life business

(thousand €)	2004	2003	Change
Investment management charges and interest paid	(42,199)	(34,333)	(7,866)
Value adjustments on investments	(90,541)	(275,308)	184,767
Losses on the realisation of investments	(22,067)	(7,438)	(14,629)
	(154,807)	(317,079)	162,272

€ 5,161K of the investment management charges of is for tax and € 4,521K is owed to ICI.

The size of the increase of the investment management charges and interest paid of more than € 7.5m was achieved partly by swap operations of more than € 15m.

The value adjustments on investments include depreciation on property of € 7,478K and alignments of shareholdings and unit trust holdings of € 82,624K and fixed income securities of € 439K.

€ 35,655K of the alignments of shareholdings relate to subsidiaries.

Annex 23 sets out the detail of equity and financial charges also with reference to the life business.

### Share of the return on investments transferred to the technical account of the non-life business

The amount transferred totals € 89,469K and is confirmed by the definitions laid down by ISVAP Instruction no. 1140-G.

### Other income

This totals € 132,621K (€ 145,487K in 2003) and is set out in detail below:

(thousand €)	2004	2003	Change
Interest on bank current accounts with no fixed deposit times	5,199	6,404	(1,205)
Interest on company current accounts	1,388	1,637	(249)
Interest on other loans	6,767	5,920	847
Drawings from provisions for risks and charges	39,564	37,670	1,894
Recuperations by third parties of administrative expenses and charges	66,243	38,677	27,566
Sundry income	10,371	52,609	(42,238)
Exchange rate differences	3,089	2,930	159
	132,621	145,847	(13,226)

The drawings from the provisions for risks and charges include the drawing of € 4,045K from the provision for bad debts and the drawing of € 2,163K from the provision for property maintenance.



€ 32,531K was also drawn from the provision for risks and charges. "Sundry income" of € 430K for the tax credit on the realisation and valuation of shares in stocks and shares investment funds. The remainder of sundry income, of € 9,941K, relates mainly to provisions of services carried out for companies in the Group: the values are added to that which relate to the recovery of costs and which are significant in recuperations from third parties of administrative expenses and charges.

Recuperations by third parties of administrative expenses and charges, which are offset against other charges, therefore relate mainly to charges to companies in the Group for the apportionment, on the basis of objective criteria, of the costs of the unified functions at Group level

### Other charges

These total € 282,027K (€ 273,586K in 2003) and include amongst others:

(thousand €)	2004	2003	Change
Administrative charges and expenses on behalf of third parties	(66,243)	(37,809)	(28,434)
Interest on payables – current accounts	(926)	(2,383)	1,457
Sundry charges to credit institutions and companies	(456)	(425)	(31)
Interest on other borrowings	(292)	(395)	103
Shares assigned to the provision for risks and charges	(57,797)	(35,106)	(22,691)
Losses on loans	(4,318)	(23,211)	18,893
Share of depreciation of intangible assets	(46,834)	(58,690)	11,856
Depreciation of goodwill	(48,657)	(48,657)	0
Interest on loans	(9,733)	(11,900)	2,167
Interest on subordinated liabilities	(21,037)	(19,699)	(1,338)
Sainternational loan redemption premium	(7,097)	(8,572)	1,475
Exchange rate differences	(3,434)	(18,661)	15,227
Others	(15,203)	(8,078)	(7,125)
	(282,027)	(273,586)	8,441

€ 47,920K of the shares assigned to the provisions for risks and charges refer to the share of the provision to the provision for future risks and charges, amongst others, for some disputes in progress against policyholders, insurers and reinsurers and with intermediaries; the provisions also related to future employees' expenses and presumed charges deriving from the close of some current positions on derivative finance contracts.

The remainder of € 5,948K relates to the provision for bad debts, € 2,501K to the property maintenance fund and € 1,428K to the provisions for old age and redundancy.

With regard to the share of depreciation of the goodwill, please refer to what is stated in the comments under the “Intangible Assets” item.

The shares of depreciation of other intangible assets relates to sundry assets from deferred commission and include mainly € 29,543K of depreciation of expenses for research and development, € 2,316K for Edp user rights and € 2,774K for the share for the financial year of capitalised costs in relation to the loan granted by the subsidiary Sainternational S.A..

Interest on loans includes € 5,776K relating to the loan granted by the subsidiary Sainternational; a further € 2,642K relates to the costs of the subordinate loan issued in July 2001. Finally, € 9,486K relates to the depreciation of the merger costs.

The item “Sainternational loan redemption premium” refers to the share for the year of the redemption premium on the loan granted by the subsidiary Sainternational which matured in June 2004.

Interest on subordinated liabilities refer in full to the subordinate loan granted by Mediobanca.

## Extraordinary income

€ 234,584K broken down as follows:

(thousand €)	2004	2003	Change
Capital gains on sales of property	57,117	77,418	(20,301)
Capital gains on the disposal of long-term investments in stocks and shares	49,662	35,962	13,700
Elimination of previous fiscal interferences	101,717	0	101,717
Other extraordinary income	26,088	44,934	(18,846)
	234,584	158,314	76,270

Capital gains on the disposal of investments in long-term stocks and shares were realised for € 5,721K on debentures and € 43,941K on shares.

Extraordinary income includes, amongst others, extraordinary income of € 15,238K and advance tax of € 10,249K.

The “elimination of previous fiscal interferences” item refers to the write-off of depreciation of property and write-down of listed shareholdings, made in previous financial years, exclusively by applying the tax rules. Please refer to what is stated on this in the Management Report.

## Extraordinary charges

These total € 95,330K and are broken down as follows:

(thousand €)	2004	2003	Change
Expenses connected with the sale of property	1,704	4,030	(2,326)
Capital losses on the disposal of property	17,252	2,309	14,943
Capital losses on the disposal of long-term investments in stocks and shares	7,034	165	6,869
Financial charges and capital losses on shares	28	63	(35)
Elimination of previous fiscal interferences	34,933	0	34,933
Other extraordinary charges	34,379	5,206	29,173
	95,330	11,773	83,557

The capital losses on the disposal of long-term investments in stocks and shares relate mainly to the debenture section.

Financial charges on shares relate exclusively to trading expenses.

Other extraordinary charges include, amongst others, extraordinary losses of € 27,846K chargeable partly to penalties imposed by the supervisory authority in relation to the claims settlement policy, partly to charges for the settlement with former shareholders of the subsidiary Latina and, the remainder, to the cancellation of deferred tax for which provision was made in previous financial years, offset by an equivalent amount by a related drawing from the provision for taxation which is shown under extraordinary income.

The elimination of previous fiscal interferences include deferred tax paid relating to extraordinary income, consequent on the reclassification of the accounts. The elimination of previous fiscal interferences include deferred tax relating to extraordinary income, consequent on the reclassification of the accounts.

The item "Extraordinary charges" includes € 2 of rounding made under the life business pursuant to art. 1, paragraph 3 of the ISVAP Instruction no. 1008-G of 05 October 1998.

## Corporation Tax

This totals € 125,412K (€ 118,199K in 2003) and can be broken down as follows:

(thousand €)	2004	2003	Change
Tax paid	(153,333)	(146,708)	(6,625)
Drawing from the provision for taxation	153,333	146,708	6,625
Provision for current tax in the provision for taxation	(86,454)	(175,000)	88,546
Net deferred tax	(38,958)	56,801	(95,759)
TOTAL	(125,412)	(118,199)	(7,213)

The corporation tax paid refers to IRPEG and IRAP for the 2003 financial year and corresponding to the drawing from the relevant provision. The shares of the provision in the 2004 financial year, however, include the estimate of IRES and IRAP for the current financial year, calculated in accordance with the tax rules in force and by applying the nominal rates of 33% for IRES and 4.25% for IRAP to the tax bases.

When determining the IRAP for the year, the rate increases taken into account were those stipulated by some Regions for taxes owed on the basis of the territorial apportionment of the tax base. Those amounts were apportioned to the provisions and not to amounts owed for tax at the time the accounts were produced as the tax declaration for the financial year had not yet been produced.

With regard to IRES, which replaces IRPEG following the reform of corporation tax implemented by Legislative Decree no. 3443 of 12 December 2003, it is stipulated that amounts for which provision is made relating only to the tax attributable pro quota to the company on the basis of its own taxable income transferred to the Group. This is explained in more detail in the Management Report – please refer to this. With effect from the 2004 financial year and for the 2004-2006 three year period, as a consolidating company, the company is included in the group taxation stipulated by articles 117 ff. of the Decree of the President of the Republic 917/1982 (national fiscal consolidation). The new rules stipulate that the consolidating company determines a single tax base derived from the positive and negative taxable amounts of the companies involved.

Fondiaria-SAI thus determined the total income for the purposes of IRES starting again with taxation for the companies consolidated on the basis of the income or losses communicated by them and adjusted, where appropriate, by the benefits or disadvantages of the consolidation adjustments stipulated by art. 122 of the above-mentioned decree and the allocation of the fiscal losses.

Furthermore, as stipulated by art. 118, indent 3 of that decree, the consolidating company substitutes for the individual consolidated companies with the Revenue arranging to pay the balance and the IRES advance payment owed by the Group subject to calculation of the withholdings, credits and advance tax and those ceded to the Group by the other members of the consolidated group.

In view of this, the IRES charged to the profit and loss account for the financial year relates only to the Company's estimated tax, whereas the provision for taxation includes the total tax charge estimated for the total tax paid by the Group.

On the other hand, amounts due from and to subsidiaries consolidated fiscally in relation, firstly, to the tax owed to the holding company for IRES for the year of each consolidated company and, secondly, debited for the tax saving which is acknowledged to the companies due to the transfer of tax losses to reduce the Group's taxation.

The income attributed to the company, on which the provision for tax was calculated, takes account of the increases or reductions relating to the award of fiscal benefits and disadvantages deriving from involvement in consolidated taxation in accordance with what is agreed with the individual companies in the Group which exercised the option to join the national fiscal consolidation with the parent company Fondiaria-SAI.

The application of the accounting principles involved showing the net negative deferred tax charges of a total of € 38,958K.

The following changes occurred in deferred tax in the financial year:

(thousand €)	2004	2003	Change
Deferred tax liabilities	(25,482)	(25,811)	329
Deferred tax liabilities cancelled	24,771	19,631	5,140
Deferred tax received	38,253	126,797	(88,544)
Deferred tax received cancelled	(76,500)	(63,816)	(12,684)
	(38,958)	56,801	(95,759)

In accordance with the stipulations of art. 2427 of the Civil Code, point 14, the following table is provided concerning the description of the temporary differences which determined the adjustment of deferred tax paid and advance tax calculated by applying the nominal rates of 33% for IRES and 4.25% for IRAP to those differences (the latter where applicable).

(thousand €)	20	04	20	03
Deferred tax received	Temp. Diff.	Tax diff.	Temp. Diff.	Tax diff.
Non-life multi-year commission paid	47,755	17,789	49,077	18,281
Write-down of premiums receivable from policyholders	15,054	5,608	53,653	19,986
Write-down of other debtors	5,948	1,963	2,003	661
Change in the provision for outstanding claims	3,963	1,308	10,452	3,449
Unrealised capital losses on shares	6,854	2,553	219,405	72,404
Appropriation to the provision for risks and charges	24,537	8,097	26,453	8,729
Other temporary differences	2,837	935	9,961	3,287
	106,948	38,253	371,004	126,797
(thousand €)	20	04	20	03
Deferred tax paid	Temp. Diff.	Tax diff.	Temp. Diff.	Tax diff.
Capital gains spread over several years	40,134	15,599	68,211	24,798
Unrealised capital gains on shares	13,479	5,021	-	-
Only fiscal depreciation	15,738	5,862	-	-
Other temporary changes	-	-	3,069	1,013

	69,351	26,482	71,280	25,811
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The adjustment of advance tax of a total of € 38,253K is obtained mainly from the deduction over three financial years of the acquisition commission for multi-year insurance contracts in the non-life branch and the deduction over nine years of the write-downs made on loans to policyholders for premiums exceeding the share deductible pursuant to art. 106, indent 3 of the Decree of the President of the Republic 917/1986.

On the other hand, the transfer of prepaid tax adjusted in previous financial years generated increased tax of € 76,500K. That repayment relates in particular to the same temporary changes, which occurred in past financial years, which generated prepaid tax in the financial year and the transfer of the deduction of alignments made on shareholdings capitalised pursuant to art. 1 of Legislative Decree 209/2002.

With regard to this, it is reported that the considerable decrease in prepaid tax in the 2004 financial year compared with the previous financial years can be attributed mainly to the fiscal irrelevance of the write-downs made on capitalised shareholdings, as they fulfil the requirements referred to in art. 87 of the Decree of the President of the Republic 917/1986 (shareholdings exempt from PEX), produce permanent fiscal readjustments. On the other hand, prepaid tax for the write-downs made on shares and shareholdings in the financial year which, although not deductible in the financial year, are intended to be reabsorbed, at least potentially, at the time they are sold as they do not meet the above-mentioned requirements.

With regard to the change in deferred tax paid, it is stated that the major differences compared with the 2003 financial year relate, on the one hand, to speculation about the temporary fiscal irrelevance of the value readjustments made on shares and shareholdings stated above and, on the other, to the deduction in the tax return of the depreciation of property made exclusively by applying the tax rules through the effect of the fiscal reclassification of the accounts as stated in art. 109, indent 4, b) of the Decree of the President of the Republic 917/1986.

Under the items excluded from the calculation of deferred tax, some amounts apportioned to the provision for risks and charges are stated for estimated charges for which it was considered appropriate, in accordance with prudential considerations, not to make provision for the relevant prepaid tax considering the objective uncertainty about the timing of the aforementioned charges and the variability of the estimates made.

The combined effect of the new provisions on the determination of IRES, the benefits consequent on involvement in the national fiscal consolidation and the fiscal reclassification of the accounts determined a considerable reduction of the tax rate for the accounts which changed from approximately 47% in 2003 to approximately 33% in the 2004 financial year.

However, there is no real reduction of the fiscal charge for the year corresponding to that reduction of the tax rate.

The distorting effects which had the main effect on this are the fiscal reclassification of the previous accounts interferences referred to already relating to the fiscal depreciation on the property and only on the fiscal value of the adjustments of the shareholdings made in previous financial years, on extraordinary income re-

corded in the accounts of a total of € 101,619K is mainly provision for deferred tax of a total of € 34,935K.

Consistently with the accounting treatment suggested in document no. 1 issued by the Italian Accountancy Authority, these taxes were charged to extraordinary charges, rather than to the increase in tax for the financial year.

Finally, due to the effect of the repeal of the tax credit on dividends, there is no longer any effect on the tax rate for the accounts of previous financial years. That mechanism in fact stipulated that the amount of the tax credit (€ 35,752K in the 2003 financial year) contributed to the formation of the IRPEG tax base generating higher tax in the year. The same credit was then used to calculate the tax owed allowing for the financial recovery of the taxes already discharged on the profits on which those dividends were issued.

The real reduction of tax in the year, however, relates to other stipulations of the reform of IRES, including the derating of capital gains exempt on capitalised shareholdings, net of non-deductible capital losses, of approximately € 43,078K, the reduction of one percentage point of the nominal rate for IRES (33%) compared with the IRPEG rate (34%) and the stated fiscal benefits to consolidated taxation.

## Section 21

### **Other information relating to the profit and loss account**

Annex 30 is a table of relations with companies in the Group and other participating interests and Annex 31 is a summary table of premiums recorded in the direct business.

The table of charges for employees, directors and auditors is set out in annex 32.

### **Exchange rates**

The exchange rates for the main currencies used for the conversion of the items in the accounts are set out below:

United States Dollar	1.3621
British sterling	0.70505
Japanese Yen	139.65
Swiss Franc	1.5429

Pursuant to art. 78 of the Consob Resolution no. 11971 of 14/5/1999 and as issuers of shares, we set out below the names and in accordance with the criteria established in annex 3C, the payments made to directors, auditors and general managers for any reason and in any form, also by the subsidiaries:

Surname and name	Description of post		Pay	(in Euro)			
	Post held (1)	Period	Emolu-ments for the post	Non-currency benefits	Bonuses and other incen-tives	Other pay-ments for posts	Other
Ligresti Jonella	Chairman - Board member – CE	1/1-31/12/2004	622,108	2,435		154,166	
Ligresti Giulia Maria	Vice-Chairman	1/1-31/12/2004	263,070	3,547		521,765	
Ligresti Paolo	EC Board member	1/1-31/12/2004	(*)			998,893	
Pini Massimo	Vice-Chairman	1/1-31/12/2004	284,458	28,253	500,000	67,465	
Talarico Antonio	Vice-Chairman- Board member –EC	1/1-31/12/2004	276,363	18,902		543,722	
Marchionni Fausto	Managing Director –Board member – EC	1/1-31/12/2004	300,000	5,400		280,334	(a)
Broggini Andrea		1/1-31/12/2004	50,000				
Caruso Carmelo	Board member	1/1-31/12/2004	50,000			6,400	
Cerutti Mariella	Board member	1/1-31/12/2004	50,000				
D'Urso Carlo	Board member	1/1-31/12/2004	50,000			18,360	(b)
La Russa Vincenzo	Board member – EC	1/1-31/12/2004	100,000			1,905	(c)
Lo Vecchio Lia	Board member	1/1-31/12/2004	50,000			12,830	
Lombardini Siro	Board member	1/1-31/12/2004	50,000				
Mei Enzo	Board member – ICC	1/1-31/12/2004	60,000				
Morbidelli Giuseppe	Board member	1/1-31/12/2004	50,000				(d)
Rucellai Cosimo	Board member – ICC	1/1-31/12/2004	60,000			59,413	
Severgnini Oreste	Board member	1/1-31/12/2004	50,000				
Spiniello Salvatore	Board member – ICC	1/1-31/12/2004	60,000			33,361	(e)
Zannoni Oscar	Board member	1/1-31/12/2004	50,000				
Marino Benito	Chairmanof the Board of Auditors	1/1-31/12/2004	105,000			39,435	
Matovani Giancarlo	Statutory Auditor	1/1-31/12/2004	70,000			81,177	
Spadacini Marco	Statutory Auditor	1/1-31/12/2004	70,000				
Castellini Sergio	Alternate Auditor	1/1-31/12/2004	-				
Di Giulio Maria Giorgio	Alternate Auditor	1/1-31/12/2004	-				
Mosconi MariaLuisa	Alternate Auditor	1/1-31/12/2004	-			106,845	

(1) The abbreviation “EC” means they are on the executive committee, the abbreviation I.C.C. means they are on the Internal Control Committee

(2) The estimated value is stated

(3) The reason for which they were granted is specified.

(\*) Gioacchino Paolo Ligresti waived the payments for the posts of member of the board and member of the Executive Committee.

(a) Payments to employees 782,794



- (b) Professional services rendered to FONDIARIA-SAI SpA: 22,000
- (c) Professional services rendered to FONDIARIA-SAI SpA: 182,818 – Professional services rendered to subsidiaries: 2,474.
- (d) Professional services rendered by the Professional Office Morbidelli-Bruni-Righi-Traina to FONDIARIA-SAI SpA: 33,959 – Services rendered by the Professional Office Morbidelli-Bruni-Righi-Traina to subsidiaries: 1,131.
- (e) Professional services rendered to FONDIARIA-SAI SpA: 125,000 – Professional services rendered to subsidiaries: 160,30.

**PART C**  
**OTHER INFORMATION**

**Financial statement 2004/2003**

(thousand Euro)	2004	2003
Sources of financing:		
Net profits for the financial year	258,473	133,060
Net increase in technical provisions for the non-life and life business	564,899	661,840
Change: provisions for risks, provision for employee severance indemnities, provisions for property maintenance, depreciation provisions and other specific provisions	52,078	(1,087)
Alignment of securities net of disgios and discounts	73,265	281,964
Contracting of loans paid net of repayments	(248,072)	(608,555)
	700,643	467,222
Increase in the share capital payable	228	82
Applications of funds:		
Increase in investments in securities, repurchase agreements	668,168	622,279
Net financing granted	26,745	51,624
Increase in investment in property	(229,450)	(258,722)
Increase in investment in other assets Including goodwill	(56,339)	(66,335)
Change in equity due to the merger	-	-
	409,124	348,846
Increase (decrease) debtors and other assets net of creditors and sundry liabilities	244,696	80,164
Profits distributed	68,609	45,818
	722,429	474,828
Change in cash at bank and in hand	(21,558)	(7,524)
Bank account assets and cash in hand at the start of the year	186,646	192,170
Bank account assets at the end of the year	163,088	184,646

### **Solvency margin and component elements**

The solvency margin table is set out as an annex to the accounts, as determined by ISVAP Instruction no. 2322 of 06/12/2004. It shows that the amount of the margin to be formed is € 294m for the life business and € 632m for the non-life business, with component elements of € 753m and € 1,373m respectively.

### **Technical provisions to cover at the close of the financial year and related assets to cover**

The tables of assets assigned to cover the technical provisions of the life and non-life business, in accordance with the provisions of the Supervisory Authority are appended to the accounts. The provisions to cover, in total of € 6,976m for the life business (€ 6,752m for class C provisions and € 724m for class D) and € 6,304m for the non-life business, are invested in assets permitted by law.

Milan, 23 March 2005

For the Board of Directors  
The Chairman  
JONELLA LIGRESTI

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*Report by the Board of Auditors*

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Signori azionisti,

in osservanza ai compiti assegnati al Collegio Sindacale dagli articoli 149 e seguenti del D. Lgs. 24/2/98 n. 58 e del nuovo art. 2403 del Codice Civile, abbiamo vigilato, secondo i principi di comportamento del Collegio Sindacale raccomandati dai Consigli Nazionali dei Dottori Commercialisti e dei Ragionieri sull'osservanza della legge e dello statuto, sul rispetto dei principi di corretta amministrazione ed in particolare sull'adeguatezza dell'assetto organizzativo, amministrativo e contabile adottato dalla Società e sul suo concreto funzionamento.

Abbiamo anche vigilato sul rispetto delle normative che regolano lo specifico settore di attività e sui rapporti della società con gli organi istituzionali e di controllo.

La presente Relazione recepisce inoltre le indicazioni contenute nella Comunicazione Consob n. DEM/1025564 del 6 aprile 2001.

L'attività di controllo della regolare tenuta della contabilità sociale, della corretta rilevazione dei fatti di gestione nelle scritture contabili, della corrispondenza del bilancio di esercizio alle risultanze delle medesime e dell'osservanza delle norme stabilite dal codice civile e dalle leggi speciali del settore per la valutazione della contabilità sociale è ora interamente demandata alla Società di Revisione. Vi precisiamo che la Società Deloitte & Touche S.p.A., da Voi incaricata della revisione del bilancio, non ci ha segnalato alcun rilievo emerso nel corso dei lavori per il rilascio del giudizio di cui all'art. 156 del D.Lgs. 58/98, emesso in data 07/04/2005, giudizio contenente il richiamo di informativa relativo all'eliminazione delle interferenze fiscali pregresse.

E' stata verificata l'osservanza delle norme di legge inerenti la formazione, l'impostazione del bilancio e della relazione sulla gestione tramite verifiche dirette e informazioni assunte dalla Società di Revisione.

Il bilancio, redatto secondo gli schemi e le disposizioni contenute nel D.Lgs. 26/5/97 n. 173, è corredato dalla Relazione sulla Gestione.

Il bilancio al 31/12/2004 chiude con un utile di € migliaia 258.473 alla cui formazione hanno concorso, come meglio specificato nella Relazione sulla Gestione, i proventi straordinari derivanti dalla eliminazione delle interferenze fiscali pregresse. Tale eliminazione, che ha comportato un impatto positivo sul bilancio d'esercizio per € milioni 67, al netto delle correlate imposte differite passive, è coerente con i principi generali di redazione del bilancio ed accoglie le indicazioni emanate in tal senso dall'organismo Italiano di Contabilità.

Il risultato d'esercizio è inoltre influenzato dall'imputazione a costo di € milioni 48,6 quale quota di ammortamento dell'anno di avviamenti iscritti, di cui € milioni 15,4 relativi all'avviamento rinveniente dalla citata incorporazione della Fondiaria S.p.A e per la maggior parte del residuo da attività già iscritte nel patrimonio dell'incorporata.

Nell'ambito poi delle partecipazioni finanziarie e di controllo di maggior rilievo, i Vostri Amministratori Vi hanno ampiamente informato sulle principali dismissioni avvenute nel corso dell'esercizio, nonché sulle valutazioni dei valori espressi in bilancio.

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Abbiamo verificato che i principi contabili adottati, descritti nella nota integrativa, siano adeguati in relazione all'attività e alle operazioni poste in essere dalla Società, nonché la rispondenza del bilancio ai fatti e alle informazioni di cui il Collegio Sindacale è a conoscenza a seguito della partecipazione alle riunioni degli Organi Sociali, che ha permesso di acquisire adeguate informazioni circa le operazioni di maggior rilievo economico, finanziario e patrimoniale effettuate dalla Società.

In merito all'attività svolta, vi precisiamo che abbiamo sempre partecipato alle riunioni del Consiglio di Amministrazione e del Comitato Esecutivo, pari rispettivamente, nel corso del 2004, a n. 9 sedute e n. 3 sedute, ed abbiamo sistematicamente ottenuto dagli amministratori informazioni sull'attività svolta e sulle operazioni di maggior rilievo economico, finanziario e patrimoniale effettuate dalla Società e dalle Società Controllate.

Vi possiamo assicurare che le operazioni deliberate dal Consiglio di Amministrazione o dal Comitato Esecutivo, sono state assunte nel rispetto e in conformità delle norme legislative, statutarie e regolamentari che ne disciplinano il funzionamento e non sono state manifestamente imprudenti, azzardate, atipiche e/o inusuali, in conflitto di interessi con la Società, in contrasto con le delibere assunte dall'Assemblea o tali da compromettere l'integrità del patrimonio sociale.

Abbiamo esaminato e vigilato, nell'ambito dei nostri doveri, sull'adeguatezza della struttura organizzativa della Società e sulla rispettosa esecuzione degli adempimenti previsti dalle varie norme, tramite osservazioni dirette, raccolta di informazioni dai responsabili delle funzioni aziendali e incontri con la Società di Revisione, per gli aspetti di sua competenza, al fine del reciproco scambio di dati e informazioni rilevanti.

In particolare, a seguito degli incontri con la Società di Revisione, non sono emersi dati, fatti od informazioni tali da essere segnalati nella presente relazione o agli organi esterni di controllo e vigilanza.

Abbiamo vigilato sull'affidabilità del sistema amministrativo contabile nel rappresentare correttamente i fatti di gestione, nell'assicurare la salvaguardia del patrimonio aziendale e nel prevenire o identificare tempestivamente errori ed irregolarità, nonché sul grado di affidabilità del sistema di controllo interno alle esigenze gestionali, partecipando inoltre alle riunioni del Comitato all'uopo istituito.

La Vostra Società ha continuato gli interventi di riorganizzazione e di integrazione della Compagnia e del Gruppo resisi necessari a seguito dell'operazione di fusione per incorporazione di La Fondiaria in SAI, perfezionatasi alla fine dell'esercizio 2002. In questo contesto il Collegio Sindacale ha seguito con attenzione le varie fasi dell'integrazione e della riorganizzazione, assumendo le opportune informazioni dai responsabili delle funzioni interessate e approfondendo, per quanto di propria competenza, argomenti e problematiche specifiche.

La vigilanza sul rispetto dei principi di corretta amministrazione è consistita nel verificare la conformità della gestione ai criteri di razionalità economica, senza peraltro mai sindacare sull'opportunità gestionale delle scelte, riservate agli amministratori.

Circa l'adeguatezza della struttura organizzativa della Società, che risulta conforme alle dimensioni e alla natura dell'oggetto sociale, questo Collegio ha posto particolare attenzione alla separazione e contrapposizione di responsabilità nei compiti e nelle funzioni ed alla chiara definizione delle deleghe dei poteri di ciascuna funzione.

Il Collegio ha altresì esercitato la propria vigilanza sull'adeguatezza, anche in merito alla tempestività, delle disposizioni impartite dalla Società alle Società Controllate, ai sensi dell'art. 114, comma 2, del D.Lgs. n. 58/98, in ordine agli obblighi di comunicazione previsti dalla legge, sia ai sensi degli artt. 2497 ss. del C.C. In particolare il Collegio ha preso atto che la Società esercita attività di direzione e coordinamento ai sensi degli artt. 2497 ss. del C.C. nei confronti delle proprie controllate: l'attuazione di tale disposto è avvenuta per il tramite dell'emanazione di apposite regole di comportamento alle società controllate, sia al fine di assicurare l'espletamento dei compiti di coordinamento e di controllo, sia per garantire il rispetto degli obblighi di trasparenza ed informativa nei confronti del pubblico previsti dalla vigente normativa.

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A proposito del sistema di controllo interno ed in relazione a quanto previsto dalla circolare Isvap n. 366 D del 3 marzo 1999, Vi informiamo di aver costantemente monitorato il modello di controllo interno disegnato dalla Società, anche attraverso colloqui e scambi di informazioni con i soggetti all'uopo preposti e tramite la partecipazione alle riunioni del Comitato di Controllo Interno.

Il Consiglio di Amministrazione Vi ha ampiamente illustrato circa le controversie in corso e le transazioni di maggior importanza, nonché le vicende relative alle cause intentate da ex soci di Fondiaria nei confronti della Vostra società, di Mediobanca e di Premafin, in relazione all'asserito danno che essi avrebbero subito in conseguenza della fusione. In relazione allo stato di queste ultime cause (non si è ancora conclusa la fase istruttoria), concordiamo con le considerazioni espresse in sede di causa dai Vostri Amministratori, con il conforto dei legali incaricati.

Il Collegio ha effettuato periodiche verifiche nel corso di n. 18 sedute, rilevando fra le altre la regolarità delle operazioni svolte dalla Società in merito a:

- comunicazioni in relazione ai movimenti azionari,
- adempimenti alle disposizioni per la lotta al riciclaggio ai sensi della L. 5/7/91 n. 197,
- disposizioni in materia di utilizzo di strumenti finanziari derivati,
- disposizioni in materia di classificazione e valutazione del portafoglio titoli,
- sistema di controllo interno, ruolo e responsabilità degli organi amministrativi e di controllo,
- controllo della correttezza e regolarità del flusso delle informazioni che alimentano i libri e i registri di natura assicurativa,
- controllo del rispetto delle norme che disciplinano la copertura delle riserve tecniche con particolare riferimento, per quanto riguarda gli investimenti, alla loro piena e libera proprietà e disponibilità, all'inesistenza di vincoli, al rispetto del requisito di ammissibilità e dei limiti di varia natura previsti dai criteri di investimento, nonché delle regole sulla congruenza,
- verifica di idoneità delle procedure amministrativo contabili adottate dall'impresa per la gestione del processo di rilevazione delle attività a copertura delle riserve tecniche, della loro rappresentazione nell'apposito registro, nei prospetti allegati al bilancio di esercizio e in quelli oggetto di comunicazione trimestrale all'Isvap,
- corretta tenuta ed alimentazione del registro dei reclami previsto dalla Legge 576/82 secondo le modalità prescritte dall'istituto di Vigilanza con circolare n. 518/D.

Il Collegio Sindacale dà inoltre atto, come peraltro adeguatamente illustrato nella Relazione del Consiglio di Amministrazione e negli appositi allegati alla Nota Integrativa, che la Vostra Società ha intrattenuto rapporti di natura finanziaria, assicurativa e di prestazione di servizi con le Società del gruppo. Tali operazioni sono state eseguite nell'interesse della Società, sono state regolate a prezzi di mercato e non hanno dato luogo a conflitti, anche potenziali, di interesse.

Con riferimento al Provvedimento Isvap n. 893-G del 18/06/1998, "Disposizioni in materia di classificazione e valutazione del portafoglio titoli delle imprese di assicurazione", Vi assicuriamo di aver tempestivamente verificato la coerenza delle linee guida stabilite nella "deliberazione quadro" con i parametri di riferimento di cui al comma 2 dell'art. 1 del succitato provvedimento, che sono compatibili con le condizioni attuali e prospettive di equilibrio economico e finanziario della Vostra Società. Vi diamo pertanto atto della conformità degli atti di gestione alle suddette linee guida.



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Possiamo inoltre segnalare che nel corso dell'esercizio non sono stati operati trasferimenti di titoli di debito e di capitale dal comparto ad utilizzo durevole a quello ad utilizzo non durevole.

Il Consiglio di Amministrazione ci ha rimesso in data 08/09/2004 la relazione sull'andamento del primo semestre dell'esercizio, prescritta dall'art. 2428 C.C. 3° comma, che è stata regolarmente depositata presso la sede della Società. Tale Relazione non ha richiesto osservazioni da parte del Collegio Sindacale. Le Relazioni semestrali e trimestrali hanno avuto la pubblicità prevista dalle leggi e dai regolamenti, mentre le Relazioni sulla gestione dei Fondi Pensione risultano coerenti con le disposizioni emanate dalla Commissioni di vigilanza e con le risultanze delle diverse linee di investimento.

Inoltre, in conformità alla comunicazione Consob del 06/04/01, ad integrazione di quanto commentato in altre parti della presente relazione, Vi informiamo che:

- la Società è dotata di un sistema di controllo adeguato ed efficace,
- al Collegio Sindacale nel corso del 2004 non sono pervenuti da azionisti esposti o denunce ai sensi dell'art. 2408 del Codice Civile,
- la Società ha conferito alla Deloitte & Touche S.p.A., Società di Revisione incaricata della revisione del bilancio civilistico e del bilancio consolidato, un ulteriore incarico di revisione contabile legato all'emissione della Comfort Letter sull'Offering Memorandum relativo al Prestito Obbligazionario "Mandatory Convertible" su azioni Banca Intesa per un corrispettivo pari a € 150.000. Inoltre sono stati conferiti altri due incarichi professionali: il primo relativo all'assistenza su tematiche organizzativo-contabili in relazione al progetto di conversione agli IFRS della capogruppo Fondiaria-SAI, per un corrispettivo di € 275.000, il secondo relativo ad una relazione sui requisiti di indipendenza della funzione di Internal Audit, per un corrispettivo di € 10.000.

- la Società non ha conferito a soggetti legati alla Deloitte & Touche S.p.A. da rapporti continuativi, incarichi di natura professionale.

- la Società ha approvato la Relazione sulla Corporate Governance e uniformato i propri comportamenti al Codice di Autodisciplina delle società quotate. La relazione in esame è stata redatta in linea con le raccomandazioni fornite al riguardo da Assonime ed Emittenti Titoli Spa, motivando in maniera puntuale le ragioni delle scelte effettuate ove queste siano diverse da quelle raccomandate dal Codice di Autodisciplina delle società quotate.

Nella Relazione sulla Gestione è riportata la Relazione sulla Corporate Governance .

- ha approvato i principi di comportamento per l'effettuazione di operazioni significative e con parti correlate.

Vi informiamo poi che, in relazione alla nuova normativa fiscale, la Vostra Società ha aderito, a partire dal periodo d'imposta 2004, al regime di tassazione del c.d. "consolidato fiscale nazionale", approvando una specifica convenzione che regola i rapporti di natura economica e finanziaria nei confronti delle controllate che hanno ritenuto di aderire a detto consolidato e quelli di reciproca responsabilità nei confronti dell'Eraio.

Con riguardo ai membri del Consiglio di Amministrazione, Vi comunichiamo che non sono intervenuti mutamenti rispetto a quanto deliberato nell'Assemblea svoltasi in data 29 aprile 2003 che ha determinato in 19 il numero dei componenti il Consiglio di Amministrazione, nominando i relativi componenti. Così come rappresentato nella relazione del Consiglio di Amministrazione, il numero dei consiglieri indipendenti costituisce la maggioranza del Consiglio e pertanto risulta adeguato.

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Concludiamo quindi la nostra relazione invitandoVi ad approvare il bilancio di esercizio chiuso al 31/12/2004, così come redatto dagli Amministratori e a deliberare sulla destinazione dell'utile d'esercizio, compresa la determinazione del dividendo, così come proposto dal Vostro Consiglio di Amministrazione, nel rispetto di quanto disposto al n. 11 del 1° comma dell'art. 16 del D.Lgs. 173/1997.

Siete poi chiamati a deliberare in merito anche sugli altri argomenti all'ordine del giorno.

In particolare in relazione:

- all'operatività sulle azioni proprie ai sensi degli art. 2357 e 2357 ter C.C., Vi informiamo che al 31/12/2004 le azioni proprie in portafoglio risultavano essere n. 5.829.212, tutte costituite da azioni ordinarie, pari ad un valore di carico complessivo di € migliaia 86.179 (valore medio di carico di circa € 14,78 per azione), mentre non esistevano alla medesima data azioni proprie di risparmio in portafoglio. Le azioni proprie in portafoglio rappresentavano quindi il 4,528% del capitale sociale ordinario della Società.

Tutte le contrattazioni di azioni proprie sono avvenute in conformità alle modalità ed ai prezzi stabiliti dalle inerenti delibere autorizzative e da ultimo da quella del 28/04/ 2004.

- all'operatività sulle azioni della controllante Premafin Finanziaria Spa ai sensi dell'art. 2359 bis C.C., Vi informiamo che nel corso del 2004 non sono state effettuate operazioni di compravendita su azioni ordinarie della controllante. Pertanto il numero complessivo delle azioni ordinarie della controllante al 31/12/2004 risulta di n. 17.512.527, pari al 5,597 % del capitale sociale pari ad un valore di carico complessivo di € migliaia 21.575 (valore medio di carico di circa € 1,23 per azione).

Vi invitiamo a deliberare in merito, stabilendo modalità e termini necessari per l'esecuzione delle singole delibere.

Torino, 8 aprile 2005

Il Collegio Sindacale

Dott. Benito MARINO

Dott. Giancarlo MANTOVANI

Dott. Marco SPADACINI

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## *Audit Report*

**RELAZIONE DELLA SOCIETÀ DI REVISIONE SUL BILANCIO D'ESERCIZIO  
AI SENSI DELL'ART. 156 DEL D.LGS. 24/2/1998, N. 58, DELL'ART. 62 DEL D.LGS. 17/3/1995,  
N. 174 E DELL'ART. 73 DEL D.LGS. 17/3/1995, N. 175**

**Agli Azionisti della  
FONDIARIA - SAI S.p.A.:**

1. Abbiamo svolto la revisione contabile del bilancio d'esercizio della FONDIARIA - SAI S.p.A. chiuso al 31 dicembre 2004. La responsabilità della redazione del bilancio compete agli amministratori della FONDIARIA - SAI S.p.A.. E' nostra la responsabilità del giudizio professionale espresso sul bilancio e basato sulla revisione contabile.
2. Il nostro esame è stato condotto secondo i principi e i criteri per la revisione contabile raccomandati dalla CONSOB. In conformità ai predetti principi e criteri, la revisione è stata pianificata e svolta al fine di acquisire ogni elemento necessario per accertare se il bilancio sia viziato da errori significativi e se risulti, nel suo complesso, attendibile. Il procedimento di revisione comprende l'esame, sulla base di verifiche a campione, degli elementi probativi a supporto dei saldi e delle informazioni contenuti nel bilancio, nonché la valutazione dell'adeguatezza e della correttezza dei criteri contabili utilizzati e della ragionevolezza delle stime effettuate dagli amministratori. Per l'esame delle voci di bilancio riguardanti le riserve tecniche iscritte nel passivo dello stato patrimoniale, ci siamo avvalsi, ai sensi dell'art. 62 del D. Lgs. n. 174/1995 e dell'art. 73 del D. Lgs. n. 175/1995, della relazione rilasciata da un attuario abilitato, qui allegata. Riteniamo che il lavoro svolto fornisca una ragionevole base per l'espressione del nostro giudizio professionale.

La responsabilità dei lavori di revisione contabile dei bilanci di alcune società controllate, per quanto riguarda gli importi delle relative partecipazioni che rappresentano circa il 39% e circa il 5% rispettivamente della voce "Azioni e quote di imprese controllate" e del totale attivo, è di altri revisori.

Per il giudizio relativo al bilancio dell'esercizio precedente, i cui dati sono presentati a fini comparativi secondo quanto richiesto dalla legge, si fa riferimento alla relazione da noi emessa in data 8 aprile 2004.

3. A nostro giudizio, il bilancio d'esercizio della FONDIARIA - SAI S.p.A. al 31 dicembre 2004 è conforme alle norme che ne disciplinano i criteri di redazione; esso pertanto è redatto con chiarezza e rappresenta in modo veritiero e corretto la situazione patrimoniale e finanziaria e il risultato economico della Società.

4. Come indicato nella nota integrativa al bilancio e nella relazione sulla gestione, la Società ha adottato le nuove disposizioni in materia di diritto societario introdotte dal D. Lgs. n. 6 del 17 gennaio 2003 e sue successive modificazioni; in particolare, sono state eliminate le pregresse interferenze tra norme fiscali e bilancio, i cui effetti sono stati rilevati tra le componenti straordinarie del conto economico.

DELOITTE & TOUCHE S.p.A.



Mario M. Busso  
Socio



Riccardo Azzali  
Socio

Torino, 7 aprile 2005

**Dott. LUIGI FRANCAVILLA**  
**ATTUARIO**

AI SENSI DELL'ART.62 DEL D.LGS. 17 MARZO 1995 N.174 E  
DELL'ART.73 DEL D.LGS. 17 MARZO 1995 N.175, COME  
SOSTITUITI RISPETTIVAMENTE DALL'ART. 79 LETT. R) E  
DALL'ART.80 LETT.I) DEL D.LGS. 173/1997

*Spett.le Società di Revisione  
Deloitte & Touche S.p.A.  
Galleria San Federico, 54  
10121 Torino*

**Oggetto:** Società Fondiaria – SAI S.p.A.  
Bilancio dell'esercizio 2004

1. In esecuzione dell'incarico conferitomi, ho sottoposto a revisione attuariale le voci relative alle riserve tecniche iscritte nel passivo dello stato patrimoniale del bilancio di esercizio della Società Fondiaria - SAI S.p.A., chiuso al 31 dicembre 2004, al fine di esprimere il mio giudizio in merito alla sufficienza delle suddette riserve tecniche in conformità alle vigenti disposizioni di leggi e regolamentari e a corrette tecniche attuariali nel rispetto dei principi di cui all'art.2 del Provvedimento ISVAP n.845 in data 1 aprile 1998.
2. A mio giudizio, nel loro complesso le riserve tecniche - gestione danni - della Società Fondiaria - SAI S.p.A., al 31 dicembre 2004, sono sufficienti in conformità alle vigenti disposizioni di leggi e regolamentari e a corrette tecniche attuariali nel rispetto dei principi di cui all'art.2 del citato provvedimento ISVAP.
3. A mio giudizio, nel loro complesso le riserve tecniche - gestione vita - della Società Fondiaria - SAI S.p.A., al 31 dicembre 2004, sono sufficienti in conformità alle vigenti disposizioni di leggi e regolamentari e a corrette tecniche attuariali nel rispetto dei principi di cui all'art.2 del citato provvedimento ISVAP.

Roma, 4 aprile 2005

In fede  
Dott. Luigi Francavilla



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