Mediolanum Group
European Embedded Value June 30, 2007

Supplementary information

INTRODUCTION

In May 2004, the CFO Forum, a group representing the Chief Financial Officers of 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 adopted the EEV Principles for the first time with the publication of its full year 2005 results. This disclosure provides results as at June 30, 2007 and a comparison with values determined as at December 31, 2006 and as at June 30, 2006.

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 and for the time value of financial options and guarantees. The value of in-force asset management (mutual funds, real estate funds and managed accounts) and banking (current account, deposit account and mortgage) 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 consolidate the value of life and asset management business distributed in Italy and Spain, together with the most significant parts of the Italian banking business,

Mediolanum has internalised the models for its unit-linked pension plans and has continued to work closely with consulting actuaries Tillinghast to develop appropriate methodology; Tillinghast has continued to calculate the embedded value for the business which has not been internalised and has undertaken an overall review of the embedded value of the Group at June 30, 2007.

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 the Mediolanum Group believes 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 June 30, 2007, as at December 31, 2006 and as at June 30, 2006, all determined under the EEV Principles.

Embedded value

Euro millions	**June 30 2006**	**December 31 2006**	**June 30 2007**
published shareholders' net assets	809	904	916
adjustments to net assets [1]	(151)	(155)	(147)
Adjusted shareholders' net assets	658	749	769
value of in-force life business	1,802	1,895	1,861
value of in-force asset management	394	346	352
value of in-force banking business	120	132	191
Value of in-force business	2,316	2,373	2,404
EMBEDDED VALUE	2,974	3,122	3,173

[1] including elimination of goodwill

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.

The following table shows the reconciliation between published consolidated IFRS net equity and adjusted shareholders' net asset value.

Reconciliation of Adjusted shareholders' net equity to IFRS net equity

Euro millions	June 30 2006	December 31 2006	June 30 2007
Consolidated IFRS net equity	809	904	916
Goodwill	(162)	(162)	(161)
Taxation on reserves	(13)	(12)	(13)
AFS & other IFRS items	13	9	14
Net UCG not in value of in-force business	11	10	13
Adjusted shareholders' net assets	658	749	769

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 7.42% as at June 30, 2007, 6.73% as at December 31, 2006 and 6.62% as at June 30, 2006.

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 June 30, 2007 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.

Analysis of the sensitivity to the discount rate of embedded value at June 30, 2007

Euro millions

Discount rate	-1%	central	+1%
Adjusted shareholders' net assets	769	769	769
value of in-force life business	2,051	1,861	1,703
value of in-force asset management	366	352	340
value of in-force banking business	201	191	182
Value of in-force business	2,618	2,404	2,225
EMBEDDED VALUE	3,387	3,173	2,994

EMBEDDED VALUE EARNINGS

Embedded value earnings, which are defined as the change in embedded value for the period, 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 the first half of 2007, in the full year 2006 and in the first half of 2006.

Embedded value earnings

Euro millions	1st half 2006	Full year 2006	1st half 2007
Change in embedded value for the period	23	171	51
Dividends paid or accrued	83	146	84
Other capital movements	(2)	(5)	(2)
EMBEDDED VALUE EARNINGS	104	312	133

Embedded value earnings 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 period ("experience variances"), caused by differences between the actual experience of the period and the assumptions used to calculate the embedded value at the start of the year, before the impact of new sales during the period.
- The impact of changes in assumptions at the end of the period 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 period relating to economic conditions ("economic assumption changes"), including the discount rate and investment returns.
- The "value added by new business", including business transformations in the first half of 2007, initially calculated at the moment of sale using the end of period assumptions, and then capitalised at the discount rate to the end of the period.

The following table shows the components of the embedded value earnings of the Mediolanum Group in the first half of 2007, in the full year 2006 and in the first half of 2006.

Components of embedded value earnings

Euro millions	1st half 2006	Full year 2006	1st half 2007
Expected return	76	153	91
Experience variances	(94)	(19)	(61)
Operating assumption changes	-	(57)	-
Economic assumption changes	(29)	(39)	(19)
EARNINGS ON INITIAL EMBEDDED VALUE	(47)	38	11
New life business	110	211	88
New asset management business	32	46	26
New banking business	9	15	11
Business transformation	-	2	(3)
VALUE ADDED BY NEW BUSINESS	151	274	122
EMBEDDED VALUE EARNINGS	104	312	133

Description of key embedded value earnings items in the first half of 2007

Experience variances gave rise to a decrease in the embedded value earnings for the year of 61 million Euro. The most important negative variance was 84 million Euro associated with the repricing of the portfolio of unit-linked pension plans; the recent regulatory changes induced the company to extend the benefits introduced with Tax Benefit New to policyholders with old Tax Benefit and My Pension contracts, in order to protect the in-force portfolio from the risk of early surrenders. Lower persistency than expected on asset management and financial unit-linked business had a negative impact for respectively 24 million Euro and 12 million Euro. These negative effects were partially counterbalanced by higher performance commissions than those assumed (19 million Euro), a better than expected mix of the mutual funds underlying unit-linked business (20 million Euro), increased average balances in current account business (15 million Euro) and the impact of internalising the models of the unit-linked pension plans (11 million Euro); given regulatory changes and the greater complexity of pension products, it was decided to develop an enhanced model which would allow a more precise policy-by-policy approach for the unit-linked business.. The remaining effects comprise a series of smaller positive and negative items.

The negative impact of changes to economic assumptions (approximately 19 million Euro) is due to the combined effect of the increase in the discount rate and in the projected rates of investment return.

The value added by new life business in the period was 88 million Euro of which 9 million Euro related to business distributed by Fibanc in Spain.

The value added by new asset management business in the period of 26 million Euro was almost entirely related to Italian business.

New banking business added 11 million Euro, related mostly to current account business and proprietary mortgages.

VALUE OF NEW BUSINESS

New business comprises new life insurance policies sold during the period, 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 period 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 the first half of 2007, in the full year 2006 and in the first half of 2006.

Value of new business at moment of sale
Euro millions

	1st half 2006	Full year 2006	1st half 2007
Unit-linked life business	86	164	63
Index-linked life business	22	41	24
Asset management business	32	44	25
Banking business	9	15	11
VALUE OF NEW BUSINESS	149	264	123

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 7.30% for life business (6.60% in 2006 and 6.50% in the first half of 2006), 8.25% for asset management business (7.60% in 2006 and 7.25% in the first half of 2006) and 7.00% for banking business (6.40% in 2006 and 6.30% in the first half of 2006), giving an average, weighted by new business value of 7.47% in the first half of 2007.

In order to evaluate the effect of alternative discount rates on new business, the value of new business in the first half of 2007 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 in the first half of 2007
Euro millions

Discount rate	-1%	central	+1%
Unit-linked life business	71	63	57
Index-linked life business	25	24	23
Asset management business	26	25	24
New banking business	12	11	10
Total	134	123	114

New business margins

New business margins for the Italian life and asset management business in the first half of 2007, in the full year 2006 and in the first half of 2006 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 and the respective derived risk discount rates.

New business margins in the first half of 2007 – life and asset management

Euro millions	Unit-linked	Index-linked	Asset mgmt
Value of new business at moment of sale	59	19	25
Regular premiums / pac	64	-	43
Single premiums / pic	360	699	797
APE	100	70	123
New business margin (% APE)	58.6%	27.0%	20.5%
PVNBP	790	699	1,043
New business margin (% PVNBP)	7.4%	2.7%	2.4%

New business margins in 2006 – life and asset management

Euro millions	Unit-linked	Index-linked	Asset mgmt
Value of new business at moment of sale	154	34	43
Regular premiums / pac	185	-	70
Single premiums / pic	516	1,175	1,354
APE	237	118	206
New business margin (% APE)	65.1%	28.8%	20.9%
PVNBP	1,876	1,175	1,760
New business margin (% PVNBP)	8.2%	2.9%	2.4%

New business margins in the first half of 2006 – life and asset management

Euro millions	Unit-linked	Index-linked	Asset mgmt
Value of new business at moment of sale	81	19	31
Regular premiums / pac	90		45
Single premiums / pic	243	612	828
APE	115	61	128
New business margin (% APE)	70.8%	30.9%	24.4%
PVNBP	962	612	1,091
New business margin (% PVNBP)	8.4%	3.1%	2.9%

The margin on APE for new life business in Spain is approximately 85% in the first half of 2007.

The margin of new current accounts as a percentage of the money invested in current accounts opened in the first half of 2007 is 2.4%. The profitability of new mortgages sold in the first half of 2007 is 2.2%, which reflects a mix between mortgages intermediated for third parties and Mediolanum's proprietary mortgage book.

METHODOLOGY

The traditional embedded value calculations which Mediolanum 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 issuers of the structured bonds underlying the index-linked guarantees. This gives rise to capital requirements of approximately 3.5% of reserves for business where Mediolanum bears the full investment risk and approximately 1.75% for business where investment risk is passed to policyholders.

Total required capital for the life business as at June 30, 2007 is 169 million Euro, which corresponds to approximately 150% of the EU minimum margin.

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 already 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 June 30, 2007 and December 31, 2006.

Derived discount rates

	Unit-linked		Asset management		Banking Business	
	H1 2007	FY 2006	H1 2007	FY 2006	H1 2007	FY 2006
Average risk-free rate	4.95%	4.25%	4.85%	4.20%	4.70%	4.20%
Margin for financial risk	0.95%	0.95%	2.20%	2.30%	-	-
Margin for non-financial risks	1.40%	1.40%	1.20%	1.10%	2.30%	2.20%
Risk discount rate	7.30%	6.60%	8.25%	7.60%	7.00%	6.40%

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 increase in the average risk-free rates from June 30, 2007 to December 31, 2006 is due to the general increase in the forward yield curve at all durations. The margins for both financial risk and non-financial risk are stable.

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 32 million Euro as at June, 30 2007 (35 million Euro as at December 31, 2006). The decrease in the time value of options and guarantees during 2007 is primarily associated with the reduction in the volatility of swaption prices during the year.

Expenses and development costs

Expense assumptions are actively reviewed, and are based on the entire consolidated company costs, including depreciation and provisions, as well as all holding company and service company costs. Given the seasonality of costs, it was not considered appropriate to make changes in the parameters for

the half-yearly reporting. The difference between the overall costs projected by the models and the effective costs of the Group, equal to (8) million Euro after tax, emerges as an experience variance in the half-year.

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 the first half of 2007 in Italy were 57 million Euro of annualised regular premiums (of which 13 million Euro related to discretionary increases), 367 million Euro of unit-linked single premiums, and 699 million Euro of index-linked single premiums.

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 43 million Euro for mutual fund instalment plans and 797 million Euro of lump-sum investments in mutual funds. Of the total mutual fund production shown above, real estate funds accounted for 7 million Euro of lump-sum investments. Portfolio accounted for 137 million Euro of new lump-sum investments; in calculating the volume and value of new business, the switches of 543 million Euro from managed accounts to Portfolio in the first months of the year have been excluded.

New life business in Spain comprised 76 million Euro of single premium business, of which index-linked comprise 75 million Euro, and regular premium unit-linked business for 3.1 million Euro. New asset management business in the first half of 2007 comprised lump-sum investments of 138 million Euro in Spanish funds, and 26 million Euro in Irish mutual fund products.

New banking business comprises new current accounts and deposit accounts in the year, for 318 million Euro, and new mortgages issued for 113 million Euro, of which 86 million Euro proprietary mortgages.

ASSUMPTIONS

The following section sets out the main assumptions used in the embedded value calculations at June 30, 2007, at December 31, 2006 and at June 30, 2006.

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

	June 30 2006	December 31 2006	June 30 2007
Pre-tax investment returns:			
Benchmark 10-year BTP	4.30%	4.15%	4.75%
Liquidity	2.90%	3.65%	4.15%
Equity	7.10%	6.95%	7.65%
Inflation			
Consumer prices	1.75%	2.25%	2.25%
Expenses	2.25%	2.25%	2.50%
Taxation			
Italy	38.25%	38.25%	38.25%
Ireland	12.5%	12.5%	12.5%
Spain	35.0%	35.0%*	35.0%*
Average RDR (in-force business)	6.62%	6.73%	7.42%

* reducing to 30% from 2008

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 4.35% for the June, 30 2007 valuation (4.00% for both the full year 2006 and the first half of 2006). 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 6.30% for unit-linked funds (5.75% for full year 2006, 5.70% in the first half of 2006) and of 6.45% for Asset management products (5.95% for full year 2006, 5.95% in the first half of 2006).

The consumer price inflation rate shown above is used to determine the projected automatic premium increases, equal to the growth in the consumer price index plus a percentage chosen by the customer (typically 3%), for products with this characteristic; the internalisation of the models has allowed this feature to be modelled for each single contract. 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				
	1	5	10	15	20
Swap rates					
June 30, 2006	3.56%	4.04%	4.29%	4.44%	4.53%
December 31, 2006	4.08%	4.13%	4.20%	4.27%	4.31%
June 30, 2007	4.60%	4.78%	4.85%	4.95%	4.98%
15 year Swaption volatility					
June 30, 2006	13.1%	12.1%	11.0%	10.4%	9.9%
December 31, 2006	13.5%	13.2%	12.1%	11.5%	11.2%
June 30, 2007	11.9%	11.3%	10.5%	9.8%	9.4%

Source: Bloomberg

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.

As previously indicated, the expense parameters derived in 2006 were maintained, given the seasonality of costs.

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.

The internalisation of the models has allowed Mediolanum to handle performance commission rates more precisely, while still maintaining a conservative approach, based on experience to date. Experience variances, in the analysis of the components of embedded value earnings, have included a positive contribution of 19 million Euro in the first half of 2007, 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, which relates mainly 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 4.35% in the first half of 2007 valuation and 4.0% in the full year 2006. 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, is 35 million Euro as at June 30, 2007 (31 million Euro as at December 31, 2006). The cost, which is already allowed for in the value added by Life new business in the first half of 2007, is approximately 1 million Euro.

Statement by Directors

The directors confirm that the embedded value as at June 30, 2007, and the embedded value earnings including the value added by new business in the first half of 2007 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 the calculation of the European Embedded Value of the Group as at 30 June 2007, together with the embedded value earnings in the first half of 2007. In the review of the estimates of value Tillinghast has relied on data and information provided by the Mediolanum Group, which has been examined 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 Basel 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.

Based on the foregoing, Tillinghast considers that the results for the embedded value, embedded value earnings and the value of new business, as reported in this supplementary information document, have been determined, in all material respects, in accordance with the EEV Principles, using the methodology and assumptions as set out herein.

APPENDIX 1 - SEGMENTAL REPORTING

The following tables show the value of in-force business as at June 30, 2007 and the value of new business in the first half of 2007, broken down by business segment.

Value of in-force business as at June 30, 2007 by segment

Euro millions	**Italy**	**Spain**	**Total**
Life insurance (excluding index-linked)	1,824	24	1,848
Index-linked life insurance	13	0	13
Asset management	332	20	352
Current and deposit accounts	176	n/a	176
Mortgages	15	n/a	15
Total	2,360	44	2,404

Value of new business in the first half of 2007 by segment

Euro millions	**Italy**	**Spain**	**Total**
Life insurance (excluding index-linked)	59	4	63
Index-linked life insurance	19	5	24
Asset management	25	0	25
Current and deposit accounts	8	n/a	8
Mortgages	3	n/a	3
Total	114	9	123

APPENDIX 2 – EMBEDDED VALUE EARNINGS

The following table shows the breakdown of the embedded value earnings in the first half of 2007 into its key components. Embedded value earnings are separated between the movements in adjusted shareholders' net assets and those in the value of in-force business. Opening and closing EEV are shown inclusive of dividends to be paid in the following year.

Embedded value earnings in the first half of 2007

Euro millions	**Adjusted Shareholders' net asset**	**Value of in-force business**	**EEV**
EEV 31.12.2006	749	2,373	3,122
Expected result	136	(45)	91
Experience variances	(15)	(46)	(61)
Changes in operating assumptions	0	0	0
Changes in economic assumptions	0	(19)	(19)
Business transformation	(2)	(1)	(3)
Value added by new business	(17)	142	125
Dividends and other capital movements	(82)	0	(82)
EEV 30.06.2007	769	2,404	3,173
EV earnings			133
Return on EV			4.3%