

27 SEP. 2006

MEDIOBANCA INTERNATIONAL (Luxembourg)
Société Anonyme

ANNUAL ACCOUNTS
and
AUDITOR'S REPORT
as at
June 30, 2006



 ERNST & YOUNG

MEDIOBANCA INTERNATIONAL (Luxembourg)
Société Anonyme

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and
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MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.

Head office: Boulevard Roosevelt 14, Luxembourg L-2450

Mediobanca Banking Group

Share capital: € 10,000,000 fully paid up

FINANCIAL SITUATION FOR THE PERIOD FROM DECEMBER 21, 2005 TO 30 JUNE 2006

BOARD OF DIRECTORS' REVIEW OF OPERATIONS

On 21 December 2005, Mediobanca International transferred its registered office from the Cayman Islands to Luxembourg. These accounts reflect operations from 21 December 2005 to 30 June 2006.

Subsequent to the above transfer, the Bank launched two new short-term bond issuance programmes worth € 2,500,000,000 each, and commenced a new lending activity. During the period under review, bonds worth € 25,000,000 were issued against the Bank's medium- and long-term programme and bonds worth € 487,995,000 were issued against its short-term programme, while outstanding lendings at the reported date totalled € 432,420,713. Net fees collected during the period amounted to € 3,021,586.

In the period from December, 21 2005 to 30 June 2006, the Bank recorded a profit of € 2,439,545, after charging a lump sum provision for general credit risk exposure of € 1,000,000.

No major events have occurred subsequent to the reporting date which could materially impact on the Bank's asset, earnings or financial situation.

The Bank does not own, nor has it acquired any of its own shares.

No provision was made in relation to the AGDL as the Bank does not have any private clients nor does it undertake any transaction or asset management activity for or on behalf of private clients.

In the forthcoming financial year the Bank will continue to develop its activity by increasing lending volumes, while keeping costs under control.

Accordingly, we propose the following allocation of profits:

Profit brought forward (period from July 1 st , 2005 to December 20, 2005)	€ 1,896,463
Profit for the period	€ 2,439,545
Total profit to be allocated	€ 4,336,008
To the legal reserve	€ 1,000,000
To specific reserve for N.W.T.	€ 1,925,000
To free reserves	€ 1,411,008

pp. THE BOARD OF DIRECTORS

Mr M. Di Carlo

CHAIRMAN

AUDITOR'S REPORT

To the Board of Directors of
Mediobanca International (Luxembourg)
Société Anonyme

Following our appointment by the Board of Directors, we have audited the accompanying annual accounts of Mediobanca International (Luxembourg) S.A. for the period from December 21, 2005 to June 30, 2006 and have read the related management report. These annual accounts and the management report are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these annual accounts based on our audit and to check that the management report is consistent with the annual accounts.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors, as well as evaluating the overall annual accounts presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the attached annual accounts give, in conformity with the Luxembourg legal and regulatory requirements, a true and fair view of the financial position of Mediobanca International (Luxembourg) S.A. as at June 30, 2006 and of the result of its operations for the period from December 21, 2005 to June 30, 2006.

The management report is consistent with the annual accounts.

ERNST & YOUNG
Société Anonyme
Réviseur d'Entreprises



Isabelle NICKS

Luxembourg, September 8, 2006

MEDIOBANCA INTERNATIONAL (Luxembourg)
Société Anonyme

BALANCE SHEET
June 30, 2006
(expressed in EUR)



<u>ASSETS</u>	As at June 30, 2006
Cash balances with central banks and post office banks (Note 21)	5,279,309
Loans and advances to credit institutions (Notes 3, 14 and 21)	970,422,226
Repayable on demand	19,035,946
With agreed maturity dates or periods of notice	951,386,280
Loans and advances to customers (Notes 3 and 21)	432,213,943
Debt securities and other fixed-income securities (Notes 4 and 21)	5,448,750
Issued by other issuers	5,448,750
Intangible assets (Note 6)	32,000
Tangible assets (Note 6)	64,814
Other assets (Note 5)	2,846,593
Prepayments and accrued income (Note 10)	55,911,644
TOTAL ASSETS	<hr/> 1,472,219,279 <hr/>

The accompanying notes form an integral part of these annual accounts.



LIABILITIES

As at June 30, 2006

Amounts owed to credit institutions (Notes 7, 14 and 21)	432,420,713
With agreed maturity dates or periods of notice	432,420,713
Debts evidenced by certificates (Notes 8 and 21)	947,287,609
Debt securities on bonds issues	947,287,609
Other liabilities (Notes 9 and 14)	168,827
Accruals and deferred income (Notes 4 and 10)	13,936,530
Provisions for liabilities and charges	969,592
a) Provision for taxation (Note 19)	636,592
b) Other provisions (Note 11)	333,000
Subscribed capital (Note 12)	10,000,000
Reserves (Note 13)	63,100,000
Profit brought forward (Note 13)	1,896,463
Profit for the financial period	2,439,545
TOTAL LIABILITIES	1,472,219,279

MEDIOBANCA INTERNATIONAL (Luxembourg)
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OFF BALANCE SHEET
June 30, 2006
(expressed in EUR)



OFF BALANCE SHEET

As at June 30, 2006

Commitments (Notes 14 and 16)

2,011,433,108

MEDIOBANCA INTERNATIONAL (Luxembourg)
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PROFIT AND LOSS ACCOUNT
For the period from December 21, 2005 to June 30, 2006
(expressed in EUR)



For the period from
December 21, 2005
to June 30, 2006

Interest receivable and similar income	63,739,026
<u>Of which:</u>	
Income from debt securities and other fixed income securities	161,446
Interest payable and similar charges	(58,427,873)
Commission receivable	4,927,248
Commission payable	(1,905,662)
Net loss on financial operations	(3,094,666)
Other operating income (Note 18)	1,141
General administrative expenses	(1,138,873)
Staff costs of which :	(152,224)
- wages & salaries	(110,250)
- social security costs of which	(41,974)
- relating to pensions	(4,262)
Other administrative expenses	(986,649)
Value adjustments in respect of tangible and intangible assets (Note 6)	(24,204)
Value adjustments in respect of loans and advances and provisions for contingent liabilities and for commitments (Note 2)	(1,000,000)
Tax on profit on ordinary activities (Note 19)	(636,592)
PROFIT ON ORDINARY ACTIVITIES AFTER TAX	2,439,545
Other taxes not shown under the preceding items (Note 19)	---
PROFIT FOR THE FINANCIAL PERIOD	2,439,545

MEDIOBANCA INTERNATIONAL (Luxembourg)
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NOTES TO THE ANNUAL ACCOUNTS
June 30, 2006



NOTE 1 – GENERAL

1.1 Corporate matters

Mediobanca International (Luxembourg) S.A. (the “Bank”) was incorporated under the name “Mediobanca International Limited” on September 13, 1990 under the Companies Law of the Cayman Islands, with its Registered Office at Ugland House, South Church Street, P.O. Box 309 George Town, Grand Cayman, Cayman Islands, British West Indies.

On December 21, 2005, the shareholders of the Bank decided to transfer the registered office and the principal establishment of the Bank from the Cayman Islands to the Grand-Duchy of Luxembourg and declared that the Bank had accordingly adopted the Luxembourg nationality.

In addition, the shareholders of the Bank decided to adopt the form of “Société Anonyme” and to change the name of the Bank to Mediobanca International (Luxembourg) S.A.

1.2 Nature of the Bank's business

The activities of the Bank are:

- Raising funds on international markets, via the issuance of bonds and other financial instruments falling chiefly within the EUR 11.5bn Medium Term Note Programme and the € 2.5 bn Euro Commercial Paper Program, both guaranteed by Mediobanca S.p.A., Milan;
- Corporate lending operations serving corporate clients, either directly or by participation in syndicated lending. All corporate lending is guaranteed by the Parent Mediobanca S.p.A., Milan.

1.3 Annual accounts

The Bank's accounting year is July 1st to June 30th.

As the Bank's registered seat was transferred from the Cayman Islands to the Grand-Duchy of Luxembourg on December 21, 2005, the Board of Directors of the Bank decided to prepare the annual accounts covering its activities in the Grand-Duchy of Luxembourg. Therefore, the figures in the profit and loss account for the period ended June 30, 2006 cover the period from December 21, 2005 (date of transfer from Cayman Islands to Luxembourg) to June 30, 2006.

1.4 Parent undertaking

The Bank is a wholly-owned subsidiary of Mediobanca – Banca di Credito Finanziaria S.p.A. (the “Mediobanca SpA”), having its registered office is Piazzetta Enrico Cuccia 1, Milan, Italy. The annual accounts of the Bank are included in the consolidated accounts of Mediobanca S.p.A.

MEDIOBANCA INTERNATIONAL (Luxembourg)
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NOTES TO THE ANNUAL ACCOUNTS (continued)
June 30, 2006



NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND VALUATION RULES

The annual accounts of the Bank have been prepared in conformity with the regulations of the Luxembourg Supervision Commission of the Financial Sector and applicable laws as well as accounting principles generally accepted in the banking industry in the Grand-Duchy of Luxembourg.

The books and records of the Bank are kept in Euro (“EUR”) and the annual accounts have been prepared using the following accounting policies:

2.1. Foreign currencies

The Bank uses a multi-currency accounting system, which consists of recording each transaction in the respective currency of the transaction based on position accounts.

The translation of accounts in a currency other than Euro is done in accordance with the following criteria:

- Assets and liabilities in currencies other than Euro are translated at the spot exchange rates applicable at the balance sheet date;
- Income and expenses in foreign currencies are translated into Euro at exchange rates applicable at the date of their recording in the statement of profit and loss ;
- The exchange differences resulting from the valuation of spot positions are recorded in the statement of profit and loss ;
- Foreign currency swap transactions covering spot balances are considered as neutral in relation to fluctuations of the related currency rates. Premiums and discounts are recorded in the statement of profit and loss on a prorata temporis basis over the life of the swap transactions concerned.

2.2. Loans, advances and debts

The loans, advances and debts repayable on demand include amounts, which can be withdrawn at any time without notice or with a 24 hours notice. The term loans and advances and term debts include amounts whose residual maturity exceeds 24 hours.

The loans and advances are recorded in the balance sheet at their acquisition price. As mentioned under caption 2.6., the policy of the Bank is to set up specific value adjustments for doubtful loans. These value adjustments are deducted from the asset account balances concerned.

Debts are recorded under liabilities at their reimbursement amount.

MEDIOBANCA INTERNATIONAL (Luxembourg)
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NOTES TO THE ANNUAL ACCOUNTS (continued)
June 30, 2006



NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND VALUATION RULES
(continued)

2.2. Loans, advances and debts (continued)

Where the amount to be repaid is greater than the amount received, the difference may be recorded in the assets under the caption "Prepayment and accrued income". This difference must be amortized on an annual basis over a reasonable period, which cannot exceed the date of repayment of the debt (this option does not apply to differences resulting from debts arising from transactions on a primary market, for which provisions must be made). Premiums are recognized prorata temporis over the life of the debt.

2.3 Securities - Structural portfolio

As of June 30, 2006, the securities portfolio of the Bank is only composed of bonds and other fixed-income securities ("bonds"), which are classified in the structural portfolio.

Bonds are carried at their purchase price excluding acquisition expenses and interest accrued and not yet due at the date of purchase. Without prejudice to the recognition of securities issued at a discount ("zero coupon bonds"), accrued interest receivable since the last coupon date or the date of issue is recorded as an asset under "Accruals and similar" until the next coupon date.

Securities held in the structural portfolio are intended to be held in the medium term for the purpose of interest income and capital gains.

Securities classified in the structural portfolio are valued at the lower of cost or market. Unrealized depreciation in value is recorded in the annual accounts in the caption "Result on financial operations".

Income from fixed-income securities is accounted for on an accrual basis.

2.4 Intangible and tangible assets

The tangible and intangible assets are recorded at their acquisition price. These assets, whose useful economic life is limited, are depreciated over their estimated useful life on a straight-line basis.

The depreciation rate used is 20%.

In case of a permanent impairment in value, appropriate write-downs are recorded at balance sheet date. These write-downs are reversed if their motivations have ceased to exist.

MEDIOBANCA INTERNATIONAL (Luxembourg)
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NOTES TO THE ANNUAL ACCOUNTS (continued)
June 30, 2006



NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND VALUATION RULES
(continued)

2.5 Lump-sum provision for risk exposures

In accordance with the Luxembourg tax legislation, the Bank has established a lump-sum provision for risk exposures, as defined in the legislation governing prudential supervision of banks. The purpose of the provision is to take account of risks which are likely to crystallize but which have not yet been identified as at the date of preparation of the annual accounts. Pursuant to the instructions issued by the Directeur des Contributions on December 16, 1997, this provision is made before taxation and may not exceed 1,25 % of the risk exposures.

The lump-sum provision for risk exposures is broken down in proportion to the weighting of the items which form the basis for its calculation, between:

- a portion which is deemed to represent a value adjustment, and which is deducted from the assets items which constitute risk exposures; and
- a portion which is deemed to represent a provision for liabilities and charges attributable to credit risk associated with off-balance sheet items, foreign exchange risk and market risks, and which is shown among the liabilities items under "Provisions for liabilities and charges: other provisions".

As of June 30, 2006, the lump-sum provision recorded in the books of the Bank amounts to EUR 1,000,000.

2.6 Value adjustments

Value adjustments include provisions for bad debts, provisions for value adjustments on securities in portfolio, amortization and depreciation of tangible and intangible assets. For a determined asset, the adjustments are deducted from the nominal value of the asset or from the acquisition price. The related assets are thus presented net of any value adjustments.

2.7 Taxes

Taxes are accounted for on an accruals basis and not in the year they are paid.

2.8 Forward financial instruments

Commitments on forward financial instruments relating to interest rates, currencies or other market rates are recorded as off-balance sheet items at their nominal contract value on the transaction date.

At year-end a provision is made for unrealized capital losses resulting from the individual valuation at market prices of the transactions that have not been settled. This provision is booked as a liability under "Provisions for general risks and commitments – other provisions."



MEDIOBANCA INTERNATIONAL (Luxembourg)
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NOTES TO THE ANNUAL ACCOUNTS (continued)
June 30, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND VALUATION RULES
(continued)

Provision is not made when the financial instrument precisely hedges an asset or liability and when economic unity has been established, or when the financial instrument is hedged by a transaction in the opposite direction effectively closing the position. Revenues and expenses on hedging transactions are recognized in the income statement in the same manner as revenues and expenses on the hedged items.

The Bank has entered into interest rate swaps and cross currency interest rate swaps for the purpose of hedging the bonds issued by the Bank.

2.9 Provisions for liabilities and charges

The provisions for liabilities and charges include the provisions for taxes and on off balance sheet transactions as well as the portion of the lump sum provision attributable to the risks associated with off balance sheet items.

The Bank is a member of the “Association pour la Garantie des Dépôts, Luxembourg” (“AGDL”). No provision was made in relation to the AGDL as the Bank does not have any private clients nor undertake any transaction or asset management activity for or on behalf of private clients.

NOTE 3 – LOANS AND ADVANCES TO CREDIT INSTITUTIONS AND CUSTOMERS

Loans and advances to credit institutions

Loans and advances to credit institutions are split in accordance with their remaining maturity as follows:

	June 30, 2006 EUR (,000)
Less than 3 months	528,549
From 3 months to 1 year	134,971
From 1 year to 5 years	203,362
More than 5 years	104,000
	<u>970,882</u>

Loans and advances to credit institutions (continued)

As at June 30, 2006, a general provision of EUR 460,230 calculated on a pro rata basis by term to maturity and based on the credit risk attributed to loans and deposits due from banks, was deducted from this asset account.

MEDIOBANCA INTERNATIONAL (Luxembourg)
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NOTES TO THE ANNUAL ACCOUNTS (continued)
June 30, 2006



NOTE 3 – LOANS AND ADVANCES TO CREDIT INSTITUTIONS AND CUSTOMERS (continued)

Loans and advances to credit institutions may be analyzed according to their geographical origin as follows:

	June 30, 2006 EUR (,000)
Luxembourg	108
Other OECD countries	970,774
	<u>970,882</u>

Loans and advances to customers

Loans and advances to customers are split in accordance with their remaining maturity as follows:

	June 30, 2006 EUR (,000)
Less than 3 months	735
From 3 months to 1 year	78,372
More than 5 years	353,314
	<u>432,421</u>

As at June 30, 2006, a general provision of EUR 206,770 calculated on a pro rata basis by term to maturity and based on the credit risk attributed to loans and deposits due from customers, was deducted from this asset account.

Loans and advances to customers may be analyzed according to their geographical origin as follows:

	June 30, 2006 EUR (,000)
Other OECD countries	432,421
	<u>432,421</u>

MEDIOBANCA INTERNATIONAL (Luxembourg)
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NOTES TO THE ANNUAL ACCOUNTS (continued)
June 30, 2006



NOTE 4 – DEBT SECURITIES AND OTHER FIXED-INCOME SECURITIES

At June 30, 2006, transferable securities shown under "Debt securities and other fixed-income securities" include one bond which is listed and is included in the structured portfolio of the Bank.

The bonds are split in accordance with their remaining maturity as follows:

	June 30, 2006 EUR (,000)
More than 5 years	5,694
Less value adjustments	<u>245</u>
Net amount	<u><u>5,449</u></u>

As at June 30, 2006, the cumulative unamortized portion since the date of acquisition of premiums on debt securities and other fixed-income securities is recorded under the caption "accruals and deferred income" as follows:

	June 30, 2006 EUR (,000)
Premiums	21
	<u>21</u>

Debt securities and other fixed-income securities may be analyzed according to their geographical origin as follows:

	June 30, 2006 EUR (,000)
Other OECD countries	5,694
Less value adjustments	<u>245</u>
	<u><u>5,449</u></u>

NOTE 5 – OTHER ASSETS

Other assets consist principally of the following:

	June 30, 2006 EUR (,000)
Short term receivables	2,847
	<u>2,847</u>

MEDIOBANCA INTERNATIONAL (Luxembourg)
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NOTES TO THE ANNUAL ACCOUNTS (continued)
June 30, 2006

NOTE 6 – MOVEMENTS IN FIXED ASSETS

Intangible assets consist of software licenses.

The following movements have occurred in the Bank's fixed assets in the course of the financial period:

FIXED ASSETS EUR (,000)	Gross value at the beginning of the financial period	Additions	Disposals	Gross value at the end of the financial period	Cumulative value adjustments	Net value at the end of the financial period
1. Intangible Assets	-	40	-	40	(8)	32
2. Tangible assets of which: Other fixtures and fittings, tools and equipment	-	81	-	81	(16)	65





MEDIOBANCA INTERNATIONAL (Luxembourg)
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NOTES TO THE ANNUAL ACCOUNTS (continued)
June 30, 2006

NOTE 7 – AMOUNTS OWED TO CREDIT INSTITUTIONS

Amounts owed to credit institutions are split in accordance with their remaining maturity as follows:

	June 30, 2006 EUR (,000)
Less than 3 months	735
From 3 months to 1 year	78,372
More than 5 years	353,314
	<u>432,421</u>

Amounts owed to credit institutions may be analyzed according to their geographic origin as follows:

	June 30, 2006 EUR (,000)
Other OECD countries	432,421
	<u>432,421</u>

NOTE 8 – DEBTS EVIDENCED BY SECURITIES

Debts evidenced by certificates are split in accordance with their remaining maturity as follows:

	June 30, 2006 EUR (,000)
Less than 3 months	512,995
From 3 months to 1 year	131,198
From 1 year to 5 years	181,045
More than 5 years	122,050
	<u>947,288</u>

NOTE 9 – OTHER LIABILITIES

Other liabilities are split as follows:

	June 30, 2006 EUR (,000)
Preferential creditors	3
Other creditors	166
	<u>169</u>

MEDIOBANCA INTERNATIONAL (Luxembourg)
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NOTES TO THE ANNUAL ACCOUNTS (continued)
June 30, 2006



NOTE 10 – TRANSITORY ACCOUNTS

“Prepayments and accrued income” in the assets and “Accruals and deferred income” in the liabilities mainly consist of accrued interest income and expense and premiums on debts.

NOTE 11 – OTHER PROVISIONS

The caption “Other provisions” represents the part of the lump-sum provision which is allocated to the off balance sheet items for amount of EUR 333,000.

NOTE 12 – SUBSCRIBED CAPITAL

On December 21, 2005, the shareholders of the Bank decided to transfer the registered office and the principal establishment of the Bank from the Cayman Islands to the Grand-Duchy of Luxembourg and declared that the Bank had accordingly adopted the Luxembourg nationality.

In addition, the shareholders of the Bank decided to adopt the form of “Société Anonyme” and to change the name of the Bank to Mediobanca International (Luxembourg) S.A and to restructure the capital of the Bank by replacing the 10 million shares with a par value of EUR 1 with 1 million shares with a par value of EUR 10, all of the shares being fully subscribed by Mediobanca SpA group. As of December 21, 2005, the share capital of the Bank amounts to EUR 10,000,000 and is divided into 1 million shares of a par value of EUR 10 each.

As of June 30, 2006, the share capital of the Bank amounts to EUR 10,000,000 and is divided into 1 million shares with a par value of EUR 10 each.

NOTE 13 – RESERVES AND PROFIT BROUGHT FORWARD

As the Bank’s registered seat was transferred from the Cayman Islands to the Grand-Duchy of Luxembourg on December 21, 2005, the Board of Directors of the Bank decided to prepare the annual accounts covering its activities in the Grand-Duchy of Luxembourg. Therefore, the figures in the profit and loss account for the period ended June 30, 2006 cover the period from December 21, 2005 (date of transfer from Cayman Islands to Luxembourg) to June 30, 2006. As a result, the profit of the Bank brought forward from the period from July 1st, 2005 to December 20, 2005, which amounts to EUR 1,896,463 is recorded under the caption “Profit brought forward”.

Under Luxembourg law an amount equal to at least 5% of the net profit must be allocated to a legal reserve until such reserve equals 10% of the issued share capital. This reserve is not available for dividend distribution.

MEDIOBANCA INTERNATIONAL (Luxembourg)
Société Anonyme

NOTES TO THE ANNUAL ACCOUNTS (continued)
June 30, 2006



NOTE 13 – RESERVES AND PROFIT BROUGHT FORWARD (continued)

Reserves are as follows:

	June 30, 2006 EUR (,000)
Free reserves	63,100
	<u>63,100</u>

NOTE 14 – RELATED PARTY BALANCES

Balance sheet and off balance sheet items included the following transactions with related parties (gross amounts before lump sum provision):

	June 30, 2006 EUR (,000)
<u>Balance sheet</u>	
Assets	
Loans and advances to credit institutions	970,697
Liabilities	
Amounts owed to credit institutions	432,421
<u>Off balance sheet</u>	
Confirmed credits, not used	2,760
Cross-currency interest rate swaps	72,710
Interest rate swaps	392,898
	<u>468,368</u>

NOTE 15 – ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCY

At June 30, 2006, the aggregate amount of the Bank's assets denominated in currencies other than EUR, translated into EUR amount to EUR 275,967,192.

At June 30, 2006, the aggregate amount of the Bank's liabilities denominated in currencies other than EUR, translated into EUR amount to EUR 240,419,357.



MEDIOBANCA INTERNATIONAL (Luxembourg)
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NOTES TO THE ANNUAL ACCOUNTS (continued)
June 30, 2006

NOTE 16 – COMMITMENTS

The Bank's commitments may be analyzed as follows:

	June 30, 2006 EUR (,000)
Confirmed credits, not used	2,011,433
	<u>2,011,433</u>

NOTE 17 – DERIVATIVE FINANCIAL INSTRUMENTS

As at June 30, 2006, the following derivative financial instruments are outstanding:

	June 30, 2006 EUR (,000)
Transactions linked to foreign exchange rates:	
Cross-currency interest rate swaps	72,710
Transactions linked to interest rates:	
Interest rate swaps	392,898
	<u>465,608</u>

The outstanding cross-currency interest rate swaps and interest rate swaps transactions (over the counter) are used for hedging purposes.

NOTE 18 – OTHER OPERATING INCOME

Other operating income is analyzed as follows:

	June 30, 2006 EUR (,000)
Other income	1
	<u>1</u>

NOTE 19 – TAXES

The Bank is liable for all taxes to which the credit institutions are subject to in Luxembourg.



MEDIOBANCA INTERNATIONAL (Luxembourg)
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NOTES TO THE ANNUAL ACCOUNTS (continued)
June 30, 2006

The Bank opts for the exoneration of the net wealth tax charge of EUR 379,950 provided the following conditions are fulfilled:

- a reserve equivalent to 5 times the net wealth tax liability is created. A new reserve has to be created each year. This requires a decision of the general shareholders' meeting and this reserve has to appear in the commercial balance sheet. If the profit of the year is not sufficient to create the reserve, it is possible to transfer the profit of the preceding years to create such reserve; and
- this reserve is maintained for a period of at least 5 years after the year of the credit.

The amount of net wealth tax that can be reduced is the lower of net wealth tax and corporate income tax before tax credits, and the reduction will be equalled to one fifth of the reserve booked.

NOTE 20 – STAFF NUMBERS

The average number of persons engaged during the financial period by the Bank is as follows:

	June 30, 2006
Management - Senior	2
Management - Middle	3
Employees	<u>1</u>
	<u><u>6</u></u>

As of June 30, 2006, the Bank's Senior Management is composed of two Managing Directors, who are not included on the Bank's payroll. In addition, 2 members of the Middle Management are not included on the Bank's payroll.

As of June 30, 2006, neither advances nor guarantees were granted to Directors or Senior Management. In addition, Directors and Senior Management do not benefit from any pension plan contributions.

NOTE 21 – ADDITIONAL INFORMATION ON THE FINANCIAL INSTRUMENTS

As of June 30, 2006 the Bank computes the simplified ratio for capital adequacy purpose.

As of June 30, 2006, except for one bond which has been detailed in Note 4 and the debts evidenced by certificates, all below primary financial instruments are unquoted.

MEDIOBANCA INTERNATIONAL (Luxembourg)
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NOTES TO THE ANNUAL ACCOUNTS (continued)
June 30, 2006



NOTE 21 – ADDITIONAL INFORMATION ON THE FINANCIAL INSTRUMENTS (continued)

Residual maturity structure of primary financial instruments

As of June 30, 2006, the primary financial instruments detail as follows, based on their booking value after deduction of specific adjustments but before allocation of lump sum provision:

June 30, 2006 EUR (,000)	Not more than 3 months	3-12 months	1-5 years	More than 5 years	Total
Financial assets					
Cash in hand, balances with central banks and post office banks	5,279	-	-	-	5,279
Loans and advances to credit institutions	528,549	134,971	203,362	104,000	970,882
Loans and advances to customers	735	78,372	-	353,314	432,421
Debt securities and other fixed-income securities	-	-	-	5,449	5,449
Total Primary Financial Instruments - Assets	534,563	213,343	203,362	462,763	1,414,031
Financial liabilities					
Amounts owed to credit institutions	735	78,372	-	353,314	432,421
Debts evidenced by certificates	512,995	131,198	181,045	122,050	947,288
Total Primary Financial Instruments – Liabilities	513,730	209,570	181,045	475,364	1,379,709

Zone A includes all member states of the European Union, together with all other full members of the OECD and those countries which have concluded special lending agreements with the International Monetary Fund ("IMF") or are party to the IMF General Lending Agreements.

MEDIOBANCA INTERNATIONAL (Luxembourg)
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NOTES TO THE ANNUAL ACCOUNTS (continued)
June 30, 2006



NOTE 21 – ADDITIONAL INFORMATION ON THE FINANCIAL INSTRUMENTS (continued)

Residual maturity structure of derivative financial instruments

The following types of forward transactions are outstanding as at June 30, 2006:

June 30, 2006 EUR (,000) Notional amount	Not more than 3 months	3-12 months	1-5 years	More than 5 years	Total
Financial derivative instruments					
Linked to interest rates:					
Interest rate swaps	25,000	50,000	182,798	135,100	392,898
Linked to exchange rates:					
Cross-currency interest rate swaps	-	24,237	48,473	-	72,710
Total Financial derivative instruments	25,000	74,237	231,271	135,100	465,608



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NOTE 21 – ADDITIONAL INFORMATION ON THE FINANCIAL INSTRUMENTS (continued)

As of June 30, 2006, the Bank's counterparty for all derivative financial instruments is Mediobanca S.p.A. Therefore, all above derivative instruments, are unquoted. There are no derivative financial instruments in the trading book of the Bank.

Transactions in high risk instruments or complex instruments such as leveraged derivative instruments have not been entered into by the Bank during the financial period.

Credit risk

All the loans to customers are guaranteed by Mediobanca S.p.A. In addition, all interbank term loans and all derivative financial instruments are contracted with Mediobanca S.p.A. Therefore the Bank bears only a credit risk on its Parent Bank, which is a bank zone A – weighted at 20%.

NOTE 22 – RISK MANAGEMENT

Credit and Market Risk

Management is involved at a close level in the monitoring of the Bank's fund raising and corporate lending activity. The Bank adopts a conservative approach to its lending activities, which are uniquely concerned with corporate lending activities whether by participation in syndicated lending or direct lending to.

A risk committee has been established which passes resolutions in respect of each lending and funding transactions and approves the terms and conditions thereof. Evaluations of credit risk, the process of granting loans and close monitoring in the case of any subsequent outstanding exposures are all carried out with extreme care. Positions are regularly monitored as regards financial and balance sheet data, earnings and relevant market information to continuously assess risk and evaluate the performance of lending activities.

All corporate lending activity is guaranteed 100% by the parent bank Mediobanca S.p.A. In addition, all interbank term loans and all derivative financial instruments are contracted with Mediobanca S.p.A.

Liquidity Risk

The Bank's principal activity is that of raising funds by way of the issuance and placement of bonds and other financial instruments the proceeds of which are usually lent to the parent Mediobanca S.p.A. The financing for the Corporate Lending activity is principally through matched funding transactions with the Parent Company. Given the nature of these transactions it is not expected that the Bank will encounter liquidity risk.

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Liquidity risk is monitored by the calculation of the Bank's liquidity ratio in the manner laid out by the CSSF reporting instructions.

NOTE 22 – RISK MANAGEMENT

Foreign Exchange Risk

Open currency positions are monitored on a regular basis. The bank does not undertake any speculative trading in Foreign Exchange.

Interest Rate Risk

Interest Rate Risk is low due to the following factors:

- The Corporate Lending activity is covered by matched financing on an arms length basis whereby the Bank is able to ensure that the spread is in its favour;
- Where timing or rates are not matched the Treasury function sets up Interest rate hedging transactions to ensure there is no risk to the Bank;
- Interest rate risk is closely monitored and controlled by the Treasury activity of the Bank.

Operational Risk

Segregation of duties, internal procedures, technological systems in force have reduced the risk of losses due to errors or inadequacies to an acceptable level.

Profitability Risk

Profitability Risk is low due to the following factors:

- The Bank's earnings consist exclusively of spreads on an 'arms length basis';
- Management maintains sufficient control over its margins and costs in order to ensure continued profitability.

NOTE 23 – GEOGRAPHICAL ANALYSIS OF INCOME

The Bank derives most of its income from transactions with customers and credit institutions established in European Union countries.