MEDIOBANCA

Quarterly Report

for the three months ended 30 September 2005

MEDIOBANCA
LIMITED COMPANY
SHARE CAPITAL € 398,296,707.50 FULLY PAID UP - RESERVES € 3,337.7m
HEAD OFFICE: PIAZZETTA ENRICO CUCCIA 1, MILAN, ITALY
Registered as a Bank. Parent Company of the Mediobanca Banking Group

Quarterly Report

for the three months ended 30 September 2005

C O N T E N T S

REVIEW OF GROUP OPERATIONS

Starting from this financial year, the Mediobanca Group's consolidated accounts will be drawn up in accordance with the recognition and measurement principles established by the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB), adopted at EU level pursuant to EC regulation 1606/02, and enacted in Italy under Italian Legislative Decree 38/05 which came into force on 22 March 2005.

The new international standards adopted by the Group are summarized in the section entitled "Description of accounting standards". The attached document "IAS/IFRS first-time adoption" includes the reconciliations required in an FTA scenario, along with an explanation of the main changes to net equity as at 1 July 2005 and to the profit and loss account for the year ended 30 June 2005. These have been certified by the Group's external auditors.

The consolidated profit and loss account for the three months ended 30 September 2004 has been restated in compliance with IAS/IFRS, with the exception of IAS 39 relating to recognition and measurement of financial assets. Pro-forma figures for the same quarter are also provided for comparison purposes which reflect the estimated impact of adopting this standard. The consolidated balance sheet as at 30 September 2005 has been compared with that as at 1 July 2005, also restated in accordance with the new accounting standards.

Similarly required by the new standards, securitization vehicle companies Quarzo and Quarzo Lease have been consolidated for the first time, as have Group companies Ricerche & Studi, Creditech and Sade Finanziaria, which previously were accounted for on a net equity basis.

* * *

In the first three months of the financial year, the Mediobanca Group earned a net profit of € 323.7m, compared with € 98.3m during the equivalent period last year. Operating profit rose from € 142.1m to € 326.8m, as a result of:

— a 23.5% increase in interest income, from € 111m to € 137.1m, involving both wholesale banking and consumer credit;

— improved trading income of € 80.6m, compared with an € 18.2m loss in the three months to 30 September 2004, which includes € 40m in revenue from the early redemption of a bond issue convertible into Ciments Français shares, and a buoyant valuation of the trading portfolio reflecting the healthy performance of equity markets during the period under review;

— an increase in fee and other income, from € 59m to € 82.1m, due to significant growth in the Group's corporate and investment banking activities;

— gains of € 107.6m in investments stated on a net equity basis (30/9/04: € 66.5m), over three-quarters of which is attributable to Assicurazioni Generali;

— higher operating costs, which rose from € 76.7m to € 82.7m, driven by the Compass group's increased activity.

Below the operating line, financial assets available for sale (AFS) were disposed of, yielding a € 91m gain chiefly in respect of Ciments Français.

All the Group's main areas of operation delivered healthy performances. In addition to the contribution from equity investments referred to above, wholesale banking posted increases in all the main revenue items, with interest income up 25% and fee income up 60% along with income from trading. The Compass group, against a backdrop of ongoing growth in its activity which saw finance disbursed rise by 9.4%, recorded a 25% increase in operating profit, whereas private banking also saw significant growth, with the pre-tax operating result up from € 11.5m to € 15.7m, chiefly as a result of Banca Esperia.

Consolidated financial statements

The consolidated profit and loss account and balance sheet have been restated to provide a better reflection of the Group's operations. The Bank of Italy's model for restating accounts is provided as an annex hereto, along with further details regarding the methods that have been adopted.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	3 mths ended 30 September 2004 (excl. IAS 39)	3 mths ended 30 September 2004 pro-forma (*)	3 mths ended 30 September 2005
	€ m	€ m	€ m
Interest income	117.0	111.0	137.1
Dividends	0.5	0.5	2.1
Profit (loss) on trading activity	60.0	(18.2)	80.6
Fee and other income (charges), net	59.0	59.0	82.1
Investments stated on net equity basis	66.5	66.5	107.6
Operating income	**303.0**	**218.8**	**409.5**
Operating costs and expenses	(84.7)	(76.7)	(82.7)
Profit (loss) on ordinary operations	**218.3**	**142.1**	**326.8**
Gain (loss) on financial assets available for sale	—	—	91.0
Gain (loss) on disposal of other securities	—	—	0.6
Bad debts written off	(16.7)	(15.9)	(25.3)
Writedowns to securities and derivatives held in treasury	(11.3)	—	—
Pre-tax profit	**190.3**	**126.2**	**393.1**
Income taxes	(53.8)	(21.6)	(66.6)
Profit (loss) attributable to minorities	(6.2)	(6.3)	(2.8)
Net profit	**130.3**	**98.3**	**323.7**

(*) Includes estimated effects of adoption of IAS 39.

RESTATED BALANCE SHEET

	1/7/05	30/9/05
	€ m	€ m
Assets		
Net treasury funds employed	3,338.3	2,602.2
Financial assets available for sale	7,037.2	5,223.9
of which: fixed income	*4,445.0*	*2,654.7*
equities	*2,383.2*	*2,404.6*
Financial assets held to maturity	239.0	534.6
Loans and advances to customers	18,138.4	19,055.1
Equity investments	2,137.6	2,231.2
Tangible and intangible assets	310.5	306.4
Other assets	521.9	461.0
of which: tax assets	*132.0*	*207.8*
Total assets	31,722.9	30,414.4
Liabilities		
Funding	24,450.7	22,713.3
of which: securities in issue	*16,266.6*	*15,865.3*
Other liabilities	849.3	1,344.5
of which: tax liabilities	*465.2*	*560.4*
Provisions for liabilities	189.6	186.8
Net equity	5,519.3	5,846.1
of which: share capital	*397.5*	*398.3*
reserves	*5,042.5*	*5,368.1*
minorities	*79.3*	*79.7*
Profit for the period	714.0	323.7
Total liabilities	31,722.9	30,414.4

REVIEW OF KEY ITEMS

CONSOLIDATED BALANCE SHEET

The following is a review of the movements in the major balance-sheet items during the quarter:

Funding — this item fell from € 24,450.7m to € 22,713.3m; the reduction was due to both current accounts, which virtually halved from € 2,776m to € 1,480.5m after matched lending transactions with clients were closed, and debt securities in issue, which declined by € 401.3m, from € 16,266.6m to € 15,865.3m, representing the balance between redemptions and repurchases of € 875.6m, and new issues and adjustments to fair value/amortized cost totalling € 474.3m. Repurchases and subsequent share cancellations yielded a gain of € 2.5m.

Loans and advances to customers — these rose by 5.1%, from € 18,138.4m to € 19,055.1m; net of the closed items with matched funding the increase was some € 2bn, approx. € 1.7bn of which involved Mediobanca's corporate banking activities, with the remainder being due to consumer credit and leasing. Despite this improvement, the composition of the Group's loan book remained virtually unchanged versus 30 June 2005, with 58% made up of corporate and structured finance, 22% of consumer credit, 18% of leasing, and the other 2% of finance disbursed by Compagnie Monégasque de Banque.

Equity investments — accounting for investments in associates on an equity basis, which includes profits accruing and changes to net equity, led to an increase of € 93.6m in this item, from € 2,137.6m to € 2,231.2m, € 76.4m of which is attributable to Assicurazioni Generali and € 15.6m to RCS MediaGroup. The portfolio at 30 September 2005 reflects a gain of € 3,187m (30/6/05: € 3,258m).

Financial assets held to maturity — this item grew by some € 300m during the three months under review, from € 239m to € 534.6m.

AFS financial assets — the € 1,813.3m reduction in this item, from € 7,037.2m to € 5,223.9m, involved debt securities, and is chiefly linked to the reduction in treasury accounts covering the trends in funding and customer lending referred to above. Conversely, capital securities rose slightly, from € 2,383.2m to € 2,404.6m, as a result of:

- disposal of 2.4 million shares in Ciments Français following the early redemption of a convertible bond issued by Mediobanca International, yielding a net gain of € 82.8m;
- disposal at book value of a 3.31% stake in Ferrari, implying a divestment of € 75.4m;
- subscription for shares in Delmi (the investment vehicle through which AEM and EdF control Edison) equal to a 6% stake in that company, involving an outlay of € 88.2m;
- upward adjustment of the portfolio to fair value, as measured on the basis of prices ruling at 30 September 2005, which amounted to € 153.3m and was recognized in a separate equity reserve without passing through profit and loss; the main items included here are:

	€ m
Fiat	30.3
Telecom Italia (ordinary and savings)	27.3
Gemina	21.7
Commerzbank	17.2
Italmobiliare	9.5
Mediolanum	7.8
Fondiaria - Sai	7.2
Pirelli	5.0

Treasury accounts — this item fell from € 3,338.3m to € 2,602.2m, reflecting the trends in lending and funding items referred to above. Gains of € 65m were realized during the period, including € 40m in relation to the early redemption of the Ciments Français convertible bond, plus a further € 8.8m upward adjustment to reflect fair value as measured at 30 September 2005 and gains on exchange rates amounting to € 5.9m.

Property —property owned by Compagnie Monégasque de Banque was sold during the three months, implying a divestment of € 3m and yielding a € 0.6m gain.

Provisions for liabilities — this heading comprises the provision for liabilities and charges, unchanged at € 153m, and the staff severance indemnity provision, which fell from € 36.3m to € 33.8m after several staff members left the Group.

Net equity — the share of net equity attributable to the Group rose by € 326.4m, from € 5,440m to € 5,766.4m, after allocation of profit for the previous financial year and net of the dividend to be paid, which was booked under other liabilities. Reserves arising in connection with valuation of the Group's AFS asset portfolio rose from € 333m to € 331.5m, following transfers of € 127.6m linked to disposals carried out during the period, and a € 124.6m increase as a result of recognizing financial assets at fair value as measured at the quarter-end.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Interest income

Interest income rose by 23.5% during the three months, from € 111m to € 137.1m, reflecting the higher lending volumes originated by the Compass group and Mediobanca's improved corporate banking activity, as described above, with the former growing by 24.3%, from € 73.6m to € 91.5m, and the latter by 25%, from € 33.1m to € 41.4m.

Profit on trading activities

An € 80.6m profit was recorded, compared with an € 18.2m loss at 30 September 2004 (including changes to gains), approximately half of which is accounted for by the € 40m proceeds from early redemption of the Ciments Français convertible bond issue mentioned above. This heading also includes a € 14.7m upward adjustment to securities and exchange rates, in line with the levels recorded at the quarter-end.

Fee and other income, net

The increase in this item, from € 59m to € 82.1m, is largely attributable to corporate and investment banking fees earned by Mediobanca, which rose from € 37m to € 58.6m. The heading also includes € 10.8m in fees earned by the Compass group (30/9/04: € 11m) and € 12.7m in fees earned by other Group companies, including € 12.5m by Compagnie Monégasque de Banque.

Operating costs and expenses

These rose from € 76.7m to € 82.7m and comprise:

— labour costs, including stock option expenses, amounting to € 45.4m (30/9/04: € 46.2m), virtually half of which is attributable to Mediobanca;

— sundry costs and expenses amounting to € 37.3m (€ 30.5m), of which € 33.7m (€ 27.4m) in administrative expenses, € 2.7m (€ 3m) in depreciation and amortization, and € 0.9m (€ 0.1m) in sundry other charges. The chief items comprised under administrative expenses, € 10.8m of which are attributable to Mediobanca, include:

  - EDP and financial information subscriptions of € 7.4m (€ 5.9m);
  - outside service and consultancy fees amounting to € 3.3m (€ 3.6m);
  - fees incurred in respect of recovering bad debt and associated legal charges, amounting to € 3.4m (€ 3.1m);
  - rent, equipment and machinery, and maintenance costs totalling € 2.9m (€ 3.1m);
  - stationery, publication costs and utilities amounting to € 3.7m (€ 2.1m);
  - advertising costs of € 2.6m (€ 1.3m), and travel, transport and entertainment expenses of € 1m, unchanged versus last year.

Bad debts written off

This item again involves almost exclusively the Compass group. The increase is linked to the group's higher business volumes.

REVIEW OF GROUP BUSINESSES

A review of the Group's performance in the main areas of its operation is provided below in the customary format. It should be noted that as from 1 July 2005, the equity investment portfolio includes only the Group's holdings in Assicurazioni Generali and RCS MediaGroup, the major developments in respect of which have already been described, whereas the other investments have been reallocated to wholesale banking.

Wholesale banking

	1/7/05	30/9/05
	€ m	€ m
Funding	18,290.5	16,680.4
Net treasury funds employed	2,963.4	2,281.8
- financial assets available for sale	5,808.5	4,196.2
of which: equities	2,382.9	2,404.5
- financial assets held to maturity	238.0	533.6
Loans and advances to customers	13,288.0	13,935.2

	3 mths to 30/9/04 pro-forma	3 mths to 30/9/05
	€ m	€ m
Total revenues	50.7	179.8
Operating costs and expenses	35.7	34.6
Operating profit before tax	15.0	145.2
Profit before tax	15.0	234.9
Net profit	7.8	185.4

Profit before tax from wholesale banking operations totalled € 145.2m, compared with € 15m in the three months ended 30 September 2004 if the reductions in gains on the treasury portfolio are included. This result includes non-recurring profits of € 40m linked to the early redemption of the Ciments Français convertible bond, as previously mentioned. Treasury management in terms of portfolio valuation was boosted by the healthy performance of equity markets. Interest income rose from € 33.1m to € 41.4m, an increase of 25%, due to higher customer lending volumes. Fee income also rose considerably, from € 37m to € 59.3m, on the back of the good results posted by both corporate and investment banking. A net profit of € 185.4m was earned (30/9/04: € 7.8m), after gains of € 89.6m on disposal of AFS assets, € 82.8m of which in relation to Ciments Français.

On the balance-sheet side, customer lendings, which rose from € 13,288m to € 13,935.2m, reflected even more sizeable growth net of the closed matched funding transactions, i.e. € 1,077.2m. The reduction in funding, from € 18,290.5m to € 16,680.4m, linked to repayment of various loans, led to a reduction in treasury accounts, from € 2,963.4m to € 2,281.8m, and the portfolio of AFS assets, which declined from € 5,808.5m to € 4,196.2m.

Retail financial services

	3 mths to 30/9/04 pro-forma	3 mths to 30/9/05
	€ m	€ m
Amounts disbursed	853.6	934.2
Interest income	73.6	91.5
Total revenues	85.0	102.5
Operating costs and expenses	(31.8)	(36.1)
Operating profit before tax	53.2	66.4
Net profit	19.7	22.6

The Compass group's consolidated accounts for the three months ended 30 September 2005 show a 24.7% increase in pre-tax operating profit, from € 53.2m to € 66.4m, helped by higher interest income, up from € 73.6m to € 91.5m due to higher average volumes, especially in consumer credit. Growth in operating costs and expenses, from € 31.8m to € 36.1m, is attributable to expansion of the group's distribution network. Net profit of € 22.6m (30/9/04: € 19.7m) reflects net bad debt writeoffs amounting to € 24.6m (€ 15.9m), due to the higher business volumes in consumer credit especially.

At 30 September 2005, customer lendings including securitized items amounted to € 7,499.2m, compared with € 7,254.8m at 30 June 2005, shared virtually equally between leasing and consumer credit.

Private banking

	3 mths ended 30/9/04 pro-forma	3 mths ended 30/9/05
	€ m	€ m
Total revenues	25.7	31.7
Operating profit	11.5	15.7
Profit attributable to Group	11.2	15.0

The Group's private banking operations, which include its 48.5% share in the profits of Banca Esperia pro-forma, reflect aggregate net income of € 15m, up over one-third on the figure recorded at 30 September 2004, i.e. € 11.2m including 100% of Compagnie Monégasque de Banque. This improved performance was due to higher management fees, which rose from € 16.9m to € 19.9m. Assets under administration and management grew from € 10.8bn to € 11.1bn.

Outlook

It should be noted that the new accounting standards tend to make balance-sheet data more erratic, as they are now more strictly dependent upon the vagaries of the market. In general, as stated in the Group's annual report for the financial year ended 30 June 2005 there are lingering concerns over the upturn in the economic environment, which accordingly continue to impact on prospects in wholesale banking operations. In consumer credit, where growth in lending volumes remains vibrant, fears of a deterioration in the quality of assets have been borne out. Private banking should continue to see significant growth in terms both of profitability and AUM. Against such a backdrop, the Group's results, which during the three months under review were boosted by non-recurring items, should confirm the increase in interest income and fees generated by wholesale banking operations, whereas profits on trading remain intrinsically linked to the marking of the portfolio to market.

Milan, 9 November 2005

THE BOARD OF DIRECTORS

BALANCE SHEET (IAS/IFRS-compliant)

	Assets	IAS-compliant as at 30/6/05	IAS-compliant as at 30/9/05
10.	Cash and liquid assets	17.0	17.4
20.	Financial assets held for trading	7,062.4	7,487.0
30.	Financial assets recognized at fair value	—	—
40.	Financial assets available for sale	7,037.2	5,223.9
50.	Financial assets held to maturity	239.0	534.6
60.	Amounts due to banks	3,142.3	2,134.9
	of which:		
	other treasury items	*2,680.1*	*1,525.3*
70.	Amounts due to customers	18,596.9	19,285.7
	of which:		
	other treasury items	*895.8*	*816.2*
80.	Hedge derivatives	1,427.7	1,360.0
	of which:		
	funding hedge derivatives	*1,010.5*	*1,297.0*
	lending hedge derivatives	*351.1*	*0.4*
90.	Value adjustments to financial assets subject to general hedging	—	—
100.	Equity investments	2,137.6	2,231.2
110.	Reinsurers' share of technical reserves	—	—
120.	Tangible assets	305.0	301.1
130.	Intangible assets	5.6	5.3
	of which:		
	goodwill	—	—
140.	Tax assets	132.0	207.8
	a) current assets	—	—
	b) advance assets	*132.0*	*207.8*
150.	Non-current assets and groups of assets up for sale	—	—
160.	Other assets	346.3	231.7
	of which:		
	other treasury items	*22.5*	*41.1*
	TOTAL ASSETS	40,449.0	39,020.6

The financial statements given on pages 7 and 8 have been restated as follows:

- Net treasury funds employed comprise asset headings 10 and 20 and liability heading 40 plus the "of which" amounts shown under asset headings 60, 70 and 160 and liability headings 10, 20 and 100 which involve repos, interbank funds and margins on derivatives;
- Funding comprises the balances shown under liability headings 10, 20 (net of amounts restated under Net treasury funds employed) and 30, plus the relevant amounts from asset heading 80 and liability heading 60 (hedge derivatives);
- Loans and advances to customers comprises asset headings 60 and 70 (net of amounts restated under Net treasury funds employed) plus the relevant amounts of asset heading 80 and liability heading 60 (hedge derivatives).

	Liabilities and net equity	IAS-compliant as at 30/6/05	IAS-compliant as at 30/9/05
10.	Amounts due to banks	7,920.5	8,308.9
	of which:		
	other treasury items	*2,680.8*	*3,250.0*
20.	Amounts due to customers	3,623.5	2,911.7
	of which:		
	other treasury items	*679.1*	*1,122.6*
30.	Securities in issue	17,217.2	16,612.5
40.	Financial liabilities deriving from trading	3,106.0	2,052.4
50.	Financial liabilities recognized at fair value	—	—
60.	Hedge derivatives	454.6	583.9
	of which:		
	funding hedge derivatives	*59.8*	*549.9*
	lending hedge derivatives	*376.0*	*24.4*
70.	Value adjustments to financial liabilities subject to general hedging	—	—
80.	Tax liabilities	465.1	560.3
	a) current liabilities	*100.4*	*193.7*
	b) deferred liabilities	*364.7*	*366.6*
90.	Liabilities in respect of group assets being sold	—	—
100.	Other liabilities	1,239.1	1,634.3
	of which:		
	other treasury liabilities	*873.7*	*859.8*
110.	Staff severance indemnity provision	36.3	33.8
120.	Provisions for liabilities and charges	153.4	153.0
	a) post-retirement and similar obligations	—	—
	b) other provisions	*153.4*	*153.0*
130.	Technical reserves	—	—
140.	Valuation reserves	377.3	374.9
150.	Shares with right of withdrawal	—	—
160.	Capital instruments	—	—
170.	Reserves	2,732.3	3,046.4
180.	Share premium reserve	1,933.3	1,947.2
190.	Share capital	397.5	398.3
200.	(Own shares)	(0.4)	(0.4)
210.	Equity attributable to minorities	79.3	79.7
220.	Profit (loss) for the year	714.0	323.7
	TOTAL LIABILITIES AND NET EQUITY	40,449.0	39,020.6

CONSOLIDATED PROFIT AND LOSS ACCOUNT
(IAS/IFRS-compliant)

		3 mths to 30/9/04 (excl. IAS 39)	3 mths to 30/9/05
10.	Interest receivable and similar income	382.0	461.8
20.	Interest payable and similar expenses	(260.6)	(359.3)
30.	**Net interest income**	**121.4**	**102.5**
40.	Commissions receivable	50.3	71.6
50.	Commissions payable	(3.2)	(5.0)
60.	**Net fee income**	**47.1**	**66.6**
70.	Dividends and similar income	0.5	2.1
80.	Net profit on trading activity	60.0	80.6
90.	Net profit from hedging activity	—	32.1
100.	Gain (loss) on disposal of:	—	93.5
	a) loans and receivables	—	—
	b) financial assets available for sale	—	*91.0*
	c) financial assets held to maturity	—	—
	d) financial liabilities	—	*2.5*
130.	**Operating income**	**229.0**	**377.4**
140.	Value adjustments for impairment to:	(28.0)	(25.3)
	a) loans and receivables	*(16.7)*	*(25.3)*
	b) financial assets available for sale	—	—
	c) financial assets held to maturity	—	—
	d) other financial assets	*(11.3)*	—
150.	**Net profit (loss) from financial operations**	**201.0**	**352.1**
160.	Premium income, net	—	—
170.	Balance of other income (expenses) from insurance business	—	—
180.	**Net profit (loss) from financial and insurance operations**	**201.0**	**352.1**
190.	Administrative expenses:	(81.5)	(82.3)
	a) labour costs	*(46.2)*	*(45.4)*
	b) other administrative expenses	*(35.3)*	*(36.9)*
200.	Net transfers to provisions for liabilities and charges	(0.2)	(0.3)
210.	Net value adjustments to tangible assets	(2.3)	(2.2)
220.	Net value adjustments to intangible assets	(0.7)	(0.4)
	of which: goodwill	—	—
230.	Net gain (loss) from recognition of tangible and intangible assets at fair value	—	—
240.	Other operating income (costs)	7.5	18.0
250.	**Operating costs**	**(77.2)**	**(67.2)**
260.	Gain (loss) on investments stated on net equity basis	66.5	107.6
270.	Gain (loss) on disposal of investments	—	0.6
280.	**Operating profit (loss) before tax**	**190.3**	**393.1**
290.	Income tax on ordinary operations	(53.8)	(66.6)
300.	**Net operating profit (loss)**	**136.5**	**326.5**
310.	Net profit (loss) on non-current assets up for sale	—	—
320.	Profit (loss) for the period attributable to minorities	(6.2)	(2.8)
330.	**Net profit (loss) for the period**	**130.3**	**323.7**

Description of accounting standards

Pursuant to Italian Legislative Decree 38/05, as from the current financial year the Mediobanca Group's consolidated accounts will be drawn up in accordance with the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission in accordance with the procedure laid down in Article 6 of EC regulation 1606/02 issued by the European Parliament and Council on 19 July 2002. A summary of the main standards adopted by the Group is provided hereunder.

Area and method of consolidation

Subsidiaries are consolidated on a line-by-line basis, whereas investments in associates and jointly-controlled operations are consolidated and recognized on an equity basis.

When a company is consolidated line-by-line, the book value of the investment is eliminated against its corresponding net equity after minorities, and the respective balance-sheet and profit-and-loss items are taken over. Any surplus following allocation to the subsidiaries' assets and liabilities is recorded as goodwill. Assets and liabilities, earnings and expenses deriving from transactions between consolidated companies are eliminated upon consolidation.

For companies consolidated on an equity basis, differences between the carrying value of an investment and the net equity of the investee company are reflected in the value at which the investments are recognized, the fairness of which is tested when the accounts are made up or when factors possibly determining value reductions crystallize. The profit earned or loss incurred by the investee company is credited or charged to earnings pro-rata under a specific heading.

Financial assets held for trading purposes

This category comprises debt securities and the positive value of derivatives held for trading purposes, including those embedded in complex financial instruments, such as structured bonds, which are accounted for separately.

At the settlement date for securities and the subscription date for derivatives, such assets are recognized at fair value without taking into account transaction costs or income directly attributable to the asset concerned, which are taken to earnings.

Following initial recognition, such financial assets continue to be measured at fair value determined, in the case of quoted financial instruments, on the basis of market prices ruling as at the reporting date. In the absence of market prices, valuation methodologies and models are used which nonetheless are based on market-derived data, e.g. valuations of listed instruments with similar characteristics, discounted cash flow calculations, option price calculation methods or valuations used in recent comparable transactions. Capital securities and linked derivative instruments for which it is not possible to reliably determine fair value using the methods described above are stated at cost. If such financial assets suffer impairment, they are written down to their current value.

Gains earned and losses incurred upon disposal or redemption and the positive and negative effects deriving from regularly re-measuring such assets to fair value are credited or charged to earnings respectively under the item "Gains (losses) on financial transactions".

Financial assets available for sale (AFS)

This category includes all financial assets other than derivatives not held in the trading, held to maturity and/or loans and receivables categories.

In particular the heading includes equities held for non-trading purposes which do not qualify as controlling interests, investments in associates or jointly-controlled operations, and also investments in private equity funds.

They are recognized at fair value, and include transaction costs and income directly attributable to the instrument concerned. Following initial recognition, AFS assets continue to be measured at fair value. Variations to fair value are suspended in a separate reserve in equity, which is eliminated against profit and loss as and when the assets are sold or a loss of value is recognized. Fair value is measured according to the same principles outlined in respect of financial assets held for trading purposes. Capital securities for which it is not possible to reliably determine fair value are stated at cost. Debt securities included in this portfolio are recognized in profit and loss at amortized cost.

At annual and interim reporting dates, assets are subjected to impairment tests in order to ascertain whether there has been any long-term loss of value. If there has, such loss is recognized in earnings on the basis of market prices in the case of listed securities, and of estimated future cash flows discounted according to the effective original interest rate in the case of unlisted securities. If the reasons for the loss no longer subsist, writebacks are credited to profit and loss in the case of debt securities and to equity in the case of capital securities up to amortized cost.

Financial assets held to maturity

These include debt securities with fixed or determinable payments and fixed maturities that an entity has the positive intention and ability to hold until maturity.

Such assets are recognized at fair value as at the settlement date including any income or expenses directly attributable to them. Following initial recognition, financial assets held to maturity are measured at amortized cost using the effective interest method. The difference between the initial recognition value and the value receivable at maturity is booked to earnings pro-rata.

At annual and interim reporting dates such financial assets are subjected to impairment tests to ascertain whether or not there has been any long-term loss of value. If there has, such loss is duly recognized in earnings on the basis of market prices in the case of listed securities and estimated future cash flows discounted according to the original effective interest rate in the case of unlisted securities. If the reasons for the loss no longer subsist, writebacks are credited to profit and loss up to amortized cost.

Loans and receivables

These include loans to customers and banks, which provide for fixed or otherwise determinable payments, are not quoted on active markets and are therefore not classifiable as available for sale. The heading also includes repos and receivables in respect of finance leasing transactions.

Loans and receivables are booked at drawdown, at a value equal to the amount drawn plus any income/costs directly attributable to individual transactions and determinable from the outset despite being payable at a later date. Costs with the above features but subject to separate repayment by the borrowing counterparty or which may be classified as ordinary internal administrative costs are not included. Swaps and repos involving obligations to buy or sell back at maturity are booked as funding or lending transactions for the spot amount received or paid. Non-performing loans acquired are booked at amortized cost on the basis of an internal rate of return calculated using estimates of expected recoverable amounts.

Loans and receivables are stated at amortized cost, i.e. initial value adjusted up or down to reflect repayments of principal, writedowns/writebacks, and the difference between the amount drawn and the amount repayable at maturity amortized on the basis of the effective interest rate. The effective interest rate is defined as the rate of interest which makes the discounted value of future cash flows from the loan (principal and interest) equal to the initial recognition value.

At annual and interim reporting dates, individual exposures are subject to impairment tests to ascertain whether or not they show evidence of a long-term loss of value due to events taking place subsequent to their recognition. If such exposures exist, they are subjected to analytical impairment tests, and if appropriate, are written down or back on the basis of the difference between their book value as at the time of the impairment test (amortized cost) and the discounted value of present cash flows, calculated in accordance with the original effective interest rate. Expected cash flows take account of anticipated collection times, the presumed value receivable on disposal of any guarantees issued, and costs deemed likely to be incurred in order to recover the credit exposure. Cash flows relating to loans expected to be recovered in the short term are not discounted.

The original effective interest rate for each loan remains unchanged over time even if the terms are renegotiated leading to a reduction in the interest rate to below the market rate, including instances where a loan becomes non-interest-bearing. The value adjustment is credited or charged to earnings as appropriate.

The original value of the loan is recovered in subsequent accounting periods where the circumstances that gave rise to the value adjustment no longer subsist. The writeback is credited to earnings up to amortized cost.

Accounts for which there is no objective evidence of loss, including those with counterparties in countries deemed to be at risk, are subjected to a collective impairment test. This is carried out on like-for-like categories of loans in risk terms, and the related loss percentages are estimated in view of historical series of internal and external items observable at the impairment test date. Value adjustments calculated collectively are also credited or charged to earnings as appropriate. At annual or interim reporting dates, writedowns or writebacks are remeasured on a differentiated basis with reference to the entire portfolio of loans deemed to be performing at that date.

Leasing

IAS 17 defines finance leasing transactions on the basis of risks and rewards incident to ownership of the asset concerned being transferred to the lessee, and defines the criteria for identifying whether a lease is a finance or operating lease. Leases executed by Group companies qualify as finance leases under IAS 17. Accordingly, a receivable is recognized in the balance sheet in an amount equal to the net investment in the finance leasing transaction, including any costs directly incurred in respect of the negotiation and/or execution of the lease.

Hedges

The two types of hedge transaction are as follows:

– fair value hedges, intended to offset exposure to changes in the fair value of a balance-sheet item;

– cash flow hedges, intended to offset exposure to variations in future cash flows attributable to particular risks associated with individual balance-sheet items.

For hedging to be effective, the hedge has to be made with counterparty external to the Group.

Hedging derivatives are recognized at fair value. In particular:

– for fair value hedges, changes in the fair value of the item being hedged is offset by an equivalent change in the fair value of the hedging instrument, both of which are recognized in profit and loss, and where any partial ineffectiveness of the hedge is revealed by disparity between the two values;

– for cash flow hedges, changes to fair value are recognized in equity for the effectiveness part of the hedge and in earnings as and when, with reference to the item hedged, the change in cash flow to be offset crystallizes.

Hedge accounting is permitted for derivatives where the hedging relationship is formally designated and documented and provided that the hedge is effective at inception and is expected to be so for its entire life.

A hedge is considered to be effective when the changes in fair value or cash flow of the hedging instrument offset those of the hedged item within a range of 80-125%. The effectiveness of a hedge is assessed *both prospectively and retrospectively* at each annual and interim reporting date, the former to show expectations in terms of effectiveness, the latter to show the degree of effectiveness achieved by the hedge during the period of reference. If an instrument proves to be ineffective, hedge accounting is discontinued and the derivative is reclassified as part of the trading portfolio.

Equity investments

This heading comprises:

– investments in associates, which are accounted for using the equity method. Associates are defined as companies in which at least 20% of the voting rights are held, and those in which the size of the investment (which in any case must be no less than 10%) is sufficient to ensure significant influence in the governance of the investee company;

– jointly-controlled operations, which are also stated using the equity method;

– other investments, accounted for at cost.

Where there is evidence that the value of an investment may have fallen, estimates are made of the value updated on the basis of market prices where possible, and the present value of estimated cash flows which the investment is able to generate, including the final value. In the event that the value thus calculated is lower than the asset's carrying amount, the difference is recycled to profit and loss.

Tangible assets

These comprise land, core and investment properties, technical equipment, furniture, fittings and any other kind of equipment or machinery including those used under the terms of finance leases, despite the fact that legally such assets continue to be owned by the lessor.

These are recognized at cost, which includes, in addition to the price paid to acquire them, any ancillary charges directly attributable to their acquisition and implementation. Charges in respect of extraordinary maintenance are accounted for by increasing the value of the assets; ordinary maintenance costs are taken to profit and loss.

Fixed assets are depreciated over the length of their useful life on a straight-line basis, with the exception of land which is deemed to have unspecified usefulness. Where there is property built on the land, this is separated from the buildings on the basis of independent experts' valuations.

At annual and interim reporting dates, if it is deemed that an asset may have lost value, its carrying value is compared to its updated value, equal to the higher of fair value net of any disposal costs and the related value in use. Any value adjustments are then recycled to profit and loss. Where the circumstances that gave rise to the loss no longer subsist, the amount concerned is written back on the proviso that such writeback may not exceed the value which the asset would have had net of depreciation calculated if the value loss had not crystallized.

Intangible assets

These chiefly comprise goodwill and long-term software applications.

Goodwill may be recognized where this is representative of the investee company's ability to generate future income. If a loss of value is observed, an impairment test is carried out to ascertain the value of the goodwill. Any reduction in value is carried out on the basis of the difference between the initial recognition value of the goodwill and the realizable value, which is equal to the higher of fair value of the cash-generating unit net of sales costs and its value in use, if any. The resulting value adjustments are taken to earnings.

Other intangible assets are booked at cost, adjusted for any ancillary charges where it is likely that the future benefits attributable to the asset in earnings terms will accrue and the cost of the asset itself may be reliably determined. Where this is not the case, the cost of the intangible asset is recorded in profit and loss in the year in which it is incurred.

The cost of intangible assets is amortized on a straight-line basis over their useful life. If useful life is not determinable, the asset is not amortized but the initial recognition value is tested regularly for impairment.

Where there is deemed to be evidence of loss of value at annual and interim reporting dates, the realizable value of an asset is estimated. The loss is booked to earnings in an amount equal to the difference between the book value of the asset and its recoverable value.

Derecognition of assets

Financial assets are derecognized when they no longer entitle their owner to receive the cash flows deriving from it or when they are sold and the risks/returns attached to them accordingly transferred. Tangible and intangible fixed assets are eliminated as and when they are disposed of, or when the asset is permanently withdrawn from use without any benefits expected in earnings terms.

Payables, securities in issue and subordinated liabilities

These include amounts payable to banks and customers, and debt securities in issue net of any amounts bought back. Amounts payable as the lessee in finance leasing transactions are also included.

Initial recognition, which takes place as and when sums raised are collected or debt securities issued, is at fair value, which is equal to the price received net of transaction costs directly attributable to the financial liabilities concerned. After initial recognition, the liabilities are booked at amortized cost on the basis of the effective interest rate, with the exception of short-term liabilities, which are recognized at the same amounts as are actually collected.

Any derivatives embedded in structured bonds are separated from the underlying contract and recognized at fair value. Subsequent changes to fair value are recognized in profit and loss.

Financial liabilities are derecognized from the balance sheet as and when they expire or are extinguished, including via buybacks of shares previously issued. The difference between the book value of liabilities and the price paid to acquire them is recognized in profit and loss.

Sale of own securities on the market following a buyback is treated as a new issue, with the new sale price being recorded without impacting on profit and loss.

Financial trading liabilities

This item includes the negative value of trading derivatives and any derivatives embedded in complex products. It also includes liabilities deriving from technical shortfalls connected with securities trading activity. All trading liabilities are stated at fair value.

Staff severance indemnity provision

This is booked so as to reflect actuarial gains or losses and is calculated using the projected unit credit method. Future payments are estimated using analyses of historical statistics and population trends. These flows are then discounted to present value on the basis of market interest rates. The values thus obtained are booked under labour costs as the net amount of contributions paid, unrecognized past service contributions, interest accrued and actuarial gains or losses.

Provisions for liabilities and charges

This heading comprises amounts set aside to cover risks not necessarily linked to default on loans or advances which could lead to future charges. Where there is a significant time horizon involved, amounts set aside are discounted using current market rates. The provision is recognized in profit and loss.

Provisions are subject to regular review, and where it is unlikely that charges will crystallize, the amounts concerned are written back to profit and loss in part or in full.

Foreign currency transactions

Foreign currency transactions are recorded in Euros by applying the exchange rate ruling as at the accounting date to the sum in foreign currency.

Assets and liabilities denominated in currencies other than the Euro are valued at exchange rates ruling at the accounting date. Exchange rate differences relating to cash items are recognized in earnings, and those relating to non-cash items are recognized in earnings or equity, on a basis consistent with their category.

Tax assets and liabilities

Income tax is recognized in profit and loss, with the exception of tax on items debited directly from or credited directly to equity. Provision for income tax is made on the basis of conservative estimates of the current, advance and deferred tax burden. In particular, advance and deferred taxes are calculated on the basis of timing differences – without time limits – between the value assigned to an asset or liability according to statutory requirements and the corresponding values used for tax purposes.

Advance tax assets are recognized in the balance sheet to the extent to which it is likely they will be recovered.

Deferred tax liabilities are recognized in the balance sheet, with the sole exception of tax-suspended reserves, where the size of the reserves available and already subject to taxation makes it reasonable to assume that no transactions will be carried out at the Group's own initiative that might lead to the amounts being taxed.

Deferred tax deriving from consolidation processes is recognized where there is a likelihood that this will translate to an actual charge for one of the companies consolidated.

Tax assets and liabilities are adjusted to reflect any changes in the regulatory environment or to applicable tax rates and also to cover charges possibly resulting from inspections or disputes with the tax authorities.

Stock options

Stock option schemes are treated as expenses. Their fair value and recognition in equity are determined as at the date on which they are granted using a valuation model adjusted to reflect the historical series of previous financial years. The value as this determined is taken to earnings pro rata to the vesting period for the individual awards.

Own shares

Own shares held are deducted from equity. In the event of disposal, any gains/losses realized are recognized in equity.

Annex

IAS/IFRS FIRST-TIME ADOPTION

As of the financial year ending 30 June 2006, Mediobanca, like all other companies whose shares are listed for trading on regulated markets in the European Union, will draw up its consolidated accounts in accordance with the new international accounting and financial reporting standards (IAS/IFRS).

Under a first-time adoption (FTA) scenario, the following are required:

– preparation of an opening balance sheet as at the date of transition from national GAAP to adoption of IAS/IFRS;
– application of IAS/IFRS as from the first financial year and for the comparison periods (with certain exceptions and exemptions);
– disclosure regarding the main effects the transition from national GAAP to the new accounting standards will have on the company's accounts.

The Mediobanca Group is applying the new standards as from the financial year ending 30 June 2006. Accordingly, the following financial statements have been prepared:

– pro-forma, the consolidated balance sheet as at 1 July 2004 and the consolidated profit and loss account for the twelve months ended 30 June 2005, drawn up in accordance with the new standards (with the exception, by express provision, of IAS 32 and 39 governing recognition and measurement of financial assets);
– the consolidated balance sheet as at 1 July 2005, reflecting application of all the new accounting standards.

These statements reflect:

– recognition of all assets and liabilities required to be recognized by the new standards;
– derecognition of assets and liabilities recognized in adoption of national GAAP but not required to be recognized under the new accounting principles;

- reclassification of assets and liabilities recognized in the accounts on the basis of the new reporting requirements;
- application of valuation criteria provided for under IAS/IFRS to assets and liabilities.

The effects of the adjustments to the various balances have been taken directly to equity.

The Group has availed itself of the following exceptions (as expressly provided under the new accounting standards):

- properties owned by the Group have been booked at cost net of cumulative depreciation and any value adjustments, including revaluations previously carried out. Under the new standards, provision is made for retaining previous revaluations as an integral part of cost in an FTA scenario;
- stock options granted prior to 7 November 2002 (the date on which the relevant standard came into force) or vesting before the date of transition to IAS/IFRS have not been valued;
- IAS 32 and 39 governing recognition and measurement of financial assets apply as from 1 July 2005.

Reconciliations and explanations

Reconciliations for purposes of the transition to the new accounting standards have been prepared on the basis of provisions laid down in IFRS1, as required by Consob resolution 14990 issued on 14 April 2005. They should not be viewed as taking the place of more detailed disclosure to be provided on the occasion of the first annual report to be issued in conformity with IAS/IFRS. The balance-sheet data deriving from adoption of the new standards will be used for comparative purposes in drawing up the consolidated accounts for the year to 30 June 2006, and may be subject to variation in the event of one or other of the standards being revised or amended retrospectively prior to that date.

A brief description of the main effects of FTA on equity as at 1 July 2005 and on earnings for the year ended 30 June 2005 is provided below.

Loans and receivables

This item, which includes securitized receivables worth approx. € 1bn in connection with the Compass group, reflect an upward value adjustment of € 11.8m, compared to the figure disclosed in compliance with national GAAP. This represents the balance between:

– € 58.5m added due to recognition of consumer credit lendings at amortized cost, in respect of dealer fees expensed at drawdown in accordance with the accounting principles previously adopted;
– a collective impairment charge of € 39.8m, calculated on the basis of like-for-like categories of asset using loss estimates based on historical series for positions presenting no evidence of impairment. Insofar as the loan book of Mediobanca is concerned, which is made up entirely of performing items and which previously was covered by the provision for general banking risks, a collective adjustment has been made on the basis of client portfolio segmentation according to rating category, and for each category default and value loss probabilities have been adopted based on historical series of data for the European market over a one-year horizon;
– a € 6.9m charge in respect of doubtful debt linked to the Compass group, calculated bearing in mind the recovery times involved.

Securities and derivatives

A portion of the securities which made up the non-investment portfolio (€ 6,035.7m out of € 11,416.7m) and derivatives have been assigned to the trading portfolio.

Securities in this category are recognized at fair value, unlike previously when they were stated at the lower of cost and market price. Fair value for financial assets and derivatives quoted on active markets is defined as market price ruling as at the accounting date, and for other securities is determined by methodologies accepted in market practice.

Derivatives in this segment comprise those of the embedded variety where these enable the different components to be separated, and those which were previously indicated as for hedging purposes but which do not meet the IAS/IFRS requirements in terms of effectiveness.

The change in accounting treatment for this category of asset as at 1 July 2005 leads to a gain of some € 29.6m, recognized in equity.

The following items have been reclassified:

– debt securities not held for trading purposes, and which do not present the necessary characteristics for inclusion as held to maturity assets or loans and receivables, have been classified as available for sale. Such securities amount to € 4,416.1m, and their recognition at fair value has led to a gain of € 51.7m being suspended in a reserve in equity;
– a portion of the Group's debt securities worth € 239m which were acquired with the objective of being held until maturity in order to maximize interest income have duly been recognized as "Held to maturity".

Available for sale

Listed and unlisted investments held for treasury management purposes and which do not qualify as controlling interests, investments in associates or jointly-controlled operations are classified as "Available for sale". Measurement of such assets at fair value has led to a € 314.1m increase in this item against the valuation reserve in equity.

Hedges

Derivatives hedging assets and liabilities which were previously stated at cost have been measured to fair value along with the assets and liabilities which they hedge, and recognized accordingly. This has led to an increase of some € 4.8m in the figure recorded in equity, which compared with the value of the items concerned, approx. € 16bn, demonstrates the high degree of effectiveness of the hedges currently in place.

For cash flow hedges, the fair value of the derivative has been recognized in the reserve held in equity; the relative gain, of some € 43.5m, regards the hedge for the mismatch between fixed-rate lendings and floating-rate funds raised by the Compass group, plus various open derivatives aimed at stabilizing the cash flows deriving from certain lendings by Mediobanca.

Investments in associates

Under IAS 28, investments in associates must be recognized using the equity method. Under an FTA scenario, all the Group's holdings in companies which exceed 20% of their share capital have been included in this category, i.e. Banca Esperia, Cartiere Burgo, Athena Private Equity, MB Venture Capital, Fidia and Scontofin, and also those in Assicurazioni Generali and RCS MediaGroup in view of their nature as permanent investments, the fact that the holdings in any case represent more than 10% of the respective companies' share capital, and that Mediobanca is represented in the governance bodies of both companies. Adoption of IAS 28 has led to a reserve of € 298.6m being booked to equity, virtually all of which (€ 274.1m) is almost entirely attributable to the Group's holding in Assicurazioni Generali. The valuation for RCS MediaGroup includes some € 145m in goodwill, in view of a gain of approx. € 340m compared with stock market prices as at 30 June 2005 and € 200m at current prices.

Tangible and intangible assets

Under the new accounting standards, fixed assets are to be depreciated over the useful life of the individual assets, which means it is necessary to separate out the value of core properties from that of the land on which they are situated, because land by definition has an unlimited useful life and therefore need not be depreciated. Recovery of the share of depreciation charges attributable to land and of the value of properties which under the previous accounting policies had been depreciated entirely in the year of acquisition has led to a gain of approx. € 31m being recognized in equity.

Other effects

Net equity also reflects the following upward adjustments:

– € 14.6m relating to the Group's stock option schemes;
– € 6.3m due to reclassification of risk provisions and other transfers linked to leasing transactions;
– € 1.7m due to application of IAS 39 in respect of securities in issue (amortized cost and buybacks).

Tax effects

The impact on net equity deriving from FTA has been calculated net of the related € 77.5m tax effect determined on the basis of legislation currently in force, including Italian Legislative Decree 38/05. In particular:

– IRES (Italian corporate income tax) has been calculated assuming a tax rate of 33%;
– in terms of IRAP (Italian regional production tax), amounts credited or charged to equity are treated as extraordinary income or expenses and hence irrelevant for tax purposes, save where these are linked to income and charges relevant for tax purposes in previous or subsequent years; in such cases a rate of 4.25% has been applied, plus an extra additional regional charge where applicable.

Finally, deferred tax liabilities have been booked in an amount of € 210m in connection with the provision for banking risks, but not amounts provided in tax-suspended reserves, on the grounds that the size of the reserves available and already subject to taxation makes it reasonably unlikely that transactions will be carried out at the Group's own initiative that might lead to such amounts being taxed.

* * *

In conclusion, FTA has generated an increase of € 517.2m in net equity as at 1 July 2005, net of related tax effects and the € 3m attributable to minorities.

* * *

In terms of earnings, the net profit for the twelve months ended 30 June 2005 as determined on the basis of the new accounting standards (excluding IAS 32 and 39) comes to € 714m, some € 173.7m higher than the figure recorded under national GAAP. The difference between the two figures is almost entirely attributable to the booking of equity-accounted investee companies net of writebacks of dividends from such companies, amounting to € 191.7m, and higher labour costs of € 15.8m due to expensing of stock options and revaluation of the staff severance indemnity provision. Other minor movements involved the effects of re-recognizing securitized assets (no impact on bottom line), valuing assets under lease at amortized cost, which added € 1.1m to net profit, lower depreciation and amortization on fixed assets (€ 0.8m), and writebacks of provisions and other transfers for € 4m.

RECONCILIATION OF BALANCE SHEET AS AT 30 JUNE 2005 PURSUANT TO ITALIAN LEGISLATIVE DECREE 87/92 WITH THAT PURSUANT TO IAS/IFRS

Assets	Balance at 30/6/05 pursuant to Italian Legislative Decree 87/92	Adjustments and restatements required under IAS (excl. IAS 39) (1)	IAS-compliant balance at 30/6/05 (excl. IAS 39)	Adjustments and restatements required under IAS (incl. IAS 39) (2)	IAS-compliant balance at 30/6/05
10. Cash and liquid assets	16,996	4	17,000	—	17,000
20. Financial assets held for trading	11,416,695	467,675	11,884,370	(4,821,979)	7,062,391
30. Financial assets recognized at fair value	—	—	—	—	—
40. Financial assets available for sale	—	1,736,891	1,736,891	5,300,280	7,037,171
50. Financial assets held to maturity	—	—	—	238,970	238,970
60. Amounts due to banks	2,941,198	4,520	2,945,718	196,605	3,142,323
70. Amounts due to customers	17,523,024	100,492	17,623,516	973,378	18,596,894
80. Hedge derivatives	—	949,487	949,487	478,257	1,427,744
90. Value adjustments to financial assets subject to general hedging	—	—	—	—	—
100. Equity investments	3,282,299	(1,144,730)	2,137,569	—	2,137,569
110. Reinsurers' share of technical reserves	—	—	—	—	—
120. Tangible assets	275,679	29,304	304,983	—	304,983
130. Intangible assets	1,263	4,301	5,564	—	5,564
of which:					
goodwill	—	—	—	—	—
140. Tax assets	122,160	9,840	132,000	—	132,000
a) current assets	—	—	—	—	—
b) advance assets	*122,160*	*9,840*	*132,000*	—	*132,000*
150. Non-current assets and groups of assets up for sale	—	—	—	—	—
160. Other assets	2,209,516	(1,609,574)	599,942	(253,663)	346,279
TOTAL ASSETS	37,788,830	548,210	38,337,040	2,111,848	40,448,888

(1) Chiefly due to changes in the area of consolidation, restatement of investments not in associates to financial assets available for sale, and reallocation of accrued income and prepaid expenses to the relevant asset and liability items.

(2) Chiefly due to reclassification of financial assets according to the division required under adoption of IAS 39 (including securitizations).

Liabilities and net equity	Balance at 30/6/05 pursuant to Italian Legislative Decree 87/92	Adjustments and restatements required under IAS (excl. IAS 39) ([1])	IAS-compliant balance at 30/6/05 (excl. IAS 39)	Adjustments and restatements required under IAS (incl. IAS 39) ([2])	IAS-compliant balance at 30/6/05
10. Amounts due to banks	7,883,467	37,082	7,920,549	—	7,920,549
20. Amounts due to customers	3,547,617	75,893	3,623,510	—	3,623,510
30. Securities in issue	16,393,966	325,852	16,719,818	497,398	17,217,216
40. Financial liabilities deriving from trading	—	1,942,057	1,942,057	1,163,932	3,105,989
50. Financial liabilities recognized at fair value	—	—	—	—	—
60. Hedge derivatives	—	73,890	73,890	380,702	454,592
70. Value adjustments to financial liabilities subject to general hedging	—	—	—	—	—
80. Tax liabilities	169,103	243,778	412,881	52,287	465,168
a) current liabilities	*124,818*	*(24,374)*	*100,444*	—	*100,444*
b) deferred liabilities	*44,285*	*268,152*	*312,437*	*52,287*	*364,724*
90. Liabilities in respect of group assets up for sale	—	—	—	—	—
100. Other liabilities	4,062,060	(2,454,774)	1,607,286	(368,319)	1,238,967
110. Staff severance indemnity provision	34,279	1,973	36,252	—	36,252
120. Provisions for liabilities and charges	157,769	(4,400)	153,369	—	153,369
a) post-retirement and similar obligations	—	—	—	—	—
b) other provisions	*157,769*	*(4,400)*	*153,369*	—	*153,369*
130. Technical reserves	—	—	—	—	—
140. Valuation reserves	13,514	—	13,514	363,786	377,300
150. Shares with right of withdrawal	—	—	—	—	—
160. Capital instruments	—	—	—	—	—
170. Reserves	2,579,451	129,341	2,708,792	23,547	2,732,339
180. Share premium reserve	1,933,331	—	1,933,331	—	1,933,331
190. Share capital	397,478	—	397,478	—	397,478
200. (Own shares)	(970)	536	(434)	—	(434)
210. Equity attributable to minorities	77,473	3,321	80,794	(1,485)	79,309
220. Gain (loss) for the year	540,292	173,661	713,953	—	713,953
TOTAL LIABILITIES AND NET EQUITY	37,788,830	548,210	38,337,040	2,111,848	40,448,888

(1) Chiefly due to changes in the area of consolidation, restatement of investments not in associates to financial assets available for sale, and reallocation of accrued income and prepaid expenses to the relevant asset and liability items.

(2) Chiefly due to reclassification of financial assets according to the division required under adoption of IAS 39 (including securitizations).

RECONCILIATION OF PROFIT AND LOSS ACCOUNT FOR YEAR TO 30 JUNE 2005 PURSUANT TO ITALIAN LEGISLATIVE DECREE 87/92 WITH THAT PURSUANT TO IAS/IFRS

	Balance at 30/6/05 pursuant to Italian Legislative Decree 87/92	Changes due to IAS		IAS/IFRS-compliant balance at 30/6/05
		Value adjustments	Reclassifications	
Net interest income	**483,052**	**(8,164)**	**61,216**	**536,104**
Net fee income	**143,596**	**9,270**	**10,601**	**163,467**
Dividends and similar income	254,678	(87,170)	23	167,531
Net profit from trading activity	21,591	—	3,936	25,527
Net profit from hedging activity	—	—	—	—
Gain (loss) on disposal of:	39,005	—	(610)	38,395
b) financial assets available for sale	*39,005*	—	*(610)*	*38,395*
Operating income	**941,922**	**(86,064)**	**75,166**	**931,024**
Value adjustments for impairment	(40,329)	(7,200)	6,067	(41,462)
Net profit (loss) from financial operations	**901,593**	**(93,264)**	**81,233**	**889,562**
Administrative expenses:	(333,035)	(15,775)	(7,019)	(355,829)
a) labour costs	*(175,081)*	*(15,775)*	*(3,091)*	*(193,947)*
b) other administrative expenses	*(157,954)*	—	*(3,928)*	*(161,882)*
Net transfers to provisions for liabilities and charges	(55,228)	3,200	168	(51,860)
Net value adjustments to tangible assets	(12,823)	2,427	(93)	(10,489)
Net value adjustments to intangible assets	(1,085)	(1,583)	(30)	(2,698)
of which:				
goodwill	—	—	—	—
Other operating income (costs)	102,941	—	(59,153)	43,788
Operating costs	**(299,230)**	**(11,731)**	**(66,127)**	**(377,088)**
Gain (loss) on investments stated on net equity basis	6,298	278,900	(230)	284,968
Gain (loss) on disposal of investments	—	—	—	—
Operating profit (loss) before tax	**608,661**	**173,905**	**14,876**	**797,442**
Income tax on ordinary operations for the year	(58,793)	(1,451)	(14,876)	(75,120)
Net operating profit (loss)	**549,868**	**172,454**	**—**	**722,322**
Profit (loss) for the period attributable to minorities	(9,576)	1,207	—	(8,369)
NET PROFIT (LOSS)	**540,292**	**173,661**	**—**	**713,953**

RECONCILIATION OF PROFIT AND LOSS ACCOUNT PURSUANT TO ITALIAN LEGISLATIVE DECREE 87/92 AND IAS/IFRS

	12 mths ended 30/6/2005 (excl. IAS 39)
NET PROFIT PURSUANT TO ITALIAN LEGISLATIVE DECREE 87/92	**540,292**
– amortized cost (pursuant to IAS 17)	1,106
– equity method application	191,730
– labour costs	(15,775)
– fixed assets	844
– other provisions/transfers written back	(4,000)
– profit and loss attributable to minorities	1,207
– income taxes for the year	(1,451)
TOTAL EFFECT, IAS/IFRS ADOPTION	173,661
NET PROFIT PURSUANT TO IAS/IFRS ADOPTION	**713,953**

RECONCILIATION OF BALANCE SHEET PURSUANT TO ITALIAN LEGISLATIVE DECREE 87/92 AND NET EQUITY PURSUANT TO IAS/IFRS

	Balance at 1/7/04	Balance at 30/6/2005 (excl. IAS 39)	Balance at 1/7/05 (incl. IAS 39)
Net equity pursuant to Italian Legislative Decree 87/92	4,644,941	4,922,804	4,922,804
Recognition and measurement of loans at amortized cost	15,288	15,382	11,794
analytic measurement of impaired loans	—	—	*(6,890)*
collective measurement of performing loans	—	—	*(39,801)*
fees effect	*15,288*	*15,382*	*58,485*
Recognition and measurement of financial assets at fair value	—	—	443,716
measurement of securities and derivatives held for trading	—	—	*29,628*
measurement of hedging derivatives	—	—	*4,782*
measurement of debt securities available for sale	—	—	*51,677*
measurement of capital securities available for sale	—	—	*314,119*
measurement of cash flow hedge derivatives	—	—	*43,510*
Equity investment value adjustments	(44,371)	298,619	298,619
Tangible and intangible assets	31,800	31,023	31,023
Stock options	—	14,637	14,637
Changes to provision for liabilities	(150,000)	—	—
Other effects	9,581	6,301	8,044
Tax effects	(159,944)	(231,006)	(287,579)
deferred tax in respect of provision for general banking risks	*(191,674)*	*(210,048)*	*(210,048)*
deferred tax in respect of IAS first-time adoption	*(31,730)*	*(20,958)*	*(77,531)*
IAS effects attributable to minorities	(7,136)	(5,079)	(3,043)
Total effect, IAS/IFRS first-time adoption	(304,782)	129,877	517,211
Net equity pursuant to IAS/IFRS	4,340,159	5,052,681	5,440,015

RECONCILIATION OF BALANCE SHEET AS AT 30 JUNE 2004 PURSUANT TO ITALIAN LEGISLATIVE DECREE 87/92 WITH THAT PURSUANT TO IAS/IFRS

	Assets	Balance at 30/6/04 pursuant to Italian Legislative Decree 87/92 restated	IAS adjustments (incl. consolidation area but excl. IAS 39) (1)	IAS-compliant balance at 30/6/04
10.	Cash and liquid assets	11,573	7	11,580
20.	Financial assets held for trading	9,555,732	(61,987)	9,493,745
30.	Financial assets recognized at fair value	—	—	—
40.	Financial assets available for sale	—	2,130,268	2,130,268
50.	Financial assets held to maturity	—	954	954
60.	Amounts due to banks	5,655,944	8,587	5,664,531
70.	Amounts due to customers	16,754,809	160,609	16,915,418
80.	Hedge derivatives	—	760,789	760,789
90.	Value adjustments to financial assets subject to general hedging	—	—	—
100.	Equity investments	3,073,624	(1,602,732)	1,470,892
110.	Reinsurers' share of technical reserves	—	—	—
120.	Tangible assets	271,617	26,931	298,548
130.	Intangible assets	18,938	9,235	28,173
	of which:			
	goodwill	*17,463*	*4,366*	*21,829*
140.	Tax assets	91,216	670	91,886
	a) current assets	—	—	—
	b) advance assets	*91,216*	—	*91,216*
150.	Non-current assets and groups of assets up for sale	—	—	—
160.	Other assets	2,346,065	(1,872,914)	473,151
	TOTAL ASSETS	37,779,518	(439,583)	37,339,935

(1) Chiefly due to changes in the area of consolidation, restatement of investments not in associates to financial assets available for sale, and reallocation of accrued income and prepaid expenses to the relevant asset and liability items.

	Liabilities and net equity	Balance at 30/6/04 pursuant to Italian Legislative Decree 87/92 restated	IAS adjustments (incl. consolidation area but excl. IAS 39) (1)	IAS-compliant balance at 30/6/04
10.	Amounts due to banks	6,719,192	69,406	6,788,598
20.	Amounts due to customers	3,978,155	67,332	4,045,487
30.	Securities in issue	16,807,800	2,088	16,809,888
40.	Financial liabilities deriving from trading	—	2,848,564	2,848,564
50.	Financial liabilities recognized at fair value	—	—	—
60.	Hedge derivatives	—	39,627	39,627
70.	Value adjustments to financial liabilities subject to general hedging	—	—	—
80.	Tax liabilities	303,678	159,944	463,622
	a) current liabilities	*251,725*	—	*251,725*
	b) deferred liabilities	*51,953*	*159,944*	*211,897*
90.	Liabilities in respect of group assets up for sale	—	—	—
100.	Other liabilities	4,491,307	(3,428,843)	1,062,464
110.	Staff severance indemnity provision	32,266	873	33,139
120.	Provisions for liabilities and risks	64,082	(94,706)	158,788
	a) post-retirement and similar obligations	—	—	—
	b) other provisions	*64,082*	*(94,706)*	*158,788*
130.	Technical reserves	—	—	—
140.	Valuation reserves	13,514	—	13,514
150.	Shares with right of withdrawal	—	—	—
160.	Capital instruments	—	—	—
170.	Reserves	2,453,229	(300,952)	2,252,277
180.	Share premium reserve	1,807,340	—	1,807,340
190.	Share capital	389,291	—	389,291
200.	(Own shares)	(970)	536	(434)
210.	Equity attributable to minorities	184,254	7,136	191,390
220.	Profit (loss) for the year	536,380	—	536,380
	TOTAL LIABILITIES AND NET EQUITY	37,779,518	(439,583)	37,339,935

(1) Chiefly due to changes in the area of consolidation, restatement of investments not in associates to financial assets available for sale, and reallocation of accrued income and prepaid expenses to the relevant asset and liability items.

EXTERNAL AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT ON THE STATEMENTS OF RECONCILIATION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

(This is a translation from the original Italian text, which takes precedence)

To the Board of Directors of
Mediobanca S.p.A.

1. We have audited the statements of reconciliation to International Financial Reporting Standards (IFRS) of Mediobanca Group, which include the balance sheets as of 1 July 2004, 30 June 2005 and 1 July 2005 and the statement of income for the year ended 30 June 2005, the reconciliations of shareholders' equity as of 1 July 2004, 30 June 2005 and 1 July 2005 and the reconciliation of net income for the year ended 30 June 2005 and the related explanatory notes (hereinafter, the "IFRS Reconciliation Statements"), included in the section titled "IAS/IFRS adoption" of the Quarterly Report of Mediobanca S.p.A. for the period ended 30 September 2005. These IFRS Reconciliation Statements are based on the consolidated financial statements of Mediobanca S.p.A. as of 30 June 2005, prepared in accordance with the Italian regulations governing the criteria for their preparation, which we previously audited and upon which we issued our report dated 22 September 2005. The IFRS Reconciliation Statements have been prepared as part of the Group's conversion to IFRS as adopted by the European Commission. These IFRS Reconciliation Statements are the responsibility of Mediobanca S.p.A.'s management. Our responsibility is to express an opinion on these IFRS Reconciliation Statements based on our audit.

2. We conducted our audit in accordance with generally accepted auditing standards in Italy. In accordance with such standards we planned and performed the audit to obtain the information necessary in order to determine whether the IFRS Reconciliation Statements are materially misstated. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the IFRS Reconciliation 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.

3. In our opinion, the IFRS Reconciliation Statements identified in the first paragraph of this report have been prepared in all material respects in accordance with the criteria and principles set out in Article 82-bis, paragraph 4, of the Consob Regulation adopted by Resolution No. 11971 of 14 May 1999 and subsequent modifications.

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4. As described in the explanatory notes of the section titled "IAS/IFRS adoption", the IFRS Reconciliation Statements have been prepared solely to support the first complete set of consolidated financial statements as of 30 June 2006 which will be prepared in accordance with IFRS as adopted by the European Commission. Consequently, the IFRS Reconciliation Statements do not include comparative data and explanatory notes which would be required for a complete presentation of the consolidated financial position and consolidated results of operations of Mediobanca S.p.A. in conformity with IFRS. Further, we point out that the amounts presented in the IFRS Reconciliation Statements may require adjustments for any modifications to IFRS that become effective before the publication of the above-mentioned consolidated financial statements for the year ending 30 June 2006.

Milan, 11 November 2005

Reconta Ernst & Young S.p.A.
Signed by: Riccardo Schioppo, partner