MEDIOLANUM S.p.A.

2005
Annual Report

MEDIOLANUM
MEDIOLANUM GROUP

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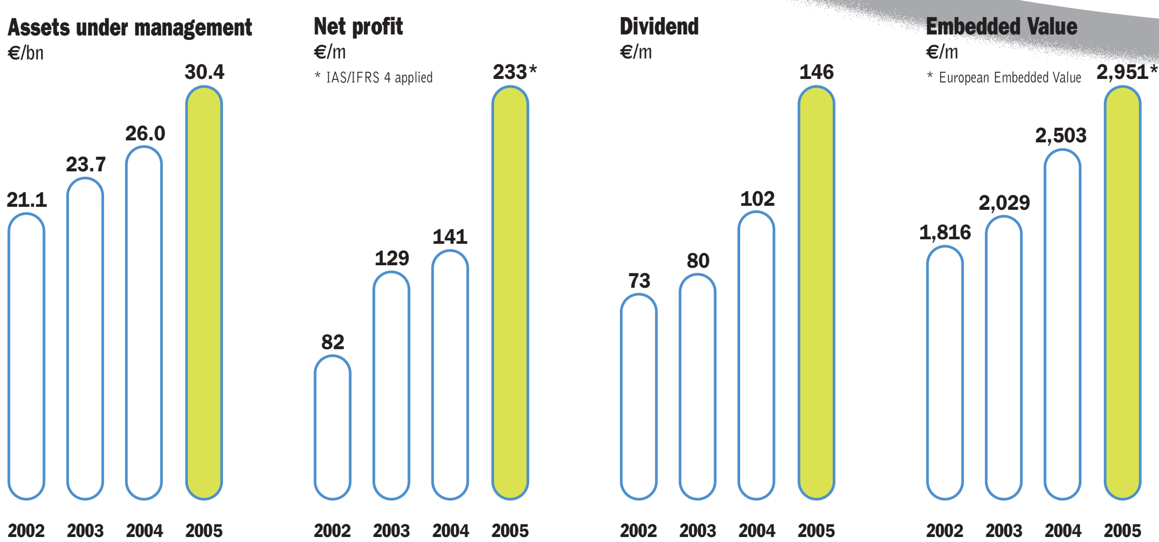
The financial statements and the consolidated financial statements have been translated from those issued in Italy, from the Italian into English language solely for the convenience of international readers.

Our vision

We want Mediolanum
to be the bank of all families
Because it offers the freedom
of unparalleled quality services
Anytime, Anyplace, Anywhere

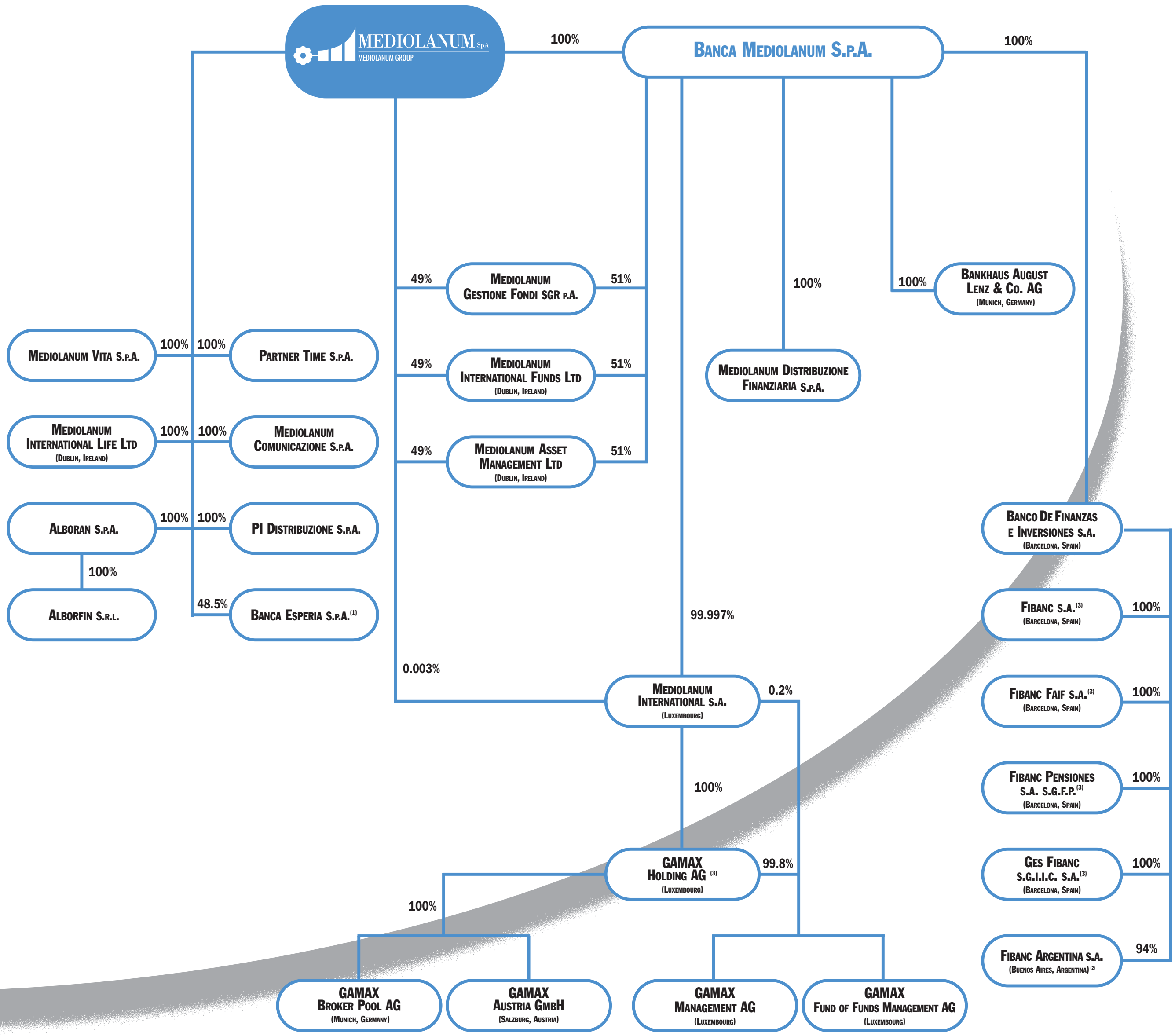
Financial highlights

€/m	2005	2004	Change
Assets under management	30,399	25,976	17%
Pre-tax profit	290	192	51%
Taxes	57	51	12%
Net profit for the year	233	141	65%
Dividends	146	102	43%
Embedded value	2,951	2,503	18%
€			
Earnings per share	0.320	0.194	65%
Dividend per share	0.20	0.14	43%
Embedded value per share	4.06	3.44	18%



Group structure

as of December 31, 2005



(1) The remaining capital is held by third parties.
(2) In liquidation.
(3) Pursuant to regulations directors have a symbolic shareholding.

Corporate Governance Officers

BOARD OF DIRECTORS:

Ruozi Roberto	Chairman of the Board
Messina Alfredo	Deputy Chairman of the Board
Lombardi Edoardo	Executive Deputy Chairman
Doris Ennio	Chief Executive Officer
Berlusconi Marina Elvira	Director
Cannatelli Pasquale	Director
Doris Massimo Antonio	Director
Ermolli Bruno	Director
Molteni Mario	Director
Renoldi Angelo	Director
Sciumè Paolo	Director
Zunino Antonio	Director

BOARD OF STATUTORY AUDITORS:

Mauri Arnaldo	Chairman
Frattini Achille	Standing Auditor
Giampaolo Francesco Antonio	Standing Auditor
Gatti Ferdinando	Alternate Auditor
Vittadini Francesco	Alternate Auditor

BOARD SECRETARY:

Luca Maria Rovere

INDEPENDENT AUDITORS:

Reconta Ernst & Young S.p.A.

Key Management Biographies

Alfredo Messina
Deputy Chairman

He was Corporate Production Controller at Olivetti and Corporate Finance, Control and Administration Officer at Alitalia.
In 1989 he joined IRI as Head of Planning and Control. In 1990 he joined Fininvest first as General Manager and then, from February to July 1996, as Chief Executive Officer.
He is Chairman of Mediolanum Vita S.p.A., Mediolanum Assicurazioni S.p.A. and member of the Board of Directors of Mediaset S.p.A.

Ennio Doris
Chief Executive Officer

He started off as financial advisor first at Fideuram and then at the RAS Group. His career underwent a major change when he founded Programma Italia, a financial brokerage organization, together with Silvio Berlusconi. He was Chief Executive Officer of Programma Italia since its foundation.
He and the Fininvest Group own an equal control stake in Mediolanum S.p.A., the company formed from the merger of Fininvest Italia S.p.A., Fintre S.p.A. and Programma Italia S.p.A.
He is Chairman of Banca Mediolanum S.p.A., Director of Mediobanca S.p.A. and Banca Esperia S.p.A.

Roberto Ruozi
Chairman

He was Professor at the Universities of Ancona, Siena, Parma, Paris (Sorbonne) and at Politecnico of Milan. Today he is the Chairman of the Center for Studies on Financial Innovation at "L. Bocconi" University, Milan.
He is the author of many publications on finance and banking.
He held key management positions in both listed and unlisted companies.
At present he is Chairman of Palladio Finanziaria S.p.A., Touring Club Italiano, Piccolo Teatro di Milano, Retelit S.p.A.
He is a member of the Board of Directors of Indesit Company S.p.A., Gewiss S.p.A. and Data Service S.p.A.

Edoardo Lombardi
Executive Deputy Chairman

He was Corporate General Manager at Procter & Gamble Italy, and General Manager at the Sangemini/Ferrarelle Group.
In 1987 he was appointed General Manager of Fininvest Italia S.p.A – the insurance and financial division of the Fininvest Group – and then in 1989 Chief Executive of Mediolanum Vita S.p.A. and Mediolanum Assicurazioni S.p.A.
At present he is Deputy Chairman and Chief Executive Officer of Banca Mediolanum S.p.A. and Chief Executive Officer of Mediolanum Vita S.p.A.. He is also Director of Banca Esperia S.p.A. and Chief Executive Officer of Mediolanum Assicurazioni S.p.A.

Being more of a bank, to give value to the future.

The Bank that frees you from the Bank.

From the very moment of its foundation in 1997 Banca Mediolanum has brought innovation to the Italian banking scene and greater value for its clients.

The innovation lies in its original banking model that frees the client from all the constraints of traditional banking, by associating like never before the potential of new technologies with the innate need for relationships.

The greater value lies in the completeness of the Mediolanum Group offer, which matches customers' lifestyles, meeting all their needs with not only banking, but also savings, investment, insurance and pension products and services.

A bank that is more than a bank: to offer clients new freedom, today and tomorrow.

The 14th century or the 3rd millennium?

By opening a current account the client receives the "key" to the bank, for free use of all the banking services. The account then becomes the keystone for investments.
In Italy people tend to invest where they have their accounts, and so for Mediolanum, proposing itself strategically as an all-round bank means facilitating asset gathering.

The perception of Mediolanum as a pure asset gatherer derives from the nature of the Group's business at its inception as well as from a certain degree of slowness in the spread of new technologies with the Italian public (in 1997, for example, there were only 2 million Internet users, as opposed to 24 million today). This initial perception has now been replaced by Mediolanum being fully recognized as an all-round bank.
Mediolanum is a unique organization which sets the standard for innovation on the Italian market, picking up the early signs and demands for change from consumers.

The traditional banking model, based on physical proximity, is the one still prevailing, though costly for both the client and the bank: attracting potential clients by branches that are right "at their doorstep" and then counting on this "handiness" to obtain the management of their investments as well.

However, the growing number of consumers who comparison shop and have a good grasp of technology, and therefore have freedom of choice, has rewarded the distinctive model of Banca Mediolanum, whose development in 2005 is becoming a real case-history.

The tangible and intangible benefits that the model brings to clients' lives therefore represent the groundwork our development is based on, also with respect to new scenarios over the next ten years.

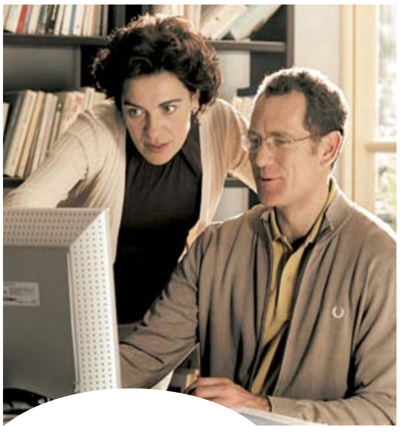
The bank that has changed the bank.

Banca Mediolanum has always put clients in the centre of a circular model, allowing them to freely choose when and how to deal with the bank and never feel alone.

We have created a system which overcomes the traditional constraints of time and place in the use of the bank's services by providing non-stop proximity via different channels, both technological and interpersonal.

Technology.

Our technology is always user-friendly.
In 1997 for example, as the Internet was still a niche channel, Banca Mediolanum invented "TV banking", i.e. the possibility of checking your account and investments and making simple transactions through the TV and two familiar devices: the telephone and the remote control. The service operates through the teletext of Rai, Canale 5 and Mediolanum Channel, an unencrypted satellite TV channel, unique to the banking scene, which Banca Mediolanum, has used to communicate directly with the client community since 2001. In 2006, some services are also scheduled for digital terrestrial TV.



The 1st television bank.

The telephone has played a central role: the customer contact centre at headquarters is effectively a large branch that is always open, with over 300 qualified operators who have specific and up-to-date banking skills.
With a telephone call, which is always free of charge, clients can carry out all their transactions and check on their investments whenever they want, from the comfort of their homes or from the other side of the world, in real time and with maximum security and confidentiality.

The entire bank on the second ring.

The customer contact centre operates from 8 a.m. to 10 p.m. from Mondays to Fridays and until noon on Saturdays. Many transactions can also be carried out through the automatic answering system available 24 hours a day.
For alerts and communication, services via text messaging can be activated and are highly appreciated by clients, especially for their security and promptness.

Within Mediolanum, the use of the internet channel, introduced in 2000, has gradually grown over the years and has contributed to the creation of the image of Mediolanum as an "all-round" bank.
Through the www.bancamediolanum.it website, clients can access the bank via their computer, with all transactions possible in a way that is clear and intuitive as well as in total security

Everything is simple, even on-line.

In 2003 Banca Mediolanum also met the need for a channel for cash logistics, through an agreement with the Italian Post Office Service and a traditional bank.
Clients can thus freely withdraw and deposit cash and checks at over 15,000 affiliated bank branches, throughout Italy and without any additional charges.

2005 – MULTI-CHANNEL APPROACH
(data vs. previous year)

ACCESSES:	14,079,247	= + 28%
internet	58,0%	
call centre	9,7%	
text messages	7,1%	
teletext	4,7%	
vru	20,5%	
TRANSACTIONS:	1,891,471	= + 29%

The human touch.

Last but not least, the element that closes the circle of the Banca Mediolanum model is financial consulting, offered to all clients of the network of Consulenti Globali® (Global Consultants), the historical asset of the Group since its foundation.

"My bank is where I am."

Consulting makes the difference.
The choice of the best professionals, with in-depth and continuous training, means that the client can always count on the human touch whenever a specific need arises, a decision has to be taken on investments or complex transactions are to be made. Or, quite simply, when accessing the on-line account for the first time.

Banca Mediolanum currently has some 5,500 advisors or better "mobile branches" with more than 500 offices throughout Italy, 190 of which are Punto Mediolanum.

User-friendly technology and responsible consulting, to meet every transaction and investment need: the "hi-tech high-touch" Banca Mediolanum model is the killer application in the banking sector of the third millennium.

Hi-tech, hi-touch.

The economic advantage due to the absence of traditional branches and the efficiency of the channels and tools chosen is transferred to the client: the multi-channel approach is fully integrated and does not entail any costs.

Clients operate in the way most convenient for them, carrying out in total autonomy all transactions, including those that may be of low added value for the bank, but are important for clients. This approach saves clients money, time and stress: tangible and intangible benefits that increasingly strengthen their relationship with the bank.

"Free from..." "free to..."

However, when clients need assistance, advice or they have to carry out major transactions, they can always count on advisors who, working as independent entrepreneurs, are at their disposal when requested by clients, even at home.

Free from constraints of space and time. Free to use the bank as you want. Free from costs.
The communication strategy which repositioned Banca Mediolanum in 2005 as a leader in the change in banking is built on the four freedoms created by our model.

4Freedoms: 2 great objectives.

The extensive advertising campaign to spread the image of Banca Mediolanum as a complete and innovative bank was launched with the name "4Freedoms", at our convention in March 2005.
It pursued two objectives: to acquire new current account holders and to attract new assets to manage.

The first objective entailed the acquisition of new clients through current accounts, but also prompting existing customers who had their assets invested with us to bank with us: the current account is the first relationship they have with the bank.

In the 12 months following the launch of the campaign, 87,000 new accounts (+73%) were opened, with a net growth of almost 54,000 accounts, no different than the results achieved by the major Italian banks in one year.

Current accounts: +73%

Our experience shows that those clients who actively use our current accounts commit assets which on average are five times greater than those who do not have a current account with us or who do not use it as their primary account.
In 70% of cases, new clients fully activate the account within 3 months, and after they become fully acquainted with our model and appreciate its advantages, they tend to close their accounts with other banks and use Banca Mediolanum as their first bank.

The second objective is increasing client loyalty, and the consequent cross-selling efforts to diversify their investments.
Twelve months after the launch of the campaign, 61% of new clients invested in at least one asset management product.

4Freedoms: 2 new products.

The new emphasis on the banking spirit of Mediolanum has been backed by the launch of two completely innovative and competitive products for the Italian market: Riflex Account and Riflexcard, the first in a product range which in the first six months of 2006 will also include the introduction of the Riflex mortgage and the Riflexcash prepaid card.

The philosophy behind the Riflex brand is clear from its very name: products which "reflect" clarity and transparency, and with a strong component of customization.

The Riflex Account has a monthly cost of only €5, which covers all transactions through all channels. It also provides the additional benefit of being automatically converted into a zero-cost account as soon as the client has managed assets of €30,000 or an average deposit in the account of €6,000.

"Does you account really reflect you?"

The client no longer has to negotiate or be on the lookout: the Riflex Account has no fine print.

The ATM card and all withdrawals from ATMs are also free of charge: at all Italian banks, without exception.
The offer also includes all the withdrawals and deposits of checks and cash at affiliated banks... and obviously advisory services.
In 12 months 96,000 Riflex Accounts were opened, 41,700 of which are conversions from other types of Mediolanum current accounts.

Riflexcard is visibly different from other credit cards: it is the first multifunctional card in Italy with the photo of the holder, a sort of "multi-function ID card" which adds status to security.
The card has the functions of credit card, ATM card, ATM debit card and revolving credit card,

with a single annual cost of €30: another competitive advantage.
Riflexcard provides security services for on-line transactions and CartaSì alerts by text messages.

A unique plus is the revolving credit card function, which is not indicated on the card. Clients can thus count on maximum privacy in their purchases, and are free to decide later what and how much to pay in installments.

"Does your credit card really reflect you?"

They just have to contact the call centre before the end of the month and indicate the amounts they intend to pay in up to 24 monthly installments.
In the 12 months following the launch, 47,500 Riflexcards were issued. i.e. 228% more than the total cards issued in the previous 12 months.

The launch of these two new products was enhanced by a major and diversified marketing campaign.

4Freedoms: a multi-media message.

The communication strategy focused on brand recognition, by leveraging, creatively and innovatively, the image-symbol of the Banca Mediolanum founding Chairman tracing a circle, a distinctive visual identity built up over time.
An image so rooted in the memory to become an icon, the new signature of Banca Mediolanum's communication.

Out in the wide open landscape, Ennio Doris personally introduces the bank's new products, with mirrors reflecting situations in the lives of the clients: whilst they use the multi-channels of the Riflex Account or the functions of the Riflexcard, or whilst they talk to the advisor at their home or with a customer contact center operator .
The corporate slogan, "Built around you" is then re-interpreted by the client who is then invited by the Chairman to sit in the red armchair, metaphorically at the center of Banca Mediolanum's circular model.

"Built around ME."

The new advertising campaign includes a 45" TV commercial and three 30" spots, also scheduled to be screened in major movie theatres; radio adverts; pages in the leading newspapers and magazines; billboards nationwide and giant billboards in the major cities.
This year marked the inclusion of new media, with the first interactive commercial on digital terrestrial TV and a growing presence on the Internet which as a medium is particularly well suited to Banca Mediolanum considering its role as one of the bank's channel.

The various messages in the commercial, as well as in the promotional supporting and direct marketing material, are launched by direct questions, to make the consumer compare the traditional bank offer and the advantages of Banca Mediolanum's alternative model: "Does the consultancy you are getting from your bank really reflect you?", "Is it like that with your bank?" , "How much freedom does my bank give me?".

The advertising campaign represented a major investment throughout the year, using the various advertising media in a varying mix during the three flights.
The launch was simultaneous in all the media and brought about considerable results both in terms brand awareness of Banca Mediolanum and also in direct response: the number one bank in terms of spontaneous recall in March and May (Multifintrack Eurisko data), thousands of calls to the toll-free number and thousands of prospect contacts.

A well-kept promise.

The launch was followed by flights in the summer and a recommencement in the autumn, when investments in the web went up to 6% of total advertising expenditure.
For 2006, a further increase in communication via the Internet is planned, which will make Banca Mediolanum one of the leaders in this new advertising medium.

Thanks to the effectiveness of the message and its constant presence in all media, Banca Mediolanum's communication has been recognized as having a higher than average value compared to much larger competitor banks.

4Freedoms: in everybody's lives, every day.

The successful results of the advertising were replicated by the sales network, who established personal contact with clients and prospects through very intense activities throughout the year.

Banca Mediolanum has always paid a great deal of attention to supporting advisors on a local basis, organizing various types of meetings between local advisors and the public, because the personal relationship and live demos of how the channels are used offer concrete understanding of the model's benefits.

Almost 500 managers and supervisors have undergone specific training for giving presentations to the public.

"I'm going to dinner with the bank."

These activities were particularly numerous during the 4Freedoms campaign.
Punto Mediolanum staff and the advisors were able to choose from different types of events, with logistical support from the Headquarters.

We organized film premières in 10 major cities, attracting 7,000 people; the "Aperitif in concert" and "Coffee and Account" initiatives generated some 19,000 contacts, with the collection of 16,000 names.

The 3,400 evenings organized directly by the advisors in a strict format created for 4Freedoms were crucial in attracting about 94,000 clients and prospects, and collecting over 44,000 new names. During the year, these local meetings gradually became more frequent and their success is shown by the very high number of current accounts opened during the course of these evenings.

"Is that how it is with your bank?"

A further 30,000 contacts arrived through the renewed sponsoring of the Giro d'Italia, which took the Banca Mediolanum caravan along all the legs of the cycling race, meeting up with the public in small towns; management also attended gala dinners with top clients belonging to the exclusive Primafila club.

Simultaneous with the launch of the Riflex Account, there was a competition which allowed another 100,000 names of potential clients to be collected.

The bank grows and so does the network.

The value generated by the national campaign has increased the interest in getting to know Banca Mediolanum on a local basis not only on the part of potential clients but also potential collaborators: during these evenings we began to receive a growing number of spontaneous job applications for the profession of financial advisor.

In view of the ambitious objectives and the potential for growth, Banca Mediolanum kicked off a professional development project, with new training programs and a repositioning of the figure of the advisor.

The banking aspect of the profession is to be increasingly emphasized, with the Banca Mediolanum advisor acting like an organized entrepreneur within the bank.
The objective is to create a new generation of "banking executives" to take banking freedom directly into the homes of clients.

In-depth and continuous training is accompanied by solid operational support, incentive programs and various forms of protection for the future, with the security of an increase in value of their business.

"We are the branch."

In the 12 months between the launch of 4Freedoms and the end of February 2006, the Banca Mediolanum network grew by 13% compared to the previous 12 months, reaching about 5,500 advisors.
More than 630 new professionals in a year: which would equate to a medium-large network for Italy. And the trend is on the increase.

The fact that Banca Mediolanum does not take on professionals who have been trained by other networks or banks, but chooses people to train according to its own model and its own values, makes the result all the more significant.

From a full-status bank to a great bank.

The results achieved twelve months after the launch of 4Freedoms allow us to state that the growth path taken by Banca Mediolanum will lead it to attain all its targets over the next ten years.

Thanks to the promise of freedom in banking, an original model and the rigorous pursuit of a successful strategy, Banca Mediolanum is ready for a future as a major player on the Italian banking scene and a new player on European markets.

MEDIOLANUM S.p.A.

Consolidated Financial Statements for the year ended December 31 2005

Directors' Report

Dear Shareholder

For financial year 2005 the Mediolanum Group reported net profit of €233.3 million up 47% from €159.1 million in the prior period.

Please note that had the Mediolanum Group adopted IAS 39 and IFRS 4 from January 1, 2004, net profit for the prior year would have amounted to €164.1 million and net profit for 2005 would have posted a 42% increase.

That result was largely due to the accelerated growth of assets under management which increased 17% from €25,976.1 million in the past year to €30,399.1 million at year end 2005.

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The new structure of financial statements

These consolidated financial statements were prepared in accordance with International Accounting and Reporting Standards (IAS/IFRS).
The adoption of those accounting standards entailed significant changes in the way transactions are recognized, assets and liabilities are measured and financial statements are structured.
The Accounts and the Notes include comparative information at December 31, 2004. In accordance with IFRS 1, the Mediolanum Group elected not to restate prior year figures in relation to financial instruments (IAS 39) and insurance contracts (IFRS 4), which were accounted for under previous Italian GAAP.

Specifically, loans and receivables, payables, securities, derivative contracts and equity investments at December 31, 2004 were accounted for under the Italian GAAP applied up until year end 2004 as presented in the financial statements for that year.
To enable a comparative analysis of consistent data, based on available information estimates were made of the effects of the application of IAS 39 and IFRS 4 from January 1, 2004 on the financial statements at January 1, 2004 and for financial year 2004.
For further details on the first time adoption of the international accounting standards IAS/IFRS readers are referred to the specific section herein.

Changes in the Mediolanum Group's scope of consolidation

Following the adoption of IAS 27 the scope of consolidation was broadened to include all subsidiaries regardless of their business activities. That entailed the consolidation of all companies that are part of the Banca Mediolanum Banking Group accounted for using the equity method in prior periods.
At December 31, 2004 companies consolidated on a line-by-line basis increased from 4 to 29 entities.
At December 31, 2005 companies consolidated on a line-by-line basis amounted to 25 entities.
Companies consolidated on a line-by-line basis, companies accounted for using the equity method and operationally non-significant subsidiaries, which are not included in the consolidated financial statements, are listed in the Schedules.

REVIEW OF OPERATIONS

The macroeconomic environment

In 2005 global growth continued to be strong though progressively slowing down over 2004. The reduced output was primarily in connection with soaring oil prices, partly offset by the buoyancy of emerging economies which continued to fuel international trade. Regional growth was diverse: North America's and Asia's robust growth was confirmed, while output in Europe was sluggish. The persistent trade imbalances continued to affect currencies as interest rate differentials between Europe and the US widened. The euro zone as a whole, but especially its major economies, grew at a slower pace than in the prior year. Global demand and the modest recovery of domestic demand – household consumption and investments – could not offset negative net exports.

The International Monetary Fund's global analysis indicates a global GDP growth of 4.3% in 2005. GDP growth was 2.5% in industrialized advanced economies versus 6.4% in developing countries, 3.5% in the US and a lower-than-prior-year 2.0% in Japan. In Asia, China confirmed its vigor as its real GDP growth was a notable 9.9% in 2005. In the euro zone, GDP grew 1.2% losing speed over 2004.

In 2005 CPI accelerated in the US and inflation reached 3.4%, while in Japan there was a -0.5% deflation in 2005.
In the euro zone CPI inflation averaged 2.2% (2.1% in 2004) a figure not far from the ECB target rate. Average data aside, differences between the various countries in the euro zone blurred.
As to currencies, in 2005 the euro was stable against the US dollar and appreciated against other major international currencies. Specifically, on an annual basis the euro/US dollar exchange rate averaged 1.244, while the euro/yen exchange rate averaged 136.8.
As to the monetary policy of major world countries, in 2005 there was a marked tightening in the US, a slight rate increase in the euro zone while Japan remained neutral.
Specifically, in 2005 in the US the Federal Reserve raised Fed Funds rates by a quarter point 8 times from 2.5% to 4.25%.

The European Central Bank (ECB) took a cautious approach in the light of the slow and modest recovery raising the minimum bid rate from 2% to 2.25% at the beginning of December 2005.
That was the first change in two years – in fact, European interest rates had remained steady at 2% since June 2003 – and the first rise in five years.

From the macroeconomic viewpoint Italy's performance in 2005 was subdued. GDP grew 0.1% (1.2% in 2004) less than in the other main European countries.
In 2005 domestic demand was affected by the modest growth of private consumption and by declining investments. Official data show that in 2005 private consumption grew 0.8% and public consumption 0.9% over the prior year. Exports declined 0.7% and imports increased 1.8% over the same period in the prior year, thus resulting in a trade deficit.

Turning to the labor market, the data released by Italy's National Institute of Statistics (ISTAT) show that in 2005 the total number of employed individuals increased slightly, in line with GDP growth. The unemployment rate declined to 7.7%, i.e. below the prevalent euro zone rate.
Italy's Consumer Price Index relative to the households of blue and white collar workers, as calculated by ISTAT using national methods, declined from 2% in 2004 to 1.8% in 2005.
During the year, given the difficult macroeconomic cycle (and accordingly sagging taxable income) public finances progressively deteriorated.
In 2005 the public debt/GDP ratio picked up again for the first time in many years. According to the official figure reported in the Stability Plan presented last December, it stood at 108.5% versus 106.5% in 2004. This crucial indicator rose primarily as a result of the declining primary surplus, but it was also impacted by lower-than-expected income from privatizations.
In 2005 the world's equity markets performed well. Specifically, the NYSE S&P 500 was up 18,68%, the Nasdaq up 16.94%, the Nikkei 225 up 40.28% and the Dow Jones Euro Stoxx Large Cap up 21.88%.
In Italy, the Mibtel index rose 13.78% (18.1% in 2004) while the S&P/Mib30, which is constructed using an international method based on free float in lieu of market capitalization, displayed a good performance (13.3% versus 14.9% in 2004).
At year end 2005, the Italian Stock Exchange capitalization amounted to €676.6 billion increasing by about €96 billion over the same period of 2004. The Milan Stock Exchange capitalization to GDP ratio increased to 49.3% from 43% in 2004.

At year end 2005 in Italy there were 792 monetary and financial institutions in operation, which accounted for 12.6% of total monetary and financial institutions in the EU-12. That figure reflects Italy's weight in terms of assets and liabilities of domestic monetary and financial institutions, preceded only by France (15%) and Germany (about 22%). In relation to the individual markets in the EU-12, at year end 2005 total funding (deposits, bonds and subordinated loans) of euro-zone monetary and financial institutions grew 9% over the prior year, a figure only slightly higher than that reported by Italian banks in the same period (8%). At year end 2005, loans to resident borrowers grew 9%, only little above the rate reported by Italian banks in the same period (7.8%).

In 2005 Italy's private-sector financial business further grew about 5.0% to €2,622 billion.
Bank deposits (+6.1%), bank bonds (+9.9%) and retirement savings products (insurance products up 8.3% and pension funds up 3.1%) outperformed the market. Mutual funds rose 8.8%.
At year end 2005, bank deposits accounted for 24.7% of total private-sector financial business versus 24.3% at year end 2004.
At December 2005, total securities in custody (managed accounts and securities held directly by customers) amounted to €1,633.5 billion, up1.57% over the same month in the prior year.
At year end 2005 Italian intermediaries' mutual fund NAV was equal to €585.5 billion versus €537.4 billion in the prior year (up 9%). A detailed analysis of the make-up of mutual fund assets shows that in the past year equity funds increased their share from 22.6% to 24.2%, balanced funds from 7.7% to 7.9%, flexible funds from 2.6% to 3.6% and hedge funds from 2.6% to 3.4%. Conversely, the share of bond funds declined from 46.5% to 45.8% and cash funds from 18% to 15.1%.

In 2005 in the euro zone short-term rates increased: at December 2005 3-month EURIBOR was 2.47% versus 2.17% at December 2004. In the recently ended year, consistently with the tight monetary policy adopted by the Federal Reserve, the US 3-month inter-bank rate was up 199 basis points.

On the other hand, long-term rates (benchmark rates) in the EU-12 declined; specifically, at December 2005 they averaged 3.41%, 28 basis points below the December 2004 figure. Conversely, US benchmark rates were up 23 basis points from 4.23% at December 2004 to 4.46% at December 2005.
In the past year the yield curve flattened more markedly in the US than in the euro zone, confirming the market expectations of a slowdown of the US economy in the short/medium-term.
In 2005 in Italy's financial and lending markets interest rates stabilized with only some hikes in the final part of the year. In particular, in relation to short-term T-bills, in 2005 average gross yields on Italian Treasury Bills did not vary much as they declined from 2.13% in December 2004 to 2.01% in June 2005, to pick up again in the second half of the year up to 2.64% at year end 2005.
During the year the interest rate earned by households and non-financial companies on euro-denominated bank deposits was raised from 0.89% at year end 2004 to 0.95% at year end 2005.
The average rate paid by banks on customer funding (euro-denominated deposits, bonds and repurchase agreements of households and non-financial companies) was 1.72% at December 2005 versus 1.68% at December 2004.
Conversely, the average weighted rate on loans extended to households and non-financial companies declined 12 basis points from 4.77% at December 2004 to 4.65% at December 2005, hitting a all-time low of 4.60% in October-November 2005.
In the past year the interest rate applied to euro-denominated current accounts of households and non-financial companies also fell from 6% at December 2004 to 5.82% at December 2005. The interest rate applied to newly issued euro-denominated loans was 3.55% at year end 2005 versus 3.41% at December 2004 for loans extended to non-financial companies and 3.73% at December 2005 versus 3.66% at December 2004 for residential loans.

The insurance market

Year-on-year, new life business written in the Italian market in 2005 grew 15.5% to €59 billion.
More than half (56.8%) of the life products placed by Italian companies in 2005 were traditional products in class I and class V. The year-on-year increase in premiums written for both product classes was more than 19%.
Banks and post offices remain the major distribution channel for life insurance products of Italian companies accounting for 77% of total sales, followed by agents at 11%, while financial advisors stood at 6% with sales of €3 billion.
The sales of products linked to either units or indices varied: unit-linked products (with no capital protection) grew 15% while index-linked products only 6%.
As to the sales of products distributed by financial advisors, traditional products in class I (up 85%) and class V (up 25%) grew significantly, while unit-linked products (with no capital protection) remained substantially stable and index-linked products were down 59% over the prior year.

The banking market

At year end 2005 funding amounted to €1,105.7 billion, up 8.42% versus 7.73% at year end 2004. During the past year the stock of funding grew by about €86 billion .
The analysis of the individual funding components shows the growth of customer deposits and especially of current accounts which markedly increased from 5.4% at December 2004 to 8.1% at December 2005.
Bank loans also increased in 2005, and that is evidence of the vigorous support provided by banks to businesses and households also in an economic cycle marked by sluggish production.
At year end total loans extended by banks in Italy amounted to €1,093.7 billion, up 8.7% versus 6.0% at year end 2004.

Consumer lending continues to display remarkable growth, up 16.3% at year end 2004 (+15.5% at year end 2004).

Mediolanum Group's Performance

For a better understanding of the Group's performance, the review of operations is divided into domestic market and foreign markets.

Domestic market

The year 2005 was marked by significant commercial efforts to strengthen the banking business, which is viewed as the foundation for growing customer assets.
In March the Group rolled out "4 Freedoms", an initiative geared to increase the number of current accounts which targeted both prospective clients and Group customers who had their assets invested with us but did not bank with us.

The Group also launched a new current account product, named RIFLEX, which features a number of cutting-edge services built around the core principles of *simplicity*, *full transparency*, and *top-notch cost competitiveness*. Together with the new current account, the Group introduced the RIFLEX CARD, a revolving credit card, which works like a debit card, for secure online payments and payment by installments. RIFLEX is the first card in Italy which can have the photograph of the cardholder on it.
"4 Freedoms" will continue up until the beginning of 2007.
Upon the launch of that initiative a multi-media advertising campaign was kicked off.
The bank was advertised almost uninterruptedly on all main media: the different messages were conveyed through print advertising as well as the radio and television broadcasting. In addition to traditional media, the communication campaign included also billboards posted across Italy and significant advertising over the Internet.
On the other hand, the sales network organized local meetings to present the features and innovative functions of the RIFLEX account and card to potential clients.

Head office organization was strengthened to provide impeccable assistance to the clientele in all current account-related credit and payment areas.

At year end 2005 the number of current accounts increased to 392,309 from 344,132 at year end 2004. They were held by 548,500 clients. Current account holders accounted for 58% of total customers, a percentage which increased over the prior year and confirms the increasing cross-selling potential to clients who actively use banking services.
At year end 2005 there were 941,000 clients – either current account holders or investors in Banca Mediolanum financial/insurance products – versus 921,610 at year end 2004. 798,100 of those customers were primary account holders. Average asset value per client rose to €30,219 from €26,090 in 2004 (up 15.8%).

The sales network

After some years in which it had remained stable, the number of financial advisors grew again and returned to the 2001 record levels, especially as a result of the "4 Freedoms" initiative.
The sales network headcount rose to 5,220 people (4,857 in 2004). Out of that figure, the number of licensed financial advisors, i.e. advisors with greater seniority and professional experience, remained stable at 3,978 at year end 2005 (vs. 4,048 at year end 2004) while the number of non-licensed advisors (i.e. advisors waiting to take the exam) increased from 768 at year end 2004 to 1,183 at year end 2005. The sales force includes also 59 "credit executive" i.e. home loan specialists.
The geographical analysis shows that 56% of advisors cover Northern Italy, 25% Central Italy and the remaining 19% Southern Italy and the Islands.

Banca Mediolanum continued to strengthen its geographical presence by opening new Punto Mediolanum offices which at December 31, 2005 totaled 160 (vs. 106 at year end 2004). In 2006 the opening of new Punto Mediolanum offices will be even more intense. Punto Mediolanum offices provide advisory services to customers and information to prospects. They are located on the ground floor of buildings in the center of main Italian cities. Characterized by a consistent image, they are evenly distributed across all Italian regions.

The regions with the highest density of Punto Mediolanum offices are: Lombardy (35), Veneto (24), Tuscany (15), Latium (14), Emilia Romagna (13), Sicily (12) and the Marches (11). At year end 2005 FA offices, including Punto Mediolanum, were 533 versus 567 at year end 2004. The decrease is in connection with the steady rationalization of local offices, which entailed the closure of certain offices not meeting the qualitative and quantitative requirements of the company as well as the transformation of some of them into Punto Mediolanum offices.

Finally, it should be noted that in July 2005, the subsidiary Banca Mediolanum formed a new wholly-owned subsidiary named Mediolanum Distribuzione Finanziaria S.p.A., a registered company under art. 106 of Legislative Decree 385/93, which for the distribution of lending products will avail itself of "credit executives".

Let's now turn to the presentation of results by business line.

Life insurance

Premiums written in the year amounted to €2,456.8 million up 6% from €2,309.1 million in the past year.
New business amounted to €1,501.7 million up 3% over the prior year (€1,458.4 million at December 31, 2004:).
Specifically, recurring premiums increased 20% from €175.6 million at December 31, 2004 to €210.3 million at December 31, 2005.
At year end life assets under administration amounted to €12,248.6 million up 21% from €10,106.8 million at December 31, 2004.
Mediolanum International Life Ltd policies are distributed in Italy by Banca Mediolanum, in Spain by Fibanc and in Germany through the networks of Bankhaus August Lenz and the Gamax Group. Premiums written in 2005 in foreign markets (Spain and Germany) increased from €87.8 million in 2004 to €108 million in 2005, of which €91.2 million relating to financial contracts.

At December 31, 2005 mathematical reserves amounted to €11,138 million (vs. €10,107 million in 2004) and consisted of €11,083.1 million relating to individual policies (vs. €10,036 million in 2004) and €54.9 million to group policies (vs. €71.0 million in 2004).

At year end gross annual return on MEDINVEST segregated funds was 4.12% versus 4.06% in the prior year.
In the recently ended year Mediolanum Vita continued to sell investment properties for a total value of €18,241 thousand, which generated a €5,059 thousand gain after real-estate brokerage fees.
In compliance with the new rules for transparency of life insurance contracts, in September the subsidiary Mediolanum Vita launched 13 new Unit-Linked funds which are going to replace existing ones in terms of new business.

Net profit (loss) of life insurance subsidiaries consolidated on a line-by-line basis:

€/'000	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2004*
Mediolanum Vita S.p.A.	40,337	24,844	29,060
Partner Time S.p.A.	(1,258)	(624)	(624)
Mediolanum International Life Ltd	11,664	4,409	3,844

(*) Restated to include the estimated effects of the application of IFRS 4 and IAS 39 from January 1, 2004

Banking

For the year 2005 Banca Mediolanum S.p.A. reported net profit of €81,179 thousand versus €37,941 thousand in the prior year.

Current accounts took a giant leap forward to €3,667.8 million at year end 2005 from €3,152 million at year end 2004. Loans to customers also notably increased to €721.6 million at year end 2005 from €369.7 million at year end 2004.

Net interest income rose 15.6% to €54.7 million from 47.2 million in 2004, thanks to greater lending volumes as well as profitable management of the bank's interest-earning assets, almost entirely euro-denominated inter-bank loans and government securities. Due to the low volatility on the money and bond markets, profits on financial transactions were contained and amounted to €3.5 million (vs. €5.0 million in 2004).

In the year 2005 dividends from equity investments amounted to €137.6 million versus €65.9 million in the prior year. The increase is in connection with the distribution of the 2005 interim dividend by the subsidiary Mediolanum International Funds Ltd.

Total income amounted to €308.8 million up 28.3% over 2004 (€240.6 million).

In 2005 the Bank headcount increased from 966 employees at December 31, 2004 to 1,057 employees at December 31, 2005.

For its first year of operation, limited to five months only, Mediolanum Distribuzione Finanziaria reported a net loss of €0.1 million, largely due to start-up costs.

The company's business is centered on the promotion and sale, under a specific agreement, of Banca Mediolanum banking products and credit cards to retail customers through its network of "Financial Agents", registered with Ufficio Italiano Cambi (Italian Foreign Exchange Office), who work on a mandate from that company.

At year end 2005 the company's sales network consisted of 420 "Financial Agents".

Net profit (loss) of banking subsidiaries consolidated on a line-by-line basis:

€/'000	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2004*
Banca Mediolanum S.p.A.	81,179	37,941	37,916
Mediolanum Distribuzione Finanziaria S.p.A.	(111)	-	-

(*) Restated to include the estimated effects of the application of IFRS 4 and IAS 39 from January 1, 2004

Asset management

Mediolanum Gestione Fondi SGR p.A. manages 23 funds, of which 22 mutual funds and 1 non-occupational pension fund. Total assets under management amount to €2,313 million (vs. €1,881 million at December 31, 2004). Assets managed on mandates from associates amount to €13,419 million (vs. €11,769 million in 2004).
From 2005 the company manages also Mediolanum Property, a closed-end real estate fund with total assets of €87.5 million at year end. In addition in October 2005 the company started the placement of the closed-end Mediolanum Real Estate fund to the general public and qualified investors. At year end applications for subscription to that fund amounted to about €182 million.

Through third-party specialist companies, Mediolanum International Funds Ltd manages three fund families (Top Managers, Challenge and Portfolio) for a total of 53 specialist funds in all sectors, markets and asset classes.
Mediolanum International Funds products are distributed by Banca Mediolanum in Italy, Fibanc in Spain and the networks of Bankhaus August Lenz and the Gamax Group in Germany.
At year end total assets amounted to €11,740 million (vs. €9,021 million at December 31, 2004), of which €105 million relating to foreign operations (Spain, Germany and Austria).
Thanks to the good results achieved in the year in November 2005 the company distributed an interim dividend for a total amount of €135 million.

Mediolanum Asset Management Ltd supports the Group's asset management operations by providing asset management or ancillary services such as the monitoring of fund performance and underlying risks.
Gross inflows to mutual funds and managed accounts amounted to €1,927.45 million, up 36.7% over the same period of the prior year (€1,409.9 million at December 31, 2004).

Net profit (loss) of asset management subsidiaries consolidated on a line-by-line basis:

€/'000	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2004*
Mediolanum International Funds Ltd.	204,883	122,708	122,708
Mediolanum Gestione Fondi SGR p.A.	9,240	8,540	8,540
Mediolanum Asset Management Ltd	4,948	3,378	3,378

(*) Restated to include the estimated effects of the application of IFRS 4 and IAS 39 from January 1, 2004

Other businesses

Other businesses include the 48.5%-owned private banking associate Banca Esperia S.p.A., which heads a group made up of the fund manager Duemme SGR p.A., the hedge fund manager Duemme Hedge SGR p.A. and the investment trust Duemme Servizi Fiduciari S.p.A..
At December 31, 2005 the Banca Esperia Group reported gross inflows of €1,854 million versus €2,531 million in the prior year. Also net inflows were less than in the prior year at €701 million versus €1,643 million at December 31, 2004.
Total assets under management increased from €4,826 million in the previous year to €5,670 million at December 31, 2005 (+17%).
At December 31, 2005 it employed 54 private bankers versus 48 at December 31, 2004).

For the year 2005 the Banca Esperia Group reported net profit of €15,036 thousand – which includes the estimated impact of IAS application – versus €8,893 thousand in the prior year (+69%). Net profit attributable to Mediolanum S.p.A. amounted to €7,292 thousand versus €4,313 thousand at December 31, 2004.

It should be noted that in relation to the stock option plan for private bankers launched by Banca Esperia together with the majority shareholders Mediobanca and Mediolanum, an expense of €1,800 thousand was recognized in the consolidated income statement for the year ended December 31, 2005. That expense relates to the fair value measurement of the commitments to buy-back Mediolanum S.p.A. shares under said stock option plan.

Foreign markets

Spain

Mediolanum conducts business in Spain through the Spanish Group Fibanc (a wholly-owned subsidiary of Banca Mediolanum).

For the year 2005 it reported net profit of €770 thousand, up 71% over the prior year when net profit was €450 thousand.

2005 was an extremely positive year in many respects.

First, sales sharply increased over the prior year; gross inflows grew 7% to €424 million (€394 million in 2004); in particular sales of life products were €114 million, up 23% over the prior year and sales of funds of the Irish associate MIF amounted to €62 million versus €26 million in the prior year (+138%).

Also net inflows grew from €7 million in 2004 to €94 million in 2005. The figure is even more impressive if you consider that net inflows into life products, which generate the greatest value, amounted to €76 million and accounted for 81% of total net inflows.

Assets under management and assets under administration reached Fibanc's all-time high of €2,167 million, up 7% over the prior year.

At year end the sales force consisted of 615 people, of whom 419 tied Advisors relying on the same business model as Banca Mediolanum financial advisors (453 people at year end 2004), 134 part-time Agents (110 in 2004) and 62 traditional Agents (63 in 2004).

The sales force decline is due to the consolidation undertaken in the year, a common practice and a necessary move after the considerable increase in past years. That action permitted to eliminate those positions not meeting Mediolanum standards.

At year end personnel amounted to 212 people down from the 229 people employed in the prior year. Similarly the number of branches further declined from 8 to 7 while Punto Fibanc offices – which are similar to Punto Mediolanum offices in Italy – were 13 (5 in 2004).

The decline in the number of employees and branches is part of the optimization of the bank processes.

From the organizational viewpoint two major transactions were concluded, i.e.:

– in October, the sale of the Andorra-based asset management company Valora with €70 million in assets, as it was viewed as a non-strategic investment and not fitting into the growth plan for Spain. On December 1, 2005 the Group notified that sale to the Bank of Italy requesting it to cancel that company from the Mediolanum Banking Group;

– the merger of the Fibanc Group's holding company Fibanc Inversiones S.A. into Banco de Finanzas eInversiones, which became the Parent Company of the Fibanc Group.

Those transactions considerably streamlined the Fibanc Group's operations as it had been recommended by the Bank of Spain itself.

Germany

Mediolanum conducts business in Germany through the Banca Mediolanum's wholly-owned bank Bankhaus August Lenz &Co AG and the Gamax Holding AG Group, which is 99.997% owned by Mediolanum International S.A. and is made up of a holding company with shareholdings in two Luxembourg-based fund management companies and in two distribution companies operating in Germany and Austria.

In 2005 the subsidiary Bankhaus August Lenz &Co AG expanded the offering of banking products and services and consolidated the sales network.

It focused on the sales force to lay the foundations for future development in accordance with the Mediolanum model.

That process entailed the downsizing of the sales force to 55 advisors at December 31, 2005 (vs. 98 advisors in 2004) while over the same period productivity increased by over 40%.

In 2005 net inflows amounted to €2 million versus a negative balance of €19 million in the prior year.

At year end total assets under management and under administration amounted to €57 million up 27% over the prior year. Specifically assets under management grew by 50%.

At year end total headcount amounted to 29 people versus 32 at year end 2004. The decline reflects the Group's strategy for a lean organization.

The bank enhanced its ATM network (over 500 ATMs across the country) through a partnership with Euronet and Intercard, two German specialist operators of automatic cash dispensers.

For financial year 2005 the bank reported a loss of €8.8 million which marks a considerable improvement from the prior year's loss of €11.8 million.

2005 was a positive year for the Gamax Group as it reported consolidated net profit of €4.9 million improving from the prior year's profit of €1.5 million.

That result was obtained primarily due to the favorable performance of financial market as a result of which fee income on managed funds, including performance fees, totaled €5.4 million.

At year end total assets under management and under administration increased to €619 million, of which €395 million relating to Gamax funds and €224 million to third-party funds. Gamax funds net asset value slightly grew, €390 million, over the prior year thanks to market appreciation, while third-party funds performed well as their net asset value grew €187 million over the prior year.

Although the year's performance improved, at December 31, 2005 net inflows continued to be negative at €–63.5 million versus € -44.3 million at December 31, 2004.

That negative trend is primarily connected to the crisis of IFAs (untied independent financial advisors) and is going to worsen with the upcoming changes in German regulations on professional standards, continuous education and other control and supervision requirements.
Also in view of those changes, the year end's measurement of the Gamax Group's goodwill on the basis of the new three-year business plan, entailed the recognition of an impairment loss of €14,780 thousand.

In 2005 the average number of the company's independent financial advisors was 156.
At year end total headcount amounted to 24 people, unchanged over the prior year.

Post balance sheet date events

On January 23, 2006 the Board of Directors of the subsidiary Mediolanum Gestione Fondi resolved to close subscriptions to the closed-end Mediolanum Real Estate fund as the subscription target (a minimum amount of €200 million) was hit ahead of the scheduled date of March 23, 2006. Total gross assets invested in the new fund amounted to €220 million, of which total net assets were €214 million.

By its communication of March 7, 2006 the Bank of Italy approved the Rules of the closed-end real estate fund named "Mediolanum Real Estate 2". Subscriptions to the new fund will open on dates which will be different from those of the "Mediolanum Real Estate 1" and its financial year will end on September 30 of each year. The fund rules require assets of no less than €150 million and no more than €200 million.
The placement of the new fund will presumably start next May.

Finally, at the end of February 2006 the Banca Mediolanum sales force totaled 5,450 people (up 230 people over the end of 2005).

After December 31, 2005 there was no other event which could have a significant impact on the financial position, result of operations and cash flows of the Mediolanum Group.

Outlook

In the light of results recorded in the first months of 2006 by Mediolanum Group's companies, the outlook for the current year is positive.

For the Board of Directors
The Chairman
(Roberto Ruozi)

MEDIOLANUM S.p.A.

APPENDIX:

European Embedded Value 2005

Tillinghast - Towers Perrin

Mediolanum Group
European Embedded Value 2005

Introduction

In May 2004, the CFO Forum, a group then representing the Chief Financial Officers of 19 major European insurance groups published the European Embedded Value ("EEV") Principles with the aim of improving the transparency and consistency of embedded value reporting. Mediolanum is adopting the EEV Principles with the publication of its results for the financial year ending 31 December 2005, including a restatement of its 2004 values.

An embedded value is an actuarially determined estimate of the value of a company, excluding any value attributable to future new business. Embedded value is defined as the sum of shareholders' net assets, valuing assets at market value, and the value of in-force business. The value of in-force life business is the present value of the stream of future after-tax statutory profits that are expected to be generated from all the existing policies at the valuation date, adjusted for the cost of maintaining a level of required capital. The value of in-force asset management (mutual funds, real estate funds and managed accounts) business is calculated in a similar way to the value of in-force life business.

In order to provide more complete information, the embedded values now consolidate the value of life and asset management business distributed via Fibanc in Spain, and similar information is also provided on the most significant parts of the Italian banking business, namely current account, deposit account and mortgage business.

Mediolanum has worked closely with consulting actuaries Tillinghast to develop appropriate methodology and Tillinghast has continued to calculate the embedded value of the Group at December 31, 2005.

Mediolanum has chosen to adopt an approach which maintains consistency with the embedded value reporting which has been a characteristic of the Group's transparent reporting since 1994. The value of in-force business continues to represent the discounted value of a stream of best estimate profits adjusted for the cost of holding a certain level of capital. The key differences between Traditional Embedded Value ("TEV") reporting used in prior reporting years and EEV reporting are in the determination of the level of required capital, and in the allowance for risk, which uses a framework based on market-consistent methodology, from which equivalent risk discount rates are derived.

In calculating the embedded value of the Group, numerous assumptions (some of which are shown below) are required concerning the Mediolanum Group's lines of business with respect to industry performance, business and economic conditions and other factors, many of which are outside the group's control. Although the assumptions used represent estimates that Tillinghast and the Mediolanum Group believe are appropriate for the purpose of embedded value reporting, future operating conditions may differ, perhaps significantly, from those assumed in the calculation of the embedded value. Consequently, the inclusion of embedded value herein should not be regarded as a statement by the Mediolanum Group, Tillinghast or any other entity, that the stream of future after-tax profits discounted to produce the embedded value will be achieved.

Embedded Value

The following table shows the embedded values as at December 31, 2005 and 2004 determined under the EEV Principles, together with the published value for 2004 developed using the traditional methodology.

Embedded value at December, 31

Euro millions	2004 (TEV)	2004 (EEV)	2005 (EEV)
Published shareholders' net assets [1]	-	662	808
adjustments to net assets	-	(161)	(160)
Adjusted shareholders' net assets [2]	518	501	648
value of in-force life business [3]	1,477	1,552	1,793
value of in-force asset management [3]	359	368	410
value of in-force banking business [4]	-	72	100
Value of in-force business	1,836	1,992	2,303
Embedded value	2,354	2,493	2,951

[1] determined on an IFRS basis
[2] after elimination of goodwill
[3] includes values for Spain consolidated for the first time under EEV
[4] valued for the first time under EEV

Shareholders' net assets shown above are equal to the consolidated net assets of the Group, determined on an IFRS basis, before the distribution of dividends payable in the following year. Adjustments are required primarily to reflect the after-tax impact of (i) marking to market value any assets not considered on a market value under IFRS, (ii) the elimination of goodwill, primarily those related to the acquisitions of Fibanc, Gamax, B.A. Lenz and MILL in prior periods, (iii) the exclusion of the accounting items relating to unrealised gains in the life segregated funds, whose projected emergence over time is included in the value of the in-force life insurance business, (iv) the reversal of accounting items related to life insurance products classified under IAS 39 for which the value of in-force business is determined using the statutory profits, and (v) the impact of the taxation of life reserves.

To calculate the values shown above, projected future after-tax profits were discounted at 6.60% for the traditional valuation as at December 31, 2004. The discount rates used under the EEV methodology vary between lines of business, since they reflect, using the methodology outlined later in this document, the risk profile of the underlying business. The average discount rates, weighted by value of in-force business are 6.27% and 5.80% as at December 31 2004 and 2005 respectively.

Impact of first-time adoption of EEV Principles

The impact of first time adoption of the EEV Principles at December 31, 2004 is an increase in embedded value of 139 million euro, of which 72 million Euro relates to the inclusion for the first time of the value of in-force banking business, and 19 million Euro for the consolidation of the Spanish life and asset management business. The remaining increase of 48 million Euro is primarily due to the revised allowance for risk, particularly in the unit-linked life insurance business, offset by certain elements arising from the conversion to IFRS of the adjusted net assets.

Sensitivity to the risk discount rate

The discount rate appropriate for any shareholder or investor will depend on his or her specific requirements, tax position and perception of the risks associated with the realisation of future profits. To allow potential investors to analyse the effect of using various discount rates to reflect differing views on risk, the embedded value for the Group as at December 31, 2005 was calculated at discount rates respectively 1% higher and lower than the central rates. All other assumptions, in particular inflation rates and investment returns, were kept unchanged when calculating the values at alternative discount rates. Further sensitivity tests are shown later in this document.

Analysis of the sensitivity to the discount rate of embedded value at December 31, 2005

Euro millions Discount rate	-1%	central	+1%
Adjusted shareholders' net assets	648	648	648
value of in-force life business	1,975	1,793	1,635
value of in-force asset management	430	410	392
value of in-force banking business	106	100	95
Value of in-force business	2,511	2,303	2,122
Embedded value	3,159	2,951	2,770

Embedded value earnings

Embedded value earnings, which are defined as the change in embedded value for the year, adjusted for the payment of dividends and other capital movements, provide a measure of performance during the year. The following table shows the embedded value earnings of the Mediolanum Group in 2005, using the restated opening value. For comparison purposes, published embedded value earnings for 2004, based on the traditional reporting basis, are also shown.

Embedded value earnings for the year

Euro millions	2004 (TEV)	2005 (EEV)
Change in embedded value for the year	325	458
Dividends paid or accrued	80	163
Other capital movements	-	(7)
Embedded value earnings	405	614

Embedded value earnings for the year consist of the following components:

- The expected return on embedded value at the start of the year ("expected return"), equal to the after-tax investment return assumed at the start of the year on shareholders' net assets less solvency capital, plus a return at the discount rate on the sum of in-force business and solvency capital at the start of the year.
- Variances during the year ("experience variances"), caused by differences between the actual experience of the year and the assumptions used to calculate the embedded value at the start of the year, before the impact of new sales during the year.
- The impact of changes in assumptions at the end of the year for operating experience, excluding economic or fiscal assumptions ("operating assumption changes").
- Changes in assumptions regarding future experience used to calculate the value of in-force business at the end of the year relating to economic conditions ("economic assumption changes"), including the discount rate and investment returns.
- The effect in 2004 of the change in the taxation of life insurance reserves introduced by Law Decree 168/2004 ("tax assumption changes").
- The "value added by new business", initially calculated at the moment of sale using year-end assumptions, and then capitalised at the discount rate to the end of the year.
- The effect due to the elimination of the additional goodwill associated with the increase in the interests held in Fibanc during 2004.

The following table shows the components of the embedded value earnings of the Mediolanum Group in 2005. For comparison, the table also shows published embedded value earnings for 2004, based on the traditional methodology.

Components of embedded value earnings

Euro millions	2004 (TEV)	2005 (EEV)
Expected return	132	143
Experience variances	106	259
Operating assumption changes	(10)	(43)
Economic assumption changes	38	31
Operating assumption changes	(5)	-
Earnings on initial embedded value	261	390
New life business	151	162
New asset management business	25	52
New banking business	-	10
Value added by new business	176	224
Earnings before purchase and sales	437	614
Effect of purchases and sales in the year	(32)	-
Embedded value earnings	405	614

Description of key embedded value elements for 2005

Experience variances gave rise to an increase in the embedded value earnings for the year of 259 million Euro. The most important variances were 213 million Euro associated with the higher investment performance of unit-linked funds and asset management business compared to the assumptions used at the start of the year, as well as of the shareholding in Mediobanca, and significantly higher performance commissions than those assumed, particularly on Irish funds (102 million Euro), as well as improved business mix in the banking business (10 million Euro). Counterbalancing these positive effects were higher expenses in all lines of business (28 million Euro, of which 23 million Euro were related to expenses considered as extraordinary or to development costs), lower persistency that expected, particularly in the managed account business, and to a lesser extent life business (28 million Euro in total) and a restructuring of the internal rebates between Ireland and Italy (20 million Euro). The remaining effects comprise a series of smaller positive and negative items.

Changes in operating assumptions which generated a decrease in embedded value earnings of 43 million Euro, are mainly due to an increase in projected expenses on all lines of business.

The positive impact of changes to economic assumptions (approximately 31 million Euro) is due to the combined effect of the reduction in the discount rate and in the projected rates of investment return.

The value added by new life business was 162 million Euro of which 8 million Euro related to business distributed by Fibanc in Spain included in the consolidated results for the first time in 2005.

The value added by new asset management business of 52 million Euro was almost entirely related to Italian business and reflects higher new business volumes compared to 2004 and in particular the strong performance of the new products Portfolio and Real Estate.

New banking business, included in the consolidated results for the first time in 2005 added 10 million Euro, with a similar contribution from current account business and mortgages.

Value of new business

New business comprises new life insurance policies sold during the year, excluding those resulting from the transformation or switch of existing policies, together with discretionary increases in the level of regular premiums on existing policies. New asset management business is defined as the sum of retail gross inflows net of internal switches within the mutual funds and managed accounts. New banking business comprises the new money collected in the year relating to current accounts and deposit accounts opened in the year and the volume of new mortgages issued.

The value of new business has been determined at the moment of sale using the end-year economic and operating assumptions. The following table shows the value added by new business in 2005 and 2004 determined under the EEV Principles, together with the corresponding values for 2004 developed using the traditional methodology.

Value of new business at moment of sale

Euro millions	2004 (TEV)	2004 (EEV)	2005 (EEV)
Unit-linked life business [1]	122	130	133
Index-linked life business [2]	24	25	25
Asset management business [3]	24	23	50
Banking business [4]	-	-	10
Value of new business	170	178	218

[1] of which Spain 4 million Euro consolidated for the first time under EEV 2005
[2] of which Spain 4 million Euro consolidated for the first time under EEV 2005
[3] of which Spain 1 million Euro consolidated for the first time under EEV 2005
[4] valued for the first time under EEV

To calculate the values shown above, projected future after-tax profits were discounted at 6.60% for the traditional valuation as at December 31, 2004. The discount rates used under the EEV methodology vary between lines of business, since they reflect, using the methodology outlined later in this document, the risk profile of the underlying business. The average risk profile of the new business was similar to that of the in-force business and so the same discount rates were used, namely 5.65% for life business (6,15% in 2004), 6.50% for asset management business (6.80% in 2004) and 5.60% for banking business, giving an average, weighted by new business value of 5.85% in 2005.

In order to evaluate the effect of alternative discount rates on new business, the value of 2005 new business was calculated using discount rates 1% lower and higher than the central rates. In calculating these values with alternative discount rates, all the other assumptions, including in particular those relating to inflation and return on investments, were kept unchanged.

Analysis of the sensitivity to the discount rate of the value added by new business

Euro millions **Discount rate**	-1%	centrale	+1%
Unit-linked life business	152	133	118
Index-linked life business	26	25	24
Asset management business	53	50	47
New banking business	10	10	9
Total	241	218	198

New business margins

New business margins for the Italian life and asset management business in 2005 and 2004 are shown in the tables below. Profitability is expressed both in terms of a margin on APE (annual premium equivalent defined as annualised regular premiums plus 10% of single premiums) and as a percentage of PVNBP (present value of new business premiums) calculated using the expected lapse and other exit assumptions.

New business margins for 2005 (EEV) – life and asset management

Euro millions	Unit-linked	Index-linked	Asset mgmt
Value of new business at moment of sale	129	21	49
Regular premiums / pac	145	-	85
Single premiums / pic	311	835	1,408
APE	176	84	226
New business margin (% APE)	73.5%	25.1%	21.7%
PVNBP	1,551	835	1,891
New business margin (% PVNBP)	8.3%	2.5%	2.6%

New business margins for 2004 (EEV) – life and asset management

Euro millions	Unit-linked	Index-linked	Asset mgmt
Value of new business at moment of sale	130	25	23
Regular premiums / pac	143	-	34
Single premiums / pic	224	1,020	805
APE	166	102	114
New business margin (% APE)	78.4%	24.4%	20.6%
PVNBP	1,471	102	1,005
New business margin (% PVNBP)	8.8%	2.4%	2.3%

The margin on APE for new life business in Spain is approximately 65% in 2005.

The margin of new current accounts as a percentage of the money invested in current accounts opened in the year is 1.3%. The profitability of new mortgages sold in 2005 reflects a mix between mortgages intermediated for third parties and Mediolanum's proprietary mortgage book, including those sold to employees on advantageous terms.

Methodology

The traditional embedded value calculations which Mediolanum has used in the past were based on detailed models of the in-force and new business developed in a deterministic environment, using a single set of best estimates for both economic and operating assumptions. In the traditional embedded value framework, risk was allowed for by the use of a single discount rate and an allowance for the cost of holding solvency capital equal to the minimum EU solvency margin. The cost of solvency capital was determined as the present value of the differences between the assumed after-tax return on the assets (mainly bonds) backing solvency capital and the discount rate applied to the projected solvency margin.

In adopting the EEV Principles, Mediolanum has chosen to adopt an approach which maintains consistency with the prior approach to embedded value reporting. The value of in-force business continues to represent the discounted value of a stream of best estimate profits adjusted for the cost of holding a certain level of capital. The key differences between the traditional reporting and EEV reporting are in the determination of the level of required capital, and in the allowance for risk, which uses a framework based on market-consistent methodology.

The embedded value has been determined using a market-consistent framework to value financial risks, an allowance for non-financial risks, and the deduction of a frictional cost of required capital. To maintain consistency with the previous approach used to report embedded values and embedded value earnings and allow like-for-like comparisons, equivalent risk discount rates have then been derived so as to produce the same results when input into the traditional deterministic models, which use best estimate assumptions, after the cost of solvency capital. This produces an average derived risk discount rate for homogeneous blocks of business.

In theory discount rates can vary between new business and in-force business, according to the respective risk profiles. In practice the derived risk discount rates for new business were very close to those calculated for in-force business, and so the same discount rates by line of business were used for both in-force and new business.

Allowance for risk

Appropriate allowance for risk in the projected profits is a key component of the EEV Principles and Guidance. Risk has been allowed for in three main ways:

Explicit risk margins in the discount rate, to allow for:
- a market-consistent approach to financial risk, which reflects the level of market risk in each cash flow;
- an allowance for non-financial risks which reflects the potential asymmetry of operational risks and the capital requirements for banking business;

Deduction of the cost of holding a level of required capital for life business
- using EU minimum margins for unit-linked and traditional business
- using risk-based capital for counterparty risk on index-linked business
- assuming a frictional cost of double taxation on the required capital

Explicit deduction for the cost of financial options and guarantees:
- relevant for the traditional life business only

Covered business

The covered business includes all the life insurance and asset management business written in Italy and in Spain, together with the main retail banking business in Italy, consistent with these business segments under IFRS reporting. No value has been attributed to in-force or new business for the remaining lines of business, including in particular Gamax, B.A. Lenz and that part of the Irish operations MILL and MIF not related to Italy and Spain, nor to the other minor lines of business of the Mediolanum Group.

Values are reported on a look-through basis, considering all profits and losses emerging in the Group associated with the relevant line of business.

Required capital and cost of capital

In compliance with EEV Principle 5, Mediolanum has made an assessment of the amount of required capital to be attributed to the covered life business. The approach used varies by line of business. For all life business other than index-linked business, EU minimum solvency requirements have been considered appropriate. For index-linked life business, account has been taken of the counterparty risk, using a risk-based capital approach which considers the rating of the structured bonds underlying the index-linked guarantees. This gives rise to capital requirements of approximately 4.7% of reserves for business where Mediolanum bears the full investment risk and approximately 2.4% for business where investment risk is passed to policyholders.

Total required capital for the life business as at December 31, 2004 and 2005 is respectively 180 million Euro and 186 million Euro, which correspond to approximately 165% of the EU minimum margin in both years.

For banking business, the minimum capital requirements based on risk weighted assets for mortgages and loans have been considered as part of the risk margin for non-financial risks, as have the requirements associated with the Basle II regulations regarding operational risk.

To determine the embedded value, the cost of required capital has been determined based on the frictional costs of holding this capital. Since financial risks are allowed for on a market-consistent basis, these costs are represented by the taxation incurred on locked-in shareholder assets.

As noted, the derived risk discount rates have been calculated so as to reproduce the value of in-force business after cost of capital using the traditional framework.

Risk discount rate – margin for financial risk

Mediolanum has adopted a bottom-up approach to allow for risk, which uses market-consistent methodology to calibrate the risk discount rate to allow for financial, or market-related risk. In principle, under a market-consistent approach each cash flow is valued in line with its specific profile in terms of financial risk, and thus in a consistent fashion with the market prices of similar cash flows which are traded in the open markets. In practice, Mediolanum has used the certainty-equivalent technique; this is an approach commonly used in the pricing of financial instruments and consists in adjusting the individual cash flows to remove the effects of financial risks, and which then allows for the resulting stream of risk-adjusted profits to be discounted at the risk-free rate. The relevant Euro swap curve was used as the appropriate risk-free rate at each valuation date.

Converting the aggregate impact of financial risks into a margin on the discount rate captures the increase in risk associated with the level of equity investments, but is also influenced by the level of underlying margins in the business, and the relative size of projected expenses compared to income.

Risk discount rate – margin for non-financial risk

In theory, an investor can diversify away the uncertainty around non-financial risks, and, according to modern finance theory, would not require an additional return for such diversifiable risk. Allowance for non-financial risk is made through the choice of best estimate assumptions, taking into account the impact that the potential variability of the assumptions has on the level and therefore cost of capital. Although Mediolanum considers that the best estimate assumptions are appropriate in this context, it is possible that the use of best estimate assumptions may fail to capture the full impact on future shareholder profits where there is the potential for asymmetry in the results, in other words where the adverse experience has a higher impact than favourable experience. Mediolanum has identified that such asymmetry may exist in the area of operational risks, including administrative expenses, management fees, and persistency.

Practice is evolving regarding the appropriate approach for considering non-financial risk, and Mediolanum is monitoring closely developments in this area, with particular regard also to the potential impacts of Solvency II on the levels of required capital.

In practice, the following approach has been taken for all lines of business. In the first instance, the amount of capital required to meet the Basle II criteria for operational risks has been determined. Secondly, using economic capital techniques, an amount of value of in-force business "at risk" has been determined by applying stress tests on the value of in-force business to the key parameters identified, namely administrative costs, management fees and persistency. The resulting amount of "economic risk capital" has been subjected to a frictional cost of capital charge equal to the impact of taxation.

In addition, the allowance for non-financial risk also incorporates the cost of holding regulatory minimum capital in respect of mortgages and loans in the banking business.

Derived risk discount rates

The following table shows the components of the derived risk discount rates used as at December 31, 2004 and 2005.

Derived discount rates at December 31,

	Unit-linked		Asset management		Banking business	
%	2004	2005	2004	2005	2004	2005
Average risk-free rate	4.10	3.60	3.65	3.40	3.65	3.45
Margin for financial risk	0.55	0.85	2.20	2.30	-	-
Margin for non-financial risks	1.50	1.20	0.95	0.80	2.45	2.15
Risk discount rate	6.15	5.65	6.80	6.50	6.10	5.60

The derived risk discount rates are those which reproduce the value of in-force business in the traditional deterministic framework, using best estimate assumptions, after cost of solvency capital. The average risk-free rate has been determined based on the term structure of the projected profits from the certainty equivalent projections, using the risk-free curve. The allowances for financial and non-financial risks as described above have been converted into an equivalent margin on the discount rate, to determine the final derived discount rate used in the models.

The reduction in the average risk free rates from 2004 to 2005 is due to the general reduction in the forward yield curve. The increase in the margin for financial risk on life business is mostly associated with an increase in the equity content of the assets, as well as a leverage effect associated with the increased level of expenses. On the other hand, the margin for non-financial risks on all lines of business reduces between 2004 and 2005, primarily as a result of the reduction and the flattening of the forward curve, which has the effect of reducing the cost of required capital because of the lower annual taxation charge on the projected locked-in economic capital.

The average derived risk discount rates have also been compared with the results of a top-down approach using the capital asset pricing model and Mediolanum's observed market beta. After allowing for the effect of franchise value and excess capital, the implicit weighted average cost of capital for the in-force business which was determined was in aggregate consistent with the derived discount rates used above. The results obtained did not, however, permit any more detailed subdivision by line of business.

Financial options and guarantees

The only material financial options and guarantees in Mediolanum's business relate to the traditional revaluable business linked to segregated funds, which have been closed to new business since 1998. The main risk to shareholders is that the return on the assets in the segregated fund is insufficient to meet the financial guarantees during the period to policy maturity, and, for deferred annuities, also during the annuity payout period.
Given the overall materiality to the group a simplified approach has been taken, by constructing a replicating portfolio comprising risk free assets for the market value of the segregated fund assets, and simulating the purchase of floors at market prices to cover the reinvestment risk, after allowing for the effects of the reinsurance treaties in force. It has been assumed that all the deferred annuity policyholders will exercise their annuity take-up options. The time value of financial options and guarantees has been defined as the difference between a certainty-equivalent valuation and the overall valuation. The time value of financial options and guarantees, which has been deducted from the overall embedded values is equal to approximately 34 million Euro in the 2004 valuation and 41 million Euro in 2005. The increase in the time value of options and guarantees is primarily associated with the increase in the volatility of swaption prices during 2005.

Expenses and development costs

Expense assumptions are actively reviewed, and are based on the entire consolidated company costs, including all holding company and service company costs. Mediolanum has excluded 37.5 million Euro of extraordinary items and development costs, from the expenses allocated to the lines of business in 2005.
Of these, 14 million Euro represent one-off accruals to provisions related to the salesforce, as noted in the primary accounting statements. An amount of 15.6 million Euro is associated with the extraordinary publicity activity and launch events associated with the 4 Freedoms campaign. The remaining 7.9 million Euro are related primarily to the setting up of the proprietary mortgage lending operation and have been considered as development costs.

After the exclusion of the extraordinary items and development costs, the remaining costs have been allocated to the separate lines of business and then fully allocated to acquisition, maintenance and investment activities.

Tax

Projected profits have been subjected to normal tax rates in the country of emergence. Account has been taken of the taxation treatment of profits projected to be remitted to Italy.

Participating business

For the Italian traditional revaluable business, policyholder profit participation has been assumed to continue to follows current company practice.

Residual assets

There are no projected residual assets.

Definition of new business

New life business relates to new policies issued during the year excluding those resulting from the transformation or switch of existing policies, together with discretionary increases in the level of regular premiums on existing policies. New life business volumes used to calculate the value of new business in 2005 in Italy were 145 million Euro of annualised regular premiums (of which 18 million Euro related to discretionary increases), 311 million Euro of unit-linked single premiums, and 835 million Euro of index-linked single premiums. Additional index-linked premiums of 123 million Euro have been excluded from the new business volumes as they arise from the contestual redemption of old-generation DiPiù policies.

New asset management business is defined as the sum of retail gross inflows net of internal switches within the mutual funds and managed accounts, and totals 85 million Euro for mutual fund instalment plans, 1,346 million Euro of lump-sum investments in mutual funds and 62 million Euro for managed accounts. Of the total mutual fund production shown above, real estate funds accounted for 29 million Euro of instalment plans and 192 million Euro of lump-sum investments. Portfolio accounted for 103 million Euro of new lump-sum investments; in calculating the volume and value of new business, the switches of 50 million Euro from managed accounts to Portfolio in the final months of the year have been excluded.

New life business in Spain comprised 90 million Euro of single premium business, of which index-linked comprise 84 million Euro, and regular premium unit-linked business for 3.5 million Euro. New asset management business in 2005 comprised lump-sum investments of 137 million Euro in Spanish funds, and 42 million Euro in Irish mutual fund products.

New banking business comprises new current accounts and deposit accounts in the year, for 411 million Euro, and new mortgages issued for 291 million Euro, of which 111 million Euro proprietary mortgages.

Assumptions

The following section sets out the main assumptions used in the embedded value calculations at December 31, 2004 and 2005.

Best-estimate economic assumptions

Best-estimate economic assumptions are actively reviewed and are based on the market yields on risk-free instruments at different durations at the respective valuation dates. The projected total returns on equities have been assumed to yield a 3% margin over the 10-year Euro AAA government bond yield. The return on other assets was set using benchmarks consistent with the base scenario. The following table shows the main economic assumptions.

Economic assumptions

%	December 31, 2004	December 31, 2005
Pre-tax investment returns:		
Benchmark 10-year BTP	3.85	3.50
Liquidity	2.25	2.40
Equity	6.65	6.30
Inflation		
Consumer prices	2.00	1.75
Expenses	2.50	2.25
Taxation		
Italy	38.25	38.25
Ireland	12.5	12.5
Spain	35	35
Average risk discount rate (in-force business)	6.27	5.80

Pre-tax rates of returns on assets backing technical reserves were set consistent with the above benchmark rates, taking into consideration the related asset mix, resulting in assumptions for the Italian segregated funds of 4.00% for the 2004 valuation and 3.70% for 2005. These rates of return already include the impact of unrealised capital gains/losses in segregated fund assets. Investment returns on unit-linked funds, and mutual funds and managed accounts business, were determined on the basis of the asset mix of each fund, with average results for the Italian business before costs and taxes, of 5.00% for unit-linked funds (4.95% for 2004) and of 5.20% for Asset management products (5.35% for 2004).

The consumer price inflation rate shown above is used to determine the projected automatic premium increases, generally equal to the growth in the consumer price index plus 3%, for products with this characteristic. Management expenses expressed as a per-policy amount are assumed to increase at the expense inflation rate.

Market-consistent economic assumptions

The risk-free rates used in the certainty-equivalent projections are calibrated to the Euro swap curve, and the implied swaption volatilities to market prices of swaptions for various tenors and option terms. The following table shows selected data.

Sample swap rates and implied volatilities

		Term to Maturity				
%	December, 31	1	5	10	15	20
Swap rates	2004	2.37	3.16	3.75	4.06	4.24
Swap rates	2005	2.88	3.22	3.45	3.64	3.73
15 year Swaption	2004	14.2	12.6	10.9	9.6	9.3
15 year Swaption	2005	16.2	15.9	14.5	13.7	13.4

Other assumptions

Assumed future rates of mortality, lapse, failure to maintain recurrent premiums and other exits, including total and partial disinvestment rates for the asset management business, were derived from an analysis of the Mediolanum Group's recent operating results and, where appropriate, took into consideration the experience of the life, asset management and banking sectors.

After exclusion of certain one-off and development expenses, the general and administrative costs incurred by the Group, including depreciation costs, were subdivided by business line, and within each line into the costs pertaining to investment, the acquisition of new business and the management of the in-force business.

Assumed levels of future commission and override payments to agents and sales-people were based on the Mediolanum Group's recent operating experience.

Participation rates and other charges on Life policies and management fees on funds were assumed to be maintained in the future at the prevailing levels on each valuation date. Likewise the charging structure on banking products was assumed to be maintained in the future.

It was assumed that no changes will be made in the principles and technical bases used to calculate technical reserves and surrender values.

For performance fees, a series of conservative rates, based on experience to date, were assumed. Experience variances, in the analysis of the components of embedded value earnings, have included positive contributions of 28 million Euro in 2004 and 102 million Euro in 2005, as a result of actual experience exceeding the assumptions used at the beginning of the year.

Allowance was made for reinsurance of in-force Life policies outside the Mediolanum Group, and mainly relates to various quota share financing treaties written in the years up to 1994. No new financing reinsurance arrangements have been made since 1995.

The cost of maintaining solvency capital in the traditional framework was determined on the assumption that assets (mainly bonds) backing solvency capital yielded an average annual pre-tax return of 4% in the 2004 valuation and 3.7% in 2005. Based on these assumptions, the cost of solvency capital which was deducted from the discounted value of future after-tax statutory profits to determine the value of in-force Life business reported above, 32 million Euro in 2005 and 33 million Euro in 2004 (EEV). The cost, which is already allowed for in the value added by Life new business for 2005, is approximately 1.5 million Euro.

Statement by Directors

The directors confirm that the embedded values as at 31 December 2004 and 2005, and the embedded value earnings including the value added by new business in 2005 have been determined using methodology and assumptions which are compliant with the EEV Principles.

External opinion

Tillinghast, the global insurance and financial services consulting business of Towers Perrin has assisted the Mediolanum Group regarding the methodology and assumptions to be used, and has calculated the European Embedded Value of the Group as at 31 December 2004 and 31 December 2005, together with the embedded value earnings in 2005. The estimates of value determined by Tillinghast are based on information provided by the Mediolanum Group which has been reviewed for reasonableness and consistency with industry knowledge, but Tillinghast has not undertaken independent checks of the data and other information supplied.

Tillinghast has reported that it considers that the methodology and assumptions used comply with the EEV Principles and Guidance as published by the CFO Forum, and in particular:

- that the methodology makes allowance for the aggregate risks in the covered business through:
  - (i) the incorporation of risk margins in the discount rate used to discount projected future profits determined using best estimate assumptions, using

    a) a market-consistent valuation of financial risk,

    b) an allowance for non-financial risk based on the frictional cost of an amount of capital that would be required to cover operational risk requirements under Basle II and the value at risk with respect to key operating variables such as persistency, costs and management fees,
  - (ii) the deduction of the cost of required capital based on minimum EU solvency margins for non-index-linked life business, and a risk-based capital allowance for index-linked business; and
  - (iii) the deduction of the time value of financial options and guarantees for traditional business;
- that the operating assumptions are reasonable in the context of recent available experience and the expected future operating environment;
- that the economic assumptions used are internally consistent and consistent with observable market data.
- for revaluable business, the assumed revaluation rates, and the retrocession rates, are consistent with the projection assumptions, established company practice and local market practice.

Tillinghast considers that the reported results for the embedded value, embedded value earnings and the value of new business are reasonable in the context of embedded value reporting under the EEV Principles.

Appendix 1 - Segmental reporting

The following tables show the value of in-force business as at December 31, 2005 and the value of 2005 new business, broken down by business segment.

Value of in-force business as at December 31, 2005 by segment

Euro millions	Italy	Spain	Total
Life insurance (excluding index-linked)	1,776	9	1,785
Index-linked life insurance	9	(1)	8
Asset management	399	11	410
Current and deposit accounts	94	n/a	94
Mortgages	6	n/a	6
Total	2,284	19	2,303

Value of 2005 new business by segment

Euro millions	Italy	Spain	Total
Life insurance (excluding index-linked)	129	4	133
Index-linked life insurance	21	4	25
Asset management	49	1	50
Current and deposit accounts	5	n/a	5
Mortgages	5	n/a	5
Total	209	9	218

Appendix 2 - Sensitivity tests

This section shows the sensitivity of the value of in-force business as at December 31, 2005 and the value of 2005 new business to changes in key assumptions. For each sensitivity test, all the other assumptions remain unchanged, except for those tests which directly affect economic conditions; in these cases the derived risk discount rate has also been recalculated, given the use of market-consistent methodology to set the allowance for financial risk. The sensitivity to the increase on equity and property returns has no effect, given the use of market-consistent methodology to set the discount rates. The following tables show the sensitivity separately for the life, asset management and banking businesses.

Sensitivity analysis – Life business

Euro millions	Value of in-force business	Value of new business
Base value	1,793	158
1% increase in discount rates	(158)	(16)
1% increase in return on equity and property	-	-
1% reduction in risk free rates	99	13
10% decrease in maintenance expenses	12	1
10% decrease in acquisition expenses	-	4
10% decrease in lapse and premium renewal rates	82	8

It should be noted that:

- for the sensitivity to the risk free rates, the calculation has been performed only for linked business (including recalibration of the discount rate) and for the projected values only; all the other assumptions, including the inflation rates, remain unchanged;
- the sensitivity to maintenance expenses does not include a reduction in investment expenses;
- for the sensitivity to decrements both the lapse rates and the premium renewal rates have been decreased.

Sensitivity analysis – Asset management business

Euro millions	Value of in-force business	Value of new business
Base value	410	50
1% increase in discount rates	(18)	(3)
1% increase in return on equity and property	-	-
1% reduction in risk free rates	2	-
10% decrease in maintenance expenses	9	2
10% decrease in acquisition expenses	-	2
10% decrease in lapse and premium renewal rates	16	3

It should be noted that:

- the sensitivity test to maintenance expenses does not include a reduction in investment expenses;
- for the sensitivity to decrements the decrease has been applied to total lapse rates on contracts, but not to partial withdrawals.

Sensitivity analysis – Banking business

Euro millions	Value of in-force business	Value of new business
Base value	100	10
1% increase in discount rates	(5)	(1)
1% increase in return on equity and property	-	-
10% decrease in maintenance expenses	23	5
10% decrease in acquisition expenses	-	1
10% decrease in lapse and premium renewal rates	6	1

TOWERS PERRIN

TILLINGHAST

Milan, 27 March 2006

Egregio signor
Ennio Doris
Amministratore Delegato
Mediolanum S.p.A.
Via F. Sforza - Milano 3 City

20080 BASIGLIO (MI)

Egregio signor Doris,

DISCLOSURE ON THE EMBEDDED VALUE

Tillinghast, the global insurance and financial services consulting business of Towers Perrin, has assisted the Mediolanum Group regarding the methodology and the assumptions to be used, and has calculated the embedded value of the Group as at 31 December 2004 and 2005, together with the embedded value earnings in the year 2005, concerning the life and asset management businesses distributed in Italy and Spain and the most significant parts of the Italian banking business.

For the financial year ending 31 December 2005, Mediolanum has adopted the European Embedded Value (EEV) Principles published by the CFO Forum in May 2004. The methodology, the main assumptions and the results are explained in more detail in the attached supplementary information disclosure document. In particular a market-consistent approach has been used in the valuation of financial risk.

EMBEDDED VALUE

Using the methodology and the main assumptions summarised in the supplementary information document, the following table shows the principal results at a consolidated level as at 31 December 2005 and 2004 determined in accordance with the EEV Principles.

TOWERS PERRIN
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Embedded Value (Euro million)

31 December	2004	2005
Adjusted net worth	501	648
value of in-force life business	1,552	1,793
value of in-force asset management business	368	410
value of in-force banking business	72	100
Value of in-force business	1,992	2,303
Embedded Value	2,493	2,951

The discount rates vary between lines of business since they reflect the risk profile of the underlying business; the average discount rates, weighted by value of in-force business are 6.27% and 5.80% as at 31 December 2004 and 2005 respectively.

EMBEDDED VALUE EARNINGS

The following table shows the principal components of the Mediolanum Group's embedded value earnings in the year 2005.

Embedded Value Earnings (Euro million)

	2005
Expected return	143
Experience variances	259
Operating assumption changes	(43)
Economic assumption changes	31
Tax assumption changes	-
New Life business	162
New Asset Management business	52
New Banking business	10
Embedded value earnings	614

TOWERS PERRIN
TILLINGHAST

OPINION

Tillinghast has assisted the Mediolanum Group regarding the methodology and assumptions to be used, and has calculated the European Embedded Value of the Group as at 31 December 2004 and 2005, together with the embedded value earnings in 2005. The estimates of value determined by Tillinghast are based on information provided by the Mediolanum Group which has been reviewed for reasonableness and consistency with industry knowledge, but Tillinghast has not undertaken independent checks of the data and other information supplied.

Tillinghast considers that the methodology and assumptions used comply with the EEV Principles and Guidance as published by the CFO Forum, and in particular:

- that the methodology makes allowance for the aggregate risks in the covered business through:
  (i) the incorporation of risk margins in the discount rate used to discount projected future profits determined using best estimate assumptions, using
  a) a market-consistent valuation of financial risk,
  b) an allowance for non-financial risk based on the frictional cost of an amount of capital that would be required to cover operational risk requirements under Basle II and the value at risk with respect to key operating variables such as persistency, costs and management fees,
  (ii) the deduction of the cost of required capital based on minimum EU solvency margins for non-index-linked life business, and a risk-based capital allowance for index-linked business; and
  (iii) the deduction of the time value of financial options and guarantees for traditional business;
- that the operating assumptions are reasonable in the context of recent available experience and the expected future operating environment;
- that the economic assumptions used are internally consistent and consistent with observable market data.
- for revaluable business, the assumed revaluation rates, and the retrocession rates, are consistent with the projection assumptions, established company practice and local market practice.

Tillinghast considers that the results for the embedded value, embedded value earnings and the value of new business, reported in the enclosed supplementary information, are reasonable in the context of embedded value reporting under the EEV Principles.

Yours sincerely

Andrew Milton
Fellow of the Institute of Actuaries

Vittorio Chimenti
Attuario

MEDIOLANUM S.p.A.

Consolidated Accounts for the year ended December 31 2005

Balance sheet

Assets

€/'000	Dec. 31, 2005	Dec. 31, 2004
1. Intangible assets		
1.1 Goodwill	162,414	177,247
1.2 Other intangible assets	25,516	32,469
Total intangible assets	187,930	209,716
2. Tangible assets		
2.1 Property	59,831	60,182
2.2 Other tangible assets	17,235	13,806
Total tangible assets	77,066	73,988
3. Reinsurers' share of technical reserves	105,737	108,767
4. Investments		
4.1 Investment property	22,276	33,388
4.2 Investments in subsidiaries, associates and joint ventures	29,354	23,489
4.3 Held-to-maturity investments	733,680	734,449
4.4 Loans and receivables	3,342,392	1,766,237
4.5 Available-for-sale financial assets	845,166	738,319
4.6 Financial assets at fair value through profit or loss	12,643,332	10,983,105
Total investments	17,616,200	14,278,987
5. Receivables		
5.1 Arising out of direct insurance operations	11,543	12,642
5.2 Arising out of reinsurance operations	-	-
5.3 Other receivables	1,966	3,465
Total receivables	13,509	16,107
6. Other assets		
6.1 Non-current assets or disposal groups held for sale	372	372
6.2 Deferred acquisition costs	-	-
6.3 Deferred tax assets	39,847	25,927
6.4 Current tax assets	121,098	113,620
6.5 Other	207,334	137,853
Total other assets	368,651	277,772
7. Cash and cash equivalents	522,869	425,519
TOTAL ASSETS	18,891,962	15,390,856

Shareholders' equity and liabilities

€/'000	Dec. 31, 2005	Dec. 31, 2004
1. Shareholders' equity		
1.1 Shareholders' equity pertaining to the Group		
1.1.1 Share capital	72,738	72,567
1.1.2 Other equity instruments	-	-
1.1.3 Capital reserves	50,358	47,807
1.1.4 Retained earnings and other equity reserves	349,518	364,365
1.1.5 Treasury shares (-)	(2,045)	-
1.1.6 Exchange difference reserve	-	-
1.1.7 Gains (losses) on available-for-sale fin. Assets recognized directly in equity	104,105	-
1.1.8 Other gains (losses) recognized directly in equity	-	-
1.1.9 Net profit (loss) for the year	233,312	159,055
Total capital and reserves pertaining to the Group	807,986	643,794
1.2 Minority interests		
1.2.1 Capital and reserves	-	-
1.2.2 Gains/losses recognized directly in equity	-	-
1.2.3 Net profit (loss) for the year	-	-
Total capital and reserves pertaining to minority interests	-	-
Total shareholders' equity	807,986	643,794
2. Provisions	57,422	31,975
3. Technical provisions	11,201,382	10,269,302
4. Financial liabilities		
4.1 Financial liabilities at fair value through profit or loss	1,399,692	8,008
4.2 Other financial liabilities	4,971,315	4,186,243
Total financial liabilities	6,371,007	4,194,251
5. Payables		
5.1 Arising out of direct insurance operations	8,357	5,984
5.2 Arising out of reinsurance operations	900	731
5.3 Other payables	208,346	142,574
Total payables	217,603	149,289
6. Other liabilities		
6.1 Liabilities of disposal groups held for sale	-	-
6.2 Deferred tax liabilities	17,441	12,557
6.3 Current tax liabilities	43,910	37,263
6.4 Other	175,210	52,405
Total other liabilities	236,561	102,245
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	18,891,962	15,390,856

Income Statement

€/'000	Dec. 31, 2005	Dec. 31, 2004
1. Revenues		
1.1 Premiums written, net of reinsurance		
1.1.1 Gross premiums written	2,455,254	2,396,996
1.1.2 Reinsurance premiums	(6,530)	(7,090)
Total premiums written, net of reinsurance	2,448,724	2,389,906
1.2 Commission income	576,816	406,311
1.3 Income on financial instruments at fair value through profit/loss	1,131,050	465,598
1.4 Income on investments in subsidiaries, associates and joint ventures	13,749	10,711
1.5 Income on other financial instruments and investment property		
1.5.1 Interest income	131,220	113,216
1.5.2 Other income	1,577	1,483
1.5.3 Realized gains	14,319	8,653
1.5.4 Unrealized gains	7,434	7,191
Total income on other financial instruments and investment property	154,550	130,543
1.6 Other revenues	28,638	27,805
Total revenues and income	4,353,527	3,430,874
2. Costs		
2.1 Claims incurred		
2.1.1 Claims paid and change in technical reserves	(3,390,491)	(2,660,824)
2.1.2 Reinsurers' share	8,295	9,072
Total claims incurred, net of reinsurance	(3,382,196)	(2,651,752)
2.2 Commission expense	(146,121)	(103,003)
2.3 Loss on investments in subsidiaries, associates and joint ventures	-	-
2.4 Loss on other financial instruments and investment property		
2.4.1 Interest expense	(71,893)	(63,001)
2.4.2 Other expenses	(1,685)	(1,145)
2.4.3 Realized losses	(248)	(184)
2.4.4 Unrealized losses	(11,414)	(13,827)
Loss on other financial instruments and investment property	(85,240)	(78,157)
2.5 Operating expenses		
2.5.1 Agents' commissions and other acquisition costs	(135,717)	(132,434)
2.5.2 Investment management costs	(484)	(780)
2.5.3 Other administrative expenses	(230,015)	(203,550)
Total operating expenses	(366,216)	(336,764)
2.6 Other costs	(83,793)	(53,907)
Total costs	(4,063,566)	(3,223,583)
Pre-tax profit (loss) for the year	289,961	207,291
3. Income taxes	(56,649)	(48,236)
Post-tax profit (loss) for the year	233,312	159,055
4. Profit (loss) of discontinued operations	-	-
Consolidated profit (loss) for the year	233,312	159,055

Statement of changes in equity

€/'000	Balance at Dec. 31, 2003	Adjustment to closing balance	Amount credited	Transferred to the Income Statement	Other movements	Balance at Dec. 31, 2004
Shareholders' equity pertaining to the Group						
Share capital	72,567	-	-	-	-	72,567
Other equity instruments	-	-	-	-	-	-
Capital reserves	47,854	-	-	-	(47)	47,807
Retained earnings and other equity reserves	312,590	(463)	49,603	-	2,635	364,365
(Treasury shares)	-	-	-	-	-	-
Exchange difference reserve	-	-	-	-	-	-
Gains (losses) on available-for-sale financial assets	-	-	-	-	-	-
Other gains (losses) recognized directly in equity						
Gains (losses) on cash flow hedges	-	-	-	-	-	-
Gains (losses) on hedges of a net investment in a foreign operation	-	-	-	-	-	-
Reserve relating to changes in the equity of investees	-	-	-	-	-	-
Intangible assets revaluation reserve	-	-	-	-	-	-
Tangible assets revaluation reserve	-	-	-	-	-	-
Gains (losses) on non-current assets or disposal groups held for sale	-	-	-	-	-	-
Other reserves	-	-	-	-	-	-
Net profit (loss) for the year	129,427	-	109,452	-	(79,824)	159,055
Total shareholders' equity pertaining to the Group	562,438	(463)	159,055	-	(77,236)	643,794
Shareholders' equity pertaining to minority interest						
Share capital and reserves	-	-	-	-	-	-
Gains (losses) recognized directly in equity	-	-	-	-	-	-
Net profit (loss) for the year	-	-	-	-	-	-
Total shareholders' equity pertaining to minority interests	-	-	-	-	-	-
TOTAL	562,438	(463)	159,055	-	(77,236)	643,794

€/'000	Balance at Dec. 31, 2004	Adjustment to closing balance	Amount credited	Transferred to the Income Statement	Other movements	Balance at Dec. 31, 2005
Shareholders' equity pertaining to the Group						
Share capital	72,567	-	171	-	-	72,738
Other equity instruments	-	-	-	-	-	-
Capital reserves	47,807	-	2,551	-	-	50,358
Retained earnings and other equity reserves	364,365	(14,633)	61,580	-	(61,794)	349,518
(Treasury shares)	-	(2,045)	-	-	-	(2,045)
Exchange difference reserve	-	-	-	-	-	-
Gains (losses) on available-for-sale financial assets	-	35,178	73,237	(4,310)	-	104,105
Other gains (losses) recognized directly in equity						
Gains (losses) on cash flow hedges	-	-	-	-	-	-
Gains (losses) on hedges of a net investment in a foreign operation	-	-	-	-	-	-
Reserve relating to changes in the equity of investees	-	-	-	-	-	-
Intangible assets revaluation reserve	-	-	-	-	-	-
Tangible assets revaluation reserve	-	-	-	-	-	-
Gains (losses) on non-current assets or disposal groups held for sale	-	-	-	-	-	-
Other reserves	-	-	-	-	-	-
Net profit (loss) for the year	159,055	-	175,797	-	(101,540)	233,312
Total shareholders' equity pertaining to the Group	643,794	18,500	313,336	(4,310)	(163,334)	807,986
Shareholders' equity pertaining to minority interest						
Share capital and reserves	-	-	-	-	-	-
Gains (losses) recognized directly in equity	-	-	-	-	-	-
Net profit (loss) for the year	-	-	-	-	-	-
Total shareholders' equity pertaining to minority interests	-	-	-	-	-	-
TOTAL	643,794	18,500	313,336	(4,310)	(163,334)	807,986

Consolidated cash flow statement

Indirect method

€/'000	2005	2004
Pre-tax profit (loss) for the year	289,961	207,291
Changes in non-monetary items	2,137,666	2,370,562
Change in unearned premiums reserve (general business)	-	-
Change in outstanding claims reserve and other technical reserves (general business)	-	-
Change in mathematical reserves and other technical reserves (Life business)	935,110	1,946,073
Change in deferred acquisition costs	-	-
Change in provisions	25,447	7,466
Non-monetary income (losses) on financial instruments, investment property and equity investments	1,133,671	431,843
Other changes	43,438	(14,820)
Changes in receivables and payables arising out of operating activities	62,499	(39,739)
Changes in receivables and payables arising out of direct insurance and reinsurance operations	3,641	19,132
Changes in other receivables and payables	58,858	(58,871)
Income taxes paid	(48,236)	(21,360)
Net cash from monetary items relating to investment and financial activities	252,265	918,279
Liabilities on financial contracts issued by insurance companies	(60,353)	-
Amounts due to banks and banking customers	61,487	(104,108)
Loans to and receivables from banks and banking customers	31,948	900,518
Other financial instruments at fair value through profit or loss	219,183	121,869
NET CASH FLOWS FROM OPERATING ACTIVITIES	2,694,155	3,435,033
Net cash from investment property	11,112	10,393
Net cash from subsidiaries, associates and *joint ventures*	(5,865)	(23,471)
Net cash from loans and receivables	(884,518)	(200,185)
Net cash from held-to-maturity investments	769	(10,164)
Net cash from available-for-sale financial assets	(106,847)	(46,954)
Net cash from tangible and intangible assets	18,708	(33,746)
Other cash flows from investment activities	(1,561,044)	(2,952,626)
NET CASH FLOWS FROM INVESTING ACTIVITIES	(2,527,685)	(3,256,753)
Net cash from equity instruments pertaining to the Group	94,214	(3,272)
Net cash from treasury shares	-	-
Distribution of dividends pertaining to the Group	(163,334)	(79,824)
Net cash from capital and reserves pertaining to minority interests	-	-
Net cash from subordinated liabilities and quasi-equity instruments	-	-
Net cash from miscellaneous financial liabilities	-	-
NET CASH FLOWS FROM FINANCING ACTIVITIES	(69,120)	(83,096)
Effect of exchange rate changes on cash and cash equivalents	-	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	425,519	330,335
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	97,350	95,184
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	522,869	425,519

MEDIOLANUM S.p.A.

Notes to the Consolidated Financial Statements for the year ended December 31 2005

Notes to the consolidated financial statements for the year ended December 31, 2005

These notes are structured as follows:

Part A – Accounting Basis and Scope of Consolidation
Part B – Accounting policies
Part C – Information on the balance sheet
Part D – Information on the income statement
Part E – Segmental information
Part F – Information on risks and risk management
Part G – Business combinations
Part H – Related Party Transactions
Part I – Equity-settled share-based payment transactions

PART A – ACCOUNTING BASIS AND SCOPE OF CONSOLIDATION

Pursuant to Legislative Decree No. 38 of February 28, 2005 the consolidated financial statements for the year ended December 31, 2005 of the Mediolanum Group were prepared in accordance with the accounting standards issued by the International Accounting Standards Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Commission pursuant to the European Parliament and Council Regulation (EC) 1606 of July 19, 2002.
As allowed under art. 4, paragraph 2 of Legislative Decree 38/2005 Mediolanum S.p.A. elected to voluntarily apply international accounting standards also to its separate financial statements as early as 2005 although publicly traded companies are required to do so only in their financial statements at December 31, 2006.

The financial statements for the year ended December 31, 2005 were prepared following the "Instructions for the preparation of IFRS consolidated accounts" issued by ISVAP (Italy's supervisory authority for insurance companies), as authorized under art. 9 of Legislative Decree 38/2005 pursuant to Regulation No. 2404 of December 22, 2005.
The International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) applied for the first time in the 2005 interim financial statements and in these annual financial statements are markedly different from the Italian GAAP applied up until the 2004 annual financial statements.
An analysis of the impact of the first-time adoption of International Financial Reporting Standards under IFRS 1 is set out in the section "First time adoption of International Financial Reporting Standards" at the end of these notes.

In the preparation of the financial statements the Group applied the international accounting standards IAS/IFRS (including SIC and IFRIC interpretations) in effect at December 31, 2005, as adopted by the European Commission and set out in the schedule attached hereto.

Accounting basis

These financial statements were prepared in compliance with the general requirements of IAS 1 and the specific accounting standards adopted by the European Commission, as presented in the section "Accounting Policies" herein, as well as in compliance with the underlying assumptions set out in the IASB Framework for the Preparation and Presentation of Financial Statements.
The financial statements consist of the Balance Sheet, the Income Statement, the Statement of Changes in Equity, the Statement of Cash Flows and Explanatory Notes in addition to the Directors' Report.
The accounts for the year ended December 31, 2005 and the notes thereto are in compliance with ISVAP Regulation No. 2404 of December 22, 2005.
The accounts and the notes also include comparative information for the year ended December 31, 2004. As allowed under IFRS 1, the Mediolanum Group elected not to restate prior period's financial information relating to insurance contracts (IFRS 4) and financial instruments (IAS 39 and IAS 32), which was therefore stated under the previous GAAP.
Specifically, technical reserves, loans and receivables, payables, securities, derivative contracts and equity investments for the year ended December 31, 2004 were measured and recognized under the Italian GAAP applied up until December 31, 2004 as presented in the financial statements for that year. The differences between Italian GAAP and IAS/IFRS are presented in full details in the specific section at the end of these notes.
Due to the marked differences between Italian GAAP and IAS/IFRS the comparative information for financial year 2004 presented in the accounts and in the notes was reclassified in accordance with ISVAP Regulation No. 2404/2005 and – except for information relating to insurance contracts and financial instruments – restated under IAS/IFRS.

Restated prior period's balance sheet and income statement data also reflect the changes in the scope of consolidation following the adoption of IAS/IFRS.
In accordance with art. 5 of Legislative Decree No. 38 of February 28, 2005 the financial statements were prepared using the euro as reporting currency.
Except where otherwise stated the amounts set out in the Accounts, the Notes and the Directors' Report are presented in thousands of euro.
In applying IAS/IFRS no departure was made from requirements therein.

Scope of consolidation

The consolidated financial statements include the accounts of Mediolanum S.p.A. and those of its directly or indirectly controlled subsidiaries, including subsidiaries whose business activities are dissimilar from those of the Parent Company, as expressly required by the international accounting standards.
The subsidiaries which are consolidated on a line-by-line basis in accordance with the international accounting standards are set out in the table below.

Subsidiaries consolidated on a line-by-line basis:

€/'000 Company	Share capital	% Registered holding	Office	Business
Mediolanum Vita S.p.A.	87,720	100.00	Basiglio	Life Insurance
Partner Time S.p.A.	520	100.00	Basiglio	Life Insurance distribution
Mediolanum Comunicazione S.p.A.	775	100.00	Basiglio	Audio/film/TV production
PI Distribuzione S.p.A.	517	100.00	Basiglio	Real estate brokerage
Alboran S.p.A.	1,500	100.00	Cologno M.	Audio/film/TV production
Alborfin S.r.l.	100	100.00	Cologno M.	Services
Mediolanum International Life Ltd	1,395	100.00	Dublin	Life Insurance
Banca Mediolanum S.p.A.	341,000	100.00	Basiglio	Banking
Mediolanum Gestione Fondi SGR p.A	5,165	100.00	Basiglio	Fund management
Mediolanum Distribuz. Finanz. S.p.A.	1,000	100.00	Basiglio	Financial Brokerage
Mediolanum International Funds Ltd	150	100.00	Dublin	Fund management
Mediolanum Asset Management Ltd	150	100.00	Dublin	Asset management and advice
Banco de Finanzas e Inversiones S.A.	14,032	100.00	Barcelona	Banking
Ges Fibanc SGIIC S.A.	2,506	100.00	Barcelona	Fund management
Fibanc S.A.	301	100.00	Barcelona	Financial advice
Fibanc Pensiones S.G.F.P. S.A.	902	100.00	Barcelona	Pension fund management
Fibanc Faif S.A.	60	100,00	Barcelona	Financial advice
Mediolanum International S.A.	71,500	99.997	Luxembourg	Sub-holding company
Gamax Holding AG	5,618	100.00	Luxembourg	Sub-holding company
Gamax Management AG	125	100.00	Luxembourg	Fund management
Gamax Fund of Funds Management AG	125	100.00	Luxembourg	Fund management
Gamax Broker Pool AG	500	100.00	Munich	Fund distribution
Gamax Austria GmbH	40	100.00	Salzburg	Fund distribution
Bankhaus August Lenz & Co. AG	20,000	100.00	Munich	Banking

Directly controlled subsidiaries accounted for at cost :

Company	Share capital	% Registered holding	Office	Business
Fibanc Argentina S.A.	ARS 50,000	94.00	Buenos Ayres	Representative office

Mediolanum S.p.A. associates accounted for using the equity method:

€/'000 Company	Share capital	% Registered holding	Office	Business
Banca Esperia S.p.A.	13,000	48.50	Milan	Banking

Methods of consolidation

Subsidiaries are consolidated on a line-by-line basis, while associates are accounted for using the equity method.

Consolidation on a line-by-line basis

Consolidation is the combination of the accounts of the parent company and those of its subsidiary line by line by adding together like items of the balance sheet and the income statement. After minority interests in the net assets and minority interests in the profit or loss of subsidiaries are separately identified, the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary are eliminated.

Any resulting difference, if positive, after recognition of the assets or liabilities of the subsidiary, is recognized as goodwill under "Intangible Assets" on first-time consolidation, and under "Other Reserves" thereafter. Negative differences are recognized in the income statement.
Intercompany assets, liabilities, income and expenses are eliminated in full.

The income and expenses of a subsidiary acquired during the reporting period are included in the consolidated financial statements from the date of acquisition. Accordingly, the income and expenses of a subsidiary disposed of in the reporting period are included in the consolidated financial statements until the date on which the parent ceases to control the subsidiary. Any difference between the consideration for the disposal of the subsidiary and its carrying amount as of the date of disposal is recognized in the income statement.
The financial statements of the Parent Company and those of its subsidiaries used in the preparation of the consolidated financial statements are prepared as of the same reporting date.
When a company within the Group uses different accounting policies, in preparing the consolidated financial statements adjustments are made to make them uniform with the accounting policies adopted by the Group.

Equity method

Under the equity method an investment in an associate is initially recognized at cost and its carrying amount is increased or decreased to reflect the value of the investor's share of the investee's equity thereafter.
Any differences between the carrying amount and the equity of the investee are treated like differences arising on line-by-line consolidation.
The investor's share of the profit or loss of the investee is recognized under the relevant item in the consolidated income statement.
If there is evidence that an investment may be impaired, its recoverable amount is calculated by estimating the present value of future cash flows expected to be generated by the associate, including the proceeds on the ultimate disposal of the investment.
If the recoverable amount is lower than the carrying amount, the resulting difference is recognized in the income statement.
In applying the equity method to investments in associates the approved IAS/IFRS annual financial statements of associates were used.

PART B – ACCOUNTING POLICIES

This section presents the accounting policies applied in the preparation of the consolidated financial statements for the year ended December 31, 2005.

Financial assets at fair value through profit or loss

This category includes:

- investment contracts to the benefit of life policyholders who bear the risk thereof and in connection with pension fund management;
- financial assets held for trading.

Financial assets at fair value through profit or loss consist of debt securities, equities and trading derivatives with positive fair value .

Financial assets at fair value through profit or loss are initially recognized on the settlement date if they are debt securities and equities, and on the trade date if they are derivatives.

On initial recognition financial assets at fair value through profit or loss are measured at cost, i.e. the fair value of the instrument, without adding directly attributable transaction costs or income.

After initial recognition financial assets at fair value through profit or loss are measured at their fair value.

The fair value of a financial instrument quoted in an active market[1] is determined using its market quotation. If the market for a financial instrument is not active, fair value is determined using estimation and valuation techniques which measure all instrument-related risks and use market data, e.g. the quoted price of instruments with similar characteristics, discounted cash flow analysis, option pricing models, recent comparable transactions.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or the financial asset and substantially all the risks and rewards of ownership thereof are transferred.

Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are not classified as Loans and Receivables, Financial Assets Held for Trading or Held-to-Maturity Investments.

In particular, shareholdings that are not held for trading and those that do not qualify as investments in subsidiaries, associates or joint ventures are also classified under this category.

Available-for-sale financial assets are initially recognized on the settlement date if they are debt or equity instruments and on trade date if they are loans or receivables.

On initial recognition available-for-sale financial assets are measured at cost, i.e. the fair value of the instrument, plus any directly attributable transaction costs or income. When reclassified out of the Held-to-Maturity Investments category, available-for-sale financial assets are re-measured at their fair value on such reclassification.

[1] A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

After initial recognition available-for-sale financial assets continue to be measured at fair value, and are amortized through profit or loss, while gains or losses arising from a change in their fair value are recognized in a specific equity reserve until the financial asset is derecognized or impaired. At the time of their dismissal or impairment, the cumulative gain or loss previously recognized in equity is recognized in the income statement.

Equity instruments whose fair value cannot be reliably measured as set out above are measured at cost.

At each interim and annual balance sheet date the Group assesses whether there is objective evidence of any impairment loss.

If the fair value of a previously impaired asset increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed and the reversal recognized in the income statement if the asset is a loan or receivable or a debt instrument, and in equity if the asset is an equity instrument. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment loss not been recognized at the date the impairment is reversed.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or the financial asset and substantially all the risks and rewards of ownership thereof are transferred.

Held-to-maturity investments

Held-to-maturity investments consist of debt securities with fixed or determinable payments and fixed maturity which the Group intends or has the ability to hold to maturity. If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held to maturity, it is reclassified as available-for-sale.

Held-to-maturity investments are initially recognized on settlement date.

Held-to-maturity investments are initially measured at cost, including any directly attributable costs or income. When reclassified out of the available-for-sale financial assets category, the fair value on such reclassification is the value of the amortized cost at which held-to-maturity investments are carried.

After initial recognition held-to-maturity investments are measured at amortized cost using the effective interest method.

Gains or losses of held-to-maturity investments are recognized in the income statement when the financial assets is derecognized or impaired, and through the amortization process.

At each interim and annual reporting date the Group assesses whether there is objective evidence of any impairment loss.

If any such evidence exists, the amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The amount of the impairment loss is recognized in the income statement.

If the value of a previously impaired investment increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed and the reversal recognized in the income statement.

Held-to-maturity investments are derecognized when the contractual rights to the cash flows from the financial asset expire or the financial asset and substantially all the risks and rewards of ownership thereof are transferred.

Loans and receivables

This category includes loans to customers and to banks with fixed or determinable payments, that are not quoted in an active market and that, upon initial recognition, were not classified as available-for-sale.
Loans and receivables also include trade receivables, repurchase agreements and securities purchased under a public offering or private placement, with fixed or determinable payments, that are not quoted in an active market.
A loan or receivable is initially recognized at fair value on the trade date or, in the case of a debt instrument, on the settlement date. The fair value of a loan or receivable is the loaned amount, or the transaction price, including any directly attributable costs or income determinable on the trade date, even if settled at a later date, except for those costs that are reimbursed by the borrower/debtor or are internal administrative costs.
Carryovers and repurchase agreements which entail the obligation for a future resale/repurchase are recognized as funding or lending transactions. Specifically, the amount received for the sale of an asset under an agreement to repurchase it at a future date is recognized in the balance sheet as a debt, while the amount paid for the purchase of an asset under an agreement to resell it at a future date is recognized as a loan.
After initial recognition, loans and receivables are measured at amortized cost. Amortized cost is the amount at which the financial asset is measured on initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, plus or minus any directly attributable costs/income and minus/plus any reduction/reversal for impairment. The effective interest rate is the rate that exactly discounts estimated future cash flows (principal and interest) to the net carrying amount of the asset, i.e. the carrying amount plus/minus any directly attributable costs/income, through the expected life of the asset.
Amortized cost is not applied to short-terms loans and receivables for which the effect of discounting is immaterial. Those loans and receivables are measured at historical cost and the related costs/income are recognized in the income statement over the expected life of the asset. The same measurement method is applied to loans and receivables with no fixed maturity or on demand.
At each interim and annual reporting date the Group assesses whether there is objective evidence of any impairment loss as a result of one or more events that occurred after initial recognition. If there is objective evidence of impairment the loan is classified as "non-performing", "watch-list" or "restructured" in accordance with the instructions issued by the Bank of Italy, which are in line with IAS requirements.
Impaired loans are individually assessed and the amount of the impairment loss is measured as the difference between the asset's carrying amount (measured at amortized cost) at the time of assessment and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.
Future cash flows are estimated taking into account the expected time of recovery, the realizable value of any collaterals as well as any costs of recovery. Future cash flows of loans which are expected to be recovered in the short term are not discounted.
The asset's original effective interest rate remains unchanged over time also in the event of a restructuring as a result of which the interest rate changes or the loan or receivable actually carries no interest.
The amount of the impairment loss is recognized in the income statement.
If the value of a previously impaired loan or receivable increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed and the reversal recognized in the income statement.

The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment loss not been recognized at the date the impairment is reversed.
If no objective evidence of impairment exists for individually assessed loans – i.e. generally, performing loans – those loans are collectively assessed for impairment. For the purpose of a collective evaluation of impairment, loans and receivables are grouped on the basis of similar credit risk characteristics and the related loss probability is estimated using historical loss rates based on observable data at the time of assessment that can reliably estimate the loss probability of each loan group.
Any collectively assessed impairment loss is recognized in the income statement. At each interim and annual reporting date any additional impairment loss or reversal thereof is calculated in relation to the entire portfolio of performing loans on that same date.

Equity investments

This account relates to investments in associates that are accounted for using the equity method.
An associate is an entity in which the investor holds 20% or more of the voting rights or an entity over which the investor has significant influence under legal arrangements e.g. a shareholders' agreement.
If there is evidence that an investment may be impaired, its recoverable amount is calculated by estimating the present value of future cash flows expected to be generated by the associate, including the proceeds on the ultimate disposal of the investment.

If the recoverable amount is lower than the carrying amount, the resultant difference is recognized in the income statement.

If the value of a previously impaired investment increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed and the reversal recognized in the income statement.
Equity investments are derecognized when the contractual rights to the cash flows from the investment expire or the investment and substantially all the risks and rewards of ownership thereof are transferred.

Investment property and other tangible assets

Tangible assets include land, Group-occupied property, investment property, furnishings, fixtures, fittings, plant and equipment.
These are tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one period.
This account also includes assets held under finance leases even when the lessor retains title thereof.
Tangible assets are initially recognized at cost, which comprises the purchase price of the asset and all costs directly attributable to the asset's acquisition and operation.
The costs of major repairs which increase the future economic benefits associated with the asset are recognized in the carrying amount of the asset, while the costs of day-to-day servicing are recognized in the income statement.
Tangible assets, including investment property, are carried at cost less any accumulated depreciation and impairment losses.
Tangible assets are systematically depreciated on a straight-line basis over their useful lives except for land, be it acquired separately or together with buildings, which has an indefinite useful life. Under the international accounting standards land and buildings are separable assets and are to be accounted for separately. When the value of land is embedded in the value of the building, only for land on which a building stands, their respective value is determined by independent valuers.
At each interim and annual reporting date if there is an indication that an asset may be impaired the carrying amount of the asset is compared to its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset. If the recoverable amount of an asset is less than its carrying amount, the carrying amount is reduced to its recoverable amount. Any reduction is recognized as impairment loss in the income statement.
If the value of a previously impaired asset increases, the impairment loss is reversed. The reversal shall not result in a carrying amount of the asset that exceeds what the carrying amount less accumulated depreciation would have been had the impairment loss not been recognized at the date the impairment is reversed.
A tangible asset is derecognized from the balance sheet on disposal or when no future economic benefits are expected from its use or disposal.

Intangible assets

Intangible assets include goodwill, expenditure on the renovation of leasehold property and the costs of software used over more than one year.
Expenditure on the renovation of leasehold property is capitalized since during the lease term the lessee controls the assets and obtains future economic benefits from them.

Other intangible assets are recognized if they are identifiable as such and arise from contractual or other legal rights.
Goodwill is the excess of the cost of the acquisition over the acquirer's interest in the fair value of the identifiable assets and liabilities acquired.
An intangible assets can be recognized as goodwill when the excess of the cost of the acquisition over the acquirer's interest in the fair value of the identifiable assets and liabilities acquired (including any accumulated impairment losses) is representative of the future earnings capabilities of the investee.

Any negative goodwill (badwill) is directly recognized in the income statement.
Goodwill is tested for impairment annually (or any time there is evidence of impairment). To that end goodwill is allocated to a cash-generating unit (CGU). If the recoverable amount of the unit is less than its carrying amount an impairment loss is recognized and the carrying amount of goodwill allocated to the cash-generating unit is reduced. The recoverable amount of a cash-generating unit is the higher of the cash-generating unit's fair value less cost to sell and its value in use. The impairment loss is recognized in the income statement.
Other intangible assets are carried at cost less any accumulated amortization and impairment losses.
Expenditure on an intangible item is recognized under intangible assets only if it is probable that future economic benefits attributable to the asset will flow to the entity and the cost of the asset can be measured reliably, otherwise it is recognized as an expense in the income statement in the year in which it was incurred.

Intangible assets are amortized on a straight-line basis over their useful lives. Intangible assets with indefinite useful lives are not amortized, but periodically tested for impairment by comparing their recoverable amount with their carrying amount. Expenditure on the renovation of leasehold property is amortized over a period which does not exceed the lease term.

At each reporting date, if there is evidence of impairment, the recoverable amount of the asset is estimated. If the recoverable amount of the asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.
The impairment loss is recognized in profit or loss.
An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include:
- deposit accounts relating to financial contracts (under which the investment risk is borne by the policyholder) and to the management of pension funds;
- trading derivatives with negative fair value;
- short positions on securities trading.

Deposit accounts relating to financial contracts under which the investment risk is borne by the policyholder reflect with the best possible approximation the value of holdings in investment funds or benchmark stock indices. These liabilities are backed by assets carried at fair value.
The same applies to the liabilities relating to the Previgest Mediolanum non-occupational pension fund.
Financial liabilities are initially recognized at the time the policy is issued or amounts are received.
They are initially measured at the fair value of the assets under the contract (policy), i.e. generally the issue price of the underlying assets.
The fair value of any financial liabilities issued below market value is subject to assessment and the difference over market value is directly recognized in the income statement.
After initial recognition, financial liabilities are measured at fair value.
A financial liability is derecognized when it expires or is extinguished.

Other financial liabilities

Other financial liabilities include reinsurance deposit accounts, the various forms of funding from banks and customers as well as bonds issued net of any buybacks .

Those financial liabilities are initially recognized when amounts are received or bonds are issued.

They are initially measured at fair value, i.e. generally the amount received or the issue price, plus any additional costs/ income directly attributable to the individual funding transaction or bond issue and not reimbursed by the creditor. Internal administrative costs are not added.

The fair value of any financial liabilities issued below market value is subject to assessment and the difference over market value is directly recognized in the income statement.

After initial recognition, financial liabilities are measured at amortized cost using the effective interest method except for short-term liabilities for which the time value of money is immaterial that are measured on the basis of the contractual cash flows and related costs are recognized in the income statement over the contractual term of the liability.

A financial liability is derecognized when it expires or is extinguished. A financial liability is derecognized also when it is bought back. The difference between the carrying amount of the liability and amount paid to buy it back is recognized in the income statement.

Life Technical Reserves

Life technical reserves represent the reserves for liabilities under insurance contracts and investment contracts with Discretionary Participation Features (DPF).

Life technical reserves include mathematical reserves, calculated on each individual contract according to the payment commitments undertaken and on the basis of the actuarial assumptions adopted for the computation of related premiums. Mathematical reserves include all revaluations applied in accordance with contract terms, as well as provisions for demographic risk.

Mathematical reserves are not lower than surrender value.

Life technical reserves also include provisions for premiums due in the six months after the reporting date and provisions for future expenses relating to the contract, e.g. handling costs and additional health premiums.

At each reporting date the adequacy of insurance reserves is assessed by calculating the present value of estimated future cash-flows from underlying contracts.

When the value of reserves is lower than estimated future cash-flows, the Company increases reserves and the difference over estimated future cash-flows is recognized in the income statement.

Technical reserves for contracts with DPF represent the reserves for liabilities arising on unrealized gains on assets under segregated fund management contracts.

Those reserves are recognized in equity when unrealized gains or losses on the related contract assets are recognized in equity, otherwise are recognized in the income statement.

Liabilities associated with disposal groups held for sale

This account relates to non-current assets/liabilities and disposal groups held for sale. They are measured at the lower of their carrying amount and fair value less cost to sell.
Related income and expenses (after taxes) are separately recognized in the income statement.

Provisions for risk and charges

Provisions for risks and charges relate to amounts set aside for present obligations resulting from a past event for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, provided that a reliable estimate can be made of the obligation.
When the effect of the time value of money is material, the amount of the provision is discounted at current market rates. Provisions for risk and charges are recognized in the income statement.

Employee completion-of-service entitlements

Completion-of-service entitlements are recognized at the present value of the benefit obligations calculated using actuarial techniques.
To determine the present value of benefit obligations the Projected Unit Credit Method is used. That method calculates the present value of benefit obligations using actuarial assumptions based on historical data including demographics and a discount rate which is determined on the basis of market yields. The methods considers each year of service as giving rise to an additional unit of benefit entitlements. Each unit is individually measured in arriving at the final obligation. The discount rate is determined on the basis of market yields and reflects the estimated timing of benefit payments.
Service costs are recognized under staff costs as the net total of current service costs, past service costs, interest and expected return on any plan assets and actuarial gains or losses.

Employee pension plan

For the defined contribution pension plan under which the company's obligation is limited to the amount it agrees to contribute to the fund, the amount of the contribution payable for the year is recognized in the income statement.

Assets and liabilities denominated in foreign currencies

Assets and liabilities denominated in foreign currencies are initially recognized in the functional currency, applying to the foreign currency amount the exchange rate in effect at the date of the transaction.
At each interim or annual reporting date, assets and liabilities denominated in foreign currencies are measured as follows:

- monetary items are translated using the closing rate;
- non- monetary items measured at historical cost are translated applying the exchange rate in effect at the date of the transaction;
- non- monetary items measured at fair value are translated applying the exchange rate in effect at the reporting date.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognized in the income statement in the period in which they arise.
When a gain or loss on a non-monetary item is recognized directly in equity, the exchange difference component of that gain or loss is also recognized in equity. Conversely, when a gain or loss on a non-monetary item is recognized in the income statement, the exchange difference component of that gain or loss is also recognized in the income statement.

Tax assets and liabilities

The Group recognizes current and deferred taxes applying the tax rates in effect in the countries where consolidated subsidiaries are incorporated.
Income taxes are recognized in the income statement except for items which are credited/charged directly to equity.
Provisions for income taxes are calculated on the basis of conservative estimates of the current and deferred tax expense. Deferred taxes are computed in respect of the temporary differences, with no time limit, arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.
Deferred tax assets are recorded to the extent that there is reasonable certainty they will be recovered, i.e. to the extent that the company – or the Parent Company under Italy's tax consolidation regime – is expected to continue to generate sufficient taxable income against which temporary differences can be utilized.
Deferred tax assets and deferred tax liabilities are not netted, and are separately recognized in the Balance Sheet under "Tax assets" and "Tax liabilities" respectively.
Deferred tax liabilities arising on consolidation are recognized to the extent that it is probable that a related tax expense will materialize in the future for one of the consolidated companies.
Those deferred tax liabilities are essentially connected to the deferred tax assets recognized for positive differences arisen on consolidation of subsidiaries.
Deferred tax assets and deferred tax liabilities are systematically re-measured to reflect any changes either in tax rules or tax rates as well as any possible changes in the company's tax position.
The provision for tax claims relates to tax payments which may become due as a result of pending tax audits or disputes with tax authorities.

Treasury shares

Treasury shares are deducted from equity. Their original cost, any gains or losses on their sale are recognized directly in equity.

Share-based payments

Stock options are share-based payments. Their fair value, and the corresponding increase in equity, is determined by reference to the fair value of the stock option at the grant date.
The fair value of the stock option is determined using a valuation technique that takes into account the specific terms and conditions of the stock option plan in place, in addition to information such as the exercise price and the life of the option, the current price of underlying shares, the expected volatility of the share price, dividends expected on the shares and the risk-free interest rate for the life of the option. The pricing model separately measures the stock option and the probability that the market conditions upon which vesting is conditioned be satisfied. The combination of the two values is the fair value of the stock option.

Income statement

Revenue is recognized when received or when it is probable that future economic benefits will flow to the entity and the amount of those benefits can be measured reliably.
Specifically:
- insurance premiums are recognized in the income statement on an accrual basis at the time the insurance contract is signed;
- commissions on investment contracts are measured on the basis of the stage of completion of the services rendered:
- other commissions are measured on an accrual basis;
- dividends are recognized in the income statement when their distribution to shareholders is established;
- any default interests, in accordance with the terms of the relevant agreement, are recognized in the income statement only when actually received.

PART C - INFORMATION ON THE CONSOLIDATED BALANCE SHEET

ASSET

INTANGIBLE ASSETS

€/'000	Dec. 31, 2005	Dec. 31, 2004
Goodwill	162,414	177,247
Other intangible assets	25,516	32,469
Total	187,930	209,716

In accordance with IAS 36 goodwill is not amortized but tested for impairment at least annually. To that end goodwill is allocated to a cash-generating unit (CGU) which is not larger than a business segment based on the primary reporting format determined in accordance with IAS 14.

The smallest CGU was identified to be the individual company which always coincides with a single business segment.

The carrying amounts of goodwill as allocated to the individual cash-generating units are as follows:

€/'000	Dec. 31, 2005
CGU Fibanc	122,809
CGU Gamax	31,501
Other CGU	8,104
Total	162,414

The €14,780 thousand decline over FY2004 is primarily due to the write-down of goodwill relating to CGU Gamax.

Recoverable amount is determined by reference to the value in use, i.e. the present value of the future cash flows expected to be derived from the continuous use of the cash-generating unit.

To measure value in use the Group applied cash-flow projections based on the three-year BP which represent management's best estimate of the economic conditions of the CGU.
Beyond the BP time horizon the growth rate was prudentially assumed to be zero.
The discount rate applied is in line with the BP estimates and was calculated using the "Capital Asset Pricing Model" on the basis of market data.

Analysis of intangible assets

€/'000	Dec. 31, 2005 Finite life	Dec. 31, 2005 Indefinite life	Dec. 31, 2004 Finite life	Dec. 31, 2004 Indefinite life
Goodwill				
- Group	-	162,414	-	177,231
- minorities	-	-	-	16
Other intangible assets				
Measured at cost:				
- other intangible assets	25,516	-	32,469	-
Total	25,516	162,414	32,469	177,247

Year's movements in intangible assets

€/'000	Goodwill	Other Intangible assets: internally generated Finite	Other Intangible assets: internally generated Indefinite	Other Intangible assets: other Finite	Other Intangible assets: other Indefinite	Dec. 31, 2005
Opening balance	177,247	-	-	32,469	-	209,716
Increases						
- Additions	-	-	-	16,314	-	16,314
Decrease						
- Disposals	(53)	-	-	(10)	-	(63)
- Write-downs	-	-	-	-	-	-
- Amortization	-	-	-	(16,191)	-	(16,191)
- Impairment losses						
- in the income statement	(14,780)	-	-	(214)	-	(14,994)
- Other changes	-	-	-	(6,852)	-	(6,852)
Closing balance	162,414	-	-	25,516	-	187,930

Legend:
finite: finite useful life
indefinite: indefinite useful life

TANGIBLE ASSETS

Property

€/'000	Dec. 31, 2005	Dec. 31, 2004
Land	21,020	21,020
Buildings	38,811	39,162
Total	59,831	60,182

Other tangible assets

€/'000	Dec. 31, 2005	Dec. 31, 2004
Furnishings	2,372	2,637
Electronic equipment	10,981	6,660
Other	3,882	4,509
Total	17,235	13,806

Year's movements in Group-occupied property and other tangible assets

€/'000	Land	Buildings	Furnishings	Electronic equipment	Other	Total
Opening balance	21,020	39,162	2,637	6,660	4,509	73,988
Increases						
- Additions	-	-	455	6,050	885	7,390
- Other changes	-	1,304	-	3,177	-	4,481
Decreases						
- Disposals	-	-	(4)	(78)	-	(82)
- Depreciation	-	(1,014)	(638)	(4,826)	(1,341)	(7,819)
- Decrease in fair value through:						
- profit or loss	-	-	(27)	(2)	-	(29)
- Other changes	-	(641)	(51)	-	(171)	(863)
Closing balance	21,020	38,811	2,372	10,981	3,882	77,066

REINSURERS' SHARE OF TECHNICAL RESERVES

€/'000	Dec. 31, 2005	Dec. 31, 2004
Life business reserves		
Mathematical reserves	104,369	107,594
Reserve for outstanding claims	1,368	1,173
Total Life Business reserves	105,737	108,767
Total reinsurers' share of life technical reserves	105,737	108,767

INVESTMENTS

Investment property

€/'000	Dec. 31, 2005	Dec. 31, 2004
Land	16,738	24,568
Buildings	5,538	8,820
Total	22,276	33,388

At year end 2005 the market value of investment property amounted to € 33,850 thousand.

Year's movements in investment property

€/'000	Land	Buildings
Opening balance	24,568	8,820
Decreases		
- Disposals	(7,830)	(3,029)
- Depreciation	-	(253)
Closing balance	16,738	5,538

Held-to-maturity investments

€/'000	Dec. 31, 2005	Dec. 31, 2004
Debt securities	733.680	734.449
Book value	733,680	734,449
Fair value	*751.564*	*744.066*

Analysis of held-to-maturity investments by issuer

€/'000	Dec. 31, 2005	Dec. 31, 2004
Debt securities		
Governments and Central Banks	709,512	710,819
Banks	24,168	23,472
Other issuers	-	158
Total	733,680	734,449

The time to maturity of held-to-maturity investments is set out in the table below:

€/'000	Dec. 31, 2005
Time to maturity	
1-5 years	502,645
5-10 years	102,430
over 10 years	128,605
Total	733,680

Loans and receivables

€/'000	Dec. 31, 2005	Dec. 31, 2004
Banks	2,374,028	1,173,338
Banking customers	955,449	578,627
Other	12,915	14,272
Total	3,342,392	1,766,237

Loans and receivables: banks

€/'000	Dec. 31, 2005	Dec. 31, 2004
Deposits with Central Banks		
- for reserve requirements	7,283	9,051
Loans to banks		
- time deposits	2,211,011	1,059,286
- other loans	155,734	105,001
Total	2,374,028	1,173,338
Fair value	*2,374,028*	*1,173,338*

Loans and receivables: banking customers

€/'000	Dec. 31, 2005	Dec. 31, 2004
Current accounts	166,204	154,412
Repurchase agreements	43,565	-
Mortgage loans	186,651	66,298
Credit cards, personal loans and salary-guaranteed loans	73,844	88,216
Finance leases	2,244	2,819
Other	457,870	258,363
Impaired assets	25,071	8,519
Total	955,449	578,627
Fair value	*982,257*	*583,676*

Analysis of customer loans by borrower

€/'000	Dec. 31, 2005	Dec. 31, 2004
Loans to:		
- non financial companies	15,033	16,975
- financial companies	433,038	159,063
- insurance companies	6	2
- others	482,301	393,507
Impaired loans:		
- non financial companies	327	-
- financial companies	-	561
- others	24,744	8,519
Total	955,449	578,627

Available-for-sale financial assets

€/'000	Dec. 31, 2005	Dec. 31, 2004
Debt securities	545,194	548,699
Equities	292,358	182,006
Holdings in UCITS	7,614	7,614
Total	845,166	738,319

Analysis of available-for-sale financial assets by issuer

€/'000	Dec. 31, 2005	Dec. 31, 2004
Debt securities		
- Governments and central banks	376,191	380,628
- Banks	99,046	82,047
- Other issuers	69,957	86,024
Equities		
- Other issuers	292,358	182,006
Holdings in UCITS	7,614	7,614
Total	845,166	738,319

Financial assets at fair value through profit or loss

€/'000	Dec. 31, 2005	Dec. 31, 2004
Financial assets held for trading		
Debt securities	1,435,293	1,988,997
Equities	9	26
Holdings in UCITS	58,737	59,045
Trading derivatives	10,605	10,228
Total	1,504,644	2,058,296
Financial assets at fair value		
Debt securities	5,056,353	4,501,008
Holdings in UCITS	6,082,335	4,423,801
Total	11,138,688	8,924,809
Total financial assets at fair value through profit or loss	12,643,332	10,983,105

Analysis of financial assets held for trading by debtor/issuer

€/'000	Dec. 31, 2005	Dec. 31, 2004
Non-derivatives		
Debt securities		
- Governments and central banks	964,660	960,267
- Banks	198,324	340,519
- Other issuers	272,309	688,211
Equities		
- Banks	-	4
- Other issuers	9	22
Holdings in UCITS	58,737	59,045
Total non-derivates	1,494,039	2,048,068
Derivatives		
- Banks	10,227	10,228
- Customers	378	-
Total derivatives	10,605	10,228
Total	1,504,644	2,058,296

Analysis of financial assets at fair value by debtor/issuer

€/'000	Dec. 31, 2005	Dec. 31, 2004
Debt securities		
- Banks	953,403	373,829
- Other issuers	4,102,950	4,127,179
Holdings in UCITS	6,082,335	4,423,801
Total	11,138,688	8,924,809

Financial assets held for trading: trading derivatives

€/'000	Interest rate	Currencies and gold	Other	Dec. 31, 2005	Dec. 31, 2004
Listed derivatives					
Financial derivatives					
• Without exchange of principal					
- Options purchased	4,714	-	-	4,714	4,169
- Other derivatives	(103)	-	-	(103)	(11)
Total listed derivatives	4,611	-	-	4,611	4,158
Unlisted derivatives					
Financial derivatives					
• With exchange of principal					
- Other derivatives	-	2,919	7	2,926	-
• Without exchange of principal					
- Options purchased	-	-	766	766	-
- Other derivatives	2,302	-	-	2,302	6,070
Total unlisted derivatives	2,302	2,919	773	5,994	6,070
TOTAL	6,913	2,919	773	10,605	10,228

OTHER ASSETS

Non-current assets and disposal groups

€/'000	Dec. 31, 2005	Dec. 31, 2004
Individual assets		
Tangible assets	372	372
Total	372	372

Deferred tax assets

€/'000	Dec. 31, 2005	Dec. 31, 2004
- charge to the income statement	39,590	25,927
- charge to equity	257	-
Total	39,847	25,927

Year's movements in deferred tax assets (charge to the income statement)

€/'000	Dec. 31, 2005	Dec. 31, 2004
Opening balance	25,927	26,216
Increases		
Deferred tax assets arisen in the year		
- changes in the accounting policies	8,496	1,653
- other	5,167	300
Decreases		
Deferred tax assets cancelled in the year		
- reversals	-	(2,242)
- Other decreases	-	-
Closing balance	39,590	25,927

Year's movements in deferred tax assets (charge to equity)

€/'000	Dec. 31, 2005	Dec. 31, 2004
Opening balance	-	-
Increases		
Deferred tax assets arisen in the year		
- changes in the accounting policies	-	-
- other	257	-
Other increases	-	-
Decreases		
Deferred tax assets cancelled in the year		
- reversals	-	-
- write-offs of non-recoverable amounts	-	-
Other decreases	-	-
Closing balance	257	-

Other Assets

€/'000	Dec. 31, 2005	Dec. 31, 2004
Commissions outstanding	36	16
Due from tax authorities	35,165	29,263
Receivables from financial advisors	7,291	8,744
Advances to suppliers and professionals	2,684	2,278
Security deposits	16,665	14,795
Receivables from companies within the Fininvest Group and the Doris Group	190	193
Receivables from associates	638	1,135
Receivables from employees	248	186
Other receivables	21,823	26,212
Items in transit	81,836	37,209
Accrued income	229	148
Prepayments	5,659	3,910
Other	34,870	13,764
Total	207,334	137,853

SHAREHOLDERS' EQUITY AND LIABILITIES

SHAREHOLDERS' EQUITY

€/'000	Dec. 31, 2005	Dec. 31, 2004
Share capital	72,738	72,567
Capital reserves	50,358	47,807
Retained earnings and other equity reserves	349,518	364,365
Treasury shares	(2,045)	-
Gains (losses) on available-for-sale financial assets	104,105	-
Group's profit (loss) for the year	233,312	159,055
Group's capital and reserves	807,986	643,794

Share capital is fully paid up and amounts to €72,737,993 divided into 727,379,930 ordinary shares.
The capital increase effected following the partial subscription and payment for shares under the capital increases resolved by the Board of Directors at its meetings of March 25, 2003 and May 13, 2003, pursuant to the authority conferred upon it by the shareholders for the implementation of the Stock Option Plan, was registered with the Milan Registrar of Companies on June 16, 2005. That capital increase amounted to €121,004.90 divided into 1,210,049 shares. On July 13, 2005 the Board of Directors resolved three share capital increases for a total of €132,544 thousand to be effected according to the timing set out in the Stock Option Plan.
Please note that there are no equity holders other than the Group.
For information on movements in the year readers are referred to the Statement of Changes in Equity herein.
Following the adoption of IFRS, in compliance with IAS 32 and IAS 39, treasury shares were reclassified and recognized in equity and the net gains or losses arising on fair value measurement of available-for-sale financial assets were recognized in a specific equity reserve. The analysis of that reserve is set out below.

Gains (losses) on available-for-sale financial assets

	Dec. 31, 2005		Dec. 31, 2004	
€/'000	Gains	Losses	Gains	Losses
Debt securities	1,637	(585)	-	-
Equities	103,053	-	-	-
Total	104,690	(585)	-	-

Year's movements in the revaluation reserve relating to available-for-sale financial assets

€/000	Debt securities	Equities
Opening balance	-	-
Increases		
Increase in fair value	1.637	103.053
Decreases		
Decrease in fair value	(585)	-
Closing balance	1.052	103.053

Earnings per share

Earnings per share

€/'000	Dec. 31, 2005	Dec. 31, 2004
Profit for the year	233,312	159,055
Weighted average number of shares outstanding	726,524	725,669
Earnings per share (in euro)	0.32	0.22

Diluted earnings per share

€/'000	Dec. 31, 2005	Dec. 31, 2004
Profit for the year	233,312	159,055
Weighted average number of shares outstanding	726,524	725,669
Adjustments for stock options with potential dilution effect	979	1,247
Weighted average number of shares outstanding for diluted earnings per share	727,503	726,916
Diluted earnings per share (in euro)	0.32	0.22

PROVISIONS

€/'000	Dec. 31, 2005	Dec. 31, 2004
Provision for tax claims	2,028	907
Other provisions	55,394	31,068
Total	57,422	31,975

Year's movements in provisions for risks and charges

€/'000	Tax claims	Other provisions
Opening balance	907	31,068
Increases		
- Year's provision	1,573	27,325
- Other increases	-	91
Decreases		
- Funds utilized in the year	(452)	(2,598)
- Other decreases	-	(492)
Closing balance	2,028	55,394

Analysis of other provisions

€/'000	Dec. 31, 2005	Dec. 31, 2004
Provision for other completion-of-service entitlements and similar obligations	1,754	1,798
Provision for sales network benefits	28,909	12,880
Provision for risks related to sales network's illegal actions	14,693	7,645
Other provisions for risks and charges	10,038	8,745
Total	55,394	31,068

TECHNICAL RESERVES

€/'000	Dec. 31, 2005	Dec. 31, 2004
Mathematical reserves	1,181,661	1,173,035
Reserve for outstanding claims	56,419	49,283
Technical reserves for contracts under which the investment risk is borne by the policyholder and in connection with pension fund management	9,917,893	8,993,397
Other reserves	45,409	53,587
of which for deferred liabilities to policyholders	10,607	-
Total	11,201,382	10,269,302

Mathematical reserves primarily relate to management of segregated funds for which the guaranteed minimum return in future years is estimated at 3.7%.

No minimum return is guaranteed under index and unit-linked policies, which account for the vast majority of policies written by the Group.

FINANCIAL LIABILITIES

Financial liabilities at fair value through profit or loss

€/'000	Dec. 31, 2005	Dec. 31, 2004
Financial liabilities held for trading		
Trading derivatives	42,939	2,091
Other financial liabilities	56,431	5,917
Total Financial liabilities held for trading	99,370	8,008
Financial liabilities at fair value through profit or loss		
Liabilities arising on financial contracts issued by insurance companies:		
- under which the investment risk is borne by the policyholder	1,292,367	-
- in connection with pension fund management	7,955	-
Total financial liabilities at fair value through profit or loss	1,300,322	-
Total financial liabilities at fair value through profit or loss	1,399,692	8,008

Financial liabilities held for trading: trading derivatives

€/'000	Interest rate	Currencies and gold	Equities	Other	Dec. 31, 2005	Dec. 31, 2004
Unlisted derivatives						
Financial derivatives						
- Other derivatives	-	3,336	-	-	3,336	-
• Without exchange of principal						
- Options issued	-	-	524	-	524	-
- Other derivatives	2,894	11	-	36,174	39,079	2,091
Total unlisted derivates	2,894	3,347	524	36,174	42,939	2,091
Total	2,894	3,347	524	36,174	42,939	2,091

Other financial liabilities

€/'000	Dec. 31, 2005	Dec. 31, 2004
Banks	1,148,403	618,227
Banking customers	3,718,562	3,455,537
Securities outstanding	-	4,994
Other	104,350	107,485
Total	4,971,315	4,186,243

Financial liabilities: Banks

€/'000	Dec. 31, 2005	Dec. 31, 2004
Central Banks	511,080	138,581
Other banks		
- Current accounts and demand deposits	47,638	23,665
- Time deposits	204,895	175,031
- Loans	384,706	280,206
- Other liabilities	84	744
Total	1,148,403	618,227

Financial liabilities: Banking customers

€/'000	Dec. 31, 2005	Dec. 31, 2004
Current accounts	3,381,651	3,084,674
Loans	161,757	150,019
Liabilities for assets that were sold but not derecognized	108,870	152,600
Other liabilities	66,284	68,244
Total	3,718,562	3,455,537

Financial liabilities: Other

€/'000	Dec. 31, 2005	Dec. 31, 2004
Reinsurers' deposits	104,350	107,485
Total	104,350	107,485

PAYABLES

Other payables

€/'000	Dec. 31, 2005	Dec. 31, 2004
Employee completion-of-service entitlements	13,410	12,016
Payables to suppliers	100,885	78,403
Other payables	94,051	52,155
Total	208,346	142,574

Year's movements in employee completion-of-service entitlements

€/'000	Dec. 31, 2005
Opening balance	12,016
Increases	
- Amounts set aside in the year	3,372
- Other increases	114
Decreases	
- Funds used in the year	(797)
- Other decreases	(1,295)
Closing balance	13,410

Other payables

€/'000	Dec. 31, 2005	Dec. 31, 2004
Mediolanum Group associates	642	1,246
Tax authorities	45,700	15,843
Social security agencies	3.505	2,902
Consultants, professionals, directors and statutory auditors	505	453
Suppliers	6,674	6,384
Companies within the Fininvest Group and the Doris Group	1,982	1,978
Employees	380	307
Tax payable by policyholders	1,629	1,727
Dividends payable to shareholders	69	7,434
Security deposits	1,096	3,876
Other	31,869	10,005
Total	94,051	52,155

OTHER LIABILITIES

Deferred tax liabilities

€/'000	Dec. 31, 2005	Dec. 31, 2004
- charge to the income statement	10,688	12,577
- charge to equity	6,753	-
Total	17,441	12,577

The increase in deferred tax liabilities is largely in connection with the provision for corporate income tax (IRES) on the revaluation reserve relating to available-for-sale financial assets.

Year's movements in deferred tax liabilities (charge to the income statement)

€/'000	Dec. 31, 2005	Dec. 31, 2004
Opening balance	(12,577)	(9,643)
Increases		
Deferred tax liabilities arisen in the year		
- relating to prior years	(650)	-
- due to changes in the accounting policies	(534)	(2,630)
- other	-	(304)
Decreases		
Deferred tax liabilities cancelled in the year		
- reversal	-	-
- other	2,867	-
Other decreases	206	-
Closing balance	(10,688)	(12,577)

Year's movements in deferred tax liabilities (charge to equity)

€/'000	Dec. 31, 2005	Dec. 31, 2004
Opening balance	-	-
Increases		
Deferred tax liabilities arisen in the year		
- relating to prior years	-	-
- due to changes in the accounting policies	(776)	-
- other	(5,977)	-
Other increases	-	-
Decreases		
Deferred tax liabilities canceled in the year		
- due to changes in the accounting policies	-	-
Other decreases	-	-
Closing balance	(6,753)	-

Other liabilities

€/'000	Dec. 31, 2005	Dec. 31, 2004
Agents' severance benefits	2,870	2,940
Security deposits	4,559	12,263
Provision for staff costs	4,445	3,861
Items in transit	74,330	26,840
Deferred income	1,243	294
Accrued expenses	437	270
Other	87,326	5,937
Total	175,210	52,405

PART D – INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

TECHNICAL ACCOUNT – LIFE INSURANCE

As of December 31, 2005

€/'000	Gross	Reinsurance	Net
Gross premiums written less reinsurance premiums			
- Premiums written	2,455,254	(6,530)	2,448,724
Total premiums written	2,455,254	(6,530)	2,448,724
Gross claims paid less recoveries from reinsurers			
- Claims paid	(1,373,134)	11,324	(1,361,810)
- Change in reserve for outstanding claims	(12,762)	195	(12,567)
- Change in mathematical reserves	1,029	(3,224)	(2,195)
- Change in other technical reserves	8,818	-	8,818
- Change in technical reserves for contracts under which the investment risk is borne by the policyholder and reserves relating to pension fund management	(2,014,442)	-	(2,014,442)
Total claims paid and change in technical reserves	(3,390,491)	8,295	(3,382,196)
Life Insurance net income (expense)	(935,237)	1,765	(933,472)

Gross premiums written

€/000	Dec. 31, 2005
Gross premiums written	-
Class III products	2,386,092
Traditional products	69,162
Total gross premiums written	2,455,254

As of December 31, 2004

€/'000	Gross	Reinsurance	Net
Gross premiums written less reinsurance premiums			
- Premiums written	2,396,996	(7,090)	2,389,906
Total premiums written	2,396,996	(7,090)	2,389,906
Gross claims paid less recoveries from reinsurers			
- Claims paid	(920,774)	11,480	(909,294)
- Change in reserve for outstanding claims	12,397	(980)	11,417
- Change in mathematical reserves	66,574	(1,428)	65,146
- Change in other technical reserves	2,915	-	2,915
- Change in technical reserves for contracts under which the investment risk is borne by the policyholder and reserves relating to pension fund management	(1,821,936)	-	(1,821,936)
Total claims paid and change in technical reserves	(2,660,824)	9,072	(2,651,752)
Life Insurance net income (expense)	(263,828)	1,982	(261,846)

Please note that following the adoption of IFRS 4 from January 1, 2005 premiums written on contracts for which the financial nature prevails over the insurance nature were accounted for using deposit accounting.
Premiums relating to said contracts accounted for using deposit accounting amounted to € 109,472 thousands.

COMMISSION INCOME

€/'000	Dec. 31, 2005	Dec. 31, 2004
Guarantees issued	230	243
Credit derivatives	99	92
Management, brokerage and consulting services:	496,927	368,392
– Financial instruments brokerage	12,092	12,499
– Currency brokerage	53	51
– Asset management	357,260	229,142
- individual portfolio management - collective portfolio management	343,333 13,927	216,498 12,644
– Securities in custody and under administration	9,954	6,232
– Custodian bank	857	852
– Sales of securities	979	760
– Order taking	7,025	6,525
– Consultancy	260	417
– Services to third parties	108,447	111,914
- asset management	21,248	20,440
- individual portfolio management - collective portfolio management	17,326 3,922	19,705 735
- insurance products	33,392	27,610
- other products	53,807	63,864
Collection and payment services	32,820	24,903
Loadings on investment contracts	23,387	-
Other services	23,353	12,681
Total	576,816	406,311

COMMISSION EXPENSE

€/'000	Dec. 31, 2005	Dec. 31, 2004
Management, brokerage and consulting services:	97,648	75,313
- Financial instruments brokerage	2,853	2,812
- Currency brokerage	224	313
- Asset management	24,740	16,964
- Securities in custody and under administration	436	466
- Sales of securities	360	124
- Off-premises sales of securities, products and services	69,035	54,634
Collection and payment services	25,537	16,910
Commissions on the acquisition of investment contracts	9,666	-
Other services	13,270	10,780
Total	146,121	103,003

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

€/'000	Dec. 31, 2005	Dec. 31, 2004
Investment income		
Financial assets		
Interest income and other investment income:		
- from financial assets held for trading	38,477	26,592
- from financial assets at fair value through profit or loss	191,509	251,994
- other income from financial assets at fair value	-	193
Net income from financial assets held for trading	9,423	7,310
Net income from financial assets at fair value through profit or loss	1,173,138	179,849
Financial liabilities		
Interest expense and similar charges:		
- on financial liabilities held for trading	(60,353)	(193)
Net income from financial liabilities held for trading	670	-
Net loss on financial liabilities at fair value through profit or loss	(221,814)	(147)
Total	1,131,050	465,598

Analysis of net income from financial assets held for trading

€/'000	Unrealized gains (A)	Realized trading profits (B)	Unrealized losses (C)	Realized losses (D)	Net income [(A+B)-(C+D)]
Financial assets held for trading					
Debt securities	1,290	23,411	(1,970)	(17,153)	5,578
Equities	-	246	-	(165)	81
Holdings in UCITS	2,226	1,276	-	-	3,502
Other financial assets and liabilities: exchange differences	-	-	-	-	3,181
Derivatives					
Financial derivatives:					
- debt securities and interest rates	2,323	17,984	(2,896)	(19,187)	(1,776)
- equities and stock indices	-	1	-	(4)	(3)
- other	2,254	9,769	(3,336)	(9,827)	(1,140)
Total	8,093	52,687	(8,202)	(46,336)	9,423

Analysis of net income from financial assets through profit or loss

€/'000	Unrealized gains (A)	Realized trading profits (B)	Unrealized losses (C)	Realized losses (D)	Net income [(A+B)-(C+D)]
Financial assets at fair value	1,457,796	104,148	(324,128)	(64,678)	1,173,138

Analysis of net income from financial liabilities held for trading

€/'000	Unrealized gains (A)	Realized trading profits (B)	Unrealized losses (C)	Realized losses (D)	Net income [(A+B)-(C+D)]
Financial liabilities held for trading					
Debt securities	193	1,020	(74)	(469)	670

INVESTMENT INCOME AND EXPENSE

€/'000	Dec. 31, 2005	Dec. 31, 2004
Interest income and other income	132,797	114,699
Realized gains	14,319	8,653
Unrealized gains	7,434	7,191
Total income	154,550	130,543
Interest expense and other charges	(73,578)	(64,146)
Realized losses	(248)	(184)
Unrealized losses	(11,414)	(13,827)
Total expense	(85,240)	(78,157)
Total net investment income	69,310	52,386
Net investment income from:		
Investment property	6,914	3,536
Available-for-sale financial assets	24,645	21,724
Held-to-maturity investments	22,222	22,246
Loans and receivables	86,652	67,756
Financial liabilities	(71,123)	(62,876)
Total net investment income	69,310	52,386

Investment property

€/'000	Dec. 31, 2005	Dec. 31, 2004
Realized gains	7,375	3,490
Realized losses	-	(46)
Other income	1,142	1,072
Other expenses	(1,603)	(980)
Total	6,914	3,536

Available-for-sale financial assets

€/'000	Dec. 31, 2005	Dec. 31, 2004
Interest income and other income	18,355	16,824
Realized gains	6,944	5,163
Realized losses	(248)	(138)
Unrealized losses	(406)	(125)
Total	24,645	21,724

Held-to-maturity investments

€/'000	Dec. 31, 2005	Dec. 31, 2004
Interest income and other income	22,222	22,246
Total	22,222	22,246

Loans and receivables

€/'000	Dec. 31, 2005	Dec. 31, 2004
Interest income and other income	90,037	73,940
Unrealized gains	7,369	7,191
Unrealized losses	(10,754)	(13,375)
Total	86,652	67,756

Interest income and other income

€/'000	Dec. 31, 2005	Dec. 31, 2004
Loans to banks	58,089	52,056
Loans to customers	31,948	21,884
Total	90,037	73,940

Financial liabilities

€/'000	Dec. 31, 2005	Dec. 31, 2004
Interest income and other income	1,041	617
Interest expense and other charges	(71,975)	(63,166)
Unrealized gains	65	-
Unrealized losses	(254)	(327)
Total	(71,123)	(62,876)

OTHER REVENUES

€/'000	Dec. 31, 2005	Dec. 31, 2004
Fixed duties on insurance products	16,936	17,053
Recoveries of expenses on contracts and services rendered	3,177	3,909
Miscellaneous compensation	2,710	987
Other	2,253	4,265
Other services	2,050	1,011
Recoveries of expenses from customers	900	121
Recoveries of expenses from financial advisors	462	311
Rentals from Group-owned property	150	148
Total	28,638	27,805

OPERATING EXPENSES

€/'000	Dec. 31, 2005	Dec. 31, 2004
Commissions and other expenses relating to the acquisition of insurance contracts	135,717	132,434
Investment management expenses	484	780
Other administrative expenses		
Employees	100,528	91,711
Adverting and promotions	19,305	8,979
Advisory services and collaborations	25,082	22,861
IT systems	28,298	28,252
Miscellaneous communications services	14,758	14,457
Other general expenses	42,044	37,290
Total other administrative expenses	230,015	203,550
Total	366,216	336,764

Average number of employees by category

Units	Dec. 31, 2005	Dec. 31, 2004
Employees:		
a) senior management	100	103
b) middle management	218	303
c) other employees	1,107	994
Total employees	1,425	1,400
Other personnel	189	77
Total	1,614	1,477

OTHER EXPENSES

€/'000	Dec. 31, 2005	Dec. 31, 2004
Employees	3,797	3,173
Amortization of intangible assets	16,191	18,164
Depreciation of investment property and other assets	8,038	9,621
Provisions for risks and charges	25,161	7,366
Impairment losses on goodwill	14,780	-
Other miscellaneous expenses	15,826	15,583
Total	83,793	53,907

Provisions for risks and charges

€/'000	Dec. 31, 2005	Dec. 31, 2004
Provision for sales network benefits	16,491	3,833
Provision for risks related to financial advisors' illegal actions	7,248	2,797
Other provisions for risks and charges	1,422	736
Total	25,161	7,366

INCOME TAXES

€/'000	Dec. 31, 2005	Dec. 31, 2004
Current taxes (-)	(63,122)	(46,433)
Change in prior years' current taxes (+/-)	(1,167)	371
Decrease in the year's current taxes (+)	49	73
Change in deferred tax assets (+/-)	5,169	(1,944)
Change in deferred tax liabilities (+/-)	2,422	(303)
Income tax charge for the year (-)	(56,649)	(48,236)

Reconciliation between theoretical and effective tax rates

€/'000	Dec. 31, 2005
Theoretical tax rate	16.9%
Profit for the year before taxes	289,961
Theoretical tax expense	(49,003)
Non-deductible costs	(10,089)
Non-taxable income	8,876
Irap (regional business tax) and other taxes	(6,433)
Tax expense	(56,649)
Effective tax rate	19.54%

PART E – SEGMENTAL INFORMATION

This section presents consolidated financial results reported by business segment (primary format), i.e. Life Insurance, Banking, Asset Management and Other, and then by geographical segment (secondary segment) by reference to the Group markets, i.e. Domestic and Foreign markets.

In compliance with IAS 14, segment reporting reflects the management reporting system of the Mediolanum Group, and is consistent with the information disclosed to the market and to the various stakeholders. In certain instances that exercise entailed item reclassifications.

To enable a clearer and more accurate analysis of financial information, comparative figures include the estimated impact on result of operations of the adoption of IAS 39 from January 1, 2004.

For the purpose of segment reporting of balance sheet information the various companies were allocated to their respective business segment.

That entailed, on the one hand, the elimination of inter-company balances within the same segment and, on the other hand, the inclusion of inter-segment transaction balances. Comparative figures do not include the estimated impact on the balance sheet of the adoption of IAS 39 from January 1, 2004 as that impact was considered to be not material.

INCOME STATEMENT AS AT DECEMBER 31, 2005

Mediolanum Group - Financial information by Business Segment

	LIFE INSURANCE			BANKING		
€/000	2005	2004	delta	2005	2004	delta
Net premiums written	2,448,725	2,295,190	153,535	-	-	-
Entry fees	-	-	-	-	-	-
Management fees	111,630	85,629	26,001	-	-	-
Performance fees	68,460	20,089	48,371	-	-	-
Fees and other income from banking services	-	-	-	71,487	75,180	(3,692)
Other fees	22,871	18,826	4,045	1,321	1,337	(16)
Total commission income	202,962	124,544	78,417	72,809	76,517	(3,708)
Interest income and similar income	13,985	15,626	(1,641)	136,892	115,502	21,390
Interest expense and similar charges	(4,794)	(4,820)	26	(73,779)	(61,818)	(11,961)
Income (loss) on investments at fair value	6,682	2,346	4,336	3,419	5,212	(1,793)
Net interest income and net income on investments at fair value	15,873	13,152	2,721	66,531	58,896	7,635
Income from other investments	12,663	3,628	9,035	1,121	3,921	(2,800)
Other revenues	17,596	18,911	(1,315)	8,626	7,044	1,582
TOTAL REVENUES	2,697,818	2,455,425	242,393	149,087	146,378	2,709
Claims paid and change in technical reserves	(2,267,443)	(2,119,875)	(147,568)	-	-	-
Commission expense and acquisition costs	(148,001)	(127,806)	(20,195)	(42,333)	(34,409)	(7,923)
Impairment losses	(1,547)	(17)	(1,531)	(1,509)	(2,494)	984
General and administrative expenses	(86,803)	(74,273)	(12,530)	(96,980)	(88,093)	(8,887)
Amortization and depreciation	(6,467)	(6,752)	285	(12,657)	(14,806)	2,149
Provisions for risks and charges	(15,542)	(5,264)	(10,278)	(2,557)	160	(2,717)
PRE-TAX PROFIT	172,015	121,438	50,576	(6,949)	6,735	(13,685)
Income taxes						
NET PROFIT /LOSS						

ASSET MANAGEMENT			OTHER			consolidation entries			GRAND TOTAL		
2005	2004	delta	2005	2004	delta	2005	2004	delta	2005	2004	delta
-	-	-	-	-	-	-	-	-	2,448,725	2,295,190	153,535
43,098	28,874	14,224	581	694	(113)	(581)	(694)	113	43,098	28,874	14,224
153,886	141,388	12,498	-	-	-	414	694	(280)	265,930	227,711	38,219
84,115	36,669	47,447	-	-	-	-	-	-	152,575	56,758	95,817
1,299	1,903	(605)	-	-	-	(1,354)	(1,163)	(191)	71,432	75,920	(4,488)
15,707	12,417	3,290	4,277	4,575	(298)	(628)	(1,433)	805	43,549	35,722	7,827
298,105	221,251	76,854	4,858	5,269	(411)	(2,149)	(2,596)	447	576,584	424,985	151,600
2,665	2,505	160	1,286	811	475	(15,373)	(2,182)	(13,191)	139,455	132,262	7,193
(408)	(515)	107	(8,778)	(9,048)	270	15,370	2,182	13,188	(72,389)	(74,019)	1,630
75	(9)	84	(4)	-	(4)	-	-	-	10,171	7,549	2,622
2,332	1,981	351	(7,496)	(8,237)	741	(3)	-	(3)	77,237	65,792	11,445
374	351	23	12,860	11,372	1,488	-	-	-	27,018	19,272	7,746
728	899	(171)	2,957	1,751	1,206	(791)	(393)	(398)	29,116	28,212	904
301,539	224,482	77,057	13,179	10,155	3,024	(2,943)	(2,989)	46	3,158,680	2,833,451	325,229
-	-	-	-	-	-	-	-	-	(2,267,443)	(2,119,875)	(147,568)
(83,209)	(64,684)	(18,524)	(4,240)	(3,877)	(363)	795	1,436	(641)	(276,987)	(229,341)	(47,647)
(15,478)	(454)	(15,024)	(41)	(581)	540	-	-	-	(18,575)	(3,545)	(15,030)
(70,886)	(65,172)	(5,714)	(3,543)	(3,771)	228	2,148	1,553	595	(256,065)	(229,757)	(26,308)
(5,189)	(5,982)	792	(175)	(242)	67	-	-	-	(24,489)	(27,782)	3,293
(6,660)	(2,101)	(4,559)	(402)	(162)	(240)	-	-	-	(25,161)	(7,366)	(17,795)
120,117	86,089	34,027	4,778	1,522	3,256	-	-	-	289,960	215,786	74,175
									(56,648)	(51,669)	(4,979)
									233,312	164,117	69,196

INCOME STATEMENT AS AT DECEMBER 31, 2005

Financial information by Business Segment / Italian market

	LIFE INSURANCE			BANKING		
€/000	2005	2004	delta	2005	2004	delta
Net premiums written	2,432,018	2,284,251	147,767	-	-	-
Entry fees	-	-	-	-	-	-
Management fees	111,630	85,629	26,001	-	-	-
Performance fees	68,460	20,089	48,371	-	-	-
Fees and other income from banking services	-	-	-	40,441	53,085	(12,644)
Other fees	12,990	14,905	(1,915)	7	1,027	(1,020)
Total commission income	193,080	120,623	72,457	40,448	54,112	(13,664)
Interest income and similar income	11,783	14,148	(2,365)	120,518	98,529	21,989
Interest expense and similar charges	(4,794)	(4,820)	26	(65,851)	(51,249)	(14,602)
Income (loss) on investments at fair value	6,682	2,346	4,336	3,521	5,069	(1,548)
Net interest income and net income on investments at fair value	13,671	11,674	1,997	58,188	52,349	5,839
Income from other investments	12,663	3,628	9,035	141	-	141
Other revenues	17,596	18,911	(1,315)	7,394	5,489	1,905
TOTAL REVENUES	2,669,027	2,439,087	229,940	106,170	111,950	(5,780)
Claims paid and change in technical reserves	(2,250,293)	(2,108,881)	(141,412)	-	-	-
Commission expense and acquisition costs	(144,362)	(126,111)	(18,251)	(19,458)	(19,507)	49
Impairment losses	(1,547)	(17)	(1,531)	(1,712)	(742)	(971)
General and administrative expenses	(82,120)	(70,010)	(12,110)	(70,457)	(63,344)	(7,113)
Amortization and depreciation	(5,872)	(6,420)	548	(10,152)	(11,235)	1,083
Provisions for risks and charges	(15,542)	(5,264)	(10,278)	(1,859)	(729)	(1,130)
PRE-TAX PROFIT	169,291	122,384	46,907	2,532	16,394	(13,862)
Income taxes						
NET PROFIT / LOSS						

ASSET MANAGEMENT			OTHER			consolidation entries			GRAND TOTAL		
2005	2004	delta	2005	2004	delta	2005	2004	delta	2005	2004	delta
-	-	-	-	-	-	-	-	-	2,432,018	2,284,251	147,767
37,695	24,884	12,811	-	-	-	-	-	-	37,695	24,884	12,811
136,466	124,891	11,575	-	-	-	-	-	-	248,096	210,520	37,576
77,646	35,301	42,346	-	-	-	-	-	-	146,106	55,390	90,717
-	-	-	-	-	-	(1,354)	(1,160)	(194)	39,087	51,925	(12,838)
15,578	12,284	3,294	4,277	4,575	(298)	-	-	-	32,852	32,791	61
267,385	197,360	70,026	4,277	4,575	(298)	(1,354)	(1,160)	(194)	503,837	375,510	128,327
2,434	2,352	82	1,286	811	475	(10,074)	(7,739)	(2,335)	125,947	108,101	17,846
(82)	(165)	83	(8,778)	(9,048)	270	10,074	7,739	2,335	(69,431)	(57,543)	(11,888)
(2)	1	(3)	(4)	-	(4)	-	-	-	10,196	7,416	2,780
2,350	2,188	162	(7,496)	(8,237)	741	-	-	-	66,712	57,974	8,738
285	280	5	12,860	11,372	1,488	-	-	-	25,949	15,280	10,669
484	724	(240)	2,957	1,751	1,206	-	-	-	28,431	26,875	1,556
270,504	200,552	69,953	12,598	9,461	3,137	(1,354)	(1,160)	(194)	3,056,946	2,759,890	297,056
-	-	-	-	-	-	-	-	-	(2,250,293)	(2,108,881)	(141,412)
(71,084)	(54,763)	(16,321)	(4,240)	(3,877)	(363)	-	-	-	(239,144)	(204,258)	(34,886)
(698)	(454)	(244)	(41)	(581)	540	-	-	-	(3,998)	(1,793)	(2,205)
(59,999)	(55,193)	(4,806)	(2,837)	(3,079)	242	1,354	1,160	194	(214,059)	(190,466)	(23,593)
(4,579)	(5,045)	466	(175)	(242)	67	-	-	-	(20,778)	(22,942)	2,164
(6,620)	(1,944)	(4,676)	(402)	(162)	(240)	-	-	-	(24,423)	(8,098)	(16,325)
127,525	83,153	44,371	4,903	1,521	3,382	-	-	-	304,251	223,452	80,799
									(54,446)	(50,597)	(3,849)
									249,805	172,855	76,950

INCOME STATEMENT AS AT DECEMBER 31, 2005

Financial information by Business Segment / Foreign market

	LIFE INSURANCE			BANKING		
€/000	2005	2004	delta	2005	2004	delta
Net premiums written	16,707	10,939	5,768	-	-	-
Entry fees	-	-	-	-	-	-
Management fees	-	-	-	-	-	-
Performance fees	-	-	-	-	-	-
Fees and other income from banking services	-	-	-	31,046	22,095	8,952
Other fees	9,881	3,921	5,960	1,314	310	1,004
Total commission income	9,881	3,921	5,960	32,361	22,405	9,956
Interest income and similar income	2,202	1,478	724	16,374	16,973	(599)
Interest expense and similar charges	-	-	-	(7,928)	(10,569)	2,641
Income (loss) on investments at fair value	-	-	-	(102)	143	(245)
Net interest income and net income on investments at fair value	2,202	1,478	724	8,343	6,547	1,796
Income from other investments	-	-	-	980	3,921	(2,941)
Other revenues	-	-	-	1,233	1,555	(322)
TOTAL REVENUES	28,791	16,338	12,453	42,917	34,428	8,489
Claims paid and change in technical reserves	(17,150)	(10,994)	(6,156)	-	-	-
Commission expense and acquisition costs	(3,639)	(1,695)	(1,944)	(22,874)	(14,902)	(7,972)
Impairment losses	-	-	-	203	(1,752)	1,955
General and administrative expenses	(4,683)	(4,262)	(421)	(26,523)	(24,749)	(1,774)
Amortization and depreciation	(595)	(332)	(263)	(2,505)	(3,571)	1,066
Provisions for risks and charges	-	-	-	(698)	889	(1,587)
PRE-TAX PROFIT	2,724	(945)	3,669	(9,481)	(9,658)	177
Income taxes						
NET PROFIT / LOSS						

ASSET MANAGEMENT			OTHER			consolidation entries			GRAND TOTAL		
2005	2004	delta	2005	2004	delta	2005	2004	delta	2005	2004	delta
-	-	-	-	-	-	-	-	-	16,707	10,939	5,768
5,403	3,990	1,413	581	694	(113)	(581)	(694)	113	5,403	3,990	1,413
17,420	16,497	923	-	-	-	581	694	(113)	18,001	17,191	810
6,469	1,368	5,101	-	-	-	-	-	-	6,469	1,368	5,101
1,299	1,903	(605)	-	-	-	-	-	-	32,345	23,998	8,347
129	133	(4)	-	-	-	-	(875)	875	11,325	3,489	7,836
30,720	23,891	6,828	581	694	(113)	-	(875)	875	73,543	50,036	23,507
231	153	78	-	-	-	-	-	-	18,807	18,604	203
(326)	(350)	24	-	-	-	-	-	-	(8,254)	(10,919)	2,665
77	(10)	87	-	-	-	-	-	-	(25)	133	(158)
(18)	(207)	189	-	-	-	-	-	-	10,528	7,818	2,710
89	71	18	-	-	-	-	-	-	1,069	3,992	(2,923)
244	175	69	-	-	-	(384)	(393)	9	1,093	1,337	(244)
31,035	23,930	7,104	581	694	(113)	(384)	(1,268)	884	102,939	74,122	28,817
-	-	-	-	-	-	-	-	-	(17,150)	(10,994)	(6,156)
(12,125)	(9,922)	(2,203)	-	-	-	-	875	(875)	(38,638)	(25,644)	(12,994)
(14,780)	-	(14,780)	-	-	-	-	-	-	(14,577)	(1,752)	(12,825)
(10,887)	(9,979)	(908)	(706)	(693)	(13)	384	393	(9)	(42,416)	(39,291)	(3,125)
(610)	(937)	326	-	-	-	-	-	-	(3,711)	(4,840)	1,129
(40)	(157)	117	-	-	-	-	-	-	(738)	732	(1,470)
(7,408)	2,936	(10,344)	(125)	1	(126)	-	-	-	(14,291)	(7,666)	(6,624)
									(2,264)	(1,072)	(1,192)
									(16,555)	(8,738)	(7,816)

BALANCE SHEET AS AT DECEMBER 31, 2005

Mediolanum Group - Financial information by Business Segment

€/000	LIFE INSURANCE 2005	LIFE INSURANCE 2004	BANKING 2005	BANKING 2004
ASSETS				
Intangible Assets	(8,122)	(10,894)	(142,953)	(147,073)
Property	(43,607)	(55,148)	(28,838)	(28,576)
Securities	(12,733,602)	(10,267,817)	(1,635,722)	(2,287,736)
Financial assets - Banks	(305,822)	(292,203)	(2,695,049)	(1,215,213)
Financial assets - Customers	5	3	(890,011)	(568,879)
Other assets	(303,313)	(136,650)	(329,844)	(218,557)
Non-allocable assets	-	-	-	-
Total assets	(13,394,461)	(10,762,709)	(5,722,417)	(4,466,034)
LIABILITIES AND EQUITY				
Financial liabilities - Banks	237,016	250,052	911,361	367,656
Financial liabilities - Customers	-	-	4,108,207	3,671,621
Other financial liabilities	1,440,846	109,475	63,196	11,012
Technical reserves	11,201,382	10,269,302	-	-
Provisions for risks and charges	746	780	53,818	29,358
Other liabilities	227,002	128,240	222,039	160,258
Shareholders' equity	-	-	-	-
Net profit for the year	-	-	-	-
Total liabilities and equity	13,106,992	10,757,849	5,358,621	4,239,905

ASSET MANAGEMENT		OTHER		consolidation entries		GRAND TOTAL		
2005	2004	2005	2004	2005	2004	2005	2004	delta
(32,602)	(47,493)	(4,256)	(4,256)	-	-	(187,933)	(209,716)	21,783
(7,980)	(8,145)	(1,683)	(1,702)	-	-	(82,108)	(93,571)	11,463
(8,104)	(7,986)	1,926	(314)	111,054	70,219	(14,264,448)	(12,493,634)	(1,770,814)
(58,505)	(146,109)	(594)	(2,999)	243,026	146,799	(2,816,944)	(1,509,725)	(1,307,219)
(79,054)	(24,843)	-	-	13,611	15,092	(955,449)	(578,627)	(376,822)
(14,398)	(20,758)	(8,322)	(5,799)	70,797	(123,819)	(585,080)	(505,583)	(272,573)
-	-	-	-	-	-	-	-	-
(200,643)	(255,334)	(12,929)	(15,070)	438,488	108,291	(18,891,962)	(15,390,856)	(3,694,182)
10,705	14,464	575	519	(11,254)	(14,464)	1,148,403	618,227	530,176
509	642	-	-	(390,154)	(216,726)	3,718,562	3,455,537	263,025
-	-	-	-	-	-	1,504,042	120,487	1,383,555
-	-	-	-	-	-	11,201,382	10,269,302	932,080
2,842	1,837	16	-	-	-	57,422	31,975	25,447
36,186	26,885	6,017	6,362	(37,079)	(70,211)	454,165	251,534	202,633
-	-	-	-	-	-	574,674	484,739	90,321
-	-	-	-	-	-	233,312	159,055	266,942
50,242	43,828	6,608	6,881	(438,487)	(301,401)	18,891,962	15,390,856	3,694,182

BALANCE SHEET AS AT DECEMBER 31, 2005

Mediolanum Group - Financial information by Geographical segment

€/000	ITALIAN MARKET	FOREIGN MARKET	consolidation entries	TOTAL
ASSETS				
Intangible Assets	(26,616)	(161,317)	-	(187,933)
Property	(63,685)	(18,423)	-	(82,108)
Securities	(13,967,301)	(297,147)	-	(14,264,448)
Financial assets - Banks	(2,782,190)	(159,060)	124,306	(2,816,944)
Financial assets - Customers	(772,815)	(193,716)	11,082	(955,449)
Other assets	(450,271)	(224,006)	89,197	(585,080)
Non-allocable assets	-	-	-	-
Total assets	(18,062,878)	(1,053,669)	224,585	(18,891,962)
LIABILITIES AND EQUITY				
Financial liabilities - Banks	1,355,406	13,053	(220,056)	1,148,403
Financial liabilities - Customers	3,270,845	452,018	(4,301)	3,718,562
Other financial liabilities	1,318,435	185,607	-	1,504,042
Technical reserves	11,135,185	66,197	-	11,201,382
Provisions for risks and charges	51,680	5,742	-	57,422
Other liabilities	394,671	59,722	(228)	454,165
Shareholders' equity	-	-	-	574,674
Net profit for the year	-	-	-	233,312
Total liabilities and equity	17,526,222	782,339	(224,585)	18,891,962

PART F – INFORMATION ON RISKS AND RISK MANAGEMENT

Risk Management and Internal Control

The Group's system of risk management and internal control consists of the set of rules, procedures and organizational structures established to ensure adherence to corporate strategies, effectiveness and efficiency of corporate processes, protection of the company's assets and proper management of customer assets, reliability and integrity of accounting and management information as well as compliance of transactions with the law, the regulations issued by Supervisory Authorities, self-discipline and internal rules.

The Mediolanum Group places great importance on risk management and control and structured it around four core principles:

– Measurement systems in line with international best practices;
– Clear lines of responsibility for risks undertaken;
– Segregation of duties between operating and control units;
– Progressive integration of risk indicators into the investment process.

The Board has overall responsibility for ensuring compliance with corporate targets, using among other things planning tools, and for periodically reviewing their implementation.

The principal types of controls embedded in the Group's lending and financial management operations are:

- Line controls (first level): i.e. controls made by the individuals who carry out a certain activity and by their supervisors, generally within the same organizational unit or function;
- Risk controls (second level): i.e. controls performed by units other than operating units; they contribute to the definition of operating limits and risk measurement methods and verify compliance of transactions with the risk/return targets set by corporate bodies in their respective areas of remit;
- Risk controls include control of compliance with the law, the regulations issued by Supervisory Authorities and self-discipline rules (e.g. codes of conducts) as well as any other rules applicable to the Company;
- Internal Audit (third level): i.e. the periodic assessment of the completeness, effectiveness and adequacy of the internal control system in relation to the nature and level of risks undertaken. Internal audit is performed by units that are independent of operating units.

An assessment of processes and related risk factors (risk assessment) was undertaken to ensure that the risk management and control system is adequate to the size, nature and complexity of the business and in compliance with the company's guidelines.

That exercise entailed the mapping of all corporate processes and the risks inherent in those processes.

Risk Control and Compliance

Beginning from the end of 2005 action was taken to develop a risk management and control framework which includes a second-level risk control function named "Risk Control and Compliance" responsible for:

- Contributing to the definition of risk measurement methods which are consistent with Group's strategies and comply with regulations;
- Contributing to the definition of operating limits for the various units and of methods for verifying those limits, in collaboration with line controls units;
- Validating the flows of information needed to ensure timely control of exposure to financial risk of managed assets, contributing to risk mitigation and, when possible, prevention of any anomalies;
- Assessing and proposing risk mitigation and preventive actions;
- Assessing consistency of investment choices and results with the risk/return profiles defined by the Board;
- Preparing reports to the Board of Directors, Senior Management and heads of operating units on risk evolution, performance and breaches of operating limits, proposing subsequent corrective measures;
- Verifying consistency of risk measurement models with operations, performing stress and back testing of used models.

The risk management and control framework sets out risk categories (underwriting, reserve, market, credit, liquidity, operational, legal, reputational risks and the risk faced by individual entities as a result of being members of the Group) as well as risk management and control procedures.

Procedures set out the roles and responsibilities of risk management and control staff as well as timing and manner in which risk can be identified. Processes are calibrated to the complexity of individual organizational units and their impact on risk.

The risk management and control framework currently under development, together with corroborative information, will be submitted for assessment and approval to the Company's Senior Management and Board of Directors within June 30, 2006.

The Group's Business Continuity & Disaster Recovery Plan will contain detailed procedures for crisis management and contingency plans. Those plans ensure that in case of a crisis prompt action is taken to overcome it or mitigate its effects and safeguard assets and operations as well as business continuity.

Contingency plans will be submitted to the Board of Directors for approval within June 30, 2006.

Operational risk

The Operational Risk Control unit within the Risk Control and Compliance function will be responsible for identifying, assessing and measuring operational risk, and for regularly reviewing the adequacy of the Group's capital also in relation to insurance coverage.

The Operational Risk Control unit will be separate and independent of operations and report directly to the Parent Company's Senior Management.

In consideration of the characteristics and business of the Mediolanum Group special attention is being paid to risks arising from Sales Network's activities and distribution through multiple remote channels. Those risks will be managed by putting in place, among other things, local controls and procedures for risk assessment, management, prevention and mitigation.

The operational risk management framework entails a central control unit (the Group operational risk unit) and local control units especially for those operations that are more exposed to operational risk: foreign banks or other organizational units (direct channels, sales network inspectors, Group Information Systems and Organization), also to facilitate coordination in relation to Business Continuity & Disaster Recovery Plans.

Close coordination with the Compliance function is also envisaged.

The development of the operational risk control framework was started at the end of 2005 and will continue in 2006. The operational risk control framework will be implemented throughout the Group, together with the IT tools required to support it.

The adequacy of the capital charge for operational risk will be assessed using the standardized approach under the Basel II Capital Accord which calculates the capital charge on the basis of gross income generated by each business line, in accordance with the classification proposed in that Capital Accord. That approach is classified as "sophisticated" and may be a transitional step to the Advanced Measurement Approach (AMA), whose implementation is currently being assessed as to timing, economic impact and expected benefits especially in relation to optimization of capital charge and insurance contracts.

In order to qualify for use of the Standardized Approach under the new Basel Capital Accord and Sound Practices certain requirements are to be satisfied. These requirements relate to three consistent areas:

1. Governance:

- Involvement of Senior Management in the oversight of the operational risk management framework,
- Implementation of a sound Operational Risk Management system,
- Classification of operational risk and implementation of risk management policies,
- Development of criteria for mapping gross income as set out in the Capital Accord,

2. Risk identification and measurement:

- Risk Assessment: the Group has already started the risk assessment process, i.e. the identification and classification of possible operational risk factors within all group structures, with detailed analysis of the activities, risk factors and controls in place. That process will be periodically reviewed by the Operational Risk Control unit to identify more risk-sensitive approaches and mitigation techniques, as well as to confirm capital adequacy to potential risk sources and their impact,
- Loss Data Collection: process of identification and measurement of losses resulting from an adverse event attributable to Operational Risk. That process will be closely integrated with financial reporting.

3. Reporting:

implementation of a system for internal (Business Unit and Senior Management) and external reporting (Supervisory Authorities and financial community).

The risk management system developed by the Risk Control function and the operational risk assessment system will be subject to regular review by independent auditors and/or supervisory authorities.

Insurance – Financial Risk and Credit Risk

Insurance

1 - Free Capital and Traditional Portfolio

The controls currently in place monitor ex post the value of underlying assets. Frequency of controls is established at the level of each entity.
The risk of asset-liability mismatch in the traditional reserve portfolio is periodically assessed using a simplified Asset Liability Management model.
Under the regulations in force the insurance companies within the Group are authorized to use derivatives to hedge current positions or to anticipate movements in underlying assets or liabilities.
Financial derivatives are primarily used to achieve operating targets with greater efficiency, flexibility and rapidity, to optimize portfolio management ("effective management") and to mitigate market risk arising on interest rate or foreign exchange rate movements.
An evolutionary integrated risk management and control framework (market, credit, liquidity, operational and legal risks) is currently under implementation for the whole Group.
Specific technical risks, i.e. underwriting and pricing risks, are measured and monitored by the actuarial function of the Company.

2 - Investments to the benefit of policyholders who bear the risk thereof and in connection with pension fund management

These investments consists of holdings in Proprietary Insurance Funds (under Unit-Linked policies), and structured notes that contain embedded derivatives, swaps and options (under Index-Linked policies) for which the financial risk and credit risk arising on movements in the value of financial instruments is entirely borne by the policyholder.
For class III products – Unit and Index-Linked policies – the use of derivatives independent of debt instruments is allowed provided that they are used to protect related technical reserves so that those derivatives and the related assets represent with the best possible approximation the value of technical reserves.
Said financial instruments are linked to specific performance targets, defined when the underlying policies are structured, and the investment limits are those set out in industry regulations i.e. for debt instruments the requirement that they be listed and the issuer's rating be no less than "A-".
The competent functions manage risk by ensuring that regulatory limits (exposure limits, asset quality and volatility, etc.) are not exceeded.
The controls currently in place monitor ex post the value of underlying assets. Frequency of controls is established at the level of each entity.
An evolutionary integrated risk management and control framework (market, credit, liquidity, operational and legal risks) is under development for the whole Group. That framework also sets out pay-off criteria and pricing rules.

3 - Credit Risk

The company is exposed to counterparty risk on existing derivative positions. For listed instruments with daily re-margining risk is residual.
For Over-The-Counter contracts, exposure to credit risk is represented by the fair value on the measurement date. Credit risk is regularly monitored by reviewing counterparty exposure limits and credit standing as well as by calculating expected losses, using an internal rating-based model and related probability of default.

Banking

1 - Credit Risk

1.1 General

Lending, be it the provision of home loans or consumer credit, or in other forms to meet other financing needs, is part of the business of the Mediolanum Banking Group. Consistently with the Group mission, lending complements the Group primary business i.e. the distribution of banking, asset management and insurance and retirement savings products. The Group applies prudent lending policies, which are geared to develop and strengthen the relationship with customers who invest in products managed by the companies within the Group.

1.2 Credit risk management – Organizational Aspects

As part of its responsibilities for organizing and directing the Group's affairs, the Board of Directors of the Parent Company Banca Mediolanum issued specific Lending Guidelines for all subsidiaries within the Banking Group. The guidelines set out general principles and instructions on lending and loan portfolio quality monitoring. The Parent Company is responsible for assessing overall exposure to credit risk and defining risk measurement policies for the whole Group.
Credit risk exposure is also assessed at the level of individual companies in their respective areas of remit, by measuring and monitoring the risk associated with the various categories of financial instruments. Capital adequacy and, in particular, compliance with solvency ratios and exposure limits for credit risk as set by local supervisory authorities are periodically monitored by the competent offices of the respective companies.

Each lender within the Banking Group has its own "Lending Policy", which is approved by its Board of Directors and sets out, inter alia, the authorities delegated to the various functions involved in the lending process, the type of collateral that can be accepted and the frequency of reports to Senior Management and the Board of Directors.

1.3 Credit risk measurement, management and control

Credit quality is monitored by regularly assessing, in each stage of the lending process, whether there is evidence of risk in accordance with entity-specific operating procedures.
In the lending process it is fundamental to have a comprehensive understanding of the financial condition of the borrower and the type of financing which best meets his needs, the loan purpose, the borrower creditworthiness and earnings capacity. To that end, each entity within the Group, as part of its loan application analysis, gathers all information needed to assess the consistency of the loan amount with the type and purpose of financing. In that examination, the entity uses performance and financial analysis tools as well as intelligence obtained from private and public Credit Bureaus. Special attention is paid to the assessment of any security taken.
All loans are subject to regular review by the competent units within each Group entity. Outstanding loans are continuously monitored focusing especially on riskier positions. Regular reports on credit protection actions taken are submitted to the Board of Directors of the respective companies.
As part of credit risk management and control actions, the Parent Company started a project to assign an internal rating grade to each borrower. The internal rating system will be incorporated in lending procedures to help assess the borrower creditworthiness and develop new tools for monitoring loan performance. Implementation of the internal rating system will be gradually extended to subsidiaries and adapted to national requirements in accordance with the Basel II Capital Accord.

1.4 Credit risk mitigation techniques

Loans extended by Group entities are secured by collaterals received from borrowers. Collaterals primarily consists of mortgages over property and pledge over financial instruments, plus conditional sale, and other forms of security, e.g. surety bonds and endorsements . Given the importance of the collateral received from the obligor in the assessment of credit risk, appropriate prudential adjustments are applied to the collateral whose value is subject to regular review.

1.5 Impaired financial assets

Each Group entity, within its sphere of independence, has its own effective tools for prompt detection of any problem loans.
The new rules set forth by the Basel Committee introduced significant changes in the general definitions of problem loans and the discretionary guidance of national supervisory authorities. The most significant change relates to the definition of default.
A default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place:

- The bank considers that the obligor is unlikely to pay its credit obligations in full, without recourse by the bank to actions such as realizing security (if held);
- The obligor is past due more than 180 days under Italian law and more than 90 days in other jurisdictions on any material credit obligation to the banking group.

In accordance with the discretionary guidance of national supervisory authorities, each entity within the Group classifies troubled positions according to their level of risk.
Each entity has dedicated problem loan management units that apply operating procedures and take action according to the severity of the problem.

2 - Market Risk

2.1 Interest Rate Risk and Pricing Risk – Trading book

A. General

The Banking Group's trading book, as defined by supervisory authorities, consists of financial instruments subject to capital requirements for market risk.
Specifically, the trading book consists of positions held by those Group functions authorized to take market risk exposures within the limits and the authorities delegated to them by their respective Boards of Directors, in accordance with the Parent Company guidelines.
The trading book primarily consists of positions in bonds, equities, derivatives and cash instruments.

B. Interest Rate Risk and Pricing Risk - Measurement and Management

The Board of Directors of the Parent Company establishes strategic guidelines on the assumption of financial risk for the Parent Company and general guidelines for Subsidiaries.
The Parent Company's Risk Control and Compliance function is responsible for ensuring that the various entities use consistent methods in the assessment of financial risk exposure and contributes to the definition of lending and operating limits. However, each entity within the Group is directly responsible for the control of risks assumed in compliance with the guidelines issued by the Parent Company.

Exposure to interest rate risk and pricing risk is measured using:
– Daily Var
– Maximum cumulative loss over a daily and monthly horizon
– Portfolio analysis in terms of:
  - Exposure limits
  - Characteristics of the instrument
  - Characteristics of the issuer
  - Capital at Risk calculated under the rating-based Standardized Approach
  - Gap Analysis;
  - Sensitivity Analysis..

Var (Value at Risk) estimates the risk of loss resulting from adverse movements in the price of traded financial instruments as a result of adverse market movements.
VaR corresponds to the maximum loss on a portfolio in the next business day (one-day holding period) at a 99% confidence level. Var is calculated using Riskmetrics for the following risks: interest rate, stock prices and indices, volatility. That method is adequate to the type and complexity of the financial instruments used by the Bank in its funding and lending transactions. Since 2004 daily VaR has been incorporated in the daily operating limits of the Parent Company.
The Gap Analysis measures impact of pre-set shocks in the interest rate curve based on how closely matched is the

lending and funding exposure to interest rates .
The Sensitivity Analysis quantifies the sensitivity of the financial portfolio to adverse interest rate movements.
Those analyses are performed assuming as adverse movement a parallel uniform shift by 50 and 100 bps in the interest rate curve.

2.2 Interest rate and pricing risks – Banking book

The Group's Banking Book is made up of those financial instruments that are not part of the trading book, in particular inter-bank loans and held-to-maturity investments.
The Parent Company's central management of foreign subsidiaries' investments in liquid assets, as approved by the respective Boards of Directors and authorized by the competent national supervisory authorities, substantially reduced the overall exposure to risk of foreign subsidiaries.
The Parent Company measures interest rate risk exposure of the banking book using a simplified static ALM model.
In compliance with the requirements of the international accounting standards, in the second half of 2005, the Parent Company developed a hedge accounting framework.
The hedge accounting framework sets forth, inter alia, controls for credit risk inherent in transactions with institutional counterparties according to the operating procedures and limits approved by the Board of Directors of each entity within the Group in compliance with the Parent Company's guidelines.

2.3 Currency risk

The Group is exposed to currency risk on all its foreign-currency denominated assets and liabilities (both on and off-balance sheet) including euro-denominated positions linked to the performance of foreign exchange rates. Currency exposure limits were set for the Parent Company only. Those limits are set by reference to the net value of positions in the main operating currencies.

2.4 Liquidity risk

Given the types of assets held and their duration the Banking Group is not materially exposed to liquidity risk.
In 2005, as part of the IAS project, the Parent Company set forth procedures for the identification of those instruments in its proprietary portfolio that not quoted in an active market and are potentially exposed to liquidity risk.
Liquidity risk is monitored by the Parent Company using liquidity gap analysis under a simplified static ALM model.

Insurance contracts – Disclosures under IFRS4

1 - Guidelines for Product Classification

The main assumption adopted to classify a product as insurance, especially those markedly financial in content (index-linked and unit-linked contracts), is the obligation to pay benefits in case of death. Contracts were classified as insurance or financial contracts according to the significance of that obligation.

For the purpose of said classification the most important assumption is the "significance threshold", i.e. the difference between the benefit payable in case of death and the contract mathematical reserve (i.e. the value of the underlying financial asset for class III products).

For traditional products another key element was considered, i.e. the payment of life annuity and the presence of features which can be classified as "Discretionary Participation Features".

All contracts that met the requirements above were classified as "insurance contracts".

2 - Measurement assumptions

In accordance with the principle of prudence, the mortality tables and technical rates used to calculate and measure technical reserves (for class I contracts) were the same used to price premiums (Legislative Decree 174, art. 25 paragraph 11).

Mortality table technical rates

Type of product	Technical rates applied in the calculation of premiums	Technical rates applied in the calculation of reserves
Pure Endowment	S.I.M./F. 1971: 3% 4%	S.I.M./F. 1971: 3% 4%
Whole life	S.I.M./F. 1981: 3% 4%	S.I.M./F. 1981: 3% 4%
Mixed	S.I.M 1961/1981: 2% 3% 4%	S.I.M 1961/1981: 2% 3% 4%
Annuities	S.I.M./F. 1931/1951/1971/S.I.M./F. p.s. 1971: 2% 3% 4% RG48: 0%	S.I.M./F. 1931/1951/1971/S.I.M./F. p.s. 1971/RG48: 2% 3% 4%
Term	S.I.M./F. 1961 / 1981 / 1992: 4%	S.I.M./F. 1961/1981/1992: 4%
Group	S.I.M./F. 1971/S.I.M./F. 1971 p.s. / RG48: 3% 4%	S.I.M./F. 1971/S.I.M./F. 1971 p.s. / RG48: 3% 4%
Index Linked		S.I.M./F.1992
Unit Linked		S.I.M./F.1992

3 - Significant clauses

Certain class I contracts, specifically deferred life annuity contracts, guarantee the payment of minimum income benefits, calculated on the basis of the survival assumptions adopted by the Company when the contract is made. In relation to those contracts the Company constantly monitors survival trends and raises a specific reserve to cover the risk that technical reserves may be inadequate to cover the payment of those benefits.

4 - Insurance Risk

Since the vast majority of insurance written by the Company relates to contracts (class III) under which the investment risk is borne by the policyholder, insurance risk is represented only by the risk of death of the policyholder. That risk is covered via treaty reinsurance arrangements (excess per risk treaties) which limits the Company's overall exposure per head insured. No such reinsurance protection is purchased for class III products since the Company judges it can cover the risk of death of the policyholder using its own equity.

5 - Credit Risk

The Group's primary source of credit risk is reinsurance counterparty risk, since under almost all class III contracts credit risk is borne by the policyholder.
However, the minimum regulatory rating and the minimum counterparty rating limits in place provide sufficient guarantee of solvency.
Reinsurance counterparty risk is covered by deposit accounts held by the Company.

6 - Liquidity Risk

Liquidity risk is constantly monitored and managed by comparing future obligations with the related assets held in the Company's portfolio as well as by using Asset Liability Management techniques.

7 - Market Risk

Under class III contracts market risk is entirely borne by policyholders.
Market risk on class I contracts, relating to Medinvest segregated funds, which guarantee a minimum yield to policyholders, is managed by estimating expected future yields payable to policyholders. In connection therewith a specific additional reserve was created in compliance with law requirements.

8 - Liability Adequacy Testing (LAT)

The company assessed the adequacy of technical reserves for Medinvest segregated funds, using a current estimate of future cash-flows from insurance contracts, net of deferred acquisition costs and intangible assets. Contracts were grouped on the basis of similar technical rate and future cash-flows were discounted at the risk-free interest rate. That exercise showed that the carrying amount of technical reserves is adequate.
The liability adequacy test was not performed for class III contracts since liabilities coincide with underlying assets and other technical reserves are broadly covered by annual management fees and loadings (for coverage in case of death of the policyholder) or are calculated using a prudent estimate of actual operating costs (reserve for future expenses).

PART G – BUSINESS COMBINATIONS

Transactions concluded during the year

In 2005 there were no transactions requiring disclosure under IFRS 3.
Please note that during the year under review the subsidiaries Fibanc S.A. and Tanami S.A. were merged into the subsidiary Banco de Finanzas e Inversiones S.A..
The merger, made between companies that are part of the Banca Mediolanum S.p.A. Banking Group, had no impact on the financial position and result of operations of the bank.

Post-balance sheet date transactions

No transaction was concluded after the end of the financial year under review.

PART H – RELATED PARTY TRANSACTIONS

Key management compensation

€/'000	Directors, Statutory Auditors, Deputy/ General Managers	Other key managers
Emoluments & social security contributions	5,978	987
Other pension benefits and insurance	-	-
Non-cash benefits	-	-
Other post-employment benefits	-	-
Share-based awards (stock options)	616	133

Related Party Transactions

Balance Sheet

€/'000	Other related parties
Other receivables	10
Other assets	828
Other payables	(2,089)
Other liabilities	(11)

Income Statement

€/'000	Other related parties
Goods acquired/sold	(182)
Services provided/received	(6,344)
Commission income/expense	4,022
Key personnel	85
Interest expense	(236)

PART I - EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

Description of equity-settled share-based payment transactions

At the Extraordinary General Meeting held on April 12, 2001, the shareholders of Mediolanum S.p.A. resolved to increase share capital for a consideration in one or more occasions over five years by issuing up to 7,500,000 Mediolanum S.p.A. shares to be allotted to the employees, directors and contract workers of the company and its subsidiaries under a stock option plan, which can be implemented on multiple occasions and in different years.
The exercise price of the stock options granted to employees shall be the arithmetic mean of the MEDIOLANUM S.p.A. share prices in the 30 days preceding the date on which the Board of Directors resolves to implement the stock option plan.
The exercise of the Options – subject to the satisfaction of the Vesting Conditions – and the subsequent subscription for Shares by Employees are allowed only upon the expiration of two years from the Grant Date (vesting period). The exercise of the Options and the subsequent subscription for Shares shall be made in full on a single occasion in the first five business days of each of the thirty six calendar months subsequent to the Vesting Date.
The stock options granted to directors and contract workers shall be exercisable upon the condition that the closing price of Mediolanum ordinary shares on the Exercise Date is not lower than the closing price of Mediolanum S.p.A. on the Grant Date. If that condition is met, the exercise price shall be equal to the MEDIOLANUM S.p.A. equity value per share as reported in the last financial statements approved prior to the Grant Date.
The exercise of the Options – subject to the satisfaction of the Vesting Conditions – and the subsequent subscription for Shares by Directors and Contract Workers are allowed only upon the expiration of two years from the Grant Date (vesting period). The exercise of the Options and the subsequent subscription for Shares shall be made in full on a single occasion in the first five business days of each of the thirty six calendar months after the Vesting Date.

At the Extraordinary General Meeting held on April 26, 2005, the shareholders of Mediolanum resolved to increase share capital for a consideration in one or more occasions over five years by issuing up to 9,500,000 Mediolanum S.p.A. shares to be allotted to the employees, directors and contract workers of the company and its subsidiaries under a stock option plan, which can be implemented on multiple occasions and in different years.
The stock options granted to employees shall be exercisable upon the expiration of a two-year vesting period at a share price equal to the fair market value – as defined by tax rules – of the Mediolanum stock on the date of the Board of Directors' resolutions relating to the respective capital increases.
The exercise of the Options granted to employees is subject to the satisfaction of the Vesting Conditions which will be established annually by the company that employs them.
The exercise of the Options – subject to the satisfaction of the Vesting Conditions – and the subsequent subscription for Shares by Employees are allowed only upon the expiration of two years from the Grant Date (vesting period). The exercise of the Options and the subsequent subscription for Shares shall be made in full on a single occasion in the first five business days of each of the thirty six calendar months subsequent to the Vesting Date.

The stock options granted to directors and contract workers shall be exercisable upon the expiration of a vesting period of two years for Directors and of three years for Contract Workers, at a share price equal to weighted average of (i) the company's equity value per share as reported in the last financial statements approved prior to the allotment of the Options and (ii) and the average stock market price of Mediolanum S.p.A. shares in the six-months preceding the Grant Date, applying a weight equal to ninety percent of the equity value and a weight equal to ten percent of the average stock market price in the last six-month period. The exercise of the Options granted to Directors and Contract Workers is subject to the satisfaction of at least one of the following conditions:

(i) that on the Vesting Date the closing price of Mediolanum S.p.A. ordinary shares be not lower than the official price of Mediolanum S.p.A. ordinary shares on the Grant date; or
(ii) that the change in the closing price of Mediolanum S.p.A. ordinary shares in the period between the Grant Date and the Vesting Date (the "Vesting Period") be not lower than the arithmetic mean of the changes recorded in the Vesting Period in the S&P/Mib, Comit Assicurativi and Comit Bancari indices (the "Indices"), properly adjusted applying the criteria commonly adopted in financial market practice to take into account the correlation coefficient (known as the beta coefficient) between the Mediolanum S.p.A. ordinary shares and said Indices in the Vesting Period; the adjusted mean change in the Indices will be calculated by an independent third party appointed for that purpose by the Board of Directors of the Company; or
(iii) that the Embedded Value of the Mediolanum Group, as calculated by an independent third-party appointed for that purpose by the Board of Directors of the Company and reported in the last financial statements approved prior to the Vesting Date, be at least equal to the Embedded Value of the Mediolanum Group as calculated based on the last financial statements approved prior to the Grant Date.
The exercise of the Options – subject to the satisfaction of Vesting Conditions – and the subsequent subscription for Shares by Directors and Contract Workers are allowed only upon the expiration of two years for Directors and of three years for Contract Workers from the Grant Date (Vesting Period). The exercise of the Options and the subsequent subscription for Shares shall be made in full on a single occasion in the first five business days of each of the thirty six calendar months subsequent to the Vesting Date.

Exercising the authority delegated to it by the shareholders at the Extraordinary General Meeting of April 26, 2005, at its Meeting held on July 13, 2005 the Board of Directors resolved:

- to increase share capital for a consideration by a maximum amount of € 68,100.00 (sixty-eight thousand one hundred point zero) through the issue of up to 681,000 (six hundred eighty-one thousand) dividend-bearing ordinary shares, par value of € 0.10 (zero point one) each, to be allotted to the employees of the Company and/or its subsidiaries pursuant to article 2359, paragraph 1, No. 1), of the Italian Civil Code, waiving any shareholders' pre-emptive rights pursuant to art. 2441, paragraph eight of the Italian Civil Code and article 134, paragraph three, of Legislative Decree 58/98. Those shares will be offered for subscription at a share price, including share premium, equal to the arithmetic mean of the MEDIOLANUM S.p.A. share prices on the electronic trading system of Borsa Italiana S.p.A. (Italian Stock Exchange) in the period from the thirteenth day of the preceding calendar month to July 13, 2005;
- to increase share capital for a consideration by a maximum amount of € 39,000.00 (thirty-nine thousand point zero) through the issue of up to 390,000 (three-hundred ninety thousand) dividend-bearing ordinary shares, par value of € 0.10 (zero point one) each, to be allotted to Non-Employee Directors of the Company and/or its subsidiaries pursuant to article 2359, paragraph 1, No. 1), of the Italian Civil Code, waiving any shareholders' preemptive rights pursuant to art. 2441, paragraph five of the Italian Civil Code. Those shares will be offered for

subscription at a share price of 1.118 (one point one-hundred eighteen) including a share premium of € 1.018 (one point zero eighteen) per share (price determined in accordance with the EGM resolution);

- that the subscription to those share capital increases is to be made on a single occasion in the first five business days of each of the sixty calendar months subsequent to the expiration of the two-year term, except for any exceptional circumstances as set out in the regulations. The final term for exercising the Options with respect to the share capital increases above is the fifth business day in the sixtieth month subsequent to the expiration of the two-year term. In the event that the capital increases are not fully subscribed within the prescribed term, share capital will be increased by the amount of the subscriptions received as of that date;
- Exercising the authority delegated to it by the shareholders at the Extraordinary General Meeting of April 12, 2001, at its Meeting held on July 13, 2005 the Board of Directors resolved to increase share capital for a consideration by a maximum amount of € 25,444.00 (twenty-five thousand four hundred forty-four point zero) through the issue of up to 254,440 (two hundred fifty-four thousand four hundred forty) ordinary shares, par value of € 0.1 (zero point one) each, bearing dividend rights from January 1 of the financial year in which shares are issued, to be allotted to contract workers of the Company and/or its subsidiaries pursuant to article 2359, paragraph 1, No. 1 of the Italian Civil Code, waiving any shareholders' preemptive rights pursuant to article 2441 paragraph five, of the Italian Civil Code. Those shares will be offered for subscription at a share price of € 0.648 (zero point six hundred forty eight) including a share premium of € 0.548 (zero point five hundred forty eight) per share;
- that the subscription to that share capital increase is to be made on a single occasion in the first five business days of each of the thirty-six calendar months subsequent to the expiration of the two-year term, except for any exceptional circumstances as set out in the regulations. The final term for exercising the Options with respect to the share capital increases above, is the fifth business day in the thirty-sixth month subsequent to the expiration of the two-year term. In the event that the capital increases are not fully subscribed within the prescribed term, share capital will be increased by the amount of the subscriptions received as of that date.

In accordance with art. 79 of Consob Regulation 11971 of May 14, 1999 the interests of Directors and Statutory Auditors in ordinary shares of the company and its subsidiaries are set out in Schedule 3 below prepared pursuant to Annex 3C of said regulation.

Fair value measurement of stock options

Stock options granted to employees

Since these stock options are exercisable in the months after the expiration of the vesting period they are treated like American-style Options and priced using the Cox-Rubinstein & Ross model (CRR).

Under that model a two-step approach is used. In the first step a binomial tree is built. The tree represents all the possible paths that the share price could take. At the end of the tree (i.e. at expiration of the option) all the option prices for each of the final possible share prices are known. Then, working back from expiration, the option prices are calculated at each node of the tree to assess the option value in case of early exercise.

In the case under review, the stock option is an American-style Option only for the period between the vesting date and the expiration date, therefore the probability of early exercise was estimated only over that period. In the vesting period the option price was weighted and discounted at the risk-free rate.

Stock options granted to directors and contract workers

These stock options are exercisable after the expiration of the vesting period and subject to the satisfaction of the vesting conditions.

These options were priced by building a tree that represents all the possible paths that the share price could take from the grant date to the expiration date of the option. The value of the derivative at expiration is calculated regardless of whether the vesting condition are met or not. Next the option prices are calculated at each node of the tree to assess the option value in case of early exercise and vesting conditions. In the period between the grant date and the vesting date (vesting period) the option was priced treating it like an European-style Option.

Changes occurred in the year

In the year 2005, 1,711,320 stock options granted in 2002 and 2003 were exercised for a total of 1,711,320 shares.

The table below shows movements in option holdings in the year pursuant to Annex 3C of Consob Regulations for Issuers.

	Options held at the beginning of the year			Options granted iIn the year			Options exercised in the year				Options held at year end		
Number of options and exercise price	Number of options	Average exercise price	Average expiration	Number of options	Average exercise price	Average expiration	Number of options	Average exercise price	Average market price	Options lapsed in the year	Number of options	Average exercise price	Average expiration
Employees	2,434,000	5.395	2005-2009	661,000	5.231	2007-2012	525,500	3.907		63,000	2,506,500	5.663	2006-2012
Directors	580,000	0.513	2005-2009	390,000	1.118	2007-2012	250,000	0.539		-	720,000	0.831	2006-2012
Contract workers	1,683,905	0.558	2005-2009	254,440	1.118	2007-2010	935,820	0.539		28,041	974,484	0.723	2006-2010
Total	4,697,905	3.059	2005-2009	1,305,440	3.201	2007-2012	1,711,320	1.573	5.134	91,041	4,200,984	3.689	2006-2012

Other information

The year's cost of stock options, which corresponds to the year's share of the fair value of financial instruments over the vesting period, amounted to €3,248 thousand and entailed a corresponding increase in the Company's equity reserves.

For the Board of Directors
The Chairman
(Roberto Ruozi)

SCHEDULES

Information pursuant to ISVAP requirements

BALANCE SHEET AS AT DECEMBER 31, 2005

Mediolanum Group - Financial information by Business Segment (ISVAP)

	LIFE INSURANCE	
€/'000	2005	2004
1. Intangible assets	8,119	10,894
2. Tangible assets	22,244	23,318
3. Reinsurers' share of technical reserves	105,737	108,767
4. Investments	13,103,220	10,706,218
4.1 Investment property	22,276	33,388
4.2 Investments in subsidiaries, associates and joint ventures	352,786	353,356
4.3 Held-to-maturity investments	234,691	234,748
4.4 Loans and receivables	12,981	63,342
4.5 Available-for-sale financial assets	823,737	704,482
4.6 Financial assets at fair value through profit or loss	11,656,749	9,316,902
5. Receivables	11,640	14,347
6. Other assets	188,710	138,442
6.1 Deferred acquisition costs	-	-
6.2 Other	188,710	138,442
7. Cash and cash equivalents	305,845	243,164
Total assets	13,745,515	11,245,150
1. Shareholders' equity	-	-
2. Provisions	746	780
3. Technical reserves	11,201,382	10,269,302
4. Financial liabilities	1,677,862	359,527
4.1 Financial liabilities at fair value through profit or loss	1,336,496	1,990
4.2 Other financial liabilities	341,366	357,537
5. Payables	124,357	84,684
6. Other liabilities	106,422	46,012
Total liabilities and shareholders' equity	13,110,769	10,760,305

BANKING		OTHER		INTERSEGMENT		TOTAL	
2005	2004	2005	2004	2005	2004	2005	2004
155,276	194,566	138	172	24,397	4,084	187,930	209,716
52,110	47,689	1,811	2,080	901	901	77,066	73,988
-	-	-	-	-	-	105,737	108,767
4,998,013	4,006,142	(1,926)	1,227	(483,107)	(434,600)	17,616,200	14,278,987
-	-	-	-	-	-	22,276	33,388
(1)	6,689	(1,966)	27,000	(321,465)	(363,556)	29,354	23,489
498,989	499,701	-	-	-	-	733,680	734,449
3,354,187	1,703,720	-	-	(24,776)	(825)	3,342,392	1,766,237
47,201	59,610	40	(25,773)	(25,812)	-	845,166	738,319
1,097,637	1,736,422	-	-	(111,054)	(70,219)	12,643,332	10,983,105
328	985	2,574	915	(1,033)	(140)	13,509	16,107
250,831	139,318	4,705	3,599	(75,595)	(3,587)	368,651	277,772
-	-	-	-	-	-	-	-
250,831	139,318	4,705	3,599	(75,595)	(3,587)	368,651	277,772
444,506	320,371	608	3,005	(228,090)	(141,021)	522,869	425,519
5,901,064	4,709,072	7,910	10,998	(762,527)	(574,363)	18,891,962	15,390,856
-	-	-	-	-	-	807,986	643,794
56,660	31,195	16	-	-	-	57,422	31,975
-	-	-	-	-	-	11,201,382	10,269,302
5,090,108	4,044,914	575	519	(397,538)	(210,709)	6,371,007	4,194,251
63,196	6,018	-	-	-	-	1,399,692	8,008
5,026,912	4,038,896	575	519	(397,538)	(210,709)	4,971,315	4,186,243
144,615	108,274	4,973	5,293	(56,342)	(48,962)	217,603	149,289
114,989	79,121	1,044	1,069	14,106	(23,957)	236,561	102,245
5,406,372	4,263,504	6,608	6,881	(439,774)	(283,628)	18,891,962	15,390,856

INCOME STATEMENT AS AT DECEMBER 31, 2005

Mediolanum Group - Financial information by Business Segment (ISVAP)

€/'000	LIFE INSURANCE 2005	LIFE INSURANCE 2004
1.1 Premiums written, net of reinsurance	2,448,724	2,389,906
1.1.1 Gross premiums written	2,455,254	2,396,996
1.1.2 Reinsurance premiums	(6,530)	(7,090)
1.2 Commission income	96,061	50,232
1.3 Income on financial instruments at fair value through profit or loss	1,097,253	434,187
1.4 Income on investments in subsidiaries, associates and joint ventures	7,262	5,970
1.5 Income on other financial instruments and investment property	49,509	40,033
1.6 Other revenues	18,180	19,683
1 Total revenues	3,716,989	2,940,011
2.1 Claims incurred	(3,382,996)	(2,652,357)
2.1.1 Claims paid and change in technical provisions	(3,391,291)	(2,661,429)
2.1.2 Reinsurers' share	8,295	9,072
2.2 Commission expense	(4,459)	(5,329)
2.3 Loss on investments in subsidiaries, associates and joint ventures	-	-
2.4 Loss on other financial instruments and investment property	(12,535)	(14,392)
2.5 Operanting expenses	(230,284)	(213,744)
2.6 Other costs	(4,809)	(6,380)
2 Total costs	(3,635,083)	(2,892,202)
Pre-tax profit (loss) for the year	81,906	47,809

BANKING		OTHER		INTERSEGMENT		TOTAL	
2005	2004	2005	2004	2005	2004	2005	2004
-	-	-	-	-	-	2,448,724	2,389,906
-	-	-	-	-	-	2,455,254	2,396,996
-	-	-	-	-	-	(6,530)	(7,090)
717,952	561,674	1,353	1,264	(238,550)	(206,859)	576,816	406,311
35,556	32,388	-	-	(1,759)	(977)	1,131,050	465,598
603	(2,151)	5,884	6,892	-	-	13,749	10,711
110,502	95,508	31	57	(5,492)	(5,055)	154,550	130,543
14,539	13,609	18,601	15,765	(22,682)	(21,252)	28,638	27,805
879,152	701,028	25,869	23,978	(268,483)	(234,143)	4,353,527	3,430,874
-	-	-	-	800	605	(3,382,196)	(2,651,752)
-	-	-	-	800	605	(3,390,491)	(2,660,824)
-	-	-	-	-	-	8,295	9,072
(179,507)	(120,622)	(943)	(601)	38,788	23,549	(146,121)	(103,003)
-	-	-	-	-	-	-	-
(79,646)	(70,115)	(85)	(44)	7,026	6,394	(85,240)	(78,157)
(356,414)	(325,417)	(20)	(666)	220,502	203,063	(366,216)	(336,764)
(62,268)	(32,886)	(18,083)	(15,173)	1,367	532	(83,793)	(53,907)
(677,835)	(549,040)	(19,131)	(16,484)	268,483	234,143	(4,063,566)	(3,223,583)
201,317	151,988	6,738	7,494	-	-	289,961	207,291

Analysis of tangible and intangible assets

€/'000	At cost	Remeasured or at fair value	Book value
Investment property	22,276	-	22,276
Other property	59,831	-	59,831
Other tangible assets	17,235	-	17,235
Other intangible assets	25,516	-	25,516

Analysis of financial assets

	Held-to-maturity investments		Loans and receivables	
€/'000	FY 2005	FY 2004	FY 2005	FY 2004
Equity instruments and derivatives at cost	-	-	-	-
Equity instruments at fair value	-	-	-	-
of which listed	-	-	-	-
Debt instruments	733,680	734,449	-	-
of which listed	733,680	734,449	-	-
Holdings in UCITS	-	-	-	-
Loans to and receivables from banking customers	-	-	955,449	578,628
Loans to and receivables from banks	-	-	2,374,028	1,173,338
Deposits with cedents	-	-	-	-
Financial assets of insurance contracts	-	-	-	-
Other loans and receivables	-	-	12,915	14,271
Trading derivatives	-	-	-	-
Hedging derivatives	-	-	-	-
Other financial investments	-	-	-	-
Total	733,680	734,449	3,342,392	1,766,237

		Financial assets at fair value through profit or loss					
Available-for-sale financial assets		Financial assets held for trading		Financial assets at fair value through profit or loss		Book value	
FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004
-	-	-	-	-	-	-	-
292,358	182,006	9	26	-	-	292,367	182,032
230,706	138,123	-	5	-	-	230,706	138,128
545,194	548,699	1,435,293	1,988,997	4,619,499	4,501,008	7,770,520	7,773,153
544,428	548,699	1,359,076	1,830,306	4,619,499	4,501,008	7,693,537	7,614,462
7,614	7,614	58,737	59,045	6,082,335	4,423,801	6,148,686	4,490,460
-	-	-	-	-	-	955,449	578,628
-	-	-	-	-	-	2,374,028	1,173,338
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	12,915	14,271
-	-	10,605	10,228	436,854	-	10,605	10,228
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
845,166	738,319	1,504,644	2,058,296	11,138,688	8,924,809	17,564,570	14,222,110

Assets and liabilities relating to contracts issued by insurance companies under which the investment risk is borne by the policyholder and to pension fund management

€/'000	Investment funds & indices		Pension funds		Total	
	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004
On-balance sheet assets	11,136,584	8,924,197	7,956	4,955	11,144,540	8,929,152
Intercompany assets *	111,054	70,219	-	-	111,054	70,219
Total Assets	11,247,638	8,994,416	7,956	4,955	11,255,594	8,999,371
On-balance sheet financial assets	1,328,193	-	7,956	4,955	1,336,149	4,955
On-Balance Sheet Technical Reserves	9,917,893	8,993,398	-	-	9,917,893	8,993,398
Intercompany liabilities *	-	-	-	-	-	-
Total Liabilities	11,246,086	8,993,398	7,956	4,955	11,254,042	8,998,353

* Asset and liabilites eliminated upon consolidation

Analysis of reinsurers' share of technical reserves

€/'000	Insurance		Reinsurance		Book value	
	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004
General business reserves	-	-	-	-	-	-
Unearned premiums	-	-	-	-	-	-
Outstanding claims	-	-	-	-	-	-
Other reserves	-	-	-	-	-	-
Life business reserves	105,737	108,767	-	-	105,737	108,767
Outstanding claims	1,368	1,173	-	-	1,368	1,173
Mathematical reserves	104,369	107,594	-	-	104,369	107,594
Technical reserves for contracts under which the investment risk is borne by the policyholder and for pension fund management	-	-	-	-	-	
Other reserves	-	-	-	-	-	-
Total reinsurers' share of technical reserves	105,737	108,767	-	-	105,737	108,767

Analysis of technical reserves

	Insurance		Reinsurance		Book value	
€/'000	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004
General business reserves	-	-	-	-	-	-
Unearned premiums	-	-	-	-	-	-
Outstanding claims	-	-	-	-	-	-
Other reserves	-	-	-	-	-	-
of which amounts set aside following liability adequacy testing	-	-	-	-	-	-
Life business reserves	11,201,382	10,269,302	-	-	11,201,382	10,269,302
Outstanding claims	56,419	49,283	-	-	56,419	49,283
Mathematical reserves	1,181,661	1,173,035	-	-	1,181,661	1,173,035
Technical reserves for contracts under which the investment risk is borne by the policyholder and for pension fund management	9,917,893	8,993,397	-	-	9,917,893	8,993,397
Other reserves	45,409	53,587	-	-	45,409	53,587
of which amounts set aside following liability adequacy testing	-	-	-	-	-	-
of which deferred liabilities to policyholders	10,607	-	-	-	10,607	-
Total Technical Reserves	11,201,382	10,269,302	-	-	11,201,382	10,269,302

Analysis of financial liabilities

€/'000	Financial liabilities at fair value through profit or loss			
	Financial liabilities held for trading		Financial liabilities at fair value through profit or loss	
	FY 2005	FY 2004	FY 2005	FY 2004
Quasi-equity instruments	-	-	-	-
Subordinated liabilities	-	-	-	-
Liabilities under financial contracts issued by insurance companies of which	-	-	1,300,322	-
contracts under which the investment risk is borne by the policyholder	-	-	1,292,367	-
pension fund management	-	-	7,955	-
other contracts	-	-	-	-
Deposits received from reinsureres	-	-	-	-
Financial liabilities of insurance contracts	-	-	-	-
Debt securities issued	-	-	-	-
Amounts due to banking customers	-	-	-	-
Amounts due to banks	-	-	-	-
Other financing received	-	-	-	-
Trading derivatives	42,939	2,091	-	-
Hedging derivatives	-	-	-	-
Other financial liabilities	56,431	5,917	-	-
Total	99,370	8,008	1,300,322	-

Analysis of technical account items

€/'000	FY 2005		
	Gross	Reinsurers' share	Net
General Business			
PREMIUMS WRITTEN	-	-	-
a Premiums written	-	-	-
b Change in unearned premiums reserve	-	-	-
CLAIMS INCURRED	-	-	-
a Claims paid	-	-	-
b Change in outstanding claims reserve	-	-	-
c Change in recoveries	-	-	-
d Change in other technical reserves	-	-	-
Life Business			
PREMIUMS WRITTEN	2,455,254	6,530	2,448,724
CLAIMS INCURRED	3,390,491	8,295	3,382,196
a Claims paid	1,373,134	11,324	1,361,810
b Change in outstanding claims reserve	12,762	195	12,567
c Change in mathematical reserves	(1,029)	(3,224)	2,195
d Change in technical reserves for contracts under which the investment risk is borne by the policyholder and for pension fund management	2,014,442	-	2,014,442
e Change in other technical reserves	(8,818)	-	(8,818)

	Other financial liabilities		Book value	
	FY 2005	FY 2004	FY 2005	FY 2004
	-	-	-	-
	-	-	-	-
	-	-	1,300,322	-
	-	-	1,292,367	-
	-	-	7,955	-
	-	-	-	-
	104,350	107,485	104,350	107,485
	-	-	-	-
	-	4,994	-	4,994
	3,718,562	3,455,537	3,718,562	3,455,537
	1,148,403	618,227	1,148,403	618,227
	-	-	-	-
	-	-	42,939	2,091
	-	-	-	-
	-	-	56,431	5,917
	4,971,315	4,186,243	6,371,007	4,194,251

	FY 2004		
	Gross	Reinsurers' share	Net
	-	-	-
	-	-	-
	-	-	-
	-	-	-
	-	-	-
	-	-	-
	-	-	-
	-	-	-
	2,396,996	7,090	2,389,906
	2,660,824	9,072	2,651,752
	920,774	11,480	909,294
	(12,397)	(980)	(11,417)
	(66,574)	(1,428)	(65,146)
	1,821,936	-	1,821,936
	(2,915)	-	(2,915)

Analysis of net interest income and investment income

€/'000	Interest income (expense)	Other income	Other expense
Investment income	302,484	1,170	(1,603)
a from investment property	-	1,142	(1,603)
b from investments in subsidiaries, associates and joint ventures	-	-	-
c from held-to-maturity investments	22,222	-	-
d from loans and receivables	31,949	-	-
e from available-for-sale financial assets	18,355	-	-
f from financial assets held for trading	38,449	28	-
g from financial assets at fair value through profit or loss	191,509	-	-
Income on amounts receivable	605	435	-
Net cash and cash equivalents	58,089	-	-
Loss on financial liabilities	(70,841)	-	-
a on financial liabilities held for trading	-	-	-
b on financial liabilities at fair value through profit or loss	(60,353)	-	-
c on other financial liabilities	(10,488)	-	-
Expense on amounts payable	(61,405)	-	(82)
Total	228,932	1,605	(1,685)

Insurance - Analysis of expenses

	General Business		Life Business	
€/'000	FY 2005	FY 2004	FY 2005	FY 2004
Gross agents' commissions & other acquisition costs	-	-	135,717	132,434
a Acquisition commissions	-	-	89,608	90,374
b Other acquisition costs	-	-	4,621	5,085
c Change in deferred acquisition costs	-	-	(1,122)	(1,197)
d Collection commissions	-	-	42,610	38,172
Commissions and profit sharing from reinsurers	-	-	-	-
Investment management expenses	-	-	484	780
Other administrative expenses	-	-	230,015	203,550
Total	-	-	366,216	336,764

			Unrealized gains		Unrealized losses				
Realized gains	Realized losses	Total	Gains on measurement	Reversal of impairment	Losses on measurement	Impairment losses	Total	Net income (loss) for FY 2005	Net income (loss) for FY 2004
188,082	(111,263)	378,870	1,465,891	7,369	(332,329)	(11,414)	1,129,517	1,508,387	541,354
7,375	-	6,914	-	-	-	(253)	(253)	6,661	3,536
13,749	-	13,749	-	-	-	-	-	13,749	12,210
-	-	22,222	-	-	-	-	-	22,222	22,246
-	-	31,949	-	7,369	-	(11,161)	(3,792)	28,157	15,700
6,944	(248)	25,051	-	-	-	-	-	25,051	21,724
55,868	(46,336)	48,009	8,093	-	(8,202)	-	(109)	47,900	34,095
104,146	(64,679)	230,976	1,457,798	-	(324,127)	-	1,133,671	1,364,647	431,843
-	-	1,041	-	65	-	-	65	1,106	-
-	-	58,089	-	-	-	-	-	58,089	52,056
1,020	(469)	(70,291)	193	-	(221,888)	-	(221,695)	(291,986)	(12,433)
1,020	(469)	551	193	-	(74)	-	119	670	(193)
-	-	(60,353)	-	-	(221,814)	-	(221,814)	(282,167)	(147)
-	-	(10,489)	-	-	-	-	-	(10,489)	(12,093)
-	-	(61,488)	-	-	-	-	-	(61,488)	(52,282)
189,102	(111,732)	306,221	1,466,084	7,434	(554,217)	(11,414)	907,887	1,214,108	528,695

MEDIOLANUM S.p.A.

Adoption of International Financial Reporting Standards

Adoption of International Financial Reporting Standards

LEGAL FRAMEWORK

Pursuant to the European Parliament and Council Regulation (EC) 1606 of July 19, 2002 the European Commission established that beginning from 2005 all EU publicly traded companies are to apply the international accounting and reporting standards IAS/IFRS in the preparation of their consolidated financial statements. That regulation aims to improve the quality of financial information and above all the comparability of the financial statements of publicly traded companies in the European Union.
The international accounting standards IAS/IFRS are issued by an independent board, the International Accounting Standards Board (IASB ®), endorsed by the European Commission and published in the Official Journal of the European Union.
A complete list of the IAS/IFRS adopted by the European Commission is attached hereto.

By Legislative Decree No. 38 of February 28, 2005 the Italian Government extended the application of the new international accounting standards also to the separate financial statements (beginning from 2006 or voluntarily from 2005) of publicly traded companies, banks and other regulated financial institutions and to the consolidated financial statements of banks, other regulated financial institutions and insurance companies that are not publicly traded, as well as, on a voluntary basis, to the financial statements of their subsidiaries except for unlisted insurance companies and minor entities pursuant to art. 2435 of the Italian Civil Code.
In relation to the consolidated financial statements of insurance groups said decree confirmed the authority of ISVAP under Legislative Decree No, 173/97 with respect to the definition of the formats and accompanying information requirements.
In its Regulation No. 2404 of December 22, 2005 ISVAP set out the "Instructions for the preparation of IFRS consolidated accounts" to be applied in the preparation of annual consolidated financial statements beginning from the year ended December 31, 2005.

THE MAIN CHANGES INTRODUCED BY THE NEW ACCOUNTING STANDARDS

The adoption of IAS/IFRS entails some important changes in the way transactions are accounted for, in the classification of the main items of the financial statements and the accounting policies applied to assets and liabilities, in accordance with the general principle of substance over form.
The main changes introduced by the new international accounting and reporting standards in the preparation and presentation of the financial statements of the Mediolanum Group are set out below.

Financial instruments

The major change introduced by the new accounting and reporting standards relates to the accounting treatment of financial instruments.

On initial recognition a financial asset or financial liability is to be measured at its fair value, i.e. the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction, plus or minus directly attributable transaction costs or income, which are capitalized and amortized through profit or loss over the life of the instrument using the effective interest method (so called "amortized cost").

When the transaction price is not in line with market value, the difference is to be recognized in the income statement on initial recognition.

In relation to hybrid (combined) financial instruments, i.e. instruments that consist of a non-derivative host contract and an embedded derivative, IAS/IFRS require that the embedded derivative be separated from the host contract and accounted for as a derivative if the hybrid (combined) instrument is not measured at fair value or if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Financial instruments are to be classified on initial recognition and their re-classification is allowed only in limited circumstances. IAS 39 defines four categories of financial instruments: financial assets and financial liabilities at fair value through profit or loss (substantially financial assets and financial liabilities held for trading and financial assets that regardless of the purpose for which they are held the company designates as at fair value upon initial recognition), available-for-sale financial assets, held-to-maturity investments and loans and receivables. The classification of financial instruments is relevant for the purposes of measurement, since the first two categories are to be measured at fair value, and the other two at cost or amortized cost.

A gain or loss arising from a change in the fair value of a financial asset or financial liability is to be recognized in the income statement for assets or liabilities classified as at fair value through profit or loss and directly in equity until the asset is sold for available-for-sale financial assets.

IAS/IFRS require that financial instruments that are not classified as "financial assets and financial liabilities at fair value through profit or loss" be regularly assessed for evidence indicating that the asset's carrying amount is not entirely recoverable. That evaluation is carried out for individual assets or collectively for groups of assets with similar risk characteristics. Any resultant impairment loss is to be measured taking into account also the time of recovery for recoverable amounts.

The recognition and measurement of financial instruments involves also derivative hedging instruments and hedged items. The international accounting standards classify hedge relationships into three types: fair value hedge, i.e. a hedge of the exposure to changes in fair value of an asset or liability, for which both the gain or loss from measuring the derivative hedging at fair value and the gain or loss on the hedged item are to be recognized in profit or loss; cash flow hedge, i.e. a hedge of the exposure to variability in cash flows that is attributable to a particular risk and hedge of a net investment in a foreign operation for which the gain or loss on the hedging instrument are to be recognized in equity through the statement of changes in equity (while the hedged asset or liability is carried at cost or amortized cost). This accounting treatment results from the requirement that all derivatives, including derivative hedging instruments, are to be measured at fair value. Under Italian GAAP, derivative hedging instruments and hedge items were measured at cost.

Classification of insurance products

Under the international accounting standards a contract can be classified as an insurance contract if under that contract the Policyholder transfers a "significant insurance risk", i.e. a risk other than a "financial risk", to the Insurer, where "financial risk" is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

An "insurance risk" is significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack "commercial substance". The significant additional benefits refer to amounts that exceed those that would be payable if no insured event occurred. Those additional amounts include claims handling and claims assessment costs.

Therefore, all insurance contracts with non-significant insurance risk are classified as investment contracts, i.e. financial instruments, distinguishing between financial instruments with discretionary participation features from other investment contracts. Financial instruments with discretionary participation features are accounted for applying previous accounting policies while contracts without discretionary participation features are recognized using deposit accounting which entails the recognition of a financial liability in the balance sheet.

Financial contacts under which the investment risk is borne by the policyholder are initially recognized, and measured thereafter, at the fair value of the investment as recognized under balance sheet assets, plus the present value of the guarantees under the contract which are not included in the asset value.

Equity investments

Under the international accounting standards only investments in subsidiaries, associates or joint ventures can be classifieds as equity investments. All other equity instruments are to be classified either as financial assets at fair value through profit or loss or as available-for-sale financial assets.

Tangible and intangible assets

Under the international accounting standards tangible and intangible assets are measured at fair value or at purchase cost. Any change in the asset's fair value is recognized in an equity reserve, except for investment property for which a change in fair value is to be recognized in profit or loss. Intangible assets with indefinite useful lives are not amortized (e.g. goodwill) but tested for impairment. Under IAS/IFRS tangible assets carried at cost are depreciated over their useful lives and assets with different useful lives are depreciated separately.

Under international accounting standards expenditure on research, advertising, training, restructuring, brands and internally generated rights cannot be capitalized.

Share-based payments

Under the international accounting standards share-based payments – in the case of our Group the stock options granted to employees and contract workers – are to be measured at fair value recognizing the corresponding amount in the income statement over the "vesting period" and in equity.

Post-employment benefits

The international accounting standards classify pensions and, in general, all benefits payable to employees after the completion of employment, into two categories: defined contribution plans for which the entity is required to recognize the contribution payable to the plan, and defined benefits plans for which the entity is required to recognize the estimated amount of the benefit payable to the employee upon completion of employment, using actuarial techniques.

FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Under IFRS 1 on first-time adoption of International Financial Reporting Standards the reporting entity is required:

- to prepare an opening IFRS balance sheet at the date of transition to IFRS;
- to apply the same accounting policies in the first IFRS financial statements and in all comparative periods (except for certain mandatory exceptions and optional exemptions from full retrospective application, as set out in IFRS 1);
- to explain the impact of the first time adoption of IFRS .

The transition date is January 1, 2004 and the first IFRS financial statements are to include comparative information under the same IFRS in effect as of January 1, 2005 for at least one prior period (i.e. financial year 2004). The application of IAS 32 and IAS 39 (financial instruments) as well as IFRS 4 (insurance contracts), which were approved by the IASB and adopted by the European Commission during 2004, is not mandatory from January 1, 2004. Those entities that elect to apply exemptions from full retrospective application in relation to those standards are required to restate their financial information under those accounting and financial reporting standards from January 1, 2005 and financial information for 2004 may not be entirely comparable.

The IFRS opening balance sheet at January 1, 2004 (and at January 1, 2005 for financial instruments and insurance contracts) is to be prepared as follows:

- not recognize those assets and liabilities whose recognition was permitted under national GAAP but is not allowed under IAS/IFRS and reclassify other assets and liabilities under the new standards;
- recognize those assets and liabilities whose recognition is required under IFRS but was not allowed under national GAAP;
- apply IAS/IFRS in measuring all recognized assets and liabilities.

The resulting adjustments are to be recognized directly in equity at the date of transition to IFRS.

On first-time adoption of the new accounting standards the Group exercised judgment in relation to the classification of financial instruments, the application of certain optional accounting policies and optional exemptions from full retrospective application of IFRS.

The Group elected to apply the following exemptions/options:

- <u>business combinations:</u> the Group did not apply IAS/IFRS to business combinations that occurred prior to the date of transition to IFRS. Thus existing goodwill did not have to be restated under IFRS;
- <u>employee benefits:</u> the Group did not avail itself of the option of using the "corridor approach" (IAS 19) that leaves some actuarial gains and losses unrecognized when the change over the prior year is lower than 10%;
- <u>share-based payments:</u> where applicable, the Group did not apply IFRS 2 to stock options granted before November 7, 2002 and to stock options granted after November 7, 2002 that vested before the later of a) the date of transition to IFRS and b) January 1, 2005. The Group applied IFRS 2 from January 1, 2004 for stock options granted after November 7, 2002.

As allowed under IFRS 1 the Mediolanum Group also elected to apply IAS 32 and IAS 39 (financial instruments) as well as IFRS 4 (insurance contracts) from January 1, 2005. Therefore financial data relating to financial instruments and insurance contracts for financial year 2004 are not comparable.

However, to enable a comparative analysis of consistent data, the effects of the application of IAS 32, IAS 39 and IFRS 4 from January 1, 2004 – at January 1, 2004 and for financial year 2004 – were estimated based on available information.

Financial instruments (investment contracts, securities, loans and receivables, payables, derivatives and equity investments) were reclassified into the new IAS/IFRS categories on the date of transition to IFRS as permitted under IFRS 1 as an exception to the general requirement that financial instruments be classified when they are acquired.

Investment contracts under which the investment risk is borne by the policyholder were classified as "Financial liabilities at fair value through profit or loss" and measured at fair value which corresponds to the value of the investments under those contracts as classified under "Financial assets at fair value through profit or loss".
Securities were re-classified in accordance with the new IAS categories and the Group policy on the management of investment securities (now called "Held-to-maturity investments") was reviewed. That entailed the reduction of that portfolio and the reclassification of those securities as "Available-for-sale financial assets".
Loans to banks and loans to customer, including repurchase agreements, were recognized as "Loans and receivables" while funding from customers and banks as "Other financial liabilities".
Derivatives held for trading were classified as assets at fair value through profit or loss when their fair value was positive and as liabilities at fair value through profit or loss when their fair value was negative.
Investments in subsidiaries, associates and joint-ventures continued to be classified as equity investments, while all other shareholdings were classified as "available-for-sale financial assets".
In compliance with the new accounting standards and related interpretations those subsidiaries that under Italian GAAP were not consolidated on a line-by-line basis since their business activity was not insurance were identified and consolidated on a line-by-line basis.
The option of carrying property at fair value was not applied and property continued to be measured at purchase cost less any accumulated depreciation and impairment losses. Land and buildings were accounted for separately and accumulated depreciation for land was reversed.

RECONCILIATIONS BETWEEN IFRS AND ITALIAN GAAP WITH EXPLANATORY NOTES

The reconciliations of equity and net profit as reported under Italian GAAP to equity and net profit under IFRS were prepared in accordance with IFRS 1.
Since IAS 32 and IAS 39 (financial instruments) and IFRS 4 (insurance contracts) were applied from January 1, 2005, as permitted under IFRS 1, to enable a comparative analysis of consistent data the effects of the application of IAS 32, IAS 39 and IFRS 4 from January 1, 2004 – at January 1, 2004 and for financial year 2004 – were estimated based on available information.
The reconciliations of equity at January 1, 2004 and December 31, 2004 (IAS 39 not applied) and at January 1, 2005, as well as the reconciliation of net profit at December 31, 2004 (IAS 39 not applied) were audited by the independent auditors.

Reconciliation of equity as reported under Legislative Decree 173/97 to equity under IFRS

The reconciliation of equity set out below shows the effect of the transition to IFRS on equity.

IAS 39 and IFRS 4 not applied

€/'000	Dec. 31, 2004	Jan. 1, 2004
Equity as reported under Legislative Decree 173/97	623,945	562,438
Reserves		
Reversal of amortization of goodwill	20,980	-
Adjustment for reversal of land depreciation	(1,452)	(3,066)
Assets that no longer qualify as intangible assets	(2,425)	(4,043)
Valuation adjustment relating to provisions for risks and charges	3,282	7,948
Actuarial valuation of employee completion-of-service entitlements	(411)	(325)
Other effects	233	-
Valuation reserves		
Other effects	(42)	-
Tax effect	(316)	(977)
Total effects of FTA of IFRS	19,849	(463)
Equity under IFRS	643,794	561,975

IAS 39 and IFRS 4 applied

€/'000	Jan. 1, 2005	Jan. 1, 2004
Equity under Legislative Decree 173/97	623,945	562,438
Reserves		
Fair value measurement of trading securities and derivatives	1,413	1,428
Collective assessment of performing loans	(1,548)	(2,266)
Individual assessment of loans	(79)	(1,800)
Deferral of commissions on investment contracts (IFRS4)	(22,193)	(28,331)
Reversal of amortization of goodwill	20,980	-
Adjustment for reversal of land depreciation	(1,452)	(3,066)
Assets that no longer qualify as intangible assets	(2,425)	(4,043)
Valuation adjustment relating to provisions for risks and charges	3,282	7,948
Actuarial valuation of employee completion-of-service entitlements	(411)	(325)
Other effects	(2,028)	(2,347)
Valuation reserves		
Available-for-sale financial assets		
- Fair value measurement of equity instruments	34,071	(23,260)
- Fair value measurement of debt securities	10,769	(12,996)
Shadow accounting reserve	(8,858)	-
Other effects	(42)	-
Tax effect	6,870	14,264
Total effects of FTA of IFRS	38,349	(54,794)
Equity under IFRS	662,294	507,644

"Reserves" include adjustments that do not entail the recognition of any gains or losses in the income statement in future financial years since those adjustments would have already had their effect on the income statement if IFRS had been adopted earlier.

"Valuation reserves" include adjustments that are going to vary over time due to the changes in the fair value of assets and liabilities and which will be recognized as gains or losses in the income statement only when realized.
As a result of the movements in equity on IFRS First-Time Adoption, at January 1, 2005 equity increased from €623.9 million to €662.3 million, up €38.4 million of which € 6.9 million relating to tax effects and €31.5 million to other positive effects. Consequently, a negative amount of €2 million was charged to equity under "Treasury shares", while €5,2 million was credited to a newly formed reserve named "IFRS First Time Adoption Reserve" and €35.2 million to the "Valuation Reserves" in both cases after the tax effect.

Reconciliation of net profit as reported under Legislative Decree 173/97 to net profit under IFRS

The reconciliation of net profit set out below shows the effect that the transition to IFRS would have had on net profit at December 31, 2004.

€/'000	*Not applied* IAS39-IFRS4 Dec. 31, 2004	*Applied* IAS 39-IFRS 4 Dec. 31, 2004
Net profit under Legislative Decree173/97	141,286	141,286
Premiums	-	(94,717)
Insurance technical charges	-	154,301
Net commissions	(1,358)	19,708
Net interest income	(614)	(68,392)
Gains/losses on assets carried at fair value	-	(6,302)
Other income	64	64
Impairment losses	1,365	3,196
Amortization of goodwill (positive consolidation differences)	20,980	20,980
Depreciation and amortization of tangible and intangible assets	1,961	1,964
Staff costs	(915)	(915)
Other administrative expenses	(506)	(417)
Provisions for risks and charges	(4,037)	(4,037)
Taxes	829	(2,602)
Net profit under IAS/IFRS	159,055	164,117

Financial assets at fair value through profit or loss

Fair value measurement of trading securities and derivatives

Securities and derivatives held for trading are to be measured at fair value. Unlike Italian GAAP, the international accounting standards require the recognition of gains or losses arising from changes in fair value.
Fair value measurement was applied to trading securities and derivatives in accordance with IAS/IFRS.
(The impact was a €1.4 million increase in equity before taxes at January 1, 2005).

Loans and receivables

Individual assessment of impaired loans

Under IAS/IFRS the assessment of financial assets carried at amortized cost is to be made on the basis of the present value of estimated future cash flows. Impaired loans, i.e. loans for which there is evidence the amount is not entirely recoverable, are to be individually assessed taking into account, inter alia, the expected time of recovery. Unlike the Italian GAAP applied up until FY2004, the international accounting standards require the calculation of the present value of the estimated future recoverable amount.

For non-performing loans, the present value of the future recoverable amount was estimated taking into account the average time of recovery derived from historical loss experience, using the loan's original effective interest rate.

For watch list loans the present value of the estimated future recoverable amount was not calculated since repayment is expected within 18 months.

Collective assessment of performing loans

Loans for which there is no objective evidence of impairment are collectively assessed. To that end, loans are grouped on the basis of similar credit risk characteristics and the related loss probability is estimated using historical loss rates.

Loan losses were calculated using, to the greatest extent allowed under the various applicable regulations, techniques similar to those required for the calculation of capital charges under the new Basel II Capital Accord. Specifically, the Probability of Default (PD) and the Loss Given Default (LGD) were applied – when available – also to financial items other than capital. Those two measures were the basis for loan classification in accordance with the requirements of IAS/IFRS for the determination of groups of loans with similar characteristics and the calculation of provisions. The one-year time horizon applied when measuring the probability of default is considered to approximate the concept of incurred loss, that is a loss arising from current events of which there is not yet evidence in the company's assessment of the individual borrower, in accordance with the international accounting standards.

(The impact was a € 1.5 million decrease in equity before taxes at January 1, 2005).

Other effects of loan assessment

The other effects of loan assessment relate to the application of amortized cost and the write-downs of default interest. Under the international accounting standards, revenue is to be recognized only when it is probable that the economic benefit will flow to the entity. Therefore default interest are recognized on a cash basis.

(The impact was a € 0.3 million decrease in equity before taxes at January 1, 2005).

Tangible and intangible assets

Adjustments for depreciation of land and property

Under the international accounting standards tangible assets are to be depreciated over the useful life of the asset or its individual components when their useful life is different. That entails that the carrying amount of buildings is to be separated from that of the land on which they stand – since land cannot be depreciated – and any previously recognized accumulated depreciation for land is to be reversed.

Therefore the carrying amount of buildings and that of land on which a building stands was measured separately and the previously recognized accumulated depreciation for land was reversed.

To determine the value of land, valuations of property were performed by external valuers. After comparing the carrying amount of land, including accumulated depreciation, to the valuation of external surveyors the carrying amount of land was reduced.

Depreciation of investment property was calculated to write down the cost of such assets to their residual value over their estimated useful lives. Under Italian GAAP investment property was not depreciated

(The impact was a € 2 million decrease in equity before taxes at January 1, 2005).

Assets that do not qualify as intangible assets

Under the international accounting standards an asset can be recognized as an intangible asset if and only if it is probable that future economic benefits attributable to the asset will flow to the entity and the cost of the asset can be measured reliably.

In compliance with the new accounting policy, the value of assets that no longer qualify as intangible assets, largely start-up costs, was reversed (the impact was a € 2.4 million decrease in equity before taxes at January 1, 2005).

Impairment of goodwill

Under IAS/IFRS assets with infinite useful life, including goodwill, cannot be not amortized but are to be tested for impairment at least annually by comparing their recoverable amount with their carrying amount. (The impact of the reversal of the amortization of goodwill that had been reported in FY2004 was a € 21.2 million increase in equity before taxes at January 1, 2005).

Investment contracts (IFRS 4)

Deferral of commissions on investment contracts and related acquisition costs

Loadings on investment contract premiums are deferred over the contractual term and recognized as Deferred Income Reserve (DIR) under "Other Liabilities". The commissions paid for the acquisition of investment contracts are also deferred and recognized as Deferred Acquisition Costs (DAC) under "Other Assets" (the impact was a €22.2 million decrease in equity before taxes at January 1, 2005).

DIR is deferred on the basis of expected costs over the contract term. The amortization policy applied to DIR is also applied to DAC.

Provisions

Provisions for risk and charges and present value of the expected expenditures

Under the international accounting standards a provision can be recognized only if the entity has a present obligation in relation to which it is probable that an outflow of resources will be required to settle it and a reliable estimate can be made of the amount of the obligation. The estimate reflects probable outcome on the basis of historical loss experience. To meet the requirements of the international accounting standards, adjustments were made to provisions set aside in previous years. Under IAS/IFRS if the time value of money is material, the amount of the provision has to be the present value of the expenditure expected to be required to settle the obligation. Adjustments were therefore made to provisions to reflect the present value of expected future expenditures. (the impact was a € 3.3 million increase in equity before taxes at January 1, 2005).

Estimate of employee completion-of-service entitlements using actuarial techniques

Under international accounting standards the amount of the benefits payable by the employer to the employees upon completion of service under defined benefits plans is to be recognized using estimates based on actuarial assumptions. Italian employee completion-of-service entitlements are judged to be defined benefit obligations therefore they were re-measured on the basis of actuarial assumptions (the impact was a € 0.4 million decrease in equity before taxes at January 1, 2005).

Available-for-sale financial assets

Under IAS/IFRS financial instruments classified as "available-for-sale financial assets" are to be measured at fair value. The effects of that measurement are to be recognized directly in an equity reserve until they are sold.

Fair value measurement of debt securities

On first-time adoption of IFRS certain debt securities that are not held for trading and that not meet the requirements for classification as held-to-maturity investments or loans or receivables were classified as "Available-for-sale financial assets".

The effect of the adoption of IFRS is connected to the fair value measurement of securities held in portfolio, that under the Italian GAAP were measured at the lower of purchase cost and market value. (the impact was a € 10.8 million increase in equity before taxes at January 1, 2005).

Fair value measurement of equity instruments

On first-time adoption of IFRS equity investments which do not qualify as investments in subsidiaries, associates or joint ventures are to be classified as "available-for-sale financial assets".

Those shareholdings – which under Italian GAAP had been carried at cost less any impairment losses – were measured at fair value when a stock market price or a current valuation of the investee was available, while continued to be measured at cost in all other cases. (the impact was a €34.1 million increase in equity before taxes at January 1, 2005) the tax effect).

Valuation of the Shadow Accounting Reserve

IAS/IFRS require the recognition of deferred liabilities to policyholders for unrealized gains or losses on assets underlying traditional life contracts, calculated on the basis of the estimated portion of additional benefits payable to policyholders.
Those changes in liabilities are recognized in equity or in the income statement according to the accounting policy applied to the underlying asset.
On the transition date, i.e. January 1, 2005, deferred liabilities to policyholders calculated on the basis of the valuation reserve relating to AFS securities entailed a €8,858 thousand decrease in equity before taxes.

Share-based payments

Unlike Italian GAAP, IAS/IFRS require that share-based payments (i.e. stock options) be measured at the fair value of the stock option on the Grant Date, and recognized in the income statement in the period between the Grant Date and the Vesting Date, recognizing the corresponding amount in an equity reserve.
IFRS 2 is to be applied to stock options granted after November 7, 2002.
The fair value of those stock options was measured and the related amount for financial year 2004 was recognized in the income statement. That did not entail any changes in equity.

Other effects

The residual effects of the first-time adoption of IFRS largely relate to the effects of the derecognition of treasury shares that under the international accounting standards, are deducted from equity as they can no longer be recognized as assets.

Tax effect

The impact on equity of the first-time adoption of IFRS was calculated after the related tax effect. Taxation was calculated in accordance with current legislation (including Legislative Decree 38/2005), specifically:

- IRES (corporate income tax) was calculated at the rate of 33%;
- IRAP (regional business tax) was calculated at the rate of 4.25% (plus any additional regional tax, where applicable);
- for foreign operations the respective national taxes were applied.

ERNST & YOUNG

Reconta Ernst & Young S.p.A.
Via della Chiusa, 2
20123 Milano

Tel. (+39) 02 722121
Fax (+39) 02 72212037
www.ey.com

INDEPENDENT AUDITORS' REPORT
pursuant to article 156 of Legislative Decree of February 24, 1998, n. 58
(Translation from the original Italian text)

To the Shareholders of
Mediolanum S.p.A.

1. We have audited the consolidated financial statements of Mediolanum S.p.A. and its subsidiaries ("Mediolanum Group") as of and for the year ended December 31, 2005, comprising the balance sheet, the income statement, the statement of changes in equity and the statement of cash flows and the related explanatory notes. These consolidated financial statements are the responsibility of Mediolanum S.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. These consolidated financial statements represent the first consolidated financial statements prepared by Mediolanum S.p.A. in accordance with International Financial Reporting Standards as adopted by the European Union.

2. We conducted our audit in accordance with auditing standards and procedures recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards and procedures, we planned and performed our audit to obtain the information necessary to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

   For comparative purposes, the consolidated financial statements include the corresponding information for the prior year prepared in accordance with consistent accounting principles except for the effects of IAS 32, IAS 39 and IFRS 4 which have been applied from January 1, 2005 in accordance with the exemption allowed by IFRS 1. In addition, the section "First Time Adoption of International Financial Reporting Standards" of the consolidated financial statements reports the effects of the transition to International Financial Reporting Standards as adopted by the European Union and includes the reconciliation statements required by IFRS 1, which were previously approved by management and published in the Management Report as of and for six months ended June 30, 2005, and which have been audited by us. Reference should be made to our audit report dated October 10, 2005.

Reconta Ernst & Young S.p.A.
Sede Legale: 00196 Roma - Via G.D. Romagnosi, 18/A
Capitale Sociale € 1.259.500,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584
P.I. 00891231003
(vecchio numero R.I. 6697/89 - numero R.E.A. 250904)

3. In our opinion, the consolidated financial statements of Mediolanum S.p.A. present clearly and give a true and fair view of the financial position, the result of operations, the changes in shareholders' equity and the cash flows of Mediolanum Group as of December 31, 2005, and for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Milan, April 12, 2006

Reconta Ernst & Young S.p.A.
Signed by: Natale Freddi, Partner

MEDIOLANUM S.p.A.

Separate Financial Statements for the year ended December 31 2005

Directors’ Report

Dear shareholder,

The financial statements for the year ended December 31, 2005 we present for your approval show a net profit of €191,565 thousand (vs. €115,238 thousand in 2004).
The improved result is primarily in connection with greater dividends received from subsidiaries, in particular from Mediolanum International Funds Ltd, which paid out €66,150 thousand interim dividends last December.

Pursuant to Legislative Decree No. 38 of February 28, 2005 these separate financial statements for the year ended December 31, 2005 were prepared in accordance with the accounting standards issued by the International Accounting Standards Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Commission pursuant to the European Parliament and Council Regulation (EC) 1606 of July 19, 2002.
As allowed under art. 4, paragraph 2 of Legislative Decree 38/2005 Mediolanum S.p.A. elected to voluntarily apply international accounting standards to its separate financial statements as early as 2005 although publicly traded companies are required to do so only in their financial statements at December 31, 2006.
The International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) applied for the first time in the 2005 interim financial statements and in these annual financial statements differ from the Italian GAAP applied up until the 2004 annual financial statements. An analysis of the impact of the First-Time Adoption of International Financial Reporting Standards under IFRS 1 and the judgments exercised by the Company on that occasion are set out in the section "First time adoption of International Financial Reporting Standards".
The comparative information for financial year 2004 presented in the accounts and in the notes was reclassified in accordance with the requirements of the international accounting and reporting standards.

BUSINESS REVIEW

In the year 2005 Mediolanum S.p.A. continued its business as insurance agent of the subsidiary Mediolanum Vita S.p.A. and the associate Mediolanum Assicurazioni S.p.A. (owned by the Fininvest Group and the Doris Group that have equal stakes therein) through the commercial organization of the subsidiary Banca Mediolanum S.p.A.
Revenues from that business amounted to €183,632 thousand (vs. €182,049 thousand in 2004), of which €179,615 thousand from activities under authority delegated by the subsidiary Mediolanum Vita S.p.A.

The costs of that business consisted of €164,932 thousand commissions paid to the subsidiary Banca Mediolanum S.p.A. (€161,741 thousand in 2004) for its insurance sub-agent services as contractually agreed.
Staff costs and other administrative expenses amounted to €13,330 thousand down from €15,022 thousand in the prior year.

Interest expense improved from €9,219 thousand at December 31, 2004 to €8,896 thousand at year end 2005 (-3%).

As already mentioned dividends from subsidiaries grew by €76,905 thousand primarily following the payment of the 2005 interim dividend by the subsidiary Mediolanum International Funds Ltd in December (€66.1 million).
Dividends from other investees (available-for-sale financial assets) increased 20% from €5,969 thousand in 2004 to €7,152 thousand.

Investments

With respect to movements in investments in subsidiaries and associates, in June 2005 the shareholding in Mediolanum Fiduciaria S.p.A. was sold to the associate Banca Esperia for a consideration of €631 thousand. The sale generated a gain of €90 thousand.
For information on the results of operation of the companies that are part of the Mediolanum Group readers are referred to the Directors' Report in the consolidated financial statements.

In relation to investments classified as "Available-for-sale financial assets" you are informed that:
- In June the shareholding in Europa Invest was sold for a consideration of €34 thousand. The sale generated a gain of €20 thousand;
- In September a further 1.554 % interest in Cedacri S.p.A. was acquired for a consideration of €1,886 thousand;
- In November a 4.7% stake in Istituto Europeo di Oncologia S.p.A. was acquired for a consideration of €4,703 thousand.

Post balance sheet date event

No material transaction was concluded after the end of the financial year.

Outlook

In the light of results recorded in the first months of 2006, the outlook for the current year is positive.

Information on Stock Option Plans

Exercising the authority delegated to it by the shareholders at the Extraordinary General Meeting of April 26, 2005, at its Meeting held on July 13, 2005 the Board of Directors resolved:

- to increase share capital for a consideration by a maximum amount of €68,100.00 (sixty-eight thousand one hundred point zero) through the issue of up to 681,000 (six hundred eighty-one thousand) dividend-bearing ordinary shares, par value of €0.10 (zero point one) each, to be allotted to the employees of the Company and/or its subsidiaries pursuant to article 2359, paragraph 1, No. 1), of the Italian Civil Code, waiving any shareholders' pre-emptive rights pursuant to art. 2441, paragraph eight of the Italian Civil Code and article 134, paragraph three, of Legislative Decree 58/98. Those shares will be offered for subscription at a share price, including any share premiums, equal to the arithmetic mean of the MEDIOLANUM S.p.A." share prices on the electronic trading system of Borsa Italiana S.p.A. (Italian Stock Exchange) in the period from the thirteenth day of the preceding calendar month to July 13, 2005;
- to increase share capital for a consideration by a maximum amount of €39,000.00 (thirty-nine thousand point zero) through the issue of up to 390,000 (three-hundred ninety thousand) dividend-bearing ordinary shares, par value of €0.10 (zero point one) each, to be allotted to Non-Employee Directors of the Company and/or its subsidiaries pursuant to article 2359, paragraph 1, No. 1), of the Italian Civil Code, waiving any shareholders' pre-emptive rights pursuant to art. 2441, paragraph five of the Italian Civil Code. Those shares will be offered for subscription at a share price of 1.118 (one point one-hundred eighteen) including a share premium of €1.018 (one point zero eighteen) per share (price determined in accordance with the EGM resolution);
- that the subscription to those share capital increases is to be made on a single occasion in the first five business days of each of the sixty calendar months subsequent to the expiration of the two-year term, except for any exceptional circumstances as set out in the regulations. The final term for exercising the Options with respect to the share capital increases above is the fifth business day in the sixtieth month subsequent to the expiration of the two-year term since July 13, 2005. In the event that the capital increases are not fully subscribed within the prescribed term, share capital will be increased by the amount of the subscriptions received as of that date.

Exercising the authority delegated to it by the shareholders at the Extraordinary General Meeting of April 12, 2001, at its Meeting held on July 13, 2005 the Board of Directors resolved:

- to increase share capital for a consideration by a maximum amount of €25,444.00 (twenty-five thousand four hundred forty-four point zero) through the issue of up to 254,440 (two hundred fifty-four thousand four hundred forty) ordinary shares, par value of €0.1 (zero point one) each, bearing dividend rights from January 1 of the financial year in which shares are issued, to be allotted to contract workers of the Company and/or its subsidiaries pursuant to article 2359, paragraph 1, No. 1 of the Italian Civil Code, waiving any shareholders' preemptive rights pursuant to article 2441 paragraph five, of the Italian Civil Code. Those shares will be offered for subscription at a share price of €0.648 (zero point six hundred forty eight) including a share premium of €0.548 (zero point five hundred forty eight) per share;
- that the subscription to that share capital increase is to be made on a single occasion in the first five business days of each of the thirty-six calendar months subsequent to the expiration of the two-year term, except for any exceptional circumstances as set out in the regulations. The final term for exercising the Options with respect to the share capital increases above, is the fifth business day in the thirty-sixth month subsequent to the expiration of the two-year term. In the event that the capital increases are not fully subscribed within the prescribed term, share capital will be increased by the amount of the subscriptions received as of that date.

In accordance with art. 79 of Consob Regulation 11971 of May 14, 1999 the interests of Directors and Statutory Auditors in ordinary shares of the company and its subsidiaries are set out in Schedule 3 below prepared pursuant to Annex 3C of said regulation.

Dear shareholder,

We assure you that the financial statements for the year ended December 31, 2005 presented to you for examination and approval were prepared in compliance with the law in force.
In requesting Your approval of the financial statements including this report, we propose the following appropriation of the year's net profit of €191,564,882.83:

- distribution of a full-year dividend of €0.2 per share (par value of €0.10) to the shareholders, including the interim dividend of €0.085 paid in December 2005. The final dividend of €0.115 per share will be due for payment from May 25, 2006 (ex-dividend date May 22, 2006). Said dividend will not be payable for treasury shares held after the close of business on May 19, 2006;
- the remainder to the Extraordinary Reserve as the legal reserve has already reached the statutory limit.

For the Board of Directors
The Chairman
(Roberto Ruozi)

MEDIOLANUM S.p.A.

Accounts for the year ended December 31 2005

Balance Sheet

Assets

€	Dec. 31, 2005	Dec. 31, 2004
Non current assets		
Receivables from shareholders for unpaid calls	-	-
Fixed assets		
Intangible assets	342,120	665,350
Tangible assets	608,201	1,103,106
Investments in subsidiaries and associates	520,841,459	521,382,650
Available-for-sale financial assets	288,823,821	175,606,486
Total non current assets	810,615,601	698,757,592
Current assets		
Receivables from		
subsidiaries	32,600,122	29,742,019
related parties	634,409	604,422
others	15,413,438	15,066,681
Total receivables	48,647,969	45,413,122
Cash and cash equivalents		
bank deposits	13,865,624	17,034,814
cash	7,824	6,483
Total cash and cash equivalents	13,873,448	17,041,297
Tax assets		
current	48,532,677	51,330,429
deferred	116,588	129,568
Total tax assets	48,649,265	51,459,997
Other assets	77,063	26,776
Total current assets	111,247,745	113,941,192
TOTAL ASSETS	921,863,346	812,698,784

Shareholders' equity and liabilities

€	Dec. 31, 2005	Dec. 31, 2004
Shareholders' equity and liabilities		
Capital and reserves		
Share capital	72,737,993	72,566,861
Treasury shares	(2,045,116)	-
Share premium account	48,313,300	45,761,836
Retained earnings	65,893,705	113,233,841
Valuation reserve for AFS financial instruments	102,948,811	-
Net profit (loss) for the period	191,564,883	115,284,921
Total capital and reserves	479,413,576	346,847,459
Non current liabilities		
Completion-of-service entitlements	1,638,224	1,682,723
Total non current liabilities	1,638,224	1,682,723
Current liabilities		
Payables		
due to banks	226,731,742	251,090,125
other financial liabilities at amortized cost	113,620,518	113,620,518
due to suppliers	1,660,140	1,357,764
other payables	42,426,242	46,129,848
Tax liabilities		
current	50,117,592	51,425,736
deferred	5,738,701	10,780
Other liabilities	516,611	533,831
Total current liabilities	440,811,546	464,168,602
TOTAL LIABILITIES	442,449,770	465,851,325
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	921,863,346	812,698,784

Income Statement

€	Dec. 31, 2005	Dec. 31, 2004
Commission income	183,631,995	182,049,023
Commission expense		
acquisition of insurance contracts	(164,901,318)	(161,719,733)
other	(31,095)	(21,398)
Interest income and similar income	1,243,562	791,415
Interest expense and similar charges	(8,896,030)	(9,219,400)
Gains/losses from trading	(678)	(378)
Income from equity investments		
dividends from subsidiaries	190,190,868	113,285,674
gains on sale of equity investments	89,944	1,622,089
Income from other financial instruments		
Dividends from available-for-sale financial assets	7,151,913	5,969,605
Gains from available-for-sale financial assets	20,516	-
Losses on other financial instruments		
Losses on available-for-sale financial assets	-	(35,553)
Impairment losses on		
loans	-	(1,017,606)
equity investments	(1,200,000)	(810,029)
treasury shares	-	-
Reversal of impairment	-	619,414
Other income	881,723	1,114,821
Staff costs	(5,981,141)	(6,153,410)
Other administrative expenses	(7,348,563)	(8,868,421)
Amortization and depreciation		
intangible assets	(331,310)	(624,613)
tangible assets	(521,530)	(705,146)
Tax expense		
current	(2,431,774)	(787,855)
deferred	(2,199)	(203,578)
Total tax expense	(2,433,973)	(991,433)
NET PROFIT (LOSS) FOR THE PERIOD	191,564,883	115,284,921

Cash flow statement

Indirect method

€/'000	Dec. 31, 2005	Dec. 31, 2004
Pre-tax profit (loss) for the year	193,999	116,276
Changes in non-monetary items		
Completion-of-service entitlements	(44)	(244)
Depreciation and amortization	853	1,377
Stock Options	709	618
Provisions for risks and charges	-	(391)
Changes in receivables and payables relating to operating activities		
Changes in other receivables and payables	(3,261)	17,587
Income taxes paid	(4,385)	(991)
Net cash from monetary items relating to investment and financial activities	-	-
NET CASH FROM OPERATING ACTIVITIES	187,871	134,232
Net cash from subsidiaries, associates and joint ventures	541	(14,743)
Net cash from available-for-sale financial assets	(6,575)	99
Net cash from tangible and intangible assets	(35)	(225)
Other cash flows from investment activities	-	-
NET CASH FROM INVESTING ACTIVITIES	(6,069)	(14,869)
Net cash from equity instruments	2,722	-
Net cash from treasury shares	-	(47)
Distribution of dividends	(163,334)	(79,781)
Net cash from capital and reserves pertaining to minority interests	-	-
Net cash from subordinated liabilities	-	-
Net cash from other financial liabilities	(24,358)	(40,000)
NET CASH FROM FINANCING ACTIVITIES	(184,970)	(119,828)
Effect of exchange rate changes on cash and cash equivalents	-	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	17,041	17,506
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,168)	(465)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	13,873	17,041

Statement of changes in equity

€	Balance at Dec. 31, 2003	Adjustment to opening balance	Balance at Jan. 1, 2004	Appropriation of prior year's profit: Reserves	Appropriation of prior year's profit: Dividends and other
Share capital	72,566,861	-	72,566,861	-	-
Share premium account	45,761,836	-	45,761,836	-	-
Reserves:					
a) retained earnings	200,796,229	(112,406,618)	88,389,611	24,273,046	-
b) other	-	-	-	-	-
Valuation reserves:					
a) AFS fin. instruments	-	-	-	-	-
Equity instruments	-	-	-	-	-
Treasury shares	-	-	-	-	-
Net profit (loss)	104,054,243	-	104,054,243	(24,273,046)	(79,781,197)
Shareholders' equity	423,179,169	(112,406,618)	310,772,551	-	(79,781,197)

€	Balance at Dec. 31, 2004	Adjustment to opening balance	Balance at Jan. 1, 2005	Appropriation of prior year's profit: Reserves	Appropriation of prior year's profit: Dividends and other
Share capital	72,566,861	-	72,566,861	-	-
Share premium account	45,761,836	-	45,761,836	-	-
Reserves:					
a) retained earnings	113,233,841	-	113,233,841	13,698,592	
b) other	-	-	-	-	-
Valuation reserves:					
a) AFS fin. instruments	-	33,964,052	33,964,052	-	-
Treasury shares	-	(2,045,116)	(2,045,116)	-	-
Net profit (loss)	115,284,921	-	115,284,921	(13,698,592)	(101,539,704)
Shareholders' equity	346,847,459	31,918,936	378,766,395	-	(101,539,704)

Movements in the year							
	Equity						
Change in reserves	Share issues	Purchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Stock options	Net profit for the year Dec. 31, 2004	Shareholders' equity at Dec. 31, 2004
-	-	-	-	-	-	-	72,566,861
-	-	-	-	-	-	-	45,761,836
(46,625)	-	-	-	-	617,808	-	113,233,841
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	115,284,921	115,284,921
(46,625)	-	-	-	-	617,808	115,284,921	346,847,459

Movements in the year							
	Equity						
Change in reserves	Share issues	Purchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Stock options	Net profit for the year Dec. 31, 2005	Shareholders' equity at Dec. 31, 2005
-	171,132	-	-	-	-	-	72,737,993
-	2,551,465	-	-	-	-	-	48,313,300
46,625	-	-	(61,794,569)	-	709,214	-	65,893,705
-	-	-	-	-	-	-	-
68,984,759	-	-	-	-	-	-	102,948,811
-	-	-	-	-	-	-	(2,045,116)
(46,625)	-	-	-	-	-	191,564,883	191,564,883
68,984,759	2,722,597	-	(61,794,569)	-	709,214	191,564,883	479,413,576

MEDIOLANUM S.p.A.

Notes to the Separate Financial Statements for the year ended December 31 2005

Notes to the financial statements at December 31, 2005

These notes are structured as follows:

PART A - ACCOUNTING BASIS

Pursuant to Legislative Decree No. 38 of February 28, 2005 these separate financial statements for the year ended December 31, 2005 were prepared in accordance with the accounting standards issued by the International Accounting Standards Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Commission pursuant to the European Parliament and Council Regulation (EC) 1606 of July 19, 2002.
As allowed under art. 4, paragraph 2 of Legislative Decree 38/2005 Mediolanum S.p.A. elected to voluntarily apply international accounting standards to its separate financial statements as early as 2005 although publicly traded companies are required to do so only in their financial statements at December 31, 2006.
These separate financial statements were prepared in accordance with the Italian Civil Code and consist of the Balance Sheet, the Income Statement, the Statement of Changes in Equity, the Statement of Cash Flows and Explanatory Notes. These financial statements provide the information required under art. 2427 and other articles of the Italian Civil Code on financial reporting as well as other applicable statutes.
The International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) applied for the first time in the 2005 interim financial statements and in these annual financial statements are markedly different from the Italian GAAP applied up until the 2004 annual financial statements. An analysis of the impact of the first-time adoption of International Financial Reporting Standards under IFRS 1 is set out in the section "First time adoption of International Financial Reporting Standards" at the end of these notes.
In the preparation of the financial statements the Company applied the international accounting standards IAS/IFRS (including SIC and IFRIC interpretations) in effect at December 31, 2005, as adopted by the European Commission and set out in the schedule attached hereto.

Accounting basis

These separate financial statements consist of the Balance Sheet, the Income Statement, the Statement of Changes in Equity, the Statement of Cash Flows and Explanatory Notes in addition to the Directors' Report.
In accordance with art. 5 of Legislative Decree No. 38 of February 28, 2005 the financial statements were prepared using the euro as reporting currency.
The amounts set out in the Accounts are presented in units of euro, while the amounts set out in the Notes and the Directors' Report are presented in thousands of euro except where otherwise stated.
These financial statements were prepared in compliance with the general requirements of IAS 1 and the specific accounting standards adopted by the European Commission, as presented in Part B ("Accounting Policies") herein, as well as in compliance with the underlying assumptions set out in the IASB Framework for the Preparation and Presentation of Financial Statements.
In applying IAS/IFRS no departure was made from requirements therein.
The accounts and the notes also include comparative information for the year ended December 31, 2004. As allowed under IFRS 1, the Company elected not to restate prior period's financial information relating to financial instruments (IAS 39 and IAS 32), which was therefore stated under the previous GAAP.
Specifically, loans and receivables, payables, securities and equity investments for the year ended December 31, 2004 were measured and recognized under the Italian GAAP applied up until December 31, 2004 as presented in the financial statements for that year. The differences between Italian GAAP and IAS/IFRS are presented in full details in the specific section of the consolidated financial statements.
Due to the marked differences between Italian GAAP and IAS/IFRS the comparative information for financial year 2004 presented in the accounts and in the notes – except for information relating to financial instruments – was reclassified and restated under IAS/IFRS.

PART B - ACCOUNTING POLICIES

This section presents the accounting policies applied in the preparation of the separate financial statements for the year ended December 31, 2005.

Equity investments

This account relates to investments in subsidiaries and associates which are measured at cost.
On initial recognition these investments are measured at cost, i.e. the fair value of the investment, plus any directly attributable transaction costs or income.
After initial recognition equity investments continue to be carried at cost.
If there is evidence that an investment may be impaired, its recoverable amount is calculated by estimating the present value of future cash flows expected to be generated by the investment, including the proceeds on the ultimate disposal of the investment.
If the recoverable amount is lower than the carrying amount, the resultant difference is recognized in the income statement.

If the value of a previously impaired investment increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed and the reversal recognized in the income statement.
Investments are derecognized when the contractual rights to the cash flows from the financial asset expire or the financial asset and substantially all the risks and rewards of ownership thereof are transferred.

Available-for-sale financial assets

This account relates to shareholdings that are not held for trading and those that do not qualify as investments in subsidiaries, associates or joint ventures.
Available-for-sale financial assets are initially recognized on the settlement date.
On initial recognition available-for-sale financial assets are measured at cost, i.e. the fair value of the instrument, plus any directly attributable transaction costs or income.
After initial recognition available-for-sale financial assets continue to be measured at fair value. The gains or losses arising from a change in their fair value are recognized in a specific equity reserve until the financial asset is derecognized or impaired. At the time of their dismissal or impairment, the cumulative gain or loss previously recognized in equity is recognized in the income statement.
Equity instruments whose fair value cannot be reliably measured as set out above are measured at cost.
At each interim and annual balance sheet date the Company assesses whether there is objective evidence of any impairment loss.
If the fair value of a previously impaired asset increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed and the reversal recognized in the income statement if the asset is a loan or receivable or a debt instrument, and in equity if the asset is an equity instrument. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment loss not been recognized at the date the impairment is reversed.
Available-for-sale financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or the financial asset and substantially all the risks and rewards of ownership thereof are transferred.

Loans and receivables

This account relates to trade receivables.
A receivable is initially recognized on the billing date or due date.
At each interim and annual reporting date the Company assesses whether there is objective evidence of any impairment loss as a result of one or more events that occurred after initial recognition.
An impaired account is individually assessed and the amount of the impairment loss is measured as the difference between the asset's carrying amount at the time of assessment and the present value of estimated future cash flows. Future cash flows are estimated taking into account the expected time of recovery, the realizable value of any collaterals as well as any costs of recovery. Future cash flows of receivables which are expected to be recovered in the short term are not discounted.
The amount of the impairment loss is recognized in the income statement.

If the value of a previously impaired loan or receivable increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed and the reversal recognized in the income statement.
The reversal shall not result in a carrying amount of the financial asset that exceeds what the cost would have been had the impairment loss not been recognized at the date the impairment is reversed.

Tangible assets

Tangible assets include furnishings, fixtures, fittings, plant and equipment.
These are tangible items that are held for use in the production or supply of goods or services, or for administrative purposes and that are expected to be used during more than one period.
Tangible assets are initially recognized at cost, which comprises the purchase price of the asset and all costs directly attributable to the asset's acquisition and operation.
The costs of major repairs which increase the future economic benefits associated with the asset are recognized in the carrying amount of the asset, while the costs of day-to-day servicing are recognized in the income statement.
Tangible assets are carried at cost less any accumulated depreciation and impairment losses.
Tangible assets are systematically depreciated on a straight-line basis over their useful lives.
At each interim and annual reporting date if there is an indication that an asset may be impaired the carrying amount of the asset is compared to its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset. If the recoverable amount of an asset is less than its carrying amount, the carrying amount is reduced to its recoverable amount. Any reduction is recognized as impairment loss in the income statement.
If the value of a previously impaired asset increases, the impairment loss is reversed. The reversal shall not result in a carrying amount of the asset that exceeds what the carrying amount less accumulated depreciation would have been had the impairment loss not been recognized at the date the impairment is reversed.
A tangible asset is derecognized from the balance sheet on disposal or when no future economic benefits are expected from its use or disposal.

Intangible assets

Intangible assets include expenditure on the renovation of leasehold property and the costs of software used over more than one year.
Expenditure on the renovation of leasehold property is capitalized since during the lease term the lessee controls the assets and obtains future economic benefits from them.
Other intangible assets are recognized if they are identifiable as such and arise from contractual or other legal rights.
Other intangible assets are carried at cost less any accumulated amortization and impairment losses only if it is probable that future economic benefits attributable to the asset will flow to the entity and the cost of the asset can be measured reliably, otherwise it is recognized as an expense in the income statement in the year in which it was incurred.

Intangible assets are amortized on a straight-line basis over their useful lives. Intangible assets with indefinite useful lives are not amortized, but periodically tested for impairment by comparing their recoverable amount with their carrying amount. Expenditure on the renovation of leasehold property is amortized over a period which does not exceed the lease term.
At each reporting date, if there is evidence of impairment, the recoverable amount of the asset is estimated. If the recoverable amount of the asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss. The impairment loss is recognized in profit or loss.
An intangible asset is derecognized on disposal or when no future economic benefits are expected from it.

Financial liabilities

Other financial liabilities include the various forms of funding from banks and companies within the Group.
Those financial liabilities are initially recognized when amounts are received.
They are initially measured at fair value, i.e. generally the amount received, plus any additional costs/income directly attributable to the individual funding transaction. Internal administrative costs are not added.
The fair value of any financial liabilities issued below market value is subject to assessment and the difference over market value is directly recognized in the income statement.
After initial recognition, financial liabilities are measured at amortized cost using the effective interest method except for short-term liabilities for which the time value of money is immaterial that are measured on the basis of the contractual cash flows and related costs are recognized in the income statement over the contractual term of the liability.
A financial liability is derecognized when it expires or is extinguished.

Employee completion-of-service entitlements

Completion-of-service entitlements are recognized at the present value of the benefit obligations calculated using actuarial techniques.
To determine the present value of benefit obligations the Projected Unit Credit Method is used. That method calculates the present value of benefit obligations using actuarial assumptions based on historical data including demographics and a discount rate which is determined on the basis of market yields. The methods considers each year of service as giving rise to an additional unit of benefit entitlements. Each unit is individually measured in arriving at the final obligation. The discount rate is determined on the basis of market yields and reflects the estimated timing of benefit payments.
Service costs are recognized under staff costs as the net total of current service costs, past service costs, interest and expected return on any plan assets and actuarial gains or losses.

Employee pension plan

For the defined contribution pension plan under which the company's obligation is limited to the amount it agrees to contribute to the fund, the amount of the contribution payable for the year is recognized in the income statement.

Tax assets and liabilities

The Company recognizes current and deferred taxes applying the tax rates in effect in the countries where consolidated subsidiaries are incorporated.
Income taxes are recognized in the income statement except for items which are credited/charged directly to equity.
Provisions for income taxes are calculated on the basis of conservative estimates of the current and deferred tax expense. Deferred taxes are computed in respect of the temporary differences, with no time limit, arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.
Deferred tax assets are recorded to the extent that there is reasonable certainty they will be recovered, i.e. to the extent that the company –under Italy's tax consolidation regime– is expected to continue to generate sufficient taxable income against which temporary differences can be utilized.
Deferred tax assets and deferred tax liabilities are not netted, and are separately recognized in the Balance Sheet under "Tax assets" and "Tax liabilities" respectively.
Deferred tax assets and deferred tax liabilities are systematically re-measured to reflect any changes either in tax rules or tax rates as well as any possible changes in the company's tax position.
The provision for tax claims relates to tax payments which may become due as a result of pending tax audits or disputes with tax authorities.

Share-based payments

Stock options are share-based payments. Their fair value, and the corresponding increase in equity, is determined by reference to the fair value of the stock option at the grant date.
The fair value of the stock option is determined using a valuation technique that takes into account the specific terms and conditions of the stock option plan in place, in addition to information such as the exercise price and the life of the option, the current price of underlying shares, the expected volatility of the share price, dividends expected on the shares and the risk-free interest rate for the life of the option. The pricing model separately measures the stock option and the probability that the market conditions upon which vesting is conditioned be satisfied. The combination of the two values is the fair value of the stock option.

Income Statement

Revenue is recognized when received or when it is probable that future economic benefits will flow to the entity and the amount of those benefits can be measured reliably.
Specifically:
- commissions are measured on an accrual basis;
- dividends are recognized in the income statement when their distribution to shareholders is established.

PART C - INFORMATION ON THE BALANCE SHEET

ASSETS

NON-CURRENT ASSETS

FIXED ASSETS

Intangible assets

	Dec. 31, 2005		Dec. 31, 2004	
€/'000	Assets measured at cost	Assets measured at fair value	Assets measured at cost	Assets measured at fair value
1. Goodwill	-	-	-	-
2. Other intangible assets				
- Internally generated	-	-	-	-
- Other	342	-	665	-
Total	342	-	665	-

Year's movements in intangible assets

€/'000	Totale
A. Opening balance	665
B. Increases	
B.1 Additions	8
B.2 Write-backs	-
B.3 Increases in fair value	-
- in equity	-
- through profit or loss	-
B.4 Other changes	-
C. Decreases	
C.1 Sales	-
C.2 Write-downs	-
- Amortization	331
- Impairment losses	-
- in equity	-
- through profit or loss	-
C.3 Decreases in fair value	-
- in equity	-
- through profit or loss	-
C.4 Other changes	-
D. Closing balance	342

Tangible assets

€/'000	Dec. 31, 2005 Assets measured at cost	Dec. 31, 2005 Assets measured at fair value or revalued	Dec. 31, 2004 Assets measured at cost	Dec. 31, 2004 Assets measured at fair value or revalued
1. owned	608	-	1,103	-
- furnishings	115	-	174	-
- electronic equipment	141	-	349	-
- other	352	-	580	-
2. under finance lease	-	-	-	-
Total (at cost and revalued)	608	-	1,103	-

Year's movements in tangible assets

€/'000	Furnishing	Electronic equipment	Other	Total
A. Opening balance	174	349	580	1,103
B. Increases				
B.1 Additions	10	-	16	26
B.2 Write-backs	-	-	-	-
B.3 Increases in fair value	-	-	-	-
a) in equity	-	-	-	-
b) through profit or loss	-	-	-	-
B.4 Other changes	-	-	-	-
C. Decreases				
C.1 Sales	-	-	-	-
C.2 Depreciation	69	208	244	521
C.3 Impairment losses:	-	-	-	-
a) in equity	-	-	-	-
b) through profit or loss	-	-	-	-
C.4 Decreases in fair value	-	-	-	-
a) in equity	-	-	-	-
b) through profit or loss	-	-	-	-
C.5 Other changes	-	-	-	-
D. Closing balance	115	141	352	608

Investments in subsidiaries and associates

€/'000	Dec. 31, 2005	Dec. 31, 2004
Subsidiaries:		
Banca Mediolanum S.p.A.	341,239	341,239
Mediolanum Vita S.p.A.	116,681	116,681
Mediolanum International Life Ltd	25,131	25,131
Mediolanum Gestione Fondi SGR p.A.	2,507	2,507
Mediolanum International Funds Ltd	1,294	1,294
Alboran S.p.A.	6,024	6,024
Mediolanum Comunicazione S.p.A.	762	762
Mediolanum Fiduciaria S.p.A.	-	541
PI Distribuzione S.p.A.	516	516
Mediolanum Asset Management Ltd	441	441
Partner Time S.p.A.	433	433
Mediolanum International S.A.	2	2
Total subsidiaries	495,030	495,571
Associates:		
Banca Esperia S.p.A.	25,812	25,812
Total associates	25,812	25,812
Total	520,842	521,383

Investments in subsidiaries and associates are measured at cost.

In June the shareholding in Mediolanum Fiduciaria S.p.A. was sold. The sale generated a gain of €90 thousand.

Available-for-sale financial assets

	Dec. 31, 2005		Dec. 31, 2004
€/'000	Book value	of which: Equity reserve	Book value
Mediobanca S.p.A.	227,729	97,822	129,907
Consortium S.r.l.	39,663	10,866	28,798
Sia S.p.A.	12,408	-	12,408
Istituto Europeo di Oncologia	4,703	-	-
Cedacri S.p.A.	4,250	-	2,364
Nomisma S.p.A.	71	-	71
Europa Invest S.A.	-	-	13
Subtotal	288,824	108,688	173,561
Treasury shares	-	-	2,045
Total	288,824	108,688	175,606

An analysis of holdings is set out in the table below:

€ Company	Share capital	% holding	Registered Office
Mediobanca S.p.A.	398,345,457	1.770	Via Filodrammatici 10 Milan
Consortium S.r.l.	462,002,424	4.080	Via Filodrammatici 10 Milan
Sia S.p.A.	18,123,684	4.999	Via Taramelli 26 Milan
Istituto Europeo di Oncologia	79,071,770	4.700	Via Filodrammatici 10 Milan
Cedacri S.p.A.	12,609,000	5.004	Via del Conventino 1 Collecchio (PR)
Nomisma S.p.A.	5,345,327	1.320	Strada Maggiore 44 Bologna (BO)

During the year a total 4.7% stake in Istituto Europeo di Oncologia was acquired, and the shareholding in Cedacri S.p.A. increased to 5.004%.
The decline reported for the year relates to the sale of Europa Invest S.A., which generated a gain of €20 thousand.

CURRENT ASSETS

RECEIVABLES

Receivables from subsidiaries

€/'000	Dec. 31, 2005	Dec. 31, 2004
Trade receivables		
Mediolanum Vita S.p.A.	31,756	28,941
Central functions and personnel		
Mediolanum Vita S.p.A.	130	122
Banca Mediolanum S.p.A.	459	496
Mediolanum Gestione Fondi SGR p.A.	116	101
Mediolanum Comunicazione S.p.A.	41	37
Partner Time S.p.A.	60	30
PI Distribuzione S.p.A.	16	15
Mediolanum International Life Ltd	17	-
Mediolanum Distribuzione Finanziaria S.p.A.	5	-
Total	32,600	29,742

"Trade receivables" primarily relates to commissions on services provided as insurance agent.

Receivables from related parties

€/'000	Dec. 31, 2005	Dec. 31, 2004
Mediolanum Assicurazioni S.p.A.	613	600
Mondadori Pubblicità	20	-
Others	1	4
Total	634	604

Receivables from Mediolanum Assicurazioni S.p.A. include commissions on services provided as insurance agents, key personnel and other services.

Receivables from others

€/'000	Dec. 31, 2005	Dec. 31, 2004
Due within one year		
IRS	14,879	14,588
Advances to suppliers	247	53
Suppliers	154	181
Other	133	245
Total	15,413	15,067

CASH AND CASH EQUIVALENTS

€/'000	Dec. 31, 2005	Dec. 31, 2004
Bank deposits	13,865	17,035
Cash	8	6
Total	13,873	17,041

"Bank deposits" relate to current account balances including interest accrued at year end. Cash held with the subsidiary Banca Mediolanum S.p.A. amounts to €13,411 thousand.

TAX ASSETS

Current Tax Assets

€/'000	Dec. 31, 2005	Dec. 31, 2004
Tax consolidation regime		
Mediolanum Vita S.p.A.	18,487	13,742
Banca Mediolanum S.p.A.	1,468	5,119
Mediolanum Gestione Fondi SGR p.A.	5,345	4,323
Mediolanum Comunicazione S.p.A.	-	142
PI Distribuzione S.p.A.	84	112
Total tax consolidation regime	25,384	23,438

€/'000	Dec. 31, 2005	Dec. 31, 2004
IRS		
IRES advances	6,614	10,448
IRES carried forward	0	44
Withholding tax under the tax consolidation regime	15,798	16,843
Withholding tax on bank interest	257	134
IRAP advances	480	0
IRAP carried forward	0	423
Total IRS	23,149	27,892
Total current tax assets	48,533	51,330

Deferred tax assets

€/'000	Dec. 31, 2005	Dec. 31, 2004
Deferred tax assets	117	130
Total	117	130

OTHER ASSETS

Other assets consist of prepayments amounting €77 thousand (vs. €27 thousand at December 31, 2004) and relating to amounts due in the following year for services rendered and repairs made.

LIABILITIES AND SHAREHOLDERS' EQUITY

CAPITAL AND RESERVES

Share Capital

Share capital is fully paid up and amounts to €72,737,993 divided into 727,379,930 ordinary shares.
The capital increase effected following the partial subscription and payment for shares under the capital increases resolved by the Board of Directors at its meetings of March 25, 2003 and May 13, 2003, pursuant to the authority conferred upon it by the shareholders for the implementation of the Stock Option Plan, was registered with the Milan Registrar of Companies on June 16, 2005. That capital increase amounted to €121,004.90 divided into 1,210,049 shares. On July 13, 2005 the Board of Directors resolved three share capital increases for a total of €132,544 thousand to be effected according to the timing set out in the Stock Option Plan.

Share premium account

The increase relates to the subscriptions for the shares issued under the Stock Option Plan.

Retained Earnings

€/'000	Dec. 31, 2005	Dec. 31, 2004
Legal reserve	17,363	17,363
Extraordinary reserves	230,713	205,661
FTA reserve	(112,407)	(112,407)
2005 interim dividend	(61,794)	-
Other	(7,982)	2,617
Total	65,893	113,234

The legal reserve remained unchanged since the statutory limit has already been reached.

Other reserves include the ¤112,407 thousand negative reserve named *FTA Reserve* resulting from equity movements on first-time adoption of IFRS.

The movements in the account relate to the changes in net profit for the year 2004 following restatement under the new accounting standards (¤11,273 thousand decline), the effects of the recognition of stock options in equity (¤662 thousand increase) and the recognition of the 2005 interim dividend.

Revaluation reserve for Available-for-sale financial assets

The reserve includes the effect of fair value measurement of investments in Mediobanca and Consortium amounting to a total of ¤108,688 thousand, after the recognition of ¤5,739 thousand deferred tax liabilities.

NON CURRENT LIABILITIES

EMPLOYEE COMPLETION-OF-SERVICE ENTITLEMENT

An analysis of the year's movements in this account is set out in the table below.

€/'000	
Balance at December 31, 2004	1,683
Amount accrued and posted to the income statement	224
Benefits paid during the year	(182)
Transferred to other Mediolanum Group companies	(51)
Invested in Pension Funds	(40)
Transferred from other Mediolanum Group companies	4
Balance at December 31, 2005	1,638

CURRENT LIABILITIES

PAYABLES

Due to banks

This account relates to ¤225,000 thousand due under credit facilities provided by banks plus the related interest expense at year end.

Other financial liabilities at amortized cost

This account relates to amounts due to the subsidiary Mediolanum Vita S.p.A. under a 3-month EURIBOR plus 30 bps credit facility maturing on June 30, 2006. At December 31, 2005 the balance due amounted to ¤113,621 thousand.

Due to suppliers

The balance on this account of ¤1,660 thousand (vs. ¤1,358 thousand at December 31, 2004) primarily relates to the supply of goods and the provision of services.

Other payables

An analysis of other payables is set out in the table below.

€/'000	Dec. 31, 2005	Dec. 31, 2004
Trade payables		
Banca Mediolanum S.p.A.	39,921	36,541
Mediolanum Vita S.p.A.	738	710
Mediolanum Gestione Fondi SGR p.A.	-	50
Mediolanum Comunicazione S.p.A.	-	2
Alba Servizi Aerotrasporti S.p.A.	43	35
Mondadori Pubblicità S.p.A.	20	-
Fininvest S.p.A.	15	-
Mediolanum Assicurazioni S.p.A.	11	-
Others	-	24
Other payables		
IRS - withholding tax	1,157	743
Social Security Agencies	254	241
Directors/Statutory Auditors	166	132
Shareholders	69	7,434
Others	32	218
Total	42,426	46,130

Amounts payable to the subsidiary Banca Mediolanum S.p.A. primarily relate to commissions due for the sale of insurance products.

Other payables include withholding taxes due on wages, salaries and professional fees, on commissions and dividends, which were paid in January 2006.

Amounts payable to social security agencies are paid when they become due.

TAX LIABILITIES

Current Tax Liabilities

€/'000	Dec. 31, 2005	Dec. 31, 2004
IRS		
IRES	26,666	23,433
IRAP	504	360
Total IRS	27,170	23,793
Tax consolidation regime		
Mediolanum Vita S.p.A.	9,676	13,262
Banca Mediolanum S.p.A.	9,895	9,766
Mediolanum Gestione Fondi SGR p.A.	2,542	4,095
Partner Time S.p.A.	590	286
PI Distribuzione S.p.A.	96	133
Mediolanum Comunicazione S.p.A.	149	91
Total	22,948	27,633
Total current tax liabilities	50,118	51,426

Current tax liabilities under the tax consolidation regime primarily relate to withholding taxes that will be netted upon payment of 2005 taxes.

Deferred tax liabilities

€/'000	Dec. 31, 2005	Dec. 31, 2004
Deferred tax liabilities	5,739	11
Total	5,739	11

Deferred tax liabilities refer to IRES on the valuation reserve for available-for-sale financial assets.

OTHER LIABILITIES

€/'000	Dec. 31, 2005	Dec. 31, 2004
Accrued expenses on 14th months	169	167
Leave and holiday allowance	348	367
Total	517	534

PART D - INFORMATION ON THE INCOME STATEMENT

COMMISSION INCOME

Commission income amounts to €183,632 thousand (vs. €182,049 thousand at December 31, 2004) and relates to commissions earned for the sale of insurance products on behalf of the subsidiary Mediolanum Vita S.p.A. and Mediolanum Assicurazioni S.p.A..

COMMISSION EXPENSE

Commission expense, amounting to €164,901 thousand (vs. €161,720 thousand at December 31, 2004) entirely relates to commissions paid to the subsidiary Banca Mediolanum S.p.A. for the distribution of insurance products.

INTEREST INCOME AND SIMILAR INCOME

An analysis of interest income and similar income is set out below.

€/'000	Dec. 31, 2005	Dec. 31, 2004
On bank current accounts	951	499
On receivables from IRS	291	291
Other interest income	2	1
Total	1,244	791

Bank current accounts are held by the subsidiary Banca Mediolanum S.p.A..

INTEREST EXPENSE AND SIMILAR CHARGES

Interest expense amounts to €8,896 thousand (vs. €9,219 thousand at December 31, 2004) and primarily relates to financing received from the subsidiary Mediolanum Vita S.p.A. (€2,811 thousand) and banks (€5,918 thousand).

INCOME FROM EQUITY INVESTMENTS

This account relates to dividends from subsidiaries recognized on a cash basis and amounting to €190,191 thousand (vs. €113,286 thousand at December 31, 2004); the increase in the balance of this account relates to the 2005 interim dividend received from the subsidiary Mediolanum International Funds Ltd. for a total amount of €66,150 thousand.

Following the sale of the shareholding in Mediolanum Fiduciaria S.p.A. a gain of €90 thousand was realized.

INCOME ON OTHER FINANCIAL INSTRUMENTS

This account relates to dividends received from equity investments classified as available-for-sale financial assets and amounting to €7,152 thousand, primarily from Mediobanca in the amount of €6,777 thousand.
The sale of the shareholding in Europa Invest generated a gain of €20 thousand.

IMPAIRMENT LOSSES

During the year €1,200 thousand was used to cover losses of the subsidiary Partner Time S.p.A..

OTHER INCOME

€/'000	Dec. 31, 2005	Dec. 31, 2004
Central functions:		
- subsidiaries	647	643
- companies that are part of the Fininvest Group and of the Doris Group	10	10
Other cost recoveries	35	115
Other	190	347
Total	882	1,115

Central functions relates to corporate affairs and tax management services provided by Mediolanum S.p.A..

STAFF COSTS

An analysis of staff costs is set out below.

€/'000	Dec. 31, 2005	Dec. 31, 2004
Wages and salaries	4,186	4,151
Social security contributions	1,408	1,386
Completion-of-service entitlements	253	933
Remuneration of Directors	1,302	1,145
Directors' benefits	677	524
Key personnel	(1,869)	(1,986)
Pension fund	24	-
Total	5,981	6,153

Average number of employees

An analysis of the average number of employees by category is set out in the table below.

Category	Dec. 31, 2005
Senior management	7
Middle management	9
Other personnel	16
Total	32

OTHER ADMINISTRATIVE EXPENSES

€/'000	Dec. 31, 2005	Dec. 31, 2004
Advisory and other professional services	1,774	1,582
Vehicle rental	1,148	1,917
Miscellaneous services	534	919
Advertising, promotions, PR, gifts	441	361
Banca Mediolanum central functions	383	409
Property rental/management costs	374	312
Telephone bills	280	291
IT systems	274	282
Travel expenses	214	153
Membership fees	195	211
Electricity bills	187	139
Miscellaneous costs	168	206
Servicing and repairs	166	248
Donations	143	194
Insurance	141	204
Emoluments of corporate officers	127	119
Canteen	124	145
Other	676	1,176
Total	7,349	8,868

Advisory and other professional services include fees for legal counseling, technical and administrative expertise, audit of financial statements by independent auditors and other professional services.

INCOME TAXES

Income taxes relate to the IRES (corporate income tax) and IRAP (regional business tax) tax expense for the year calculated in accordance with tax rules and rates.

€/'000	Dec. 31, 2005	Dec. 31, 2004
Current tax expense (IRES)	1,935	337
Change in deferred tax assets (IRES)	(21)	193
Total tax expense for the year (IRES)	1,914	530
Current tax expense (IRAP)	504	492
Change in deferred tax assets (IRAP)	(1)	-
Utilization of tax provisions (IRAP)	(7)	(41)
Total tax expense for the year (IRAP)	496	451
Change in deferred tax liabilities	24	10
Total income tax expense for the year	(2,434)	(991)

Since the company and certain of its subsidiaries applied the tax consolidation regime, in the year under review Mediolum S.p.A benefited from a 5% tax allowance on dividends from subsidiaries for a total amount of €1,027 thousand.
The reconciliation between the theoretical tax expense and the effective tax expense is set out in the table below.

€/'000	Rate %	Taxable amount	Tax expense
Calculation of taxable income (IRES)			
Pre-tax profit		193,999	-
Theoretical tax	33	-	64,020
Temporary differences taxable in following years		-	-
Temporary differences deductible in following years		132	-
Prior years' temporary differences		3,014	-
Permanent differences		(67,877)	-
Permanent differences as a result of IAS adoption		(123,405)	-
Total taxable income		5,863	-
Taxable income (33%)		5,863	-
Current tax expenses for the year		-	1,935
Average rate on pre-tax profit	1.00	-	-
Calculation of taxable income (IRAP)			
Value of production less production costs		5,724	-
Costs which are not significant for the purpose of IRAP calculation		5,981	-
Total		11,705	-
Theoretical tax	4.25	-	497
Temporary differences taxable in following years		-	-
Temporary differences deductible in following years		93	-
Prior years' temporary differences		(73)	-
Permanent differences		135	-
Taxable income (at a rate of 4.25%)		11,860	-
Current tax expense for the year		-	504

PART E - SEGMENTAL INFORMATION

No disclosure is provided in this section as segmental information is not significant.

PART F - INFORMATION ON RISKS ANDRISK MANAGEMENT

For information on risks and risk management readers are referred to the same section of the consolidated financial statements. No additional information is provided herein in consideration of the immateriality of risk inherent in the company's positions at year end.

PART G - BUSINESS COMBINATIONS

Transactions concluded during the year

In 2005 there were no transactions requiring disclosure under IFRS 3.
Please note that during the year under review the subsidiaries Fibanc S.A. and Tanami S.A. were merged into the subsidiary Banco de Finanzas e Inversiones S.A..
The merger, made between companies that are part of the Banca Mediolanum S.p.A. Banking Group, had no impact on the financial position and result of operations of the bank.

Post-balance sheet date transactions

No transaction was concluded after the end of the financial year under review.

PART H - RELATED PARTY TRANSACTIONS

Key management compensation

€/'000	Directors, Statutory Auditors, Deputy/General Managers	Other key managers
Emoluments & social security contributions	1,448	987
Other pension benefits and insurance	-	-
Non-cash benefits	-	-
Other post-employment benefits	-	-
Share-based awards (stock option)	566	-

The Board of Directors consists of 12 members and the Board of Statutory Auditors of 3 members.

Information on related party transactions

Related party transactions primarily refer to transactions with companies that are part of the Mediolanum Group and specifically:

- with the subsidiary Mediolanum Vita S.p.A. in relation to insurance agent services;
- with the subsidiary Banca Mediolanum S.p.A. in relation to the intermediation services provided on our behalf, current accounts held with Banca Mediolanum and services provided by central functions e.g. internal audit, IT systems management, organization and HR, general affairs, legal affairs, central procurement and management of suppliers.

In addition personnel was seconded to other companies within the Mediolanum Group.
All transactions are made on an arm's length basis at market conditions, except for personnel seconded to other companies and services provided by central functions which are charged on the basis of actual costs incurred.
For companies that are within the scope of the tax consolidation regime, related party transactions include also amounts receivable and payable as a result of the application of said tax regime.

Analysis of related party balances at December 31, 2005 by related party category

€/'000	Tax assets	Receivables	Cash	Other payables	Tax liabilities	Other financial liabilities
(a) Parent company	-	1	-	15	-	-
(b) Entities exercising significant influence over the company	-	-	-	-	-	-
(c) Subsidiaries	25,384	32,600	13,411	40,258	22,948	113,621
(d) Associates	-	-	-	-	-	-
(e) Joint ventures	-	-	-	-	-	-
(f) Key managers	-	-	-	-	-	-
(g) Other related parties	-	633	-	74	-	-

Details on related party transactions in excess of €10 thousand made in the year are set out in the table below.

€/'000	
Commission income:	
Mediolanum Vita S.p.A.	179,615
Mediolanum Assicurazioni S.p.A.	4,017
Commission expense:	
Banca Mediolanum S.p.A.	164,932
Other commissions and charges on banking services:	
Banca Mediolanum S.p.A.	167
Interest income on current accounts:	
Banca Mediolanum S.p.A.	951
Interest expense on other financial liabilities:	
Mediolanum Vita S.p.A.	2,811
Central tax and corporate affairs services charged:	
Mediolanum Vita S.p.A.	260
Banca Mediolanum S.p.A.	260
Mediolanum Gestione Fondi SGR p.A.	60
Partner Time S.p.A.	40
Mediolanum Comunicazione S.p.A.	15
Mediolanum Assicurazioni S.p.A.	10
Banca Mediolanum S.p.A. central services:	
IT services	274
Other administrative services	383
Office rental:	
Mediolanum Gestione Fondi SGR p.A.	171
Aircraft rental:	
Alba Servizi Aerotrasporti S.p.A.	554
Key personnel:	
Charged by Banca Mediolanum S.p.A.	232
Charged by Mediolanum Vita S.p.A.	23
Charged by Mediolanum Assicurazioni S.p.A.	11
Charged to Banca Mediolanum S.p.A.	1,490
Charged to Mediolanum Gestione Fondi SGR p.A.	336
Charged to Mediolanum Vita S.p.A.	208
Charged to Mediolanum Comunicazione S.p.A.	162
Charged to Partner Time S.p.A.	80
Charged to PI Distribuzione S.p.A.	55
Charged to Mediolanum International Life Ltd	17
Charged to Mediolanum Assicurazioni S.p.A.	145
Other costs:	
Fininvest S.p.A.	32
Arnoldo Mondadori Editore S.p.A.	31
Milan A.C. S.p.A.	18

The information required under art. 78 of Consob Regulation 11971 of May 14, 1999 is set out in Schedule 1 and Schedule 2 below prepared pursuant to Annex E of said regulation.

PART I - EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

Description of equity-settled share-based payment transactions

For information on equity-settled share-based payment transactions readers are referred to the same section of the consolidated financial statements.

Other information

The year's cost of stock options, which corresponds to the year's share of the fair value of financial instruments over the vesting period, amounted to €709 thousand and entailed a corresponding increase in the Company's equity reserves.

SCHEDULES

Additional information is provided in the Schedules listed below which form an integral part of these notes.

For the Board ofDirectors
The Chairman
(Roberto Ruozi)

Schedules

SCHEDULE 1

Analysis of equity reserves

Type / description	Amount	Possible utilization (A, B, C)	Usable amount	Utilization in the prior three years: loss coverage	Utilization in the prior three years: other
Share capital:	72,737,993	-	-	-	-
Capital reserves:					
- share premium account	48,313,301	A B C	48,313,301	-	-
- treasury shares	-	-	-	-	-
Retained earnings:					
- legal reserve	17,362,794	B	17,362,794	-	-
- valuation reserve for AFS financial assets	102,948,811	A B	102,948,811	-	-
- other reserves	46,485,794	A B C	46,485,794	-	-
Total	287,848,693	-	215,110,700	-	-
of which undistributable	-	-	120,311,605	-	-
of which distributable	-	-	94,799,095	-	-

Legend:

A: capital increase

B: loss coverage

C: distribution to shareholders

SCHEDULE 2

Analysis of deferred taxation

	FY 2004		FY 2005	
	Amount of temporary differences	Tax rate applied (%)	Amount of temporary differences	Tax rate applied (%)
Deferred tax assets:				
Impairment losses on tangible assets	-	-	-	-
Impairment losses on intangible assets	-	-	-	-
Provisions for risks and charges	25,046	33.00	25,046	33.00
Business expenses	180,712	37.25	200,510	37.25
Remuneration of Directors	-	-	39,000	37.25
Adjustment to FTA reserve	163,598	33.00	57,904	33.00
Total	369,356	-	322,460	-
Deferred tax liabilities:				
Accelerated depreciation and amortization	-	-	-	-
Excess depreciation and amortization	-	-	-	-
Write-downs of loans	-	-	-	-
Available-for-sale financial assets	-	-	17,390,002	33.00
Adjustment to completion-of-service entitlements under IAS	32,667	33.00	-	-
Total	32,667	-	17,390,002	-
Net deferred tax liabilities (assets)	-	118,788	-	(5,622,113)
Deferred tax assets on tax losses for the year	-	-	-	-
Deferred tax assets on tax losses for the prior yea	-	-	-	-
Temporary differences excluded from the calculation of deferred tax liabilities (assets)	(7,333)	-	-	-
Tax losses carried forward	-	-	-	-
Net amount	(7,333)	-	-	-

SCHEDULE 3

Analysis of directly and indirectly controlled subsidiaries and associates

€/000		Equity	
Name	Share capital	Total	Share
Subsidiary			
Banca Mediolanum S.p.A. Via F. Sforza P.zzo Meucci Basiglio (MI)	341,000	426,058	426,058
Mediolanum Vita S.p.A. Via F. Sforza P.zzo Meucci Basiglio (MI)	87,720	263,373	263,373
Mediolanum Gestione Fondi SGR p.A. Via F. Sforza P.zzo Meucci Basiglio (MI)	5,165	20,638	10,113
Mediolanum Comunicazione S.p.A. Via F. Sforza P.zzo Meucci Basiglio (MI)	775	910	910
Partner Time S.p.A. Via F. Sforza P.zzo Meucci Basiglio (MI)	520	1,205	1,205
PI Distribuzione S.p.A. Via F. Sforza P.zzo Meucci Basiglio (MI)	517	629	629
Mediolanum International S.A. 180, rue des Aubèpines L - 1145 Luxembourg	71,500	60,619	2
Mediolanum International Life Ltd Iona Building, Block B, 4th Floor, Shelbourne Road Dublin 4 Ireland	1,395	41,526	41,526
Alboran S.p.A. Viale Spagna 74 Cologno Monzese (MI)	1,500	1,735	1,735
Mediolanum Asset Management Ltd Iona Building, Block B, 4th Floor, Shelbourne Road Dublin 4 Ireland	150	5,848	2,866
Mediolanum International Funds Ltd Iona Building, Block B, 4th Floor, Shelbourne Road Dublin 4 Ireland	150	72,422	35,487

(1) The amount includes the share of profit of subsidiaries indirectly controlled by the Group.

Net profit			
Total	Share	% holding	Carrying amount
81,179	81,179 (1)	100	341,239
33,021	33,021	100	116,681
9,240	4,528	49	2,507
(245)	(245)	100	762
(1,258)	(1,258)	100	433
36	36	100	516
(793)	-	0.003	2
12,389	12,389	100	25,131
700	700	100	6,024
4,948	2,425	49	441
204,883	100,393	49	1,294

Analysis of directly and indirectly controlled subsidiaries and associates (followed)

€/000		Equity	
Name	Share capital	Total	Share
Subsidiaries indirectly controlled through Banca Mediolanum			
Mediolanum Distribuzione Finanziaria S.p.A. P,zzo Meucci Basiglio (MI)	1,000	889	889
Gamax Holding AG 47 Boulevard Royal L-2449 Luxembourg	5,618	6,005	6,005
Gamax Broker Pool AG Holbeinstrasse 11 81679 Munich	500	537	537
Gamax Austria GmbH Rainerstrabe 7 A-5020 Salzburg Austria	40	423	423
Gamax Management AG 69, route d'Esch 1470 Luxembourg	125	9,442	9,442
Gamax Fund of Funds Management AG 69, route d'Esch 1470 Luxembourg	125	57	57
Bankhaus August Lenz & Co. AG Holbeinstrasse 11 81679 Munich	20,000	26,024	26,024
Banco de Finanzas e Inversiones S.A. Avenida Diagonal 668/670 Barcelona	14,032	60,942	60,942
Fibanc Argentina S.A. (in liquidation) Calle Cerrito 1136 piso 12° Buenos Aires Argentina	50 ARS	30	28
Fibanc Faif S.A. Avenida Diagonal 668/670 Barcelona	60	53	53
Fibanc Pensiones S.G.F.P S.A. Avenida Diagonal 668/670 Barcelona	902	1,287	1,287
Fibanc S.A. Avenida Diagonal 668/670 Barcelona	301	400	400
Ges Fibanc S.G.I.I.C. S.A. Calle Enteza 325/335 Barcelona	2,506	3,147	3,147
Mediolanum Gestione Fondi SGR p.A. Via F. Sforza P.zzo Meucci Basiglio (MI)	5,165	20,638	10,525
Mediolanum Asset Management Ltd Iona Building, Block B, 4th Floor, Shelbourne Road Dublin 4 Ireland	150	5,848	2,982
Mediolanum International Funds Ltd Iona Building, Block B, 4th Floor, Shelbourne Road Dublin 4 Ireland	150	72,422	36,935
Mediolanum International S.A. 180, rue des Aubèpines L - 1145 Luxembourg	71,500	60,619	60,617
Subsidiaries indirectly controlled through Alboran S.p.A.			
Alborfin S.r.l. Viale Spagna 74 Cologno Monzese (MI)	100	620	620
Associates			
Banca Esperia S.p.A. Via Del Lauro, 7 Milan	13,000	46,732	22,665

(2) Data as of December 31, 2003.

* Data relate to the year ended December 31, 2004, since financial data for the year ended December 31, 2005 will be presented at the Board of Directors Meeting to be held in the first ten days of April 2006.
** Data as of June 30, 2005 since the company ceased to operate on that date.

Net profit			
Total	Share	% holding	Carrying amount
(111)	(111)	100	-
(42)	(42)	100	-
(1,313)	(1,313)	100	-
(430)	(430)	100	-
6,667	6,667	100	-
(13)	(13)	100	-
(8,805)	(8,805)	100	-
760	760	100	-
4	4 (2)	94	-
7	7	100	-
1	1	100	-
-	-	100	-
9	9	100	-
9,240	4,712	51	-
4,948	2,523	51	-
204,883	104,490	51	-
(793)	(793)	99.997	-
6	6	100	- **
7,867	3,815	48,5	25,812 *

SCHEDULE 4

Analysis of significant investments under art. 125 of Consob Regulation No.11971/1999
as of December 31, 2005

Company name	Country	Total holding %
Alboran S.p.A.	Italy	100.00
Alborfin S.r.l.	Italy	100.00
Banca Esperia S.p.A.	Italy	48.50
Banca Mediolanum S.p.A.	Italy	100.00
Banco de Finanzas e Inversiones S.A.	Spain	100.00
Bankhaus August Lenz & Co. AG	Germany	100.00
Fibanc Argentina S.A. in liquidation	Argentina	94.00
Fibanc Faif S.A.	Spain	99.990
Fibanc Pensiones S.A. S.G.F.P.	Spain	99.999
Fibanc S.A.	Spain	99.998
Gamax Austria GmbH	Austria	100.00
Gamax BrokerPool AG	Germany	100.00
Gamax Fund of Funds Management AG	Luxembourg	100.00
Gamax Holding AG	Luxembourg	99.998
Gamax Management AG	Luxembourg	100.00
Ges. Fibanc S.G.I.I.C. S.A.	Spain	99.999
Mediolanum Asset Management Ltd	Ireland	100.00
Mediolanum Comunicazione S.p.A.	Italy	100.00
Mediolanum Distribuzione Finanziaria S.p.A.	Italy	100.00
Mediolanum Gestione Fondi Sgr p.A.	Italy	100.00
Mediolanum International Funds Ltd	Ireland	100.00
Mediolanum International Life Ltd	Ireland	100.00
Mediolanum International S.A.	Luxembourg	100.00
Mediolanum Vita S.p.A.	Italy	100.00
Partner Time S.p.A.	Italy	100.00
PI Distribuzione S.p.A.	Italy	100.00

(*) Pursuant to regulations directors have a symbolic shareholding

Type of holding	Shareholder	% holding
direct ownership	Mediolanum S.p.A.	100.00
indirect ownership	Alboran S.p.A.	100.00
direct ownership	Mediolanum S.p.A.	48.500
direct ownership	Mediolanum S.p.A.	100.00
indirect ownership	Banca Mediolanum S.p.A.	100.00
indirect ownership	Banca Mediolanum S.p.A.	100.00
indirect ownership	Banco de Finanzas e Inversiones S.A.	94.00
indirect ownership	Banco de Finanzas e Inversiones S.A.	99.990*
indirect ownership	Banco de Finanzas e Inversiones S.A.	99.999*
indirect ownership	Banco de Finanzas e Inversiones S.A.	99.998*
indirect ownership	Gamax Holding AG	100.00
indirect ownership	Gamax Holding AG	100.00
indirect ownership	Gamax Holding AG	99.800
indirect ownership	Mediolanum International S.A.	0.200
indirect ownership	Mediolanum International S.A.	99.998*
indirect ownership	Gamax Holding AG	99.800
indirect ownership	Mediolanum International S.A.	0.200
indirect ownership	Banco de Finanzas e Inversiones S.A.	99.999*
indirect ownership	Banca Mediolanum S.p.A.	51.00
direct ownership	Mediolanum S.p.A.	49.00
direct ownership	Mediolanum S.p.A.	100.00
indirect ownership	Banca Mediolanum S.p.A.	100.00
indirect ownership	Banca Mediolanum S.p.A.	51.00
direct ownership	Mediolanum S.p.A.	49.00
indirect ownership	Banca Mediolanum S.p.A.	51.00
direct ownership	Mediolanum S.p.A.	49.00
direct ownership	Mediolanum S.p.A.	100.00
indirect ownership	Banca Mediolanum S.p.A.	99.997
direct ownership	Mediolanum S.p.A.	0.003
direct ownership	Mediolanum S.p.A.	100.00
direct ownership	Mediolanum S.p.A.	100.00
direct ownership	Mediolanum S.p.A.	100.00

TABLE 1

Remuneration of directors, general managers and other corporate governance officers

(A)	(B)	(C)
Surname and name	Position	Period
RUOZI ROBERTO	Chairman of the Board of Directors of Mediolanum S.p.A.	Jan 1, 2005/Dec. 31, 2005
MESSINA ALFREDO	Deputy Chairman of Mediolanum S.p.A.	Jan 1, 2005/Dec. 31, 2005
	Other positions held in subsidiaries	Jan 1, 2005/Dec. 31, 2005
LOMBARDI EDOARDO	Executive Deputy Chairman of Mediolanum S.p.A.	Jan 1, 2005/Dec. 31, 2005
	Other positions held in subsidiaries	Jan 1, 2005/Dec. 31, 2005
DORIS ENNIO	Chief Executive Officer Mediolanum S.p.A.	Jan 1, 2005/Dec. 31, 2005
	Other positions held in subsidiaries	Jan 1, 2005/Dec. 31, 2005
BERLUSCONI MARINA	Director Mediolanum S.p.A.	Jan 1, 2005/Dec. 31, 2005
CANNATELLI PASQUALE	Director Mediolanum S.p.A.	Jan 1, 2005/Dec. 31, 2005
DORIS MASSIMO ANTONIO	Director Mediolanum S.p.A.	Jan 1, 2005/Dec. 31, 2005
ERMOLLI BRUNO	Director Mediolanum S.p.A.	26.04.2005/31.12.2005
MOLTENI MARIO	Director Mediolanum S.p.A.	Jan 1, 2005/Dec. 31, 2005
	Member of the Internal Audit Committee	Apr. 27, 2005/Dec. 31, 2005
RENOLDI ANGELO	Director Mediolanum S.p.A.	Jan 1, 2005/Dec. 31, 2005
	Chairman of the Oversight Board (Legislative Decree 231/2001) of Mediolanum S.p.A	Jan 1, 2005/Dec. 31, 2005
	Member of the Internal Audit Committee	Apr. 27, 2005/Dec. 31, 2005
	Other positions held in subsidiaries	Jan 1, 2005/Dec. 31, 2005
SCIUMÈ PAOLO	Director Mediolanum S.p.A.	Jan 1, 2005/Dec. 31, 2005
	Member of the Internal Audit Committee	Apr. 27, 2005/Dec. 31, 2005
	Other positions held in subsidiaries	Jan 1, 2005/Dec. 31, 2005
SPOSITO CLAUDIO	Director Mediolanum S.p.A.	Jan. 1, 2005/Apr. 26, 2005
ZUNINO ANTONIO	Director Mediolanum S.p.A.	Jan 1, 2005/Dec. 31, 2005
	Other positions held in subsidiaries	Jan 1, 2005/Dec. 31, 2005
MAURI ARNALDO	Chairman of the Board of Statutory Auditors of Mediolanum S.p.A.	Jan 1, 2005/Dec. 31, 2005
	Other positions held in subsidiaries	Jan 1, 2005/Dec. 31, 2005
FRATTINI ACHILLE	Standing Auditor of Mediolanum S.p.A.	Jan 1, 2005/Dec. 31, 2005
	Other positions held in subsidiaries	Jan 1, 2005/Dec. 31, 2005
GIAMPAOLO FRANCESCO ANTONIO	Standing Auditor of Mediolanum S.p.A.	Jan 1, 2005/Dec. 31, 2005
	Other positions held in subsidiaries	Jan 1, 2005/Dec. 31, 2005

(*) The expiration date is the date of the AGM called to approve the financial statements for that year.

(**) Amount transferred to the company the officer belongs to.

(a) services provided by a company controlled by the officer

(b) professional fees

(c) fees to associated professionals

(D) Expiration (*)	(1) Emoluments received for the position held in the reporting company	(2) Non cash benefits	(3) Bonuses and other incentives	(4) Other
Dec. 31, 2007	98,000.00			
Dec. 31, 2007	185,000.00			
	19,116.08			
Dec. 31, 2007	288,666.67			(a) 201,636.56
	553,304.50			
Dec. 31, 2007	572,333.33			
	190,327.17			
Dec. 31, 2007	13,666.67			
Dec. 31, 2007	(**) 13,666.67			
Dec. 31, 2007	13,666.67			(b) 474,944.79
Dec. 31, 2007	10,000.00			
Dec. 31, 2007	13,666.67			
	8,000.00			
Dec. 31, 2007	13,666.67			
	25,000.00			
	8,000.00			
	45,000.00			
Dec. 31, 2007	13,666.67			
	8,000.00			
	10,000.00			(c) 84,201.59
Apr. 26, 2005	3,666.67			
Dec. 31, 2007	13,666.67			
	201,960.00			
Dec. 31, 2007	43,666.67			125.00
	43,300.00			
Dec. 31, 2007	29,000.00			
	25,210.00			
Dec. 31, 2007	29,000.00			
	28,871.45			

TABLE 2

Stock options granted to members of the Board of Directors and general managers

		Options held at the beginning of the year		
(A)	(B)	(1)	(2)	(3)
Name	Position	No. of options	Average exercise price	Average expiration
Edoardo Lombardi	Executive Deputy Chairman	420,000	0.507	1,230
Alfredo Messina	Deputy chairman	150,000	0.522	1,276

Please Note:
Unlike previous versions, average expiration now includes the option exercise period.
Average expiration runs from December 31, 2005 for both options granted during the year and options held at year end.

Notes: Each option corresponds to the subscription for or the purchase of one share.
Any bonus stock option shall be recorded as a stock option granted and exercised at a nil price.
The table is prepared for all Directors and General Managers to whom options are granted under a stock option plan including those who are employees of the company.

TABLE 3

Interests of directors, general managers and other corporate governance officers

Surname and name	Company		No of Shares held at the end of the prior year (Dec. 31, 2004)
MESSINA ALFREDO	MEDIOLANUM S.p.A.	(pd)	-
LOMBARDI EDOARDO	MEDIOLANUM S.p.A.	(pd)	382,500
DORIS ENNIO	MEDIOLANUM S.p.A.	(pd)	24,209,070
		(pi)	144,399,914
		(u) (*)	46,260,000
		(c)	25,097,595
DORIS MASSIMO ANTONIO	MEDIOLANUM S.p.A.	(pd)	14,507,180
		(c)	7,000
CANNATELLI PASQUALE	MEDIOLANUM S.p.A.	(pd)	-
ERMOLLI BRUNO	MEDIOLANUM S.p.A.	(c)	14,500
MAURI ARNALDO	MEDIOLANUM S.p.A.	(pd)	800
		(c)	-
FRATTINI ACHILLE	MEDIOLANUM S.p.A.	(c)	6,000

(so) exercise of stock options
(pd) direct holding
(pi) indirect holding
(u) usufruct
(c) spouse

(*) joint usufruct with spouse Tombolato Lina
(**) stock options granted by the company the officer belongs to

Options granted during the year			Options exercised during the year			Options lapsed during the year	Options held at the end of the year		
(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)=1+4-7-10	(12)	(13)
No. of options	Average exercise price	Average expiration	No. of options	Average exercise price	Average mkt price upon exercise	No. of options	No. of options	Average exercise price	Average expiration
150,000	1.118	2,378	180,000	0.539	5.113	-	390,000	0.728	1,451
60,000	1.118	2,378	70,000	0.539	5.113	-	140,000	0.769	1,567

No. of shares acquired in 2005	No. of shares sold in 2005	No. of shares held at the end of the current year (Dec. 31, 2005)
70,000 (so)	70,000	-
180,000 (so)	372,000	190,500
-	1,090,000	23,119,070
4,326,643	-	148,726,557
-	-	46,260,000
3,643,000	790,000	27,950,595
-	-	14,507,180
-	-	7,000
50,000 (**)	50,000	-
-	-	14,500
-	300	500
300	-	300
-	-	6,000

MEDIOLANUM S.p.A.

Adoption of International Financial Reporting Standards

Adoption of International Financial Reporting Standards

LEGAL FRAMEWORK

Pursuant to the European Parliament and Council Regulation (EC) 1606 of July 19, 2002 the European Commission established that beginning from 2005 all EU publicly traded companies are to apply the international accounting and reporting standards IAS/IFRS in the preparation of their consolidated financial statements. That regulation aims to improve the quality of financial information and above all the comparability of the financial statements of publicly traded companies in the European Union.
The international accounting standards IAS/IFRS are issued by an independent board, the International Accounting Standards Board (IASB ®), endorsed by the European Commission and published in the Official Journal of the European Union.
A complete list of the IAS/IFRS adopted by the European Commission is attached hereto.

By Legislative Decree No. 38 of February 28, 2005 the Italian Government extended the application of the new international accounting standards also to the separate financial statements (beginning from 2006 or voluntarily from 2005) of publicly traded companies, banks and other regulated financial institutions and to the consolidated financial statements of banks, other regulated financial institutions and insurance companies that are not publicly traded, as well as, on a voluntary basis, to the financial statements of their subsidiaries except for unlisted insurance companies and minor entities pursuant to art. 2435 of the Italian Civil Code.

THE MAIN CHANGES INTRODUCED BY THE NEW ACCOUNTING STANDARDS

The adoption of IAS/IFRS entails some important changes in the way transactions are accounted for, in the classification of the main items of the financial statements and the accounting policies applied to assets and liabilities, in accordance with the general principle of substance over form.
The main changes introduced by the new international accounting and reporting standards in the preparation and presentation of the financial statements of Mediolanum S.p.A. are set out below.

Financial instruments

The major change introduced by the new accounting and reporting standards relates to the accounting treatment of financial instruments.

On initial recognition a financial asset or financial liability is to be measured at its fair value, i.e. the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction, plus or minus directly attributable transaction costs or income, which are capitalized and amortized through profit or loss over the life of the instrumentusing the effective interest method (so called "amortized cost").

When the transaction price is not in line with market value, the difference is to be recognized in the income statement on initial recognition.

Financial instruments are to be classified on initial recognition and their re-classification is allowed only in limited circumstances. IAS 39 defines four categories of financial instruments: financial assets and financial liabilities at fair value through profit or loss (substantially financial assets and financial liabilities held for trading and financial assets that regardless of the purpose for which they are held the company designates as at fair value upon initial recognition), available-for-sale financial assets, held-to-maturity investments and loans and receivables. The classification of financial instruments is relevant for the purposes of measurement, since the first two categories are to be measured at fair value, and the other two at cost or amortized cost.

A gain or loss arising from a change in the fair value of a financial asset or financial liability is to be recognized in the income statement for assets or liabilities classified as at fair value through profit or loss and directly in equity until the asset is sold for available-for-sale financial assets.

IAS/IFRS require that financial instruments that are not classified as "financial assets and financial liabilities at fair value through profit or loss" be regularly assessed for evidence indicating that the asset's carrying amount is not entirely recoverable. That evaluation is carried out for individual assets or collectively for groups of assets with similar risk characteristics. Any resultant impairment loss is to be measured taking into account also the time of recovery for recoverable amounts.

The recognition and measurement of financial instruments involves also derivative hedging instruments and hedged items. The international accounting standards classify hedge relationships into three types: **fair value hedge**, i.e. a hedge of the exposure to changes in fair value of an asset or liability, for which both the gain or loss from measuring the derivative hedging at fair value and the gain or loss on the hedged item are to be recognized in profit or loss; **cash flow hedge**, i.e. a hedge of the exposure to variability in cash flows that is attributable to a particular risk and **hedge of a net investment in a foreign operation** for which the gain or loss on the hedging instrument are to be recognized in equity through the statement of changes in equity (while the hedged asset or liability is carried at cost or amortized cost). This accounting treatment results from the requirement that all derivatives, including derivative hedging instruments, are to be measured at fair value. Under Italian GAAP, derivative hedging instruments and hedge items were measured at cost.

Equity investments

Under the international accounting standards only investments in subsidiaries, associates or joint ventures can be classifieds as equity investments. All other equity instruments are to be classified either as financial assets at fair value through profit or loss or as available-for-sale financial assets.

Share-based payments

Under the international accounting standards share-based payments – in the case of our Companythe stock options granted to employees and contract workers – are to be measured at fair value recognizing the corresponding amount in the income statement over the "vesting period" and in equity.

Post-employment benefits

The international accounting standards classify pensions and, in general, all benefits payable to employees after the completion of employment, into two categories: **defined contribution plans** for which the entity is required to recognize the contribution payable to the plan, and **defined benefits plans** for which the entity is required to recognize the estimated amount of the benefit payable to the employee upon completion of employment, using actuarial techniques.

FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Under IFRS 1 on first-time adoption of International Financial Reporting Standards the reporting entity is required:

- to prepare an opening IFRS balance sheet at the date of transition to IFRS;
- to apply the same accounting policies in the first IFRS financial statements and in all comparative periods (except for certain mandatory exceptions and optional exemptions from full retrospective application, as set out in IFRS 1);
- to explain the impact of the first time adoption of IFRS.

The transition date is January 1, 2004 and the first IFRS financial statements are to include comparative information under the same IFRS in effect as of January 1, 2005 for at least one prior period (i.e. financial year 2004). The application of IAS 32 and IAS 39 (financial instruments), which were approved by the IASB and adopted by the European Commission during 2004, is not mandatory from January 1, 2004. Those entities that elect to apply exemptions from full retrospective application in relation to those standards are required to restate their financial information under those accounting and financial reporting standards from January 1, 2005 and financial information for 2004 may not be entirely comparable.

The IFRS opening balance sheet at January 1, 2004 (and at January 1, 2005 for financial instruments) is to be prepared as follows:

- not recognize those assets and liabilities whose recognition was permitted under national GAAP but is not allowed under IAS/IFRS and reclassify other assets and liabilities under the new standards;
- recognize those assets and liabilities whose recognition is required under IFRS but was not allowed under national GAAP;
- apply IAS/IFRS in measuring all recognized assets and liabilities.

The resulting adjustments are to be recognized directly in equity at the date of transition to IFRS.

On first-time adoption of the new accounting standards the Company exercised judgment in relation to the classification of financial instruments, the application of certain optional accounting policies and optional exemptions from full retrospective applicationof IFRS.

As allowed under IFRS 1, Mediolanum S.p.A also elected to apply IAS 32 and IAS 39 (financial instruments) from January 1, 2005. Therefore financial data relating to financial instruments for financial year 2004 are not comparable.

However, to enable a comparative analysis of consistent data, the effects of the application ofIAS 32 and IAS 39 from January 1, 2004 – at January 1, 2004 and for financial year 2004 – were estimated based on available information.

Financial instruments (securities, loans and receivables, payables, derivatives and equity investments) were reclassified into the new IAS/IFRS categories on the date of transition to IFRS as permitted under IFRS 1 as an exception to the general requirement that financial instruments be classified when they are acquired.

Investments in subsidiaries, associates and joint-ventures continued to be classified as equity investments, while all other shareholdings were classified as "available-for-sale financial assets".

The option of carrying property at fair value was not applied and property continued to be measured at purchase cost less any accumulated depreciation and impairment losses. Land and buildings were accounted for separately and accumulated depreciation for land was reversed.

On first-time adoption the Group elected to apply the following exemptions/options:

- <u>business combinations</u>: the Company did not apply IAS/IFRS to business combinations that occurred prior to the date of transition to IFRS. Thus existing goodwill did not have to be restated under IFRS;
- <u>employee benefits</u>: the Company did not avail itself of the option of using the "corridor approach" (IAS 19) that leaves some actuarial gains and losses unrecognized when the change over the prior year is lower than 10%;
- <u>share-based payment</u>s: where applicable, the Company did not apply IFRS 2 to stock options granted before November 7, 2002 and to stock options granted after November 7, 2002 that vested before the later of a) the date of transition to IFRS and b) January 1, 2005. Mediolanum S.p.A. applied IFRS 2 from January 1, 2004 for stock options granted after November 7, 2002.

RECONCILIATIONS BETWEEN IFRS AND ITALIAN GAAP WITH EXPLANATORY NOTES

The reconciliations of equity and net profit as reported under Italian GAAP to equity and net profit under IFRS were prepared in accordance with IFRS 1.

Since IAS 32 and IAS 39 (financial instruments) were applied from January 1, 2005, as permitted under IFRS 1, to enable a comparative analysis of consistent data the effects of the application ofIAS 32 and IAS 39 from January 1, 2004 –at January 1, 2004 and for financial year 2004– were estimated based on available information.

Reconciliation of equity as reported under Legislative Decree 127/91 to equity under IFRS

IAS 39 and IFRS 4 not applied

€/'000	Dec. 31, 2004	Jan. 1, 2004
Equity as reported under Legislative Decree 127/91	469,956	423,179
Reserves		
Reversal of dividends on an accrual basis	(124,041)	(113,286)
Actuarial valuation of employee completion-of-service entitlements	(131)	(164)
Tax effect	1,063	1,043
Total effects of FTA of IFRS	(123,109)	(112,407)
Equity under IFRS	346,847	310,772

IAS 39 and IFRS 4 applied

€/'000	Jan. 1, 2005	Jan. 1, 2004
Equity as reported under Legislative Decree 127/91	469,956	423,179
Reserves		
Reversal of dividends recognized on an accrual basis	(124,041)	(113,286)
Actuarial valuation of employee completion-of-service entitlements	(131)	(164)
Other effects	(1,998)	(2,092)
Valuation reserves		
Available-for-sale financial assets		
- Fair value measurement of equity instruments	33,964	(26,217)
Tax effect	1,016	1,043
Total effects of FTA of IFRS	(91,190)	(140,716)
Equity under IAS/IFRS	378,766	282,463

The reconciliation of equity set out above shows the effect of the transition to IFRS on equity.
"Reserves" include adjustments that do not entail the recognition of any gains or losses in the income statement in future financial years since those adjustments would have already had their effect on the income statement if IFRS had been adopted earlier.
"Valuation reserves" include adjustments that are going to vary over time due to the changes in the fair value of assets and liabilities and which will be recognized as gains or losses in the income statement only when realized.
As a result of the movements in equity on IFRS First-Time Adoption, at January 1, 2005 equitydecreased from €469,956 thousand to €378,766 thousand, down €91,190 thousand of which €1,016 thousand relating to tax effects and -¤92,206 thousand to other negative effects.

Consequently, a negative amount of €112,407 thousand was charged to equity under the "IFRS First Time Adoption Reserve", and €33,964 thousand was credited to a newly formed reserve named and €35.2 million to the "Valuation Reserves - available-for-sale financial assets".

Reconciliation of net profit as reported under Legislative Decree 127/91 to net profit under IFRS

The reconciliation of net profit set out below shows the effect that the transition to IFRS would have had on net profit at December 31, 2004.

€/'000	IAS 39 applied	IAS 39 not applied
Net profit under Legislative Decree 127/91	126,558	126,558
Dividends	(10,755)	(10,755)
Staff costs	(120)	(120)
Other administrative expenses	(465)	(465)
Other revenues	47	47
Taxes	20	20
Net profit under IFRS	115,285	115,285

Estimate of employee completion-of-service entitlements using actuarial techniques

Under international accounting standards the amount of the benefits payable by the employer to the employees upon completion of service under defined benefits plans is to be recognized using estimates based on actuarial assumptions. Italian employee completion-of-service entitlements are judged to be defined benefit obligations therefore they were re-measured on the basis of actuarial assumptions (the impact was a €131 thousand decrease in equity before taxes at January 1, 2005).

Available-for-sale financial assets

Under IAS/IFRS financial instruments classified as "available-for-sale financial assets" are to be measured at fair value. The effects of that measurement are to be recognized directly in an equity reserve until they are sold.
On first-time adoption of IFRS equity investments which do not qualify as investments in subsidiaries, associates or joint ventures are to be classified as "available-for-sale financial assets".
Those shareholdings –which under Italian GAAP had been carried at cost less any impairment losses– were measured at fair value when a stock market price or a current valuation of the investee was available, while continued to be measured at cost in all other cases. (the impact was a €34 million increase in equity before taxes at January 1, 2005).

Share-based payments

Unlike Italian GAAP, IAS/IFRS require that share-based payments (i.e. stock options) be measured at the fair value of the stock option on the Grant Date, and recognized in the income statement in the period between the Grant Date and the Vesting Date, recognizing the corresponding amount in an equity reserve. IFRS 2 is to be applied to stock options granted after November 7, 2002.
The fair value of those stock options was measured and the related amount for financial year 2004 was recognized in the income statement. That did not entail any changes in equity.
(At December 31, that had an impact on profit of €618 thousand).

Other effects

The residual effects of the first-time adoption of IFRS were primarily in connection with the recognition dividends on a cash basis (the impact was a €124,041 thousand decrease in equity before taxes at January 1, 2005).

Tax effect

The impact on equity of the first-time adoption of IFRS was calculated after the related tax effect. Taxation was calculated in accordance with current legislation (including Legislative Decree 38/2005), specifically:

- IRES (corporate income tax) was calculated at the rate of 33%;
- IRAP (regional business tax) was calculated at the rate of 4.25% (plus any additional regional tax, where applicable);

MEDIOLANUM S.p.A.

EU-approved International Accounting and Reporting Standards (IAS/IFRS)

EU-APPROVED INTERNATIONAL ACCOUNTING AND REPORTING STANDARDS (IAS/IFRS)

International financial reporting and accounting standards		Date of publication in the EU Official Journal
IFRS 1	First-time adoption of International Financial Reporting Standards	April 2004
IFRS 2	Share-based Payment	February 2005
IFRS 3	Business Combinations	December 2004
IFRS 4	Insurance contracts	December 2004
IFRS 5	Non-current assets held for sale and discontinued operations	December 2004
IFRS 6	Exploration for and Evaluation of Mineral Resources	November 2005
IFRS 7	Financial Instruments: disclosures	January 2006
IAS 1	Presentation of Financial Statements	September 2003 - December 2004
IAS 2	Inventories	September 2003 - December 2004
IAS 7	Cash Flow Statements	September 2003
IAS 8	Accounting Policies, changes in accounting estimates and errors	September 2003 - December 2004
IAS 10	Events after the Balance Sheet Date	September 2003 - December 2004
IAS 11	Construction contracts	September 2003
IAS 12	Income Taxes	September 2003
IAS 14	Segment reporting	September 2003
IAS 16	Property, Plant and Equipment	September 2003 - December 2004
IAS 17	Leases	September 2003 - December 2004
IAS 18	Revenue	September 2003
IAS 19	Employee Benefits	September 2003 - November 2005
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance	September 2003
IAS 21	The Effects of Changes in Foreign Exchange Rates	September 2003 - December 2004
IAS 23	Borrowing Costs	September 2003
IAS 24	Related Party Disclosures	September 2003 - December 2004
IAS 26	Accounting and Reporting by Retirement Benefit Plans	September 2003
IAS 27	Consolidated and Separate Financial Statements	September 2003 - December 2004
IAS 28	Investments in Associates	September 2003 - December 2004
IAS 29	Financial Reporting in Hyperinflationary Economies	September 2003
IAS 30	Disclosures in the Financial Statements of Banks and Similar Financial Institutions	September 2003
IAS 31	Interests in joint ventures	December 2004
IAS 32	Financial Instruments:Disclosure and Presentation	December 2004
IAS 33	Earnings per Share	September 2003 - December 2004
IAS 34	Interim Financial Reporting	September 2003
IAS 36	Impairment of Assets	September 2003 - December 2004
IAS 37	Provisions, Contingent Liabilities and Contingent Assets	September 2003 - December 2004
IAS 38	Intangible Assets	September 2003 - December 2004
IAS 39	Financial Instruments: Recognition and measurement	November 2004 - December 2005
IAS 40	Investment property	September 2003 - December 2004
IAS 41	Agriculture	September 2003 - December 2004

Interpretations		Date of publication in the EU Official Journal
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	December 2004
IFRIC 2	Members' Shares in Co-operative Entities and Similar Instruments	July 2005
IFRIC 4	Determining whether an Arrangement contains a Lease	November 2005
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	November 2005
IFRIC 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	January 2006
IFRIC 8	Scope of IFRS 2	January 2006
SIC 7	Introduction of the Euro	September 2003
SIC 10	Government Assistance - No specific Relation to Operating Activities	September 2003
SIC 12	Consolidation - Special Purpose Entities	September 2003
SIC 13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers	September 2003
SIC 15	Operating Leases - Incentives	September 2003
SIC 21	Income Taxes - Recovery of Revalued Non-Depreciable Assets	September 2003
SIC 25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	September 2003
SIC 27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	September 2003
SIC 29	Disclosure - Service Concession Arrangements	September 2003
SIC 31	Revenue - Barter Transactions Involving Advertising Services	September 2003
SIC 32	Intangible Assets - Web Site Costs	September 2003

Report of the Board of Statutory Auditors

Dear Shareholders,

During the year we performed our statutory supervisory duties as required by the law and in accordance with the procedures recommended by the National Council of Accountants.

Specifically:

- we oversaw to compliance with the law and the memorandum of incorporation as well as adherence to principles of proper management;
- we attended General Meetings, Board of Directors and Executive Committee's meetings. We regularly obtained information from Directors on the company's operations, outlook and transactions material to income, equity and finances. We satisfied ourselves that resolutions and their subsequent implementation were not manifestly imprudent or risky, did not represent a potential conflict of interest, were not in contrast with the resolutions passed at General Meetings and did not put the company's equity at risk;
- we examined the company's organizational structure, within the scope of our authority, to assess its adequacy. This was achieved by inspection, collection of information and regular meetings with the independent auditors Reconta Ernst & Young SpA during which we also mutually exchanged information. No material aspect requiring disclosure emerged from our examination;
- we examined the internal control system and internal audit work to assess their adequacy. We also examined the accounting system and satisfied ourselves that it is reliable and accurately reflects transactions. This work was performed by obtaining information, examining corporate documents, analyzing the results of the work of the independent auditors. We had regular meetings with the Head of Internal Audit during which we also exchanged information on the outcome of audits conducted at subsidiaries'. We also attended the meetings of the Internal Audit Committee;
- we examined the instructions given to subsidiaries to assess their adequacy. Those instructions enabled subsidiaries to provide timely information to the Parent Company for its compliance with statutory disclosure requirements;
- we satisfied ourselves that the preparation of the consolidated and separate financial statements for the year ended December 31, 2005, including directors' reports, comply with statute by direct verification and by requesting information from the independent auditors.

During our audit work we did not find any omissions, inconsistencies or irregularities which require reporting to the supervisory authorities or disclosureherein.

The Oversight Board responsible for overseeing to the effectiveness, adherence to and update of the organizational, management and control model pursuant to Legislative Decree 231/01 did not report anymisconduct.

In addition, in compliance with CONSOB recommendations and instructions, the Statutory Auditors also advise you that:

- the company did not engage in any atypical and/or unusual inter-company or related party transactions;
- the Board of Directors provided adequate information also with regardto inter-company or related party transactions. Specifically, related party-transactions were in connection and expedient to the achievement of the company's purpose. The terms and conditionsas well as the economic effects of transactions with related parties are disclosed in the notes to the financial statements. Those transactions were carried out on an arm's length basis, were fair and in the best interests of the company. There were no transactions which could represent a conflict

of interest or could have a material impact on the financial positions, result of operations or cash-flows of the company;

- the company adhered to the Corporate Governance Code for companies listed on Borsa Italiana SpAlong ago as set out in the Report of the Board of Directors on corporate governance. It recently started a review of its corporate governance rules to keep abreast with best practices and recent regulatory changes;
- during the year:
  - the board of statutory auditors held regular meetings and mutually exchanged information with the independent auditors Reconta Ernst & Young SpA, and, even if the board of statutory auditors has not yet received the independent auditors' report on the consolidated and separate financial statements, it has reasons to believe that the report will not contain any remarks;
  - the board of statutory auditors expressed opinions pursuant to art. 2389, paragraph 3, of the Italian Civil Code and art. 159, paragraph 1, of Legislative Decree 58/98;
  - the Board of Directors held 9meetings and the Board of Statutory Auditors held 12 meetings;
  - the company mandated Reconta Ernst & Young SpA the independent auditors responsible for auditing the interim and annual consolidated and separate financial statements to perform additional work, specifically:
    - audit of the 2005 interim report and FTA 2004 accounts of its Irish, German and Luxembourg subsidiaries, for a total fee of €146,280;
    - opinion on the fairness of the price of shares issued to be granted to the Group's non-employee directors and contract workers, for a total fee of €78,000;
    - audit of reconciliations on IFRS first-time adoption and related effects, for a total fee of €75,600;
    - opinion on the documents required under art. 2433-bis of the Italian Civil Code in connection with the distribution of the 2005 interim dividend, for a total fee of €54,000;
    - assistance in the adoption of the international accounting and reporting standards IAS/IFRS, for a total fee of €40,320;
    - audit of the 2005 interim report of Spanish subsidiaries, for a total fee of €17,868;
    - audit work in connection with the preparation of income tax returns (Unico 2005 and 770 Forms), for a total fee of €3,720;
  - the company did not confer any assignments on any parties related to Reconta Ernst & Young SpA or members of its international network;
  - no noticesor complaints under art. 2408 of the Italian Civil Code were lodged with the board of statutory auditors.

In consideration of the foregoing, within the scope of its authority, the Board of Statutory Auditors expresses its favorable opinion on the approval of financial statements for the year ended December 31, 2005 which show a net profit of €191,564,883 and on the distribution of dividends as proposed by the Board of Directors, also in consideration of equity reserves."

The Statutory Auditors request that a copy of this report together with the financial statements including directors' reports and the independent auditors' report be lodged at the registered offices of the companies.

Milan, April 3, 2006

THE BOARD OF STATUTORY AUDITORS
Arnaldo Mauri, Chairman
Achille Frattini
Francesco Antonio Giampaolo

ERNST & YOUNG

Reconta Ernst & Young S.p.A.
Via della Chiusa, 2
20123 Milano

Tel. (+39) 02 722121
Fax (+39) 02 72212037
www.ey.com

INDEPENDENT AUDITORS' REPORT
pursuant to article 156 of Legislative Decree of February 24, 1998, n. 58
(Translation from the original Italian text)

To the Shareholders of
Mediolanum S.p.A.

1. We have audited the financial statements of Mediolanum S.p.A. as of and for the year ended December 31, 2005, comprising the balance sheet, the income statement, the statement of changes in equity and the statement of cash flows and the related explanatory notes. These financial statements are the responsibility of Mediolanum S.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. These financial statements represent the first financial statements prepared by Mediolanum S.p.A. in accordance with International Financial Reporting Standards as adopted by the European Union.

2. We conducted our audit in accordance with auditing standards and procedures recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards and procedures, we planned and performed our audit to obtain the information necessary to determine whether the financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

   For comparative purposes, the financial statements include the corresponding information for the prior year prepared in accordance with consistent accounting principles except for the effects of IAS 32 and IAS 39 which have been applied from January 1, 2005 in accordance with the exemption allowed by IFRS 1. In addition, the section "First Time Adoption of International Financial Reporting Standards" of the financial statements reports the effects of the transition to International Financial Reporting Standards as adopted by the European Union.
   The disclosures included in the above mentioned explanatory note have been reviewed by us for the purpose of expressing an opinion on the financial statements of Mediolanum S.p.A. as a whole as of and for the year ended December 31, 2005.

3. In our opinion, the financial statements of Mediolanum S.p.A. present clearly and give a true and fair view of the financial position, the result of operations, the

Reconta Ernst & Young S.p.A.
Sede Legale: 00196 Roma - Via G.D. Romagnosi, 18/A
Capitale Sociale € 1.259.500,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584
P.I. 00891231003
(vecchio numero R.I. 6697/89 - numero R.E.A. 250904)

changes in shareholders' equity and the cash flows of Mediolanum S.p.A. as of December 31, 2005, and for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Milan, April 12, 2006

Reconta Ernst & Young S.p.A.
Signed by: Natale Freddi, Partner

MEDIOLANUM S.p.A.

Ordinary and Extraordinary General Meeting of April 27, 2006

RESOLUTIONS

Ordinary and Extraordinary General Meeting of April 27, 2006

RESOLUTIONS

The General Meeting was attended by shareholders representing 65.41% of share capital. At the Ordinary General Meeting by majority of votes the shareholders resolved:

- to approve the financial statements for the year ended December 31, 2005 including the Directors' Report;
- to appropriate net profit for the year amounting to €191,564,882.83 as follows:
  - distribution of a full-year dividend of €0.20 per share (par value of €0.10) to the shareholders, including the interim dividend of €0.085 paid in December 2005. The final dividend of €0.115 (before withholding tax) per share will not be payable for treasury shares held after the close of business on May 19, 2006 and shares issued in 2006 that bear dividend rights as of January 1, 2006;
  - the remainder to the Extraordinary Reserve as the legal reserve has already reached the statutory limit;
  - the final dividend will be due for payment from May 25, 2006;
- to authorize the Board of Directors to purchase and sell up to 8,000,000 treasury shares with par value of €0.10 each, which correspond to 1.10% of share capital, within the limit amount of €80 million, for a period of one year and in any case up until the date of the General Meeting convened to approve the financial statements for the year 2006. That limit shall be absolute, i.e. it shall not take into account any treasury shares which might have been resold over the same period of time. Purchases shall be effected at a price which fulfils the requirements of article 5, paragraph 1 of Commission Regulation (EC) 2273/2003. Purchases shall be effected on-exchange in accordance with the rules established by Borsa Italiana S.p.A. and in compliance with art. 132 of Legislative Decree 58/98 and article 144-bis, paragraph 1, letter b) of Consob Resolution 11971/99 as subsequently amended

  Sales of treasury shares held in portfolio shall be effected in the manner which is considered most appropriate to the best interest of the company, including on-exchange, block trading or by exchanging treasury shares with equity investments or other assets at a price not lower than the average price recorded on the electronic trading system of the stock exchange in the last 5 trading days preceding the sale;
- to grant the Board of Directors all necessary powers to implements the resolution above.

At the Extraordinary General Meeting the shareholders resolved

- to amend article 6 of the company's Bylaws – in the parts relating to capital increases under Stock Option Plans – by replacing "bearing dividend rights from January 1 of the financial year in which shares are issued" with "dividend-bearing" and accordingly amend the resolution passed by the shareholders at the Extraordinary General Meeting of April 12, 2001 authorizing the Board of Directors to increase share capital pursuant to art. 2443 of the Italian Civil Code as well as the subsequent related resolutions passed by the Board of Directors on May 11, 2001, June 19, 2002, March 25 2003, May 13, 2003, May 12, 2004 and July 13, 2005 set out in the current text of art. 6 of the Company's Bylaws;
- to grant the Board of Directors all necessary powers to lodge and publish the text of the updated Bylaws as set out in the Report of the Board of Directors.

Finally, the shareholder noted the "Annual Report on Corporate Governance" approved by the Board of Directors on March 27, 2006.