



***Consolidated Quarterly Report  
As at 31 March 2006***







## *Consolidated Quarterly Report as at 31 March 2006*

(pursuant to art. 82 of Consob Deliberation no. 11971 of 14 May 1999)

MILANO ASSICURAZIONI S.p.A.  
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Share Capital € 238,591,848.04 fully paid up  
Tax Code, VAT Registration Number and Number under which the company is  
Registered in the Companies Register of Milan 00957670151  
Authorised to operate as an insurance company  
(art. 65 Royal Decree Law no. 966 of 29 April 1923)  
FONDIARIA-SAI Group – management and coordination FONDIARIA-SAI S.p.A.

GRUPPO  
FONDIARIA SAI





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### *Members of Company Bodies*

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#### **Board of Directors**

Honorary Chairman	Salvatore	<b>Ligresti</b>
Chairman-Managing Director	Fausto	<b>Marchionni *</b>
Vice Chairman	Gioacchino Paolo	<b>Ligresti *</b>
Vice Chairman	Cosimo	<b>Rucellai *</b>
Directors	Umberto	<b>Bocchino *</b>
	Flavio	<b>Dezzani</b>
	Maurizio	<b>Di Maio</b>
	Emanuele	<b>Erbetta</b>
	Mariano	<b>Frey</b>
	Giulia Maria	<b>Ligresti *</b>
	Jonella	<b>Ligresti *</b>
	Lia	<b>Lo Vecchio</b>
	Emilio	<b>Perrone da Zara</b>
	Massimo	<b>Pini *</b>
	Francesco	<b>Randazzo</b>
	Salvatore	<b>Rubino *</b>
	Simone	<b>Tabacci</b>
	Alessandra	<b>Talarico</b>
	Antonio	<b>Talarico *</b>
	Sergio	<b>Viglianisi</b>

#### **Secretary of the Board and Executive Committee**

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	Alberto	<b>Marras</b>
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#### **Board of Statutory Auditors**

Chairman	Graziano	<b>Visentin</b>
Auditor	Giovanni	<b>Ossola</b>
Auditor	Alessandro	<b>Rayneri</b>
Alternate Auditor	Giuseppe	<b>Aldé</b>
Alternate Auditor	Claudio	<b>De Re</b>
Alternate Auditor	Roberto	<b>Frascinelli</b>

- The asterisk refers to the Directors who are also members of the Executive Committee.

- A specific Internal Audit Committee has been set up, which has been granted the consulting and recommendation functions provided by the Code of Conduct for Listed Companies. This Committee is composed of Directors Mariano Frey, Emilio Perrone Da Zara and Cosimo Rucellai.
- With reference to the Consob provisions of communication no. 97001574 of 20 February 1997, the following indicates the nature of the mandates granted to Directors:
  - The Chairman-Managing Director, Prof. Fausto Marchionni, in addition to representing the company as stated in article 20 of the Company's by-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 €10 m for each transaction;
    - transfer and/or purchase of shareholdings with a value greater than €25 m for each transaction and controlling shareholdings;
    - taking on financing at a sum greater than €50 m for each transaction;
    - issue of non-insurance guarantees in favour of third parties.
- All the powers not already vested in the Chairman-Managing Director are conferred upon the Executive Committee, with the exception of those expressly reserved to the Board by law or statute and without prejudice to the said 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 Shareholders' Meeting of 22 April 2005; Mr. Francesco Randazzo was appointed by the Shareholders' Meeting of 26 April 2006, substituting the resigning Luigi Pisanu. The entire Board shall remain in office until the Shareholders' meeting for approval of the financial statements as at 31 December 2007.



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## **THE MILANO ASSICURAZIONI GROUP**

The Milano Assicurazioni Group is composed of 11 companies, including the parent company. Of these, 5 companies operate in the insurance sector, 3 in the property sector, and the remaining 3 are companies offering various services.

The parent company, Milano Assicurazioni S.p.A. is a leading insurance company on the Italian market, operating both in the non-life business and in the life business, with a sales network composed of over 1,400 agencies which operate all over the country.

The head office is in Milan, in Via Senigallia 18/2.

Over the last few years, Milano Assicurazioni has strengthened its position on the domestic market, also through company mergers: in particular, the incorporation of Nuova Maa and Maa Vita during financial year 2003, the incorporation of SIS, an insurance company, in 2004, and, lastly, the incorporation of First Life on 31 December 2005, which will allow Milano Assicurazioni to operate directly in the sector of Open Pension Funds.

Milano Assicurazioni is controlled by Fondiaria-Sai, a leader in the Italian non-life insurance market, which also carries out management and coordination of Milano Assicurazioni pursuant to art. 2497 bis of the Italian Civil Code.

## **PREMIUMS WRITTEN**

Premiums and accessory fees from direct and indirect business written in the first quarter 2006 amounted to a total of €865,953K, an increase of 7.05% compared to the same quarter of the previous year.

Premium income from direct business was €863,585K (+ 7.11% compared to the 1<sup>st</sup> quarter 2005). In particular, in the non-life business, a total of €701,442K of premiums were written, an increase of 4.21%, deriving from an increase of 4.44% in the motor classes and 3.53% in the other non-life classes.

In the life business, €162,143K of premiums were written, an increase of 21.78% compared to the 1<sup>st</sup> quarter 2005. This development essentially derives from the traditional type products, which recorded a 22.54% increase, with €77,919K in premiums, as well as capitalisation products, which reached €83,941K (+ 21.03%). The contribution of premiums from index-linked products was limited (€ 271,000), as they were not the subject of promotional initiatives during the quarter in question, similar to the corresponding period of the previous year.

It is noted that in accordance with the provision of IFRS 4 (Insurance Contracts), the amounts recorded under the item premiums regard contracts with significant insurance risk, and

financial instruments with a discretionary participation feature. Other financial instruments, especially index-linked contracts for pure capitalisation, and unit-linked contracts, were dealt with by deposit accounting methodology which essentially stipulates that only income margins are charged to the profit and loss account and premiums written are entered under financial liabilities.

In indirect business, premiums amounted to €2,368K compared to €2,636K issued during the previous year (-10.17%). The meagreness of premium income follows from the previously taken decision to cease subscriptions through indirect business.

The following table sets forth the figures regarding premiums written, indicating the changes as compared to the 1<sup>st</sup> quarter 2005.

<i>(thousand Euro)</i>	<b>1<sup>st</sup> quarter 2006</b>	<b>1<sup>st</sup> quarter 2005</b>	<b>% Change</b>
<b>DIRECT BUSINESS</b>			
Non-Life Business	701,442	673,135	4.21
Life Business	162,143	133,144	21.78
Total direct business	863,585	806,279	7.11
<b>INDIRECT BUSINESS</b>			
Non-Life Business	2,340	2,595	-9.83
Life Business	28	41	-31.71
Total indirect business	2,368	2,636	-10.17
<b>TOTAL</b>	<b>865,953</b>	<b>808,915</b>	<b>7.05</b>
of which:			
Non-Life Business	703,782	675,730	4.15
Life Business	162,171	133,185	21.76

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

The first quarter of 2006 closed with group profits of € 71,303K, substantially stable compared to the profits from the same quarter of the previous year which, recalculated in homogeneous terms through the application of the IAS/IFRS accounting principles, amounted to €71,395K.

The following table summarises the profit and loss account of the 1<sup>st</sup> quarter 2006, compared to the same period of the previous year.

<i>(thousand Euro)</i>	<b>1<sup>st</sup> quarter 2006</b>	<b>1<sup>st</sup> quarter 2005</b>	<b>% Change</b>
Net premiums	848,841	766,053	10.81
Net charges on claims	-638,165	-597,999	6.72
Net commissions	157	-189	n.a.
Net income from subsidiaries and associated companies	-	281	-100.00
Net income from fin. instruments, recorded at fair value in the profit and loss account	1,542	14,309	-89.22
Income from other financial instruments and property	97,133	76,006	27.80
Operating expenses	-126,538	-121,438	4.20
Other net income and charges	-65,604	-17,953	n.a.
<b>Pre-tax profits (losses) in the year</b>	<b>117,366</b>	<b>119,070</b>	<b>-1.43</b>
Income tax	-46,040	-47,610	-3.30
<b>Pre-tax profits (losses) in the year net of tax</b>	<b>71,326</b>	<b>71,460</b>	<b>-0.19</b>
Profits (losses) on ceased operations	-	-	-
<b>Consolidated profits (losses)</b>	<b>71,326</b>	<b>71,460</b>	<b>-0.19</b>
Profits (losses) in the year – third parties	23	65	-64.62
<b>Profits (losses) in the year – Group</b>	<b>71,303</b>	<b>71,395</b>	<b>-0.13</b>

The main aspects of business which characterised the results obtained during the quarter in question are illustrated below:

- non-life insurance operations closed with a pre-tax profit of €93,306K, against a pre-tax profit of €102,355K for the corresponding period of the previous year. In this sector, the technical performance of the Motor TPL sector decreased as compared to the 1<sup>st</sup> quarter 2005, following an increase in the number of claims reported, primarily linked to the strong season effects which characterised the first quarter of this year. The land vehicle class was substantially stable, at highly satisfactory levels, and the overall results of the other non-life business improved, confirming the high quality of the portfolio acquired.

- Life business recorded pre-tax profit of € 22,328K, an increase compared to the corresponding quarter of the previous year, which recorded a pre-tax profit of €16,358K. In this sector, continued development was carried out of initiatives for promoting traditional type products, which offer satisfactory profit margins and guarantee exploitation of the portfolio over the long term, increasing customer loyalty.
- Financial and asset management allowed the company to achieve net income from financial instruments and property investments of €98,675K, an increase compared to that achieved in the previous year, equal to €90,596K. During the quarter in question, stock markets performed well, granting the possibility of taking advantage of trading opportunities. However, on bond markets, recent monetary policy interventions and uncertainties regarding the future outlook for the interest rate curve set off variations in bond prices, resulting in valuation losses, with specific reference to fixed rate and long term bonds.

The table that follows sets out the pre-tax results broken down each single sector. The property sector includes the results achieved by the subsidiary property companies (Meridiano Eur, Meridiano Orizzonti, Campo Carlo Magno), while the Other Activities sector collects the performance of small subsidiaries operating in the financial and diversified services sectors (Maa Finanziaria, Sogoint, Campo Carlo Magno Sport).

<i>(thousand Euro)</i>	<b>Non-life</b>	<b>Life</b>	<b>Property biliare</b>	<b>Other Activitie</b>	<b>Total</b>
Net premiums	688,743	160,098	-	-	848,841
Net charges on claims	-463,335	-174,830	-	-	-638,165
Net commissions	-	157	-	-	157
Net income from subsidiaries and associated companies	-	-	-	-	-
Net income from fin. instruments, recorded at fair value in the profit and loss account	1,972	-430	-	-	1,542
Income from other financial instruments and property	44,641	50,716	1,723	53	97,133
Operating expenses	-119,510	-6,887	-20	-121	-126,538
Other net income and charges	-59,205	-6,496	-85	182	-65,604
<b>Pre-tax profits (losses) in the year</b>	<b>93,306</b>	<b>22,328</b>	<b>1,618</b>	<b>114</b>	<b>117,366</b>

## NET FINANCIAL POSITION

The following tables illustrate, as at 31 March 2006, investments and other tangible assets, and technical reserves, all net of the shares transferred under reinsurance contracts and financial liabilities. All figures are compared to those regarding the previous year, as well as those at the close of the 1<sup>st</sup> quarter 2005, recalculated with homogeneous criteria through the application of the IAS/IFRS international accounting principles.

### Investments and other tangible assets

<i>(thousand Euro)</i>	31/03/2006	31/12/2005	% Change	31/03/2005
Property investments	368,240	370,136	-0.51	328,580
Income from investments in subsidiaries, associated companies and joint ventures	4,820	4,820	-	15,896
Financing and loans	236,402	212,874	11.05	418,109
Investments owned up to maturity	-	-	-	-
Financial assets available for sale	7,935,170	7,580,602	4.68	7,084,352
Financial assets recorded at fair value in the profit and loss account	802,714	876,255	-8.39	886,072
<b>TOTAL INVESTMENTS</b>	<b>9,347,346</b>	<b>9,044,687</b>	<b>3.35</b>	<b>8,733,009</b>
<b>CASH AT BANK AND IN HAND AND EQUIVALENT</b>	<b>269,508</b>	<b>156,649</b>	<b>72.05</b>	<b>172,102</b>
<b>TANGIBLE ASSETS</b>				
Property	30,359	30,519	-0.52	55,786
Other tangible assets	87,553	80,106	9.30	57,133
<b>TOTAL TANGIBLE ASSETS</b>	<b>117,912</b>	<b>110,625</b>	<b>6.59</b>	<b>112,919</b>
<b>TOTAL</b>	<b>9,734,766</b>	<b>9,311,961</b>	<b>4.54</b>	<b>9,018,030</b>

The table also sets forth the tangible assets and cash and cash equivalents, due to the importance these assets acquire for the purposes of correctly representing the overall level of shareholders' equity of an insurance group.

The heading *Property Investments* includes property held by the company for investment purposes and, as such, intended to be used by third parties. In compliance with the provisions of IAS 40, these properties are recorded at cost, and subject to amortisation on the basis of their estimated useful life.

During the quarter in question, the property located in Milan, in Via de' Grassi no. 8 was sold, at a book value of 1,434K, realising a gain of €12,006K.

The item *Income from investments in subsidiaries, associated companies and joint ventures* includes the investments in associated companies, which were valued according to the net equity method.

*Financing and Loans* include €34,528K for debenture securities, €39,919K for repurchase agreements, €25,050K for loans on life contracts, and €136,905K for other financing and loans, of which €58,763 regard loans for claim compensation paid to ceded agents and €40,449K regard the “mezzanino” loan secured by a lien on property which can be attributed to the sale of a part of the property assets made in the 2003 financial year. The loan matures in 2010 and provides for partial advance repayments in accordance with the debtor’s repayment schedule for the properties in the transaction. The debtor also has the option of total or partial early repayment of the financing at any time.

*Financial assets available for sale* include the debenture securities and capital securities not classified elsewhere, and certainly represent the most significant category of financial instruments, in line with the characteristics and aims of the insurance business.

*Financial assets recorded at fair value in the profit and loss account* include securities held for trading and securities assigned to that category by the Group companies (designated securities).

The breakdown of these categories of financial instruments is illustrated in the following table:

<i>(thousand Euro)</i>	<b>31/3/2006</b>	<b>31/12/2005</b>	<b>% Change</b>
<b>Financial assets available for sale</b>	<b>7,935,170</b>	<b>7,580,602</b>	<b>4.68</b>
Capital securities and shares in UCIs	1,575,238	1,526,455	3.20
Debenture securities	6,359,932	6,054,147	5.05
<b>Financial assets recorded at fair value in the profit and loss account</b>	<b>802,714</b>	<b>876,255</b>	<b>-8.39</b>
Capital securities and shares in UCIs	134,966	111,971	20.54
Debenture securities	666,965	757,891	-12.00
Other financial investments	783	6,393	-87.75



The item *Property*, under “Tangible assets”, includes buildings for the company’s use; these are recorded at cost and subject to amortisation on the basis of their estimated useful life.

*Other tangible assets* also include furniture, plant, machinery/equipment and motor vehicles used by the Group for its own business.

## Net technical provisions

<i>(thousand Euro)</i>	<b>31/03/2006</b>	<b>31/12/2005</b>	<b>% Change</b>	<b>31/03/2005</b>
<b>NON-LIFE BUSINESS</b>				
Premium reserves	960,438	961,987	-0,16	953.709
Claim reserves	3,126,927	3,153,068	-0,83	3.068.487
Other reserves	2,084	2,084	-	3.294
<b>Total non-life business</b>	<b>4,089,449</b>	<b>4,117,139</b>	<b>-0,67</b>	<b>4.025.490</b>
<b>LIFE BUSINESS</b>				
Mathematical reserves	3,543,750	3,511,779	0,91	3.471.166
Reserve for amounts to be paid	11,712	5,390	117,29	9.518
Technical reserves where the investment risk is borne by the policyholders and derives from pension fund management	278,020	278,101	-0,03	276.159
Other reserves	119,348	197,853	-39,68	25.978
<b>Total life business</b>	<b>3,952,830</b>	<b>3,993,123</b>	<b>-1,01</b>	<b>3.782.821</b>
<b>TOTAL</b>	<b>8,042,279</b>	<b>8,110,262</b>	<b>-0,84</b>	<b>7.808.311</b>

*Other technical reserves* regard the old-age reserves in the health classes, pursuant to art. 25 of Legislative Decree 174/95. It is noted that with the introduction of the IAS/IFRS international accounting principles, the technical reserves in the non-life business no longer include equalisation reserves or reserves allocated to cover catastrophic risk, determined using the flat rate method on the basis of specific national regulatory measures. The amount of said reserves as at the date of transition to the international accounting principles has been added to the shareholders’ equity.

The technical provisions in the life business are those relating to insurance contracts governed by IFRS 4. This item does not include liabilities for index- and unit-linked policies for pure capitalisation, which are governed by IAS 39 (Financial instruments) and are recorded under the financial liabilities, as they are contracts with an insignificant insurance risk.

## Financial Liabilities

<i>(thousand Euro)</i>	<b>31/03/2006</b>	<b>31/12/2005</b>	<b>% Change</b>	<b>31/03/2005</b>
Financial liabilities recorded at fair value in the profit and loss account	104,410	84,488	23.58	79,766
Other financial liabilities	159,873	159,943	-0.04	289,385
<b>TOTAL</b>	<b>264,283</b>	<b>244,431</b>	<b>8.12</b>	<b>369,51</b>

*Liabilities at fair value recorded in the profit and loss account* as at 31 March 2006 include € 21,513K for financial liabilities held for trading, and €82,897 for financial liabilities assigned to this category, referring to unit-linked and index-linked policies for pure capitalisation which, as they are contracts with an insignificant insurance risk, in compliance with IFRS 4, they are dealt with according to the deposit accounting method.

*Other financial liabilities* essentially include deposits held by reinsurers, in application of the contractual clauses provided by their relative agreements.

## SHAREHOLDERS' EQUITY

The shareholders' equity of the Group as at 31 March 2006 amounted to €1,903,903K, an increase of €186,350K compared to 31 December 2005, due to the results for the period (€71,303K), the change in reserves regarding financial assets available for sale (€75,870), and the conversion, by the holders, of Milano Assicurazioni 1998-2007 warrants into shares (€39,177K).

The breakdown of this item is set forth below:

<i>(thousand Euro)</i>	<b>31/3/2006</b>	<b>31/12/2005</b>	<b>% Change</b>	<b>31/3/2005</b>
<b>Shareholders' equity of the Group</b>	<b>1,903,934</b>	<b>1,717,584</b>	<b>10.85</b>	<b>1,497,660</b>
Capital	238,592	238,575	0.01	238,569
Other equity instruments	-	-	-	-
Capital reserves	359,938	325,145	10.70	324,966
Profit reserves and other equity reserves	972,778	684,889	42.03	772,956
<i>Own shares</i>	-374	-374	-	-374
Net exchange rate reserves	-	-	-	-
Profit or loss on financial assets available for sale	266,995	191,125	39.70	90,148
Other profit or loss directly recorded in equity	-5,298	-5,298	-	-
Profits (losses) in the year – Group	71,303	283,522	n.a.	71,395
<b>Shareholders' equity – Third parties</b>	<b>3,597</b>	<b>3,587</b>	<b>0.28</b>	<b>14,631</b>
Third party capital and reserves	3,570	3,391	5.28	14,542
Profit or loss directly recorded in equity	4	17	-76.47	24
Profits (losses) in the year – third parties	23	179	n.a.	65
<b>TOTAL</b>	<b>1,907,531</b>	<b>1,721,171</b>	<b>10.83</b>	<b>1,512,291</b>

The item *capital reserves* includes the share premium reserve for share issue, created during capital increases in previous financial years.

The item *Profit reserves and other equity reserves* includes the reserves generated from profits or losses from the first application of the IAS/IFRS principles (loss of €39,681K), the consolidation reserves (€15,406K) and other equity reserves (€997,053K).

Profit or loss on financial instruments available for sale derive from the adjustment to fair value of the financial instruments classified in that category, net of the differed taxes, and the part which can be attributed to policyholders as a result of the application of the shadow accounting technique stipulated in paragraph 30 of IFRS 4, leading to an increase in technical reserves in the life business.

The use of the shadow accounting method provides for suitable correlation between the value of the mathematical reserves for these contracts, and the value of assets under separate management, determined using IAS principles.

In fact, the securities recorded under separate management in the life business, fall under the category "available for sale" or "financial instruments valued at fair value through profit or loss" and, as such, were valued at fair value, recording an increase in the difference between fair value and book value for shareholders' equity or the results of the period.

Moreover, as it is known, the return on securities entered under separate management determines the return to be paid to policyholders and, as such, influences the amount of the mathematical reserves.

Therefore, the amount of mathematical reserves in the contracts under separate management are recalculated, in line with the valuation of the related assets, charging the difference compared to the amount of reserves calculated according to Italian principles to the shareholders' equity or the profit and loss account for the period. Substantially, the difference between the mathematical reserves of those contracts and their value according to Italian principles represents the policyholders' share of latent gains on securities under separate management which, based on the contractual agreements and regulations in force, will be paid to the policyholders only if and when the gains are realised through the transfer of the related assets. However, this operation requires further explanation, as the latent gains of said securities, as set forth above, have been the subject of recorded increases in the shareholders' equity or result for the period.

*Other profit or loss directly recorded in equity* includes actuarial profit and loss emerging from the determination of the employee severance fund, in application of that set forth in IAS 19 (Employee benefits).

## MANAGEMENT AND COMMENTS

### Non-Life Business

Premiums written amounted to a total of €703,782K, an increase of 4.15% compared to the 1<sup>st</sup> quarter 2005, which recorded premium income of €675,730K.

Premiums written in the direct business amounted to €701,442K compared to €673,135K of income as at 31 March 2005, an increase of 4.21%. In particular, in the Motor business (Motor TPL and Land Vehicles), premium volume reached €520,626K, an increase of 4.44%, while the other non-life classes increased by 3.53%, with €180,816K in premiums written.

The following table sets out the breakdown by class of direct business premiums:

<i>(thousand Euro)</i>	<b>1<sup>st</sup> quarter 2006</b>	<b>1<sup>st</sup> quarter 2005</b>	<b>% Change</b>
Accident and health	57,405	53,489	7.32
Land vehicles TPL	451,654	431,079	4.77
Motor insurance, other classes	68,972	67,412	2.31
Marine, aviation and transport insurance	3,874	2,956	31.06
Fire and other property damage	61,438	59,336	3.54
General TPL	45,228	44,905	0.72
Credit and bonds	6,635	6,912	-4.01
Pecuniary losses	1,455	1,945	-25.19
Legal protection	1,574	1,500	4.93
Assistance	3,207	3,601	-10.94
<b>TOTAL</b>	<b>701,442</b>	<b>673,135</b>	<b>4.21</b>

During the quarter in question, 202,650 claims were reported (+ 14.3% compared to the 1<sup>st</sup> quarter 2005). The increase in the number of claims reported can primarily be attributed to the strong seasonal effects linked to weather phenomenon, which characterised the quarter in question. This increase was also caused by the trend in operating cash flow, which was not completely homogeneous, following the implementation (in the second half of 2005) of procedures aimed at quicker recording of claim reports, as well as the greater number of working days in the 1<sup>st</sup> quarter 2006 compared to the 1<sup>st</sup> quarter 2005. In fact, performance for the month of April showed a slowdown in the growth trend, as regards Motor TPL, from 11.4% to 7%.

Claims paid, gross of outwards reinsurance, amounted to €488,991K, against €401,391K in the 1<sup>st</sup> quarter 2005 (+ 21.8%).

The following table breaks down, by section of the financial statements, the number of claims reported and the amount, net of settlement fees, for claims paid in Italian direct business:

	Claims reported (Number)			Claims paid (thousand Euro)		
	31/3/2006	31/3/2005	% change	31/3/2006	31/3/2005	% change
Accident and health	18,703	15,699	19.1	28,036	23,536	19.1
Land vehicles TPL	119,425	107,197	11.4	354,995	292,171	21.5
Motor insurance, other classes	24,157	19,680	22.7	30,687	25,116	22.2
Marine, aviation and transport insurance	208	186	11.8	879	1,144	-23.2
Fire and other property damage	19,703	15,745	25.1	36,616	30,908	18.5
General TPL	11,225	9,688	15.9	28,372	23,185	22.4
Credit and bonds	137	90	52.2	7,012	4,570	53.4
Pecuniary losses	85	41	107.3	547	190	187.9
Legal protection	250	473	-47.1	109	141	-22.7
Assistance	8,757	8,521	2.8	1,738	430	304.2
<b>TOTAL</b>	<b>202,650</b>	<b>177,320</b>	<b>14.3</b>	<b>488,991</b>	<b>401,391</b>	<b>21.8</b>

## Subsidiaries

The following table sets out the essential figures of the 1<sup>st</sup> quarter 2006, for subsidiaries operating in the non-life insurance business:

<i>(thousand Euro)</i>	gross premiums	% change	profit (loss)	Shareholders' equity excl. profit (loss)
Dialogo Assicurazioni S.p.A.	3,799	-33.94	142	7,682
Systema Assicurazioni S.p.A.	2,955	-26.01	418	9,740
Novara Assicura S.p.A.	169	n.a	-96	15,169

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

This company primarily operates in the placement of motor products, through the telephone and Internet channels.

As at 31 March 2006, gross premiums recorded amounted to €3,799K against €5,751K in the first quarter 2005 (- 33.94%).

The profit and loss account recorded net profit of €142K against a loss of €443K for the corresponding period of the previous year.

In line with the 2006-2008 strategic plan of the Fondiaria-SAI Group, the company will be the subject of specific commercial initiatives aimed at considerably developing the portfolio managed.

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

This company operates in the non-life business, selling standardised products distributed through banking channels, via specific agreements stipulated with banks.

Gross premiums recorded in the first quarter of the 2006 amounted to €2,955K compared to €3,994K in the corresponding period of the previous year (- 26.01%).

The profit and loss account recorded a profit of €418K (€455K of profit as at 31 March 2005).

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

On 9 November 2005, the subsidiary Novara Assicura S.p.A. (100% owned by Milano Assicurazioni) received authorisation from ISVAP to operate in several non-life classes, including Motor TPL. Subsequently, on 23 December 2005, ISVAP authorised Milano Assicurazioni to transfer 50% of the capital in Novara Assicura to Banca Popolare di Verona e Novara, which is expected to take place in May 2006.

Following the abovementioned authorisations, during the quarter in question a partnership with this banking group was created, in the non-life bancassurance sector, to be implemented through the placement of non-life insurance products created by Novara Assicura, and through the branches of Banca Popolare di Novara, a subsidiary of the Banca Popolare di Verona e Novara. Premiums written as at 31 March 2006 amounted to €169K, and the profit and loss account closed with a loss of €96K.

## Life Insurance Business

Premiums written in direct business for the 1<sup>st</sup> quarter 2006 amounted to a total of €162,143K, compared to €133,144K written in the corresponding period of the previous year, an increase of 21.78%.

Traditional type products increased by 22.54%, also as a result of sales campaigns aimed at promoting the distribution of primary insurance products which guarantee satisfactory levels of profitability. The performance of pure capitalisation products was also positive, generating € 83,941K in premiums (+ 21.03% compared to the 1<sup>st</sup> quarter 2005), also following the interest demonstrated by institutional customers with considerable amounts of money to invest).

The following table sets out the breakdown by class of direct business premiums:

<i>(thousand Euro)</i>	<b>31/3/2006</b>	<b>31/3/2005</b>	<b>% Change</b>
I - Life insurance	77,919	63,588	22.54
III - Insurance in points I and II linked to investment funds	271	181	49.72
IV - Health insurance	12	18	-33.33
V - Capitalisation operations	83,941	69,357	21.03
<b>TOTAL</b>	<b>162,143</b>	<b>133,144</b>	<b>21.78</b>

Gross amounts paid totalled €144,738K (€114,899K as at 31 March 2005), an increase of 26%.

The following table, for purely indicative purposes, sets out the new business premiums determined according to the instructions from the Supervisory Body:

<i>(thousand Euro)</i>	<b>31/3/2006</b>	<b>31/3/2005</b>	<b>% Change</b>
Class I	33,859	14,535	+ 132.9
Class III	-	-	-
Class IV	-	-	-
Class V	75,609	50,484	+ 49.8
<b>TOTAL</b>	<b>109,468</b>	<b>65,019</b>	<b>+ 68.4</b>

In the individual policy sector, continued development was carried out of commercial initiatives for promoting traditional type products which offer greater profit margins for the company and added value for the portfolio over the long term.



In the collective insurance segment, the product *Conto Aperto Corporate*, launched last year, continues to maintain high levels of satisfaction from its target customers, though with some distribution difficulties essentially linked to the changes in the economic-financial context and the uncertainty regarding the outlook for said context.

Activities regarding the consolidation and development of the customer portfolio remain strong, also through operations aimed at protecting the policies which reach their natural maturity.

In light of the recent reform of supplementary pension plans, since the beginning of 2005 we have been developing, through our territorial network, action aimed at providing consulting on the content of this reform to customer companies, and specifically for those aspects which involve the maturing employee severance indemnities (TFR/TFM), the company is promoting the new, recently launched products, VALORE TFR and VALORE TFM. This activity is achieving significant results in terms of the distribution level of said products.

The programme of development of the customer portfolio regarding life insurance products, which begun during the last financial year, was also extended to the protection of matured policies, and is allowing for positive effects on the distribution of the products PLURAL VITA GRUPPI and PLURAL VITA DIRIGENTI, which were also recently updated, with significant increases in premium income.

### **Bancassurance partnership with Banca Popolare di Milan**

Following the agreement for the development of a bancassurance project with the Banca Popolare di Milano Group, stipulated by the parent company Fondiaria-SAI on 21 December 2005, on 7 February 2006, Fondiaria-SAI, in agreement with Milano Assicurazioni, designated the latter to purchase a shareholding in Bipiemme Vita S.p.A.

With this agreement, the development of a wider project for business partnership with the Banca Popolare di Milano (BPM) is planned in the bancassurance sector, to be carried out through various agreements in the life business, as well as in the non-life business and in banking and financial services.

On 29 November 2005, the Board of Directors of BPM resolved to accept the offer to jointly develop, exclusively with the Fondiaria-SAI Group, bancassurance activities in the life business and, more generally, to subscribe a Framework Agreement containing guidelines for the wider project mentioned above.

Pursuant to the Framework Agreement mentioned above, Milano will initially purchase from BPM and from the subsidiary Banca di Legnano, a share equal to 46% of the share capital of Bipiemme Vita S.p.A., with the possibility of transferring control of the latter from the BPM Group to Milano, through the sale of a further two shares equal to 4% and 1% respectively, at two separate times, within 31 December 2006, and 30 June 2007 respectively.

BPM and Milano are set to subscribe a shareholders' agreement containing the rules of corporate governance for Bipiemme Vita, as well as the business aspects of the partnership. The agreement specifies that Bipiemme Vita shall continue to have access to the distribution network of the BPM Group for 5 years, starting from the closing, with the possibility for renewal for a further 5 years, through joint agreement of the parties.

The price of 46% of Bipiemme Vita was set at €94.3m, corresponding to €205m as the total value of the company. This price will be subject to an adjustment at the moment of purchase, primarily depending on the dividends of financial year 2005 to be received by the current shareholders.

In April 2006, the operation received authorisation from the Italian Antitrust Authority, and was authorised by ISVAP.

The transfer of the first tranche of shares is planned for the month of June.

Bipiemme Vita is the insurance company of the BPM Group, which operates through about 700 branches of the Group. The financial statements as at 31 December 2005 (drafted according to Italian accounting principles) showed premium income of € 632.3m and net profit of € 23.8m. Shareholders' equity amounted to € 67m, while total technical reserves were equal to €3,255.1m.

Bipiemme Vita's business plan, which formed the basis for the valuations used to determine its price, forecast an increase in new business premiums from €481m for total 2004, to over € 750m in 2010, and an increase in net profit from €11m in 2004 to €25m in 2010.

The aforementioned price is intended as a provisional price, identified using an appraisal value approach, taking into account all the value components regarding the life branch (i.e. embedded value as at 30 June 2005 and goodwill from new business expected starting from 1 July 2005), the non-life branches (i.e. term insurance and accident and health classes), as well as the overheads of Bipiemme Vita. The definitive price on the closing date will be equal to the provisional price revalued between the signing date and the closing date, at a reference rate agreed, net of 2005 dividends, and increased by any capital increase paid (both pro-rata). The purchase price for the following shares of 4% and 1% of the capital of Bipiemme Vita has been stipulated in an amount corresponding to the definitive price paid for the 46%, revalued at the date of settlement of the use of options, at the reference rate, net of any dividends distributed, and increased by any increases in capital paid (both pro-rata) from the closing date to the respective settlement dates of the prices of said options.

The put and call options on 4% of Bipiemme Vita can be used during the period September-December 2006. The call option of Milano is conditional on the execution of the agreement regarding banking and financial services. The use of these options would lead to joint control and governance.

The put and call options on the remaining 1% of Bipiemme Vita, with the consequent acquisition of control, and total consolidation by Milano, can be used during the period March-June 2007. BPM may only use the put option on 1% after using the put option on 4%. The use of Milano's call option will be subject to approval by a joint committee composed of

four members (two from each party) called from time to time to evaluate the execution and results of the agreement.

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

For the BPM Group, this agreement will provide greater technical-management support for insurance services, required for pursuing significant objectives of growth in production volumes through a range of products that respond better to the needs of its customers. These products also refer to the assistance that banks and insurance companies will be able to provide households and small-medium enterprises in view of the future development of complementary pensions.

For the company and for the Fondiaria-SAI Group, this agreement is a further opportunity for development in the life business. The operation, from the business point of view, fits perfectly with the current bancassurance agreements of the company and the Fondiaria-SAI Group, which will continue to have strategic value within the policies of growth for the company and the Group.

## **Subsidiaries**

In the life sector, in addition to Milano Assicurazioni, the subsidiary Fondi-prev also operates. The following provides a brief comment on its operations during the 1<sup>st</sup> quarter 2006.

### **FONDIPREV S.p.A. - Florence (our direct share 60%):**

This company operates in the life business through the banking channel. New contracts are written through the branches of Banca delle Alpi Marittime, while the company continues to directly manage contracts in its old portfolio.

Gross premiums recorded in the first quarter of the 2006 amounted to €67K compared to €89K in the corresponding period of the previous year (- 24.72%).

The first quarter 2006 closed with a net profit of €39K compared to profit of €25K in the first quarter 2005.

## Property Sector

The performance for the 1<sup>st</sup> quarter 2006 of subsidiaries operating in the property sector is summarised in the following table:

	value of production	% change	Profit (loss)	shareholders' equity excl. profit (loss)
<i>(thousand Euro)</i>				
Meridiano Eur	-	-	944	114,033
Meridiano Orizzonti	513	- 14.00	243	63,446
Campo Carlo Magno S.p.A.	307	-7.81	72	3,979

### **MERIDIANO EUR – Milan** (our direct share 100%)

This company owns a building located in Assago, which was previously the headquarters of Milano Assicurazioni, and is now the subject of a renovation project, for a total of €34,195K. Moreover, the company also holds shares in the closed property fund “Tikal R.E. Fund”, for a total of € 76,506, deriving from the transfer of the property located in Rome, Piazzale dell’Industria to said fund in 2004.

The quarter in question closed with a net profit of €944K, deriving from proceeds distributed by the Tikal Fund.

### **MERIDIANO ORIZZONTI – Milan** (our direct share 100%)

This company owns a building in Milan, in Piazza S.M. Beltrade 1, for a total of €55,208K. The first quarter 2006 closed with net profit of €243K, and property income of €513K.

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

The company, purchased by Milano Assicurazioni in December 2005, owns a hotel complex located in Madonna di Campiglio, and named GOLF HOTEL.

In December as well, the company stipulated a business lease contract with Atahotels S.p.A., which provides for lease instalments of 20% of net annual income, providing a guaranteed minimum in any case. This operation guarantees the company suitable return on the leased company branch, in line with similar operations on the market.

The first quarter of 2006 closed with profits of €72K.

## Other Activity

The companies in this sector are set forth in the table below:

	Value of production	% change	profit (loss)	shareholders' equity excl. profit (loss)
<i>(thousand Euro)</i>				
Maa finanziaria s.p.a.	4	-	-3	921
Sogeint s.r.l.	601	68.35	88	-89
Campo Carlo Magno Sport S.r.l.	56	69.97	26	279

### **MAA FINANZIARIA – Milan** (our direct share 100%)

This company, which originally operated in the sector of financial leasing of capital goods and financing, now limits its activities to managing several loan contracts which are still in its portfolio. At 31 March 2006 it recorded a loss of €3K.

### **SOGEINT – Milan** (our direct share 100%)

This company provides commercial assistance to the agencies. The first quarter of 2006 closed with profits of €88K.

### **CAMPO CARLO MAGNO SPORT - Madonna di Campiglio** (our direct share 100%)

The company, which was purchased by Milano Assicurazioni in December 2005, owns concessions for the management of the ski slopes, ski lift systems and golf course in the hotel complex Golf Hotel.

In December as well, the company stipulated a business lease contract with Atahotels S.p.A., which provides for lease instalments of 20% of net annual income, providing a guaranteed minimum in any case. This operation guarantees the company suitable return on the leased company branch, in line with similar operations on the market.

The first quarter of 2006 closed with profits of €26K.

## Financial And Asset Management

The following table sets out the results from financial and property assets for the first quarter 2006, compared to the same period of the previous year:

<i>(thousand Euro)</i>	<b>31/3/2006</b>	<b>31/3/2005</b>	<b>% change</b>
Net income from fin. instruments, recorded at fair value in the profit and loss account	1,542	14,309	-89.22
Charges from investments in subsidiaries, associated companies and joint ventures	-	281	-100.00
Income from other financial instruments and property, of which:	103,662	83,257	24.51
Interest received	54,160	51,332	5.51
Other income	9,570	5,177	84.86
Profits realised	39,932	26,748	49.29
Valuation profits	-	-	-
<b>Total income</b>	<b>105,204</b>	<b>97,847</b>	<b>7.52</b>
Charges from investments in subsidiaries, associated companies and joint ventures	-	-	-
Charges from other financial instruments and property, of which:	-6,529	-7,251	-9.96
Interest paid	-1,682	-2,894	-41.88
Other costs	-1,323	-2,908	-54.50
Losses realised	-2,302	-1,449	58.87
Valuation losses	-1,222		n.a.
<b>Total charges</b>	<b>-6,529</b>	<b>-7,251</b>	<b>-9.96</b>
<b>TOTAL NET INCOME</b>	<b>98,675</b>	<b>90,596</b>	<b>8.92</b>

The first quarter 2006 demonstrated contrasting trends in the two main assets under management (bonds and equity): the positive trend in the stock market contrasted with a less positive trend in the bond sector. The diversified asset allocation of the Group had a stabilising effect on the results, managing to balance the negative performance of bonds with the performance in the stock market, taking advantages of the positive opportunities offered by the market.

During the quarter, the prudent policy regarding bond duration in the non life business continued, as well as nearing the liability duration in life business bond sector.

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

On 11 January 2006, the company sold its entire shareholding in Swiss Life Holding to an institutional investor (UBS).

Milano Assicurazioni sold 828,709 shares of Swiss Life Holding, at the price of 234.75 CHF each. The price was determined by applying a discount of 0.53% compared to the closing price of 236 CHF as at 11 January 2006.

Proceeds from the transaction totalled approximately 194.5m CHF, against a total book value of approximately 193.2m CHF. Taking into account the book value CHF/€exchange rate and the conversion CHF/€exchange rate of the consideration for the sale, at a modest gain of about €336K was achieved.

During 2004, the Fondiaria-SAI Group had already evaluated, jointly with the Swiss Life Group, the lack of prerequisites for creating the possible joint venture in the Italian life sector.

Taking into account the opportunity provided by the performance of the Swiss Life Holding share price, it was considered important for the Fondiaria-SAI Group, and for the subsidiary Fondiaria Nederland to carry out the sale of the shareholding in very short time, by contacting several institutional investors and inviting those interested to participate in a competitive auction, and to make a firm offer.

This operation allowed for increasing the diversification of asset allocation as well as, in perspective, the flexibility of strategic investments.

## Significant events occurring after the end of the quarter

There were no significant events occurring after the end of the quarter, until the date of this report.

## Business Outlook

The risk policy assumed for the non-life business will continue to pursue selective portfolio development which can match the growth in premiums with suitable levels of profitability, and guarantee increased diversification of risks.

In the Motor business, the company will pursue the progressive alignment of the tariff proposed by the various sales networks, through the adoption of the product “Prima Global”, which is characterised by a high level of customisation, and developed by making use of the information from the vast client portfolio of the Fondiaria-SAI Group. Positive effects are expected from this product in terms of combined ratio. At the same time, actions aimed at maintaining the portfolio acquired in the profitable areas and sectors will continue, as well as reform activities in risk sectors which demonstrate the need for recreating the technical balance. In particular, a resizing of the fleet portfolio is underway, through operations aimed at disinvestment.

In the Motor business, campaigns for promoting sales in the retail sector will be activated, with particular emphasis on multi-guarantee products which are able to satisfy the evolving insurance needs of customers.

In the life business, the objective is to pursue portfolio development regarding traditional products with annual and recurring premiums, which are able to provide suitable profitability and guarantee exploitation of the portfolio over the long term. Customer loyalty activities will continue, also through specific operations aimed at protecting the capital reaching maturity. Moreover, the company will continue to place particular attention to the needs of institutional customers, who see the insurance sector as a good opportunity to diversify their investments and employ their money.

In order to strengthen the life business, specific commercial campaigns and training events have been planned, above all as regards the points of sale which demonstrate significant growth potential.

This business will benefit considerably from the development of the partnership with the Banca Popolare di Milano regarding Bancassurance. In April, this project obtained authorisation from the Italian Antitrust Authority and ISVAP.



Financial and asset management will continue in its prudent strategy, aimed at containing interest rate and counterparty risk, without, however, missing the opportunities that the financial stock and bond markets should offer. The evolution in bond prices is being followed with extreme care, following the recent changes in monetary policy by the U.S. Federal Reserve and the Central European Bank, as well as the expectations for further changes in the interest rate curve.

## Valuation Criteria and Basis of Consolidation

The quarterly report is produced in conformity with the provisions contained in regulation no. 11971 dated 14 May 1999, as amended and supplemented by CONSOB Resolution no. 14990 of 14 April 2005.

Specifically:

- This quarterly report was produced in accordance with the IAS/IFRS international accounting principles issued by the IASB (International Accounting Standard Board) and to date approved by the European Union;
- the information supplied is that stipulated in annex 3D to the stated regulation no. 11971;
- The profit and loss account and the statement of net financial position were prepared taking note of the ISVAP Provision 2404 of 22 December 2005, concerning the instructions on the production of consolidated financial statements according to the new international accounting principles;
- the data contained in the accounting statements derives from the application of said accounting principles, used for preparing the financial statements for the year. nonetheless, the determination of some technical items, mainly referring to the Motor TPL class, was carried out on the basis of management data for the period, combined with the statistical valuations, which also take into account the likely trend for the financial year in the indexes linked to the technical results of this class.

There were no significant variations in the basis of consolidation compared to 31 December 2005. The annex provides a list of the subsidiaries and associated companies according to the layout required by ISVAP in the above-mentioned Provision no. 2404 of 22 December 2005.

Milan, 9 May 2006

MILANO ASSICURAZIONI S.p.A.  
The Board of Directors

## Basis of consolidation

Company name	Country	Method (1)	Business (2)	% Direct shareholding	% Total interest (3)	% Available votes in shareholders' meeting (4)	% of consolidation
CAMPO CARLO MAGNO S.p.A.	ITALY	G	10	100.00	100.00	100.00	100.00
CAMPO CARLO MAGNO SPORT S.r.l.	ITALY	G	11	100.00	100.00	100.00	100.00
DIALOGO ASSICURAZIONI S.p.A.	ITALY	G	1	99.85	99.85	99.85	100.00
FONDIPREV S.p.A.	ITALY	G	1	60.00	60.00	60.00	100.00
MAA FINANZIARIA S.p.A.	ITALY	G	11	100.00	100.00	100.00	100.00
MERIDIANO EUR S.r.l.	ITALY	G	10	100.00	100.00	100.00	100.00
MERIDIANO ORIZZONTI S.r.l.	ITALY	G	10	100.00	100.00	100.00	100.00
NOVARA ASSICURA S.p.A.	ITALY	G	1	100.00	100.00	100.00	100.00
SOGEINT S.r.l.	ITALY	G	11	100.00	100.00	100.00	100.00
SYSTEMA COMPAGNIA DI ASSICURAZIONI S.p.A.	ITALY	G	1	100.00	100.00	100.00	100.00

(1) Consolidation method: Global=G, Proportional=P, Global by Business Unit=U

(2) 1=Italian ins. co.; 2=EU ins. co.; 3=foreign ins. co.; 4=insurance holding; 5=EU reins. Co.; 6=foreign reins. co.; 7=banks; 8=SGR; 9=other holding; 10=property 11=other

(3) is the product of the shareholding relationship regarding all companies that, located along the investment chain, are between the company that prepares the consolidated financial statements and the company in question. When the latter is directly held by several subsidiaries, it is necessary to sum the single products

(4) total percentage of votes available in the shareholders' meeting, if different from the direct or indirect investment quota held

amounts in thousands of Euro

**Non-consolidated shareholdings**

Company name	Country	Business (1)	Type (2)	% Direct shareholding	% Total interest (3)	% Available votes in shareholders' meeting (4)	Book value
GARIBALDI S.C.S.	LUXEMBOURG	10	B	47.95	47.95	47.95	- 135
SAI INVESTIMENTI S.G.R. S.p.A.	ITALY	8	B	40.00	40.00	40.00	1,874
SERVICE GRUPPO FONDIARIA-SAI S.r.l.	ITALY	11	B	30.00	30.00	30.00	227
SISTEMI SANITARI S.p.A.	ITALY	11	B	25.71	25.71	25.71	518
UNISERVIZI S.c.r.l.	ITALY	11	B	28.00	28.39	28.40	2,336

(1) 1=Italian ins. co.; 2=EU ins. co.; 3=foreign ins. co.; 4=insurance holding; 5=EU reins. Co.; 6=foreign reins. co.; 7=banks; 8=SGR; 9=other holding; 10=property 11=other

(2) a=subsidiaries (IAS27) ; b=associated companies (IAS28); c=joint ventures (IAS 31); mark with an asterisk (\*) the companies held for sale in compliance with IFRS 5 and place the legend below the table

(3) is the product of the shareholding relationship regarding all companies that, located along the investment chain, are between the company that prepares the consolidated financial statements and the company in question. When the latter is directly held by several subsidiaries, it is necessary to sum the single products

(4) total percentage of votes available in the shareholders' meeting, if different from the direct or indirect investment quota held