

C I R

FINANCIAL MANAGEMENT REPORT FOR THE FIRST HALF
OF THE YEAR 2006

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COMPAGNIE INDUSTRIALI RIUNITE

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R.E.A. n. 3933 – Turin Company Register / Fiscal Code / VAT no. 00519120018
Company subject to the management and coordination action of COFIDE S.p.A.

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BOARD OF DIRECTORS

Chairman	CARLO DE BENEDETTI (1) (5)
Chief Executive Officer and General Manager	RODOLFO DE BENEDETTI (2)
Directors	GIAMPIO BRACCHI FRANCO DEBENEDETTI PIERLUIGI FERRERO (3) GIOVANNI GERMANO (5) FRANCO GIRARD (3) PAOLO MANCINELLI (6) (7) LUCA PARAVICINI CRESPI (6) CLAUDIO RECCHI (6) (7) MASSIMO SEGRE (4) GUIDO TABELLINI UMBERTO ZANNI (5)
Secretary to the Board	FRANCA SEGRE

BOARD OF STATUTORY AUDITORS

Chairman	PIETRO MANZONETTO
Statutory Auditors	LUIGI NANI RICCARDO ZINGALES
Reserve Auditors	MARCO REBOA GIANLUCA PONZELLINI LUIGI MACCHIORLATTI VIGNAT

INDEPENDENT AUDITORS

PRICEWATERHOUSECOOPERS S.p.A.

Notice pursuant to the recommendation contained in Consob Circular no. DAC/RM/97001574 of February 20 1997:

- (1) Power to sign all documents relating to ordinary and extraordinary administration with single signature except for those reserved by law to the Board of Directors
- (2) Power to sign documents relating to ordinary administration with single signature
- (3) Power to sign documents specified in mandate with joint signature
- (4) Power to sign documents specified in mandate with single signature
- (5) Member of the Compensation Committee
- (6) Member of the Internal Control Committee
- (7) Member of the Supervisory Board

REPORT OF THE BOARD OF DIRECTORS ON OPERATIONS FOR THE FIRST HALF OF 2006

CIR has continued to pursue its objective of creating value for its Shareholders through the development of new business initiatives in sectors considered to be of potential interest and through the management of its investments in the businesses in which it has been present for some time, with a constant eye to developing the business and optimizing profitability.

In implementing its development strategy CIR maintains a prudent stance and examines investment opportunities very carefully, following a financial policy that can guarantee a balanced ratio between debt and equity, thus maintaining a solid balance sheet structure. The objectives followed by CIR can be summed up as the search for continuing growth in the value of its investments over the medium term.

The current configuration of the Group includes four business sectors: media (publishing, radio and television), utilities (electricity and gas), automotive components (filters and suspension components) and healthcare.

In the first half of the year 2006 the CIR Group reported consolidated net income of €62.6 million compared with €37.5 million in the same period of last year.

Consolidated revenues in the first six months of 2006 totalled € 2,021.4 million, up from €1,704.5 million in the first half of 2005, an increase of 18.6%.

In order to better assess the profitability of the Group, the performance of the first half of 2006 is presented by giving a breakdown of the contribution to earnings and the balance sheets of the operating groups and the holding company, which includes the figures of CIR and CIR International.

As stated earlier, consolidated net income for the first six months of 2006 was €62.6 million, up by €25.1 million from €37.5 million in the same period of 2005 (+66.9%).

The contribution of the operating groups rose by €9.5 million (+17.1%) from €55.5 million in first half 2005 to €65 million in the first six months of 2006. The contribution of the financial subsidiaries rose by approximately €15 million due to the realization of capital gains on the sale of shares in hedge funds by Medinvest.

The result of the holding in the first half of 2006, a loss of €17.5 million (€17.8 million in the corresponding period of 2005), was determined partly by its own facility costs but also by the following:

- net financial expense of €9.3 million due to the higher average cost of servicing the debt compared with the average yield on free cash-flow invested,

- the write-down of financial assets for approximately €13 million resulting mainly from the fair value measurement of bonds,
- gains from investments in private equity funds and other financial transactions for a total of €8 million.

The results of the operating groups for the first half of 2006 are given below for the four main business sectors.

In the media sector the Espresso group saw its consolidated revenues rise by 6% in the first half of 2006 to €601.5 million and reported consolidated net income of €54.8 million, in line with that of first half 2005. At June 30 2006 the net financial position of the group showed net debt of €257.7 million compared to €252.6 million at December 31 2005. Again in the first half of 2006 the daily newspaper *la Repubblica* confirmed its position as number one newspaper for number of readers and the Espresso group radio stations consolidated their top ranking in Italy in terms of audience.

In July 2006 the Energia group adopted the new name of Sorgenia with the aim of giving greater value to its positioning and the role it wishes to occupy in the Italian free market for electricity and gas, marking the company out as an operator sensitive to the environment. In the first half of this year the group was engaged in the rollout of its industrial plan: the Termoli power generating plant, where production tests are currently in progress, will be up and running in the next few weeks, construction work has begun on the Modugno plant and the repowering program of Tirreno Power has been continuing. In the first six months of 2006 the consolidated revenues of the group rose by 48.6% reaching €855.8 million thanks to the good performance of electricity sales, and consolidated net income came in at €37 million, up significantly from €19.9 million in the first half of 2005.

The Sogefi group, the important producer of automotive components, confirmed its leadership in Europe in the two sectors in which it operates (filters and suspension components). In the first half of 2006 with revenues substantially stable at €532.9 million the group managed to increase its profitability even further in a business environment that was not entirely favourable, recording consolidated net income of €27.5 million, up by 24.6% from €22 million in the same period of 2005.

The HSS – Holding Sanità e Servizi group continued to develop its operating business in order to consolidate its presence in the healthcare sector. In the first six months of 2006 the group reported consolidated revenues of €31 million (+33.6%) while the net result was a loss of €1.1 million, caused by acquisition costs, and compares with a net loss of €1 million in the same period of 2005, due to the fact that the business was in the start-up phase.

In June 2006 the company HSS acquired 100% of Anni Azzurri, the company specializing in the construction and management of residences for the elderly, which is present in five regions with eleven residences and 1,600 beds.

This transaction was an important step forward in the growth strategy of HSS in the Italian market for the management of residences for the elderly.

The charts on the following pages show the breakdown by business sector of the economic and equity results of the Group, the contribution of the main subsidiaries and the aggregate results of the holding (CIR e CIR International).

BREAKDOWN OF INCOME STATEMENT BY BUSINESS SECTOR AND CONTRIBUTIONS TO THE RESULTS OF THE GROUP

(in millions of euro)

CONSOLIDATED	1st half 2006										1st half 2005
	Revenues	Costs of production	Other operating income & costs	Adjustments to the value of investments valued at equity	Amortization, depreciation & write-downs	Net financial income & expenses	Dividends, gains and losses from trading & valuation of securities	Income taxes	Minority interests	Net income (loss) for the Group	Net income (loss) for the Group
AGGREGATE											
Espresso group	601.5	(474.9)	(1.5)	0.7	(20.1)	(9.7)	(0.5)	(40.5)	(26.6)	28.4	28.0
Sorgenia group	855.8	(852.9)	44.4	20.4	(1.8)	(3.5)	0.5	(17.3)	(23.7)	21.9	11.5
Sogefi group	532.9	(455.1)	(6.7)	(0.1)	(25.0)	(5.5)	1.9	(14.2)	(12.1)	16.1	13.1
HSS group	31.0	(29.5)	(1.4)	--	(0.6)	(0.4)	--	(0.2)	0.2	(0.9)	(0.8)
Other subsidiaries	0.2	(1.2)	0.5	--	--	0.1	--	--	(0.1)	(0.5)	3.7
Total operating subsidiaries	2,021.4	(1,813.6)	35.3	21.0	(47.5)	(19.0)	1.9	(72.2)	(62.3)	65.0	55.5
Financial subsidiaries	--	(1.0)	--	--	--	(0.3)	19.1	--	(2.7)	15.1	(0.2)
Total subsidiaries	2,021.4	(1,814.6)	35.3	21.0	(47.5)	(19.3)	21.0	(72.2)	(65.0)	80.1	55.3
Holding companies (CIR and CIR International)											
Revenues	--									--	--
Costs of production		(8.3)								(8.3)	(11.5)
Other operating income and costs			1.4							1.4	0.7
Adjustments to the value of investments valued at equity				--						--	--
Amortization, depreciation and write-downs					(0.3)					(0.3)	--
Net financial income and expenses						(9.3)				(9.3)	(8.7)
Dividends, gains and losses from trading and valuation of securities							(5.2)			(5.2)	(4.4)
Income taxes								4.2		4.2	6.1
Total holding companies (CIR and CIR International)	--	(8.3)	1.4	--	(0.3)	(9.3)	(5.2)	4.2		(17.5)	(17.8)
Consolidated total for the Group	2,021.4	(1,822.9)	36.7	21.0	(47.8)	(28.6)	15.8	(68.0)	(65.0)	62.6	37.5

CONSOLIDATED BALANCE SHEET FIGURES PER BUSINESS SECTOR

(in millions of euro)

	30.06.2006					31.12.2005	
CONSOLIDATED	Fixed assets	Other net non-current assets & liabilities	Net working capital	Net financial position	Minority shareholders' equity	Shareholders' equity - Group	Shareholders' equity - Group
AGGREGATE							
Espresso group	909.9	(175.3)	59.9	(258.9)	(243.1)	292.5	279.5
Sorgenia group	668.3	233.7	150.2	(525.1)	(287.2)	239.9	220.9
Sogefi group	366.9	(69.3)	129.4	(156.4)	(121.0)	149.6	145.6
HSS group	188.2	(4.6)	(2.6)	(121.7)	(9.6)	49.7	21.2
Other subsidiaries	0.2	9.8	12.3	3.8	(3.5)	22.6	27.6
Total subsidiaries	2,133.5	(5.7)	349.2	(1,058.3)	(664.4)	754.3	694.8
<u>Holding companies (CIR and CIR International)</u>							
Fixed assets	96.5					96.5	81.4
Other net non-current assets and liabilities		80.2				80.2	58.3
Net working capital			(15.3)			(15.3)	(9.3)
Net financial position				271.9		271.9	359.8
Consolidated total of the Group	2,230.0	74.5	333.9	(786.4)	(664.4)	1,187.6	1,185.0

1. PERFORMANCE OF THE GROUP

Consolidated revenues of the first half of 2006 came in at €2,021.4 million up from €1,704.5 million in the same period of 2005, with a rise of €316.9 million (+18.6%).

Consolidated revenues can be broken down by business sector as follows:

<i>(in millions of euro)</i>	<i>1st Half</i>		<i>1st Half</i>		<i>Change</i>	
	<i>2006</i>	<i>%</i>	<i>2005</i>	<i>%</i>	<i>absolute</i>	<i>%</i>
Media						
Espresso Group	601.5	29.8	567.6	33.3	33.9	6.0
Utilities						
Sorgenia Group	855.8	42.3	575.9	33.8	279.9	48.6
Automotive components						
Sogefi Group	532.9	26.4	535.4	31.4	(2.5)	(0.5)
Healthcare						
HSS Group	31.0	1.5	23.2	1.4	7.8	33.6
Other sectors	0.2	--	2.4	0.1	(2.2)	n.s.
Total consolidated revenues	2,021.4	100.0	1,704.5	100.0	316.9	18.6
of which: ITALY	1,542.8	76.3	1,227.2	72.0	315.6	25.7
OVERSEAS	478.6	23.7	477.3	28.0	1.3	0.3

The **key figures** of the **consolidated income statement** of the CIR Group are as follows:

<i>(in millions of euro)</i>	<i>1st Half</i>	<i>%</i>	<i>1st Half</i>	<i>%</i>
	<i>2006</i>		<i>2005</i>	
Revenues	2,021.4	100.0	1,704.5	100.0
Consolidated gross operating margin (EBITDA)	256.2	12.7	217.0	12.7
Consolidated operating income (EBIT)	208.4	10.3	169.3	9.9
Financial management result	(12.8)	(0.6)	(24.0)	(1.4)
Income taxes	(68.0)	(3.4)	(57.0)	(3.3)
Net income including minority interests	127.6	6.3	88.3	5.2
Minority interests	(65.0)	(3.2)	(50.8)	(3.0)
Net result of the Group	62.6	3.1	37.5	2.2

The **consolidated gross operating margin (EBITDA)** in first half 2006 was €256.2 million (12.7% of revenues) up from €217 million in first half 2005 (12.7% of revenues), a rise of €39.2 million (+18.1%). This result was due to the continuing profitability of the Sogefi and Espresso groups and to the improvement of approximately €39 million in the result of the Sorgenia group following the development of the power generating business, higher profits from trading and the receipt of penalties for the late delivery of the Termoli power plant in accordance with the terms of the contract.

The **consolidated operating margin (EBIT)** in the first half of 2006 was a positive €208.4 million (10.3% of revenues) compared with €169.3 million (9.9% of revenues) in the same period of 2005, showing a rise of 23.1%.

The financial management result was determined by net financial charges of € 28.6 million (€19.2 million in the same period of 2005) and dividends and net gains from trading and fair valuing securities for €15.8 million (net charges of €4.8 million in the same period of 2005).

The **key figures** of the **consolidated balance sheet** of the CIR Group at June 30 2006, with a comparison with the figures at December 31 2005, are as follows:

<i>(in millions of euro)</i>	<i>30.06.2006</i>	<i>31.12.2005</i>
Fixed assets	2,230.0	1,997.9
Other net non-current assets and liabilities	74.5	74.9
Net working capital	333.9	248.8
Net invested capital	2,638.4	2,321.6
Net financial position	(786.4)	(465.2)
Total shareholders' equity	1,852.0	1,856.4
Shareholders' equity of the Group	1,187.6	1,185.0
Minority interests	664.4	671.4

Net invested capital at June 30 2006 stood at €2,638.4 million, up from €2,321.6 million at December 31 2005, with a rise of €316.8 million mainly due to the significant investment made during the period by the Sorgenia and HSS groups in particular.

The **net financial position** at June 30 2006 showed debt of € 786.4 million (compared with €465.2 million at December 31 2005) resulting from:

- a financial surplus of €271.9 million for CIR and CIR International, down from €359.8 million at December 31 2005. The net change of €87.9 million that occurred in the first half of 2006 was due to disbursements of approximately €71 million for investments in own shares, private equity funds and shareholdings, to operating costs and the write-down of securities for €20 million and to other transactions for €10 million, which were only partially offset by the positive balance of €13 million from dividends received and those paid out;
- total debt of €1,058.3 million for the operating groups, up from €825 million at December 31 2005. The rise of €233.3 million was mainly due to investments made by the Sorgenia group in its new power stations and to the acquisition of Anni Azzurri by the HSS group.

Total shareholders' equity stood at €1,852 million at June 30 2006 compared with €1,856.4 million at December 31 2005, with a reduction of €4.4 million after the distribution of €37.5 million in dividends by CIR and of a total of €43.7 million by the subsidiaries to their minority shareholders.

The **shareholders' equity of the Group** edged up from €1,185 million at December 31 2005 to €1,187.6 million at June 30 2006, with a net increase of €2.6 million.

Minority equity declined from €671.4 million at December 31 2005 to €664.4 million at June 30 2006, with a net decrease of €7 million.

The net financial position and shareholders' equity at June 30 2006 include €109.3 million resulting from the measurement at fair value of available-for-sale securities held mainly by the company Medinvest. In fact the accounting treatment of Medinvest involves recognizing any fair va-

lue changes in the funds directly to shareholders' equity, and the net overall increase in fair value in the first half of 2006 was €2.5 million compared to €4.3 million in the first half of 2005.

The performance of Medinvest since it started in April 1994 up to the end of 2005 was particularly satisfactory, recording a weighted average annual return on the portfolio in dollar terms of 9.6%. In the first half of 2006 too performance was positive with a return net of commissions of 4.3%.

The evolution of consolidated shareholders' equity is shown in the explanatory notes to the financial statements.

The **consolidated cash flow statement** for the first half of 2006, prepared according to a “managerial” format which, unlike the format used for the attachments to the accounts, shows the changes in net financial position instead of the changes in cash and cash equivalents and can be broken down as follows:

<i>(in millions of euro)</i>	<i>1st half 2006</i>	<i>1st half 2005</i>
SOURCES OF FUNDS		
Net income for the period including minority interests	127.6	88.3
Amortization, depreciation, write-downs and other non-monetary changes	51.0	60.3
Self-financing	178.6	148.6
Change in net working capital	(97.3)	(78.6)
CASH FLOW GENERATED BY OPERATIONS	81.3	70.0
Capital increases	0.4	15.6
TOTAL SOURCES OF FUNDS	81.7	85.6
APPLICATIONS OF FUNDS		
Net investment in fixed assets	(254.0)	(317.1)
Investment in securities	(37.6)	(6.1)
Buy-back of own shares	(15.0)	(22.3)
Payment of dividends	(81.2)	(73.9)
Other changes	(15.1)	17.7
TOTAL APPLICATIONS OF FUNDS	(402.9)	(401.7)
FINANCIAL SURPLUS (DEFICIT)	(321.2)	(316.1)
NET FINANCIAL POSITION AT BEGINNING OF PERIOD	(465.2)	(75.5)
NET FINANCIAL POSITION AT END OF PERIOD	(786.4)	(391.6)

The net financial position is given in the Explanatory Notes to the financial statements.

The sources of funding for the period consisted almost entirely of funds generated by operations. The investments made refer mainly to the acquisition of the Anni Azzurri group and to the completion of the Termoli power generating plant.

At June 30 2006 the Group had 11,201 employees on its payrolls.

2. PERFORMANCE OF THE PARENT COMPANY

The parent company CIR S.p.A. closed the first half of 2006 with **net income** of €49.6 million with a rise of €15 million from the €34.6 million recorded in the first half of 2005. Shareholders' equity at June 30 2006 stood at €952.2 million compared to €953.2 million at December 31 2005.

The **key-figure income statement** of CIR for the first half of 2006, compared with that of the first six months of 2005, is as follows:

<i>(in millions of euro)</i>	<i>1st half 2006</i>	<i>1st half 2005</i>
Net operating costs	(4.9)	(8.4)
Other operating costs, amortization and depreciation	(0.9)	(0.7)
Financial management result	51.3	37.7
Income before taxes	45.5	28.6
Income taxes	4.1	6.0
Net income	49.6	34.6

Net operating costs in first half 2006, amounting to €4.9 million (compared to €8.4 million in the first six months of 2005), include charges resulting from the IAS/IFRS treatment of stock option plans of €1 million which compares with €4.6 million in the first half of 2005 (of which €3.8 million refer to extraordinary stock option plans).

The financial management result includes the dividends of the subsidiaries, which amounted to €61.1 million in the first half of 2006 up from €42.8 million in the same period of 2005, and also includes negative adjustments to the value of financial assets of €5.9 million (€1.8 million in first half 2005) which were mainly the result of recognizing bonds at fair value.

Lastly, the first half of 2006 benefited from a positive net tax balance of €4.1 million, compared with €6 million in the same period of 2005, due to tax losses realized during the period.

The **key-figure balance sheet** of CIR at June 30 2006, compared with the situation at December 31 2005, is as follows:

<i>(in millions of euro)</i>	<i>30.06.2006</i>	<i>31.12.2005</i>
Fixed assets	959.5	917.6
Other net non-current assets and liabilities	(0.5)	0.0
Net working capital	23.2	15.6
Net invested capital	982.2	933.2
Net financial position	(30.0)	20.0
Shareholders' equity	952.2	953.2

The net financial position at June 30 2006 shows debt of €30 million which compares with a surplus of €20 million at December 31 2005. The reduction of €50 million was due to the buy-back of own-shares for €15 million, equity investments made to the tune of €40 million, to net dividends received for €13 million and to operating costs of €8 million.

The decrease in shareholders' equity, which edged down from €953.2 million at December 31 2005 to €952.2 million at June 30 2006, was caused mainly by the distribution of dividends for €37.5 million and by the effects of the IAS/IFRS accounting treatment of own shares, offset however by the earnings for the period.

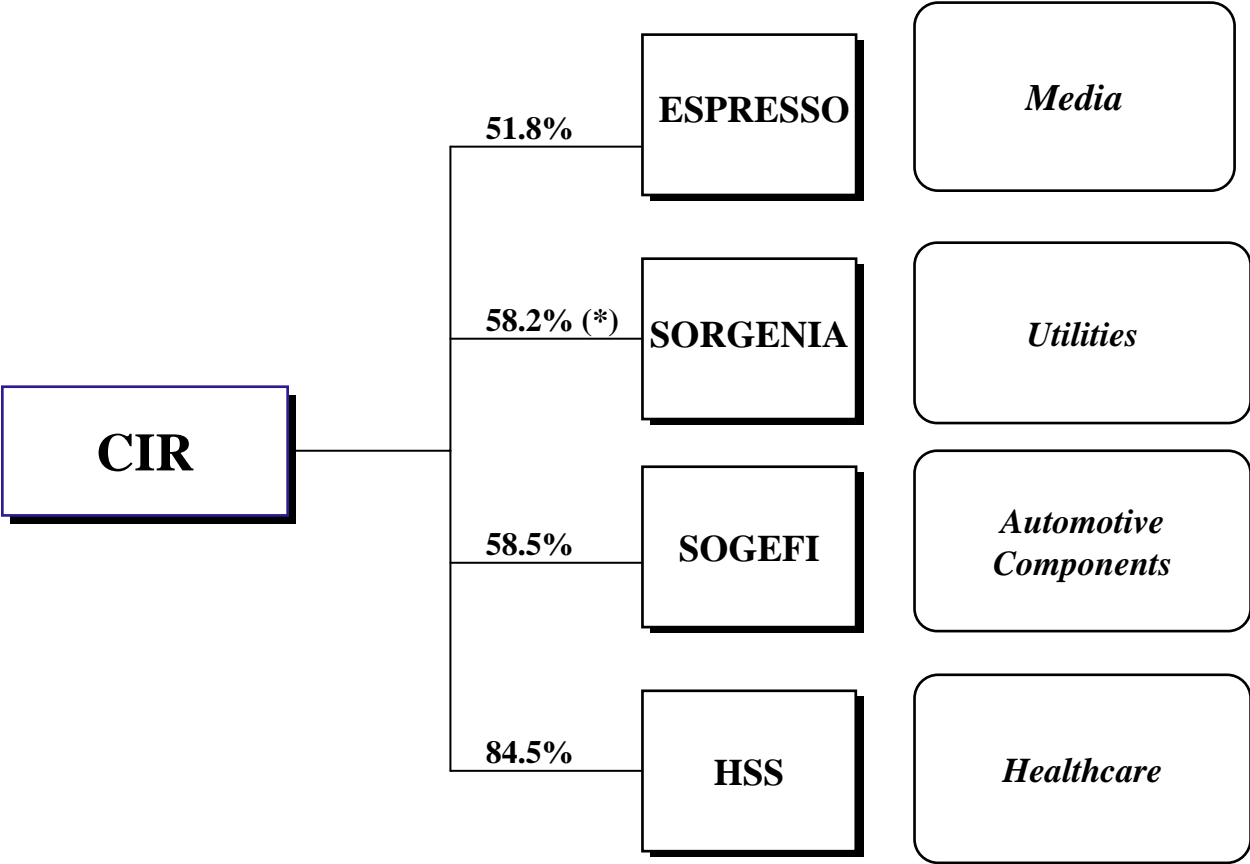
At June 30 2006 33,844,000 own shares were being held as treasury stock, equal to 4.34% of share capital for a total value of €76.4 million, compared with 27,216,642 shares at December 31 2005.

3. CHART RECONCILING THE FIGURES OF THE PARENT COMPANY WITH THOSE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The following chart shows the reconciliation of net income for the period and the equity of the Group with the same figures of the Parent Company.

<i>(in thousands of euro)</i>	<i>30.06.2006</i>	
	<i>Shareholders' equity</i>	<i>Net income 1st half 2006</i>
Financial statements of the Parent Company CIR S.p.A.	952,186	49,646
- Dividends from companies included in the consolidation	(61,046)	(61,046)
- Reversal of valuation and hedges of losses on equity investments in companies included in the consolidation	296	296
- Net contribution of consolidated companies	274,804	75,605
- Difference between carrying value of subsidiaries and the respective portions of consolidated shareholders' equity	23,238	--
- Other consolidation entries	(1,843)	(1,843)
Consolidated financial statements, portion attributable to the Group	1,187,635	62,658

MAIN EQUITY INVESTMENTS OF THE GROUP
AS OF JUNE 30 2006



(*) percentage of indirect control through Energia Holding

4. PERFORMANCE OF THE BUSINESS SECTORS

MEDIA SECTOR

The Espresso group closed the first half of 2006 with consolidated sales revenues of €601.5 million, up by 6% from €567.6 million in the first half of 2005.

Consolidated net income was €54.8 million, in line with that of first half 2005.

The revenues of the group can be broken down as follows:

(in millions of euro)	1st half 2006		1st half 2005		Change
	Values	%	Values	%	
Circulation	273.9	45.5	258.6	45.6	5.9
Advertising	313.6	52.1	294.7	51.9	6.4
Other revenues	14.0	2.4	14.3	2.5	(1.0)
TOTAL	601.5	100.0	567.6	100.0	6.0

Consolidated advertising revenues grew by 6.4% (+5% in the same terms including the revenues of *All Music* which was not present in the first quarter of 2005) due to the good performance of all the various media and to the fact that clients can now be offered a multimedia portfolio (including press, radio, television and internet). This rise would have been greater in the first half had it not been for the combination of two phenomena that tend either to slow advertising growth (the general election) or to concentrate it (the football world cup) only on the channels directly involved.

La Repubblica exploited to the full the opportunities offered by full colour, acquiring many new clients in sectors such as general consumer products, which in the past advertised only on TV and are now looking for other less crowded alternatives to television audiences. Internet advertising rose by over 60%; radio continued its positive trend; and overall the local newspapers posted an improvement of almost four percentage points in their advertising revenues compared with the same period of last year.

The growth of revenues during the first half was also helped by the good performance of the circulation of *la Repubblica* which confirmed its number one ranking as the most widely read newspaper in Italy with 3 million readers and reached a daily average of 634 thousand copies sold. *L'espresso* reached 432 thousand copies per week, while the circulation of the local newspapers, with 470 thousand copies per issue, was down slightly in some areas due to special offers of two papers for the price of one practised by some national publishers as well.

According to Audiradio figures for the first half of 2006, *Radio DeeJay* is still the favourite radio channel with 13.7 million listeners over the week and 5.8 million on an average day, while *Radio Capital*, with over 2 million listeners on an average day and 6.5 million over the week, and *m2o* with a daily audience of 1 million people and 2.8 million over seven days, have consolidated their respective rankings. Loyalty to the three radio stations is particularly high, calculating the ratio of the daily average figure to the weekly one: *Radio DeeJay* came out with 42%, *Radio Capital* with 31% and *m2o* with 36%.

Listening figures also show that *All Music* has performed well, reaching 2.7 million viewers in the 15-34 age range, according to a survey carried out by the IPSOS Institute. These figures show that a third of these viewers are new to the channel and were acquired less than one year ago and that *DeeJay Tv* (only received by satellite) has managed to clock up 739 thousand viewers. Since the

second half of June *All Music* has been broadcasting on the SKY satellite package as well as with analogue and digital terrestrial signals.

The main directions followed by the internet websites of the group have been a high level of graphic and content innovation, the development of podcasting and the search for greater interaction with the public. The websites also have a new graphic layout and a section entirely devoted to users has been opened.

In May the network of websites of the Espresso group had over 10 million unique users per month partly due to election specials and this figure was then consolidated in June.

The programs of *RepubblicaTV* can now be viewed on the internet (and also on digital terrestrial) although these transmissions are still at the experimental stage: three hours of news, comment and interviews which being online means that there is a high degree of potential interaction with viewers and that podcasts of interest can be downloaded and listened to whenever convenient.

The consolidated operating income of the group in the first half of 2006 was €105.7 million compared to €108.6 million in the first six months of 2005.

Even net of the effect of state subsidies for the purchase of paper, which are not expected to be renewed in 2006 (€4.8 million), however, operating income was higher than that recorded in 2005: the rise in the price of the raw materials and the cost of labour was more than compensated by the growth in advertising revenues, higher circulation figures for *la Repubblica* and *L'espresso*, higher growth of the internet sector both in terms of traffic and of revenues, and the fact that add-on margins have substantially held up. The sale of almost 10 million of these products in conjunction with the publications of the group boosted sales to over €140 million (+10.4% from the first six months of 2005).

Consolidated income before taxes and before minority interests totalled €95.5 million compared to €96.9 million in the first half of 2005.

The consolidated net financial position at June 30 2006 showed net debt of €258.9 million compared to €252.6 million at December 31 2005. In the first half of 2006 the cash flow from operations, amounting to €101.7 million, almost entirely offset the disbursement of €62.5 million for the payment of dividends, €18.8 million for investments and €19.3 million for the buy-back of own shares.

Consolidated shareholders' equity declined from €550 million at December 31 2005 to €525.1 million at June 30 2006.

At June 30 2006 the group had a total of 3,403 employees including temporary contracts on its payroll, up from 3,397 at December 31 2005.

National daily newspapers

The revenues of the daily newspaper segment were €304.4 million, with a rise of 8.3% from €280.9 million in the first half of 2005, thanks to higher sales of *la Repubblica* on the news stands, the positive contribution of add-ons and higher advertising revenues due to the further rise in colour advertising space.

The operating income of this area of the business declined from €55.9 million (19.9% of revenues) for the first six months of 2005 to €50 million (16.4% of revenues) in the first half of 2006, due to the absence of €3.5 million of subsidies for the purchase of paper, the rise in the price of paper and to the costs of developing new publishing initiatives.

Local daily newspapers

Consolidated revenues of this business area totalled €131.1 million and operating income was €22.7 million, both in line with the same period of 2005, confirming operating profitability of 17%.

The newspapers of the group managed to offset the decline in circulation and the higher cost of paper (due to the absence of public subsidies and the rise in price) with higher advertising revenues (+2.5%) and growth in add-on initiatives.

Periodicals

The periodicals area reported revenues of €72.3 million (+3.3%) up from €70 million in the first half of 2005 and operating income of €10.5 million compared with €7.5 million in the first half of 2005.

A comparison of margin between the two periods shows the presence in 2005 of the costs of launching the fortnightly magazine *TvMagazine*, which ceased publication in December of last year. Excluding this factor revenues rose by 7.7%, thanks to a rise in sales of *L'espresso* both on the news stands and through subscriptions (+3%), and to the performance of the various series of add-ons which sold more than 30 thousand average copies, bringing in higher revenues than those recorded in the first half of 2005. Advertising revenues fared less well, showing growth of just 0.5% net of the revenues reported by *TvMagazine* in first half 2005.

Radio

In the first half of 2006 the radio sector increased its revenues by 5.9% from €38.2 million in the first half of 2005 to €40.4 million.

Operating income rose by 3.6% from €17.7 million in first half 2005 to €18.4 million (45.5% of sales).

In the early months of the year *Radio DeeJay* collaborated with the new television broadcaster of the group, *All Music*, to launch the program *DeeJay Chiama Italia* on TV, filming behind-the-scenes takes of the live show. The fact that it is possible to download and listen to or watch the program later has also been extremely successful, in fact the program was the most frequently downloaded podcast over a long period.

Radio Capital has renewed its website allowing its live radio programs to be accessed directly over the internet. Archives of songs and interviews can also be accessed and there are forums and chatrooms. Programs can now be downloaded.

m2o has further consolidated its image as a dynamic multimedia radio station and has published new music compilations that are distributed through the news stands and in record shops.

Circulation of *la Repubblica* has been continuing to rise compared with last year while as far as the sale of optional products is concerned new autumn initiatives are now starting up (e.g. *La storia dell'arte* and *Poeti del mondo*).

Advertising investment should continue to grow at a similar rate in the second half of the year too.

Based on these considerations, in the absence of any particular events that could change the competitive environment of the sector, the current year should close with higher revenues than the previous year and operating income substantially unchanged on last year.

UTILITIES SECTOR

On July 18th 2006 the extraordinary meeting of the Shareholders of the company Energia approved the motion to change the name of the company to Sorgenia. The choice of this new brand represents an important step forward in the evolution of the business established seven years ago and has the aim of giving optimum value to the positioning and the role that the company wishes to take in the Italian free market for electricity and gas. Sorgenia presents itself to the market as an operator sensitive to the environment, capable of operating in a clean, careful and responsible way, establishing an open and transparent dialogue with the client who is offered solutions for eliminating waste and using electricity in a more efficient way.

In the first half of 2006 the Sorgenia group reported consolidated revenues of €855.8 million, up by 48.6% from the first half of 2005 in which revenues were €575.9 million, thanks to the combined effect of the rise in selling prices and higher volumes sold (over 12% for electricity and 3.7% for gas).

The fact that the self-employed with a VAT number can now be supplied in the free market has meant that Sorgenia can use new sales channels and can offer different conditions to the various sectors of the market, with special new solutions devoted to energy efficiency. Sorgenia's sales network, which covers the whole of Italy, was thus able to increase the number of clients of the Group from 15,000 at the end of 2005 to the current 80,000.

In the first six months of 2006 Sorgenia recorded consolidated net income of €37 million with a significant rise from €19.9 million in the same period of last year.

Consolidated revenues can be broken down as follows:

<i>(in millions of euro)</i>	<i>1st half 2006</i>		<i>1st half 2006</i>		<i>Change</i>
	<i>Values</i>	<i>%</i>	<i>Values</i>	<i>%</i>	
Electricity	525.3	61.4	347.7	60.5	51.1
Natural gas	328.7	38.4	227.3	39.5	44.6
Other revenues	1.8	0.2	0.9	n.s.	n.s.
TOTAL	855.8	100.0	575.9	100.0	48.6

In the first half of 2006 the group sold 4,102 GWh of electricity and 1,133 million cubic metres of natural gas.

The consolidated gross operating margin (EBITDA) was €67.7 million (7.9% of revenues), up by 99.1% from €34 million (5.9% of revenues) in the first six months of 2005. This strong growth was due partly to the development of the generation business, in particular that of Tirreno Power (thanks to the contribution of the new combined cycle turbines of Torrevaldaliga, which started operating during 2005), but also to the rise in the profitability of the trading business compared with the first quarter of this year, and to the receipt of the contractual penalties for the late delivery of the Termoli power plant.

Consolidated operating income (EBIT) for the first half of 2006 was €66 million compared with €32.8 million in the corresponding period of last year.

The consolidated net financial position of the Sorgenia group showed net debt of €529 million at June 30 2006 compared to €429.9 million at December 31 2005. This increase was due to the

progress of the industrial plan (which involved investments of approximately 80 million euro to complete the Termoli power plant), to the start of work on the Modugno plant and to the start of investment in solar energy. Resources of approximately 66 million euro were absorbed by working capital.

At June 30 2006 the group had 172 employees compared to 148 at December 31 2005.

The Sorgenia Group is engaged in the roll-out of its industrial plan, which involves a construction program of 770 MW greenfield combined cycle plants fired by natural gas. Specifically, the Termoli plant (Molise), where production tests are currently being conducted, will be up and running in the next few weeks. Construction work has also begun on the Modugno plant (Bari), while a third plant is planned for Bertinico-Turano Lodigiano (Lodi).

Regarding the roll-out of the industrial plan of Tirreno Power, the repowering of the Napoli Levante plant has begun and this involves the construction of a new 380 MW combined cycle module which is scheduled to start commercial operation in 2008. The conversion of a section of the Vado Ligure power station to a 760 MW combined cycle plant is proceeding according to schedule and should be up and running in 2007.

Lastly, Sorgenia is developing generating projects from renewable sources, with particular attention being dedicated to wind farms and solar or photovoltaic plants. Soluxia, the company set up to design and build photovoltaic plants, has already obtained from the GRTN (which manages the national electricity grid), admission to subsidized charges for 15 new 1 MW photovoltaic plants located in various regions of the South of Italy, with a total installed capacity of approximately 15 MW.

In the first half of 2006 Tirreno Power reported revenues of €498.4 million (+ 171.2% compared with the corresponding period of 2005) with a net production volume of approximately 6.1 TWh, which was 1.3 TWh higher than in the first half of last year. Its gross operating margin in the first six months of 2006 was €132.5 million, up by 56.6% from €75.8 million in the same period of 2005.

On July 5 2006 Tirreno Power received €79.9 million as a further repayment of stranded costs. In total Tirreno Power has now received €146.5 million out of a total receivable of €167.5 million.

AUTOMOTIVE COMPONENTS SECTOR

The consolidated revenues of the Sogefi group in the first half of 2006 were €532.9 million, virtually unchanged from €535.4 million in the same period of the previous year (-0.5%).

Consolidated net income was €27.5 million compared with €22 million in the first half of 2005 (+24.6%).

In the period under examination business with the clients Toyota, Volkswagen and Ford in the European original market rose and this compensated for the continuing decline in demand by French manufacturers. Sales volumes in South America improved further as did the industrial vehicles sector, while the after market slowed both in Europe and Brazil.

The consolidated revenues of the Sogefi group can be broken down by business sector as follows:

<i>(in millions of euro)</i>	<i>1st half 2006</i>		<i>1st half 2005</i>		<i>Change</i>
	<i>Values</i>	<i>%</i>	<i>Values</i>	<i>%</i>	
Filters	268.5	50.4	269.9	50.4	(0.5)
Suspension components and precision springs	264.4	49.6	265.5	49.6	(0.4)
TOTAL	532.9	100.0	535.4	100.0	(05)

In the first six months of 2006 the Sogefi group managed to increase its profitability even further in spite of the fact that revenues remained substantially unchanged.

Consolidated EBITDA for first half 2006 was €70.3 million (13.2% of sales revenues), up by 9.5% from €64.2 million (12% of sales) in the same period of the previous year. This improvement, which took place despite significant rises in the cost of electricity and certain raw materials, was the result of a management policy constantly focused on achieving greater efficiency.

Consolidated EBIT was €45.8 million (8.6% of sales) with a rise of 15.8% from €39.5 million in the first six months of 2005 (7.4% of sales).

These results were impacted both by a capital gain of €3.6 million from the sale for €4.5 million of a production site in Spain that was no longer being used and also by provisions of €3.1 million made for restructuring and non-recurring expense of €1.3 million (in the first half of 2005 €5.1 million were set aside for industrial reorganization costs).

In the first half of 2006 earnings before taxes and before minority interests came in at €42.4 million, with a rise of 25.3% due to the reduction of financial expense and to a capital gain of €0.7 million from the sale for €3.7 million of the 50% holding in KS Automotive Suspensions Asia Private Ltd in Singapore to ThyssenKrupp Federn.

At June 30 2006 the consolidated net financial position showed net debt of €156.4 million, which had narrowed significantly from €214.4 million at June 30 2005 and €167.3 million at December 31 2005.

The group had 6,321 employees at June 30 2006 in comparison with 6,171 at December 31 2005.

The revenues of the *filter division* for the first half of 2006 totalled €268.5 million which was in line with the €269.9 million reported in the first six months of 2005 (-0.5%). Business in this sector was substantially unchanged on account of weak demand in the after market.

EBITDA came in at €36.3 million (13.5% of sales) compared to €33.5 million (12.4% of sales) in the first half of 2005 thanks to the capital gain posted in Spain as mentioned above, while EBIT rose to €26.9 million (10% of sales) from €24 million (8.9% of sales) in the same period of 2005. Sogefi has been present in China in the suspension sector for ten years now and in 2007 will also start operating in the filter business following an agreement signed in May with a Chinese partner for the creation of a joint venture in Shanghai, 70% of which will be controlled by Sogefi.

In first half 2006 the *suspension components division* reported sales revenues of €264.4 million compared with €265.5 million in first half 2005 (-0.4%). This business too recorded revenues that were substantially unchanged, affected by lower volumes of sales to French car manufacturers.

EBITDA reached €35.8 million (13.5% of sales), up from €32.5 million (12.3% of sales) in first half 2005, a rise of 10% thanks to the continuing positive trend in Mercosur and in the industrial vehicles sector as well as to the constant rise in production efficiency.

EBIT also rose from €17.7 million in the first half of 2005 to €21 million in the first six months of 2006 with the ratio to sales rising from 6.7% to 8%.

No significant changes are expected to affect the trend of the markets, the competitive environment or the main cost factors and so it can be assumed that 2006 should close with better economic results than those recorded in 2005.

HEALTHCARE SECTOR

In the first half of 2006 the HSS group continued its action of developing and managing the new initiatives undertaken in the sector. In particular in June a 100% stake was acquired in Anni Azzurri, the company specializing in the construction and management of residences for the elderly. In 2005 Anni Azzurri reported consolidated revenues of approximately €50 million and is present in five regions with 11 residential homes and a total of 1,600 beds.

The total value of the deal amounted to approximately €155 million, of which €60 million relating to the management business and around €95 million to the value of the real estate (approximately €50 million of this amount is owned properties, approximately €25 million is properties for which there is a commitment to buy and approximately €20 million is leased properties). The disbursement for the purchase of the shares amounted to approximately €60 million, 40% of which was self-financed. In line with the strategy followed by HSS to date, the real estate component should be sold off at a later date.

In the first six months of 2006 the HSS group reported revenues of €31 million, up from €23.2 million in the same period of last year (+33.6%). Confirming the trend already evident in the last few months of 2005, in first half 2006 the group achieved an EBIT which, without taking into account the charge of approximately €1 million resulting from costs incurred for the acquisition of Anni Azzurri, amounted to €0.5 million and a net loss of €1.1 million compared with a net loss of €1 million in the same period of last year.

At June 30 2006 the HSS group had net debt of €121.7 million compared with a net financial surplus of €4.2 million at December 31 2005. This change was mainly due to the acquisition of Anni Azzurri.

At June 30 2006 consolidated shareholders' equity stood at €58.8 million, up from €27.2 million at December 31 2005. This increase was due to the recapitalization of HSS for the purpose of acquiring Anni Azzurri.

In July 2006 the HSS group acquired the company Meia, which manages four residences for the elderly in Piedmont, and 80% of the capital of Medipass, a company that acquires and manages advanced technologies within public service hospitals.

The activity of the HSS group is currently focused on the management of four different kinds of services:

- 1) *Residential nursing homes (RSAs)*, through the companies Villa Margherita, which manages three residences, Casaverde (eight residences), Meia (four residences) and Anni Azzurri (eleven residences);
- 2) *Psychiatric services*, through the companies Redancia and Cima which manage seven psychiatric care communities;
- 3) *Rehabilitation* through the company Rehab for functional recovery and rehabilitation and Physioclinic that deals with the development of professional and amateur sport rehabilitation services;
- 4) *Hospitals*, where HSS controls the company Ospedale di Suzzara, set up to manage the Presidio Ospedaliero F.lli Montecchi di Suzzara (Mantua), having taken over management of the hospital in November 2004.

Currently the HSS group manages a total of around 3,400 beds.

5. OTHER ACTIVITIES

JUPITER FINANCE – This company was set up on September 2 2005 with the aim of acquiring portfolios of non-performing loans from financial institutions and managing them.

The current phase of regulatory discontinuity, following the Basel2 agreements and the introduction of the new international accounting standards, offers an interesting opportunity to enter a business sector with the potential for high growth, as examples of the development of this business in advanced markets demonstrate (US, Japan, UK and Germany).

In line with the scheduled growth plan, in the first half of 2006 seven portfolios of non-performing loans were acquired from banks and consumer credit companies for a total of approximately €10 million and a GBV (gross book value) of approximately €190 million.

CIR VENTURES – At June 30 2006 the portfolio of CIR Ventures, the venture capital fund of the Group, contained investments in six companies of which four in the United States, one in Italy and one in Israel. These companies all operate in the sector of information and communications technology. In the first half of 2006 no significant transactions took place.

The management activity of the fund is still mainly directed towards supporting the companies in the portfolio and identifying opportunities for taking profit. The prospects for the evolution of the business of these companies remain cautiously optimistic within a scenario of an general improvement in the technology sector.

DRY PRODUCTS - The first half of 2006 saw the completion of the sale of the investment in Ricciarelli, the only company of the Dry Products group still operating in the sector of machinery for the food industry at a price of €3.6 million, which was in line with its carrying value. With this transaction the CIR group has now finished its program of gradual disinvestment from this sector.

INVESTMENTS IN PRIVATE EQUITY FUNDS – Through its subsidiary CIR International the CIR group holds a diversified portfolio of private equity funds.

Investors in this kind of fund undertake to provide asset managers with a predetermined amount. The fund managers have a limited time (approximately 5 years) to identify and make the investments following their strategy, requiring from investors the amounts they had paid

in. The duration of these investment vehicles is generally limited to about 10 years and proceeds from the sale of investments are immediately distributed to the investors.

The investment strategies of these funds follow various procedures, the main one being the acquisition of controlling shareholdings often using significant leverage.

At June 30 2006 CIR had investments in funds and minority private equity holdings of €62.2 million, of which the fair value determined on the basis of the NAV provided by the various funds was €72.5 million, and also had remaining commitments for a total of €41.7 million.

Risk on private equity investments is reduced by a process of diversification based on criteria that include, among other things, establishing a maximum amount for each individual commitment, which cannot be more than €10 million for each fund.

At June 30 2006 CIR had investments in approximately 25 funds, mainly in euro and in dollars. The exchange rate risk on investments in dollars has been hedged.

6. SIGNIFICANT EVENTS WHICH OCCURRED AFTER JUNE 30 2006 AND OUTLOOK FOR THE REST OF THE YEAR

With regard to the principal events which have taken place since June 30 2006 and the outlook for business in this current year, detailed information has already been given in the section of the report on the performance of the business sectors.

It should be pointed out however that between January 1 2006 and today (September 7 2006) 6,877,358 own shares were bought back for a total of €15.6 million. As of today, therefore, treasury stock held amounts to 34,094,000 equal to 4.37% of share capital.

It should also be stated that between January 1 2006 and today 838,600 new shares were issued following the exercise of options by the beneficiaries of existing stock option plans. After this operation share capital consisted of 780,080,267 shares each with a nominal value of €0.50, for a total value of €390,040,133.50.

Regarding the outlook for the whole of the year, taking into account the good performance of the operating businesses, operations for the year 2006 are expected to close with better results than those of 2005.

7. OTHER INFORMATION

Transactions with companies of the Group and related parties

During the period CIR S.p.A. provided management and strategic support services to its subsidiaries and affiliates which involved, among other things, supplying administrative and financial services, making loans, and issuing guarantees.

Transactions with the controlling parent company consisted of providing services of an administrative and financial nature and being supplied with management support and communication services. The main concern of CIR and its counterparties in relation to these services is to ensure quality and a high level of efficiency of the services rendered, which derive from CIR's specific knowledge of the businesses of the Group.

The most significant financial transactions between CIR and its subsidiaries are analysed in detail in the Explanatory Notes particularly under the item *Miscellaneous receivables, Other payables*

and Financial receivables with subsidiaries in the Balance Sheet and under the items *Miscellaneous revenues and income, Financial expenses and Dividends* in the Income Statement.

Regarding the main equity transactions reference is made to the appropriate sections of the explanatory notes.

It should be pointed out that the CIR Group did not enter into any transactions with related parties, according to Consob's definition, of a non-typical or unusual nature beyond normal business administration or such as to have any significant impact on the economic, financial or equity situation of the Group.

The code of conduct governing transactions with related parties was defined by the Board of Directors of the Company in September 2002.

Other

The company CIR S.p.A. – Compagnie Industriali Riunite has its registered office at Strada Volpiano 53, Leinì (To), Italy and its operating headquarters at Via Ciovassino 1, Milan, Italy.

CIR shares, which have been quoted on the Milan Stock Exchange since 1973, since 2004 have been traded on the Blue-chip segment (Reuter code: CIRX.MI, Bloomberg code CIR IM).

This Management Report for the period January 1 – June 30 2006 was approved by the Board of Directors on September 7 2006.

CIR S.p.A. is subject to the management and coordination of Cofide S.p.A..

CIR Group
Consolidated Interim Financial Statements

BALANCE SHEET

INCOME STATEMENT

CASH FLOW STATEMENT

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

1. CONSOLIDATED BALANCE SHEET

(in thousands of euro)

ASSETS	Notes	30.06.2006	31.12.2005
NON-CURRENT ASSETS		2,648,329	2,401,558
INTANGIBLE ASSETS	(9.a)	932,197	864,436
TANGIBLE ASSETS	(9.b)	1,032,333	897,972
REAL-ESTATE INVESTMENTS	(9.c)	17,361	6,944
INVESTMENTS IN COMPANIES VALUED AT EQUITY	(9.d)	240,489	221,042
OTHER EQUITY INVESTMENTS	(9.e)	7,657	7,529
OTHER RECEIVABLES	(9.f)	251,330	261,403
SECURITIES	(9.g)	82,291	59,841
DEFERRED TAX ASSETS	(9.h)	84,671	82,391
CURRENT ASSETS		2,833,649	2,775,594
INVENTORIES	(10.a)	174,087	162,864
WORK IN PROGRESS		2,098	933
TRADE RECEIVABLES	(10.b)	862,396	790,744
OTHER RECEIVABLES	(10.c)	265,798	201,362
FINANCIAL RECEIVABLES	(10.d)	9,729	26,513
SECURITIES	(10.e)	571,819	467,959
AVAILABLE-FOR-SALE FINANCIAL ASSETS	(10.f)	354,734	362,930
CASH AND CASH EQUIVALENTS	(10.g)	592,988	762,289
ASSETS HELD FOR SALE		2,601	17,143
TOTAL ASSETS		5,484,579	5,194,295
LIABILITIES AND SHAREHOLDERS' EQUITY			
		30.06.2006	31.12.2005
SHAREHOLDERS' EQUITY		1,852,027	1,856,383
SHARE CAPITAL	(11.a)	390,040	389,621
RESERVES	(11.b)	333,387	401,794
RETAINED EARNINGS (LOSSES)	(11.c)	401,550	305,945
NET INCOME FOR THE YEAR		62,658	87,675
TOTAL EQUITY - GROUP		1,187,635	1,185,035
MINORITY INTERESTS		664,392	671,348
NON-CURRENT LIABILITIES		2,229,816	2,186,453
BONDS	(12.a)	1,189,071	1,199,251
OTHER BORROWINGS	(12.b)	694,307	654,785
OTHER PAYABLES		1,064	21
DEFERRED TAX LIABILITIES	(9.h)	132,440	126,260
PERSONNEL OBLIGATIONS	(12.c)	168,466	163,671
PROVISIONS FOR RISKS AND LOSSES	(12.d)	44,468	42,465
CURRENT LIABILITIES		1,402,736	1,137,983
BANK OVERDRAFT FACILITIES		136,855	54,962
OTHER BORROWINGS	(13.a)	295,398	175,881
TRADE PAYABLES	(13.b)	630,630	649,766
OTHER PAYABLES	(13.c)	303,429	213,768
PROVISIONS FOR RISKS AND LOSSES	(12.d)	36,424	43,606
LIABILITIES HELD FOR SALE		..	13,476
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		5,484,579	5,194,295

2. CONSOLIDATED INCOME STATEMENT

(in thousands of euro)

	<i>Notes</i>	<i>1st half 2006</i>	<i>1st half 2005</i>
SALES	(14)	2,021,449	1,704,495
CHANGE IN INVENTORIES		(39)	(2,919)
COSTS FOR PURCHASE OF GOODS	(15.a)	(1,148,838)	(881,992)
COSTS FOR SERVICES	(15.b)	(382,416)	(336,552)
PERSONNEL COSTS	(15.c)	(288,971)	(284,277)
OTHER OPERATING INCOME	(15.d)	75,738	42,785
OTHER OPERATING COSTS	(15.e)	(41,627)	(33,095)
ADJUSTMENTS TO THE VALUE OF INVESTMENTS VALUED AT EQUITY	(9.d)	20,978	8,557
AMORTIZATION, DEPRECIATION AND WRITE-DOWNS		(47,833)	(47,751)
INCOME BEFORE FINANCIAL COMPONENTS AND TAX (E B I T)		208,441	169,251
FINANCIAL INCOME	(16.a)	32,069	44,177
FINANCIAL EXPENSES	(16.b)	(60,757)	(63,365)
DIVIDENDS		1,417	343
GAINS FROM TRADING SECURITIES	(16.c)	53,271	45,873
LOSSES FROM TRADING SECURITIES	(16.d)	(25,750)	(51,694)
ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS		(13,055)	676
INCOME BEFORE TAXES		195,636	145,261
INCOME TAXES	(17)	(67,981)	(56,979)
NET INCOME FOR THE PERIOD INCLUDING MINORITY INTERESTS		127,655	88,282
- NET INCOME - MINORITY INTERESTS		(64,997)	(50,741)
- NET INCOME - GROUP		62,658	37,541
BASIC EARNINGS PER SHARE (in euro)		0.0835	0.0493
DILUTED EARNINGS PER SHARE (in euro)		0.0829	0.0490

3. CONSOLIDATED CASH FLOW STATEMENT

(in thousands of euro)

	<i>1st half 2006</i>	<i>1st half 2005</i>
OPERATING ACTIVITY		
NET INCOME FOR THE PERIOD INCLUDING MINORITY INTERESTS	127,655	88,282
ADJUSTMENTS:		
AMORTIZATION, DEPRECIATION AND WRITE-DOWNS	47,833	47,751
SHARE OF THE RESULT OF COMPANIES VALUED AT EQUITY	(20,978)	(8,557)
ACTUARIAL VALUATION OF STOCK OPTION PLANS	966	4,637
CHANGE IN PERSONNEL PROVISIONS AND PROVISIONS FOR RISKS AND LOSSES	6,275	7,183
ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS	9,516	(676)
(INCREASE)/REDUCTION IN NON-CURRENT RECEIVABLES AND PAYABLES	9,451	9,942
(INCREASE)/REDUCTION IN NET WORKING CAPITAL	(97,295)	(78,598)
OTHER CHANGES	(2,159)	--
CASH FLOW FROM OPERATING ACTIVITY	81,264	69,964
of which:		
- interest received (paid)	(16,676)	(11,876)
- payment of income taxes	(7,364)	(45,787)
INVESTMENT ACTIVITY		
(PURCHASE) SALE OF SECURITIES	(142,773)	(6,134)
NET DISBURSEMENT FOR ACQUISITIONS OF COMPANIES	(149,195)	--
NET PROCEEDS FROM DISPOSALS	4,265	--
PURCHASE OF FIXED ASSETS	(109,086)	(317,085)
CASH FLOW FROM INVESTMENT ACTIVITY	(396,789)	(323,219)
FINANCING ACTIVITY		
PROCEEDS FROM CAPITAL INCREASES	419	15,603
OTHER CHANGES IN SHAREHOLDERS' EQUITY	(5,517)	17,693
BONDS	(10,180)	(36,406)
PROCEEDS/(REPAYMENT) OF OTHER BANK BORROWINGS	175,823	(24,009)
BUY-BACK OF OWN SHARES	(15,030)	(22,311)
NET CHANGE IN SECURITIES AND AVAILABLE-FOR-SALE ASSETS	--	(128,065)
DIVIDENDS PAID TO SHAREHOLDERS	(81,184)	(73,894)
CASH FLOW FROM FINANCING ACTIVITY	64,331	(251,389)
INCREASE (DECREASE) IN NET CASH AND CASH EQUIVALENTS	(251,194)	(504,644)
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	707,327	1,421,065
NET CASH AND CASH EQUIVALENTS AT END OF PERIOD	456,133	916,421

4. STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

<i>(in thousands of euro)</i>	<i>Attributable to Shareholders of the Parent Company</i>					<i>Minority interests</i>	<i>Total</i>
	<i>Share capital</i>	<i>Reserves</i>	<i>Retained earnings (losses)</i>	<i>Net income for Period</i>	<i>Total</i>		
BALANCE AT JANUARY 1 2005	388,279	374,528	201,274	155,247	1,119,328	583,332	1,702,660
Capital increases	787	1,381	--	--	2,168	13,435	15,603
Dividends to Shareholders	--	--	--	(38,009)	(38,009)	(35,885)	(73,894)
Amount available to the Board of Directors	--	--	--	(708)	(708)	--	(708)
Retained earnings	--	--	116,530	(116,530)	--	--	--
Shareholders' Resolution to buy back own shares	--	11,859	(11,859)	--	--	--	--
Fair value of hedging instruments	--	(265)	--	--	(265)	(187)	(452)
Fair value of securities	--	13,816	--	--	13,816	--	13,816
Securities fair value reserve recognized to the statement of income	--	(4,261)	--	--	(4,261)	--	(4,261)
Adjustment for own share transactions	--	(22,311)	--	--	(22,311)	--	(22,311)
Notional recognition of stock option plans	--	4,637	--	--	4,637	--	4,637
Effects of equity changes in subsidiaries	--	2,416	--	--	2,416	(4,527)	(2,111)
Currency translation adjustments	--	7,388	--	--	7,388	4,021	11,409
Net income for the period	--	--	--	37,541	37,541	50,741	88,282
BALANCE AT JUNE 30 2005	389,066	389,188	305,945	37,541	1,121,740	610,930	1,732,670

<i>(in thousands of euro)</i>	<i>Attributable to Shareholders of the Parent Company</i>					<i>Minority interests</i>	<i>Total</i>
	<i>Share capital</i>	<i>Reserves</i>	<i>Retained earnings (losses)</i>	<i>Net income for period</i>	<i>Total</i>		
BALANCE AT DECEMBER 31 2005	389,621	401,794	305,945	87,675	1,185,035	671,348	1,856,383
Capital increases	419	487	--	--	906	5,860	6,766
Dividends to Shareholders	--	--	--	(*) (37,520)	(37,520)	(43,664)	(81,184)
Retained earnings	--	--	50,155	(50,155)	--	--	--
Cancellation of resolution of April 27 2005 to buy back own	--	(54,816)	54,816	--	--	--	--
Fair value of hedging instruments	--	178	--	--	178	69	247
Fair value of securities	--	738	--	--	738	--	738
Securities fair value reserve recognized to the statement of income	--	(11,255)	--	--	(11,255)	--	(11,255)
Adjustment for own share transactions	--	(5,664)	(9,366)	--	(15,030)	--	(15,030)
Notional recognition of stock option plans	--	966	--	--	966	--	966
Fair value of stock options of subsidiaries	--	--	--	--	--	(20,410)	(20,410)
Effects of equity changes in subsidiaries	--	15,121	--	--	15,121	(12,882)	2,239
Currency translation adjustments	--	(14,162)	--	--	(14,162)	(926)	(15,088)
Net income for the period	--	--	--	62,658	62,658	64,997	127,655
BALANCE AT JUNE 30 2006	390,040	333,387	401,550	62,658	1,187,635	664,392	1,852,027

(*) Annual General Meeting of April 27 2005: dividend per share of € 0.05

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. STRUCTURE AND CONTENT OF THE FINANCIAL STATEMENTS

These consolidated interim financial statements were prepared in accordance with international accounting standards (IAS/IFRS) supplemented with the interpretations (SIC/IFRIC) issued by the International Accounting Standards Board (IASB). More specifically they were prepared in a reduced form on the basis of the instructions given in IAS 34, approved by European Regulation 1725/2003 and subsequently amended by Regulation 2236/2004 and 2238/2004. IAS 34 stipulates that information that has been given in the Annual Report can be omitted from the interim statements. Although the accounting and consolidation principles used to prepare the interim financial statements as of June 30 2006 are the same as those used for the Annual Report it was considered appropriate to give the text in full anyway for ease of consultation.

The consolidated financial statements as of June 30 2006 include the Parent Company CIR S.p.A. (hereinafter “CIR”) and its subsidiaries.

These consolidated financial statements as of June 30 2006 were prepared using the statements of the individual companies included in the consolidation. These were either the statutory accounts (referred to as “individual” or “separate” under IAS/IFRS terminology), or were the consolidated accounts of the subgroups, as examined and approved by their respective Boards and amended and reclassified where necessary in order to bring them into line with the accounting principles listed below and to present them in the form required by Italian law.

These financial statements are presented in thousands of euro, which is the functional or presentation currency of the Group in accordance with the terms of IAS 21, except where indicated otherwise.

2. CONSOLIDATION PRINCIPLES

2.a. **Methods of consolidation**

Subsidiaries

All the companies in which the Group has control in accordance with the terms of IAS 27, SIC 12 and IFRIC Interpretation 2 are considered as subsidiaries. More specifically subsidiaries are all those companies and investment funds in which the Group has decision-making powers in matters of financial and operating policy. This power is presumed to exist when the Group owns a majority of the voting rights of a company, including potential voting rights exercisable without restrictions or else has effective control in cases where although it does not actually have the majority of voting rights it does in fact control the shareholders’ meeting.

The controlled companies, or subsidiaries, are fully consolidated on a line-by-line basis as from the date on which the Group took control and they are de-consolidated when such control ceases to exist.

Consolidation is carried out using the full line-by-line consolidation method. The main criteria adopted for the application of this method are the following:

- the book value of the holding is eliminated against the appropriate portion of shareholders' equity and the difference between acquisition cost and the shareholders' equity of the subsidiaries is posted, where the conditions exist, to the items of assets and liabilities included in the consolidation. Any remaining part is recognized to the statement of income when it is negative or to the "Goodwill" item of assets when it is positive. Goodwill is then subjected to an impairment test to determine its recoverable value;
- significant transactions between consolidated companies are eliminated as are payables, receivables and unrealized income resulting from transactions between companies of the Group, net of any tax effects;
- minority equity and their portion of net income for the period are shown in special items of the consolidated balance sheet and income statement.

Affiliated companies

All those companies in which the Group has a significant influence, without having control, in accordance with the terms of IAS 28, are considered as affiliated companies or affiliates. Significant influence is presumed to exist when the Group holds a percentage of the voting rights of between 20% and 50% (excluding cases where there is joint control). Affiliated companies are consolidated using the equity method starting from the date on which the Group acquires substantial influence over the affiliate and they are de-consolidated when such influence ceases to exist.

The main criteria adopted for the application of the equity method are as follows:

- the book value of the holding is eliminated against the appropriate portion of shareholders' equity and any positive difference, identified at the moment of acquisition, net of any lasting loss of value resulting from the application of the impairment test to determine its "recoverable value"; the corresponding portion of income or loss for the year is recognized to the income statement. When the amount of losses accruing to the Group equals or exceeds the carrying value of the affiliated company itself, then the carrying value is written off and the Group records no further losses unless it has any contractual obligation to do so;
- unrealized profits and losses generated by transactions with companies of the Group are netted out unless such losses represent a permanent loss of value of the assets of the affiliated company;
- the accounting principles of the affiliated company are amended where necessary to bring them into line with the accounting principles adopted by the Group.

Joint ventures

All companies in which the Group exercises control jointly with another company according to the terms of IAS 31 are considered as joint ventures. It is presumed that joint control exists when the Group owns half of the voting rights of a company.

The most significant joint venture belonging to the Group is Tirreno Power. International accounting standards give two methods for consolidating joint ventures:

- the reference method, which involves pro-rata consolidation:

- the alternative method with allows them to be consolidated using the equity method.

The Group adopted the equity method to give uniformity with the presentation method used previously.

2.b. Translation of foreign companies' financial statements into euro

The translation into euro of the financial statements of foreign subsidiaries not belonging to the single currency, none of which has an economy subject to hyperinflation according to the definition given in IAS 29, is carried out at the year-end exchange rate for the balance sheet and at the period average exchange rate for the income statement. Any exchange rate differences resulting from the translation of shareholders' equity at the year-end exchange rate and from the translation of the income statement at the average rate for the period are recorded in a separate component of the shareholders' equity entitled "Other reserves".

The main exchange rates used are the following:

	<i>1st half 2006</i>		<i>1st half 2005</i>	
	<i>Average rate</i>	<i>30.06.2006</i>	<i>Average rate</i>	<i>30.06.2005</i>
US Dollar	1.2296	1.2713	1.2846	1.2092
UK Sterling	0.6871	0.6921	0.6860	0.6742
Swedish Krona	9.3257	9.2387	9.1399	9.4260
Brazilian Real	2.6891	2.7576	3.2979	2.8476
Argentine Peso	3.7659	3.9217	3.7387	3.4994
Chinese Renminbi	9.8668	10.1647	10.6338	10.0080
Slovene Tolar	239.8082	239.8082	239.8082	239.2344

2.c. Consolidation area

The consolidated financial statements as of June 30 2006 and the consolidated financial statements for the previous year of the Group are the result of the consolidation at those dates of the Parent Company CIR and of all the companies directly or indirectly controlled, jointly controlled or affiliated, with the exception of any companies being wound up. The assets and liabilities of companies scheduled for disposal are reclassified in the items of assets and liabilities that show such an eventuality.

The list of the equity investments included in the consolidation area, with an indication of the method used, and of those not included is given in the appropriate section of this document.

3. ACCOUNTING PRINCIPLES APPLIED

3.a. Intangible assets (IAS 38)

Intangible assets are recognized only if they can be separately identified, if it is probable that they will generate future economic benefits and if the cost can be measured reliably.

Intangible assets with a finite useful life are valued at purchase or production cost net of depreciation and impairment.

Intangible assets are initially recognized at purchase or production cost. Purchase cost is represented by the fair value of payments and any additional cost directly incurred for preparing the asset for use. The purchase cost is the equivalent price in cash as of the date of the acquisition and, where payment is deferred beyond normal terms of credit, the difference compared with the cash price is recognized as interest for the whole period of deferment.

Amortization is calculated on a straight-line basis following the expected use life of the asset and starts when the asset is ready for use.

The carrying value of intangible assets is maintained as long as there is evidence that this value can be recovered through use; to this end at least once a year an impairment test is carried out to check that the intangible asset is able to generate future cash flows.

Intangible assets with an indefinite useful life are not amortized but are constantly monitored for any permanent loss of value. It is mainly the newspapers and frequencies of the Espresso Group that are considered as intangible assets with an indefinite useful life.

Development costs are recognized as intangible assets when the cost can be measured reliably, when there is a reasonable assumption that the asset can be made available for use or for sale and that it is able to generate future benefits. Annually or any time there are reasons which justify it, capitalized costs are subjected to an impairment test.

Research costs are charged to the income statement as and when they are incurred.

Trademarks and licenses, which are initially recognized at cost, are subsequently accounted for net of amortization and any impairment. The period of amortization is defined as the lower of the contractual duration for use of the license and the useful life of the asset.

Software licenses, including associated costs, are recognized at cost and are recorded net of amortization and of any impairment.

Goodwill represents the excess of the cost of an acquisition over the fair value of the subsidiaries and affiliates at the date of their acquisition.

After initial recognition, goodwill is valued at cost less any impairment.

Goodwill resulting from acquisitions made after March 31 2004 is no longer amortized whereas goodwill already recorded prior to that date is no longer amortized as from January 1 2004.

Goodwill always refers to identified income-producing assets, the ability of which to generate income and cash flows is constantly monitored in order to verify whether there is any impairment.

3.b. Tangible assets (IAS 16)

Tangible assets are recognized at purchase price or at production cost net of accrued depreciation. Cost includes associated expenses and any direct and indirect costs incurred at the moment of acquisition and necessary to make the asset ready for use. Financial expense relating to loans for long-term investments are capitalized until the date when the assets start operating.

Where there are contractual or compulsory obligations for decommissioning, removing or clearing sites where fixed assets are installed, the value recognized includes an estimate of costs that will be incurred on disposal of the same, discounted to present value.

Fixed assets are depreciated on a straight-line basis for each year in relation to their remaining useful life.

Land, assets in process and payments on account are not subject to depreciation.

Extraordinary maintenance costs which determine an increase in the value or the functionality or the useful life of the assets, such as costs for improvements, renovations and conversions which increase value, are allocated directly to the assets to which they refer and are depreciated over the residual useful life of the assets.

Ordinary maintenance costs are charged to the income statement.

Investment properties and land not held for instrumental or operating purposes are classified under a special item of assets and are accounted for on the basis of the terms of IAS 40 “Investment properties” (see paragraph 3.e. below).

Should there be any events which one can assume will cause a lasting reduction in the value of an asset, its carrying value is checked against its recoverable value, which is the higher of its fair value and its value in use. Fair value is defined on the basis of values expressed by the active market, by recent transactions or from the best information available to determine the potential amount obtainable from the sale of the asset. Value in use is determined from the net present value of cash flows resulting from the use expected of the same asset, applying the best estimates of its residual useful life and a rate that also takes into account the implicit risk of the specific business sectors in which the Group operates. This valuation is carried out for each individual asset or for the smallest identifiable cash generating unit (CGU).

Where there is a negative difference between the values stated above and the carrying value then the asset’s carrying value is written down, while as soon as the reasons for such loss in value cease to exist then the asset is revaluated. Write-downs and revaluations are posted to the income statement.

3.c. Contributions and grants

Any grants from a public entity are recognized when there is a reasonable degree of certainty that the receiving company will comply with all the conditions stipulated for such a grant, independently of whether or not there is a formal resolution awarding the said grant, and the certainty that the grant will actually be received.

Capital contributions are recognized in the balance sheet either as deferred income, which is posted to the statement of income on the basis of the useful life of the asset for which it has been granted so that the depreciation can be reduced, or else they are deducted directly from the asset to which they refer.

Any State grants obtained in the form of reimbursement of expenses and costs already incurred or with the purpose of providing immediate support for the beneficiary company without there being any future related costs, are recognized as income in the period in which they can be claimed.

3.d. Leasing contracts (IAS 17)

Leasing contracts for assets where the lessor substantially assumes all the risks and rewards of ownership are classified as finance leases. Where there are such finance lease contracts outstanding the asset is recognized at the lower of its fair value and the present value of the minimum lease payments stipulated in the relevant contracts. The total lease payments are allocated between the liability and finance charges to as to achieve a constant rate on the finance balance outstanding. The residual lease payments, net of financial expenses, are classified as borrowings. The

interest element of the finance cost is charged to the income statement over the lease period. Assets acquired with financial leasing contracts are depreciated to an extent consistent with the nature of the asset.

The leasing contracts in which the lessor substantially retains the risks and rewards of ownership are, on the other hand, classified as operating leases and payments made under such leases are charged to the income statement on a straight-line basis over the period of the lease.

In case of sale and lease-back agreement, any difference between the price of sale and the carrying value of the assets is not accounted in the income statement unless there is a loss representing an impairment of the asset itself.

3.e. Investment property (IAS 40)

An investment property is a property, either land or building – or part of a building – or both, owned by the owner or by the lessor, with a financial leasing agreement, for the purpose of receiving lease payments or for obtaining a gain on the capital invested or for both, rather than for the purpose of directly using it for the production or supply of goods or services or for administration of the company or for sales, in the ordinary business activity.

The cost of a investment property is represented by its purchase price, any improvements made, and any replacement and extraordinary maintenance.

For self-constructed investment property estimation is made of all costs incurred as of the date on which the construction or the development is finished. Until that date the conditions set forth in IAS 16 apply.

In the event of an asset held through a finance lease contract, the initial cost is determined according to IAS 17 from the lower of the fair value of the property and the present value of the minimum lease payments due.

The Group has opted for the cost method, to be applied to all investment property held. According to the cost method, estimation is made net of depreciation and of any impairments.

At the moment of disposal or in the event of permanent non-use of the assets, all related income and expenses will be charged to the statement of income.

3.f. Impairment of assets (IAS 36)

Periodically and whenever events or changes in circumstance make it appropriate, tangible and intangible assets are subjected to an impairment test to see whether they have undergone any loss in value.

The impairment test consists of an estimate of the recoverable value of the asset and a subsequent comparison with its carrying amount. If the recoverable value is lower than the carrying amount, the latter is lowered and the impairment loss is charged to the statement of income.

If at a later date the reasons for the write-down cease to exist, the original carrying amount is restored and again posted to the statement of income.

3.g. Other investments

Investments in companies where the Parent Company does not exercise a significant influence are accounted under IAS 39 and are therefore classified as available-for-sale investments and are measured at fair value or at cost if the estimation of fair value is not reliable.

3.h. **Receivables and payables (IAS 32 and IAS 39)**

Receivables are recognized at amortized cost and measured at their presumed realization value, while payables are recognized at amortized cost.

Receivables and payables in foreign currencies, which are originally recognized at the spot rates of the transaction date, are adjusted to the year-end spot exchange rates and any exchange gains and losses are recognized to the income statement.

3.i. **Securities (IAS 32 and IAS 39)**

In accordance with IAS 32 and IAS 39 investments in companies other than subsidiaries and affiliates are classified as available-for-sale financial assets and are measured at fair value.

Gains and losses resulting from adjustments of value are recorded in a separate component of equity. Where there are impairment losses or where the assets are derecognized, the above separate component of equity is recognized to the income statement.

Financial assets either bought or issued for trading purposes are also classified in this category.

For a more complete description of the treatment of financial instruments we would refer readers to the note specially prepared on the subject.

3.l. **Income taxes (IAS 12)**

Current taxes are recorded and determined on the basis of a realistic estimate of taxable income following current tax regulations of the country in which the company is based and taking into account any exemptions that apply and any tax credits that can be claimed.

Deferred taxes are calculated on the basis of time differences, which are taxable or deductible, between the tax bases of assets and liabilities and their carrying amounts and are classified under non-current assets and liabilities.

A deferred tax receivable is recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

The carrying value of deferred tax assets is subject to periodic analysis and is reduced to the extent to which it is no longer probable that there will be sufficient taxable income to allow the benefit of this deferred asset to be utilized.

3.m. **Inventories (IAS 2)**

Inventories are stated at the lower of purchase or production cost, calculated using the weighted average cost method, and the net realizable value.

3.n. **Work in progress (IAS 11)**

Contracted work in progress refers to specific projects in progress that have been requested by external clients.

Contractual revenues and their related costs are recognized according to their percentage of completion. Revenues include any price revision included in the contract. When it is likely that total costs may exceed contractual revenues, the expected loss is immediately recognized to the income statement.

If the outcome of a construction contract cannot be reliably estimated, the contractual income is recognized in relation to the costs incurred, provided that it is likely that such costs can be recovered.

3.o. **Cash and cash equivalents (IAS 32 and IAS 39)**

Cash and cash equivalents include cash in hand, term deposits and short-term and high-liquidity financial assets, which are easily convertible into cash and which are subject to an irrelevant risk of change in value.

3.p. **Shareholders' equity**

Ordinary shares are recorded at nominal value. Costs directly attributable to the issuance of new shares are deducted from the shareholders' equity reserves, net of any related tax benefit.

Own shares are classified in a special item which is deducted from the reserves; thus any subsequent transaction of sale, re-issuance or cancellation will have no impact on the income statement but will only affect shareholders' equity.

Unrealized gains and losses, net of tax, on financial assets classified as "available for sale" are recorded in a separate component of equity called the "fair value reserve".

The reserve is reversed to the income statement when the financial assets are derecognized or an impairment loss is recognized.

The hedging reserve is formed from the fair value movements of derivatives which, under IAS 39, have been designated as "cash flow hedge instruments" or as "hedge instruments of net investments in foreign operations".

The effective portion of fair value movements is recognized to shareholders' equity and is reversed to the income statement when hedge accounting is discontinued because the hedged item is derecognized, or when the investment is sold.

When a subsidiary prepares its financial statements in a currency different from the Group's functional currency, the subsidiary's financial statements are translated, accounting any differences resulting from such translation in a separate component of equity known as the "currency translation reserve". When the subsidiary is sold the reserve is reversed to the income statement with any gains or losses resulting from the subsidiary's disposal.

The separate component denominated "Retained earnings (losses)" includes accumulated net income and losses and the transfer from equity reserves when these become free of any "limitations" to which they have been subject.

This item also shows the cumulative effect of the changes in accounting principles and/or the correction of errors which are accounted for in accordance with IAS 8.

3.q. **Financial liabilities (IAS 32 and IAS 39)**

Loans are recognized at cost, represented by their fair value net of direct costs incurred. Subsequently loans are measured at amortized cost calculated applying the effective interest rate method, in consideration of transaction costs incurred and any premium or discount applied at the time in which the instrument is settled.

3.r. **Provisions (IAS 37)**

Provisions for risks and losses refer to liabilities which are extremely likely but where the amount and/or maturity is uncertain. These are the result of past events which will cause a future cash outflow. Provisions are recognized exclusively in the presence of a current obligation, either legal or constructive, towards third parties which implies an outflow and when a reliable estimate of the amount involved can be made. The amount recognized as a provision is the best estimate of the outflow required to fulfil the obligation as of the date of the financial statements. The provisions recognized are re-examined at the closing date of each period and are adjusted to represent the best current estimate. Changes in the estimate are recognized to the income statement.

When the estimated outflow is expected to be paid over a long period (with a significant discount), the provision represents the present value, discounted at a risk-free interest rate, of the expected outflow.

Contingent assets and liabilities (possible assets and liabilities, or those not recognized because no reliable estimate can be made) are not recognized. However specific disclosure on such items is given.

3.s. **Revenue recognition (IAS 18)**

Revenues for the sale of goods are recognized at the moment when the goods change hands and the risks and benefits are transferred. Revenues are recognized net of returns, rebates and discounts. Revenues for the rendering of services are recognized at the moment when the service is rendered, with reference to the state of completion of the activity as of the date of the financial statements.

Incomes arising from dividends, interest and royalties are recognized as follows:

- Dividends, when the right to receive payment is established (recording receivables at the date on which distribution is approved);
- Interest, using the effective interest rate method (IAS 39);
- Royalties, on an accruals basis, in accordance with the terms of the underlying contract.

3.t. **Employee benefits (IAS 19)**

Benefits to be paid to employees after the termination of their employment and other long term benefits are subject to actuarial valuation.

Following this methodology, liabilities recognized represent the present value of the obligation adjusted for any actuarial gains or losses which have not been accounted for.

The instruments underlying the above-mentioned benefits can be distinguished between “defined contribution plans” and “defined benefit plans”, where in the first case the obligation of the company is limited to paying the contributions (to Government, funds or other separate legal entities) and is determined on the basis of the contributions owed, while in the second case liabilities are determined on the basis of actuarial calculations.

Actuarial gains and losses for the defined benefit pension plans are recognized in the income statement, pro rata on the basis of the remaining working life of the employees covered by the plan, for the excess of 10% of the greater of the fair value of any assets servicing the plan and the present value of the associated liability, in accordance with the so called “corridor method”. For other long-term benefits, actuarial gains and losses are recognized to income statement.

IFRS 2 “Share-based payments” issued in February 2005 but applicable as from January 1 2005 stated in its transition instructions that application will be retrospective for all transactions where the assignment of stock option plans took place after November 7 2002 and for which, as of the date of its taking effect, the vesting conditions contained in the plan had not yet been satisfied.

The CIR Group, in compliance with this principle, measures the notional cost or fair value of stock options and recognizes it to the income statement under personnel costs during the vesting period of the benefit, with a corresponding posting to a separate component of equity.

The fair value of the options is determined at the moment when the plan is assigned (grant date) applying technical option models and multiplying by the number of options exercisable over the period (vesting period), which is evaluated with the aid of appropriate actuarial variables.

3.u. Derivative financial instruments (IAS 32 and 39)

Derivative financial instruments are measured at fair value.

The Group uses derivatives mainly to hedge risks, in particular interest rate, foreign exchange and commodity prices risks. The hedging purpose of the derivative is formally documented and the degree of “effectiveness” of the hedge is specified.

For accounting purposes hedging transactions can be classified as:

- fair value hedges – where the effects of the hedge are recognized to the income statement.
- cash flow hedges – where the effective portion of the hedge is recognized directly in a separate component of equity while the ineffective part is recognized to income statement.
- hedge of a net investment in a foreign operation – where the effective portion of the hedge is recognized directly to a separate component of equity while the ineffective part is recognized to the income statement.

3.v. The Effects of Changes in Foreign Exchange Rates (IAS 21)

The Group’s functional currency is the euro, which is the currency in which its financial statements are prepared.

The companies of the Group prepare their financial statements using their respective functional currencies.

Transactions carried out in foreign currencies are initially recognized at the spot exchange rate on the date of the transaction.

At the date of the close of the reporting period monetary assets and liabilities are translated at the spot exchange rate prevailing on that date.

Non-monetary items measured at historical cost in a foreign currency are translated using the historical exchange rate prevailing on the date of the transaction.

Non-monetary items measured at fair value are translated using the spot exchange rate at the date on which the measurements are determined for the financial statements.

The assets and liabilities of the companies within the Group whose functional currency is not the euro are valued using the following procedures:

- assets and liabilities are translated using the spot exchange rate prevailing at the date of the close of the reporting period;
- costs and revenues are translated using the average exchange rate for the period;

Exchange rate differences are recognized directly to a separate component of equity.

When and if an investment in a foreign operation is sold, the accumulated exchange rate differences recognized in the separate component of equity are reversed to the income statement.

3.z. Earnings per share (IAS 33)

Basic earnings per share are determined by dividing the profit or loss attributable to the ordinary shareholders of the Parent Company by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding for the potential dilutive effect of new shares resulting for example from the exercise of stock options assigned.

4. FINANCIAL INSTRUMENTS

Financial instruments take on a particular significance in the economic and financial structure of the CIR Group; for this reason, in order to give a better and clearer understanding of financial instruments, it has been considered opportune to illustrate in this section the accounting treatment established by IAS 32 and IAS 39.

According to IAS 32 financial instruments are classified in four categories:

- a) fair value through profit and loss (FVTPL) instruments, which are measured at fair value with the fair value movement recognized to the income statement, and are held for trading purposes;
- b) loans and receivables (L&R);
- c) available-for-sale financial assets (AFS).

Classification depends on Management's intended use of the financial instrument in the business context and is based also the different accounting valuations; financial transactions are recognized or derecognized on the basis of their settlement date.

Financial instruments at fair value through profit or loss

Instruments are classified as such if they satisfy one of the following conditions:

- they are held for trading purposes;
- they are a financial asset subject to the scope of application of IAS 39 other than equity instruments the fair value of which can be reliably determined.

The meaning of trading generally refers to frequent buying and selling with the aim of generating profit on price movements in the short term.

The assignment of an individual instrument to this category is made at the time of its initial recognition and cannot be changed. Derivative financial instruments are included in this category, unless they are designated as hedge instruments.

Loans and receivables

This refers to financial instruments which are not derivatives, have payments that are either fixed or can be determined, which are not quoted on an active market and which are not intended to be traded.

This category includes trade receivables (and payables), which are classified as current assets with the exception of the part due in over 12 months from the date of the financial statements.

The measurement of these instruments is made by applying the method of amortized cost, using the effective interest rate and taking into account any discounts or premiums obtained or paid at the moment of acquisition and recognizing them for the whole life of the instrument until its final maturity.

Available-for-sale financial assets

This is a “residual” category which includes non-derivative financial instruments that are designated as available for sale and are not included in any of the previous categories.

Available-for-sale financial instruments are recognized at their fair value plus any transaction costs.

Gains and losses are recognized into a separate component of equity until the financial instruments are sold or have been impaired. In such cases the amount accumulated in the separated component of equity is released to the income statement.

Fair value is the amount for which an asset can be exchanged or a liability can be settled, between knowledgeable, willing parties in a transaction at arm’s length.

In case of securities listed on regulated liquid markets, the fair value is the bid price published at the date of the close of the accounting period.

Where no market prices are available, fair value is determined either on the basis of the fair value of another financial instrument that is substantially similar or by using appropriate financial techniques (for example the discounted cash flow method).

Investments in financial assets can be eliminated from the balance sheet, or derecognized, only when the contractual rights to receive their respective financial cash flows have expired or when the financial asset is transferred to third parties together with all its associated risks and rewards.

5. FINANCIAL RISK MANAGEMENT

The CIR Group operates in different sectors of industry and services both at the domestic and the international level and as a result its businesses are exposed to different kinds of financial risk, including market risk (exchange rate and price risk), credit risk, liquidity risk and interest rate risk.

In order to minimize these risks the Group uses derivative instruments for hedging purpose.

Risk management is carried out by the central finance and treasury function on the basis of policies approved by the Management of CIR and passed on to the subsidiaries on July 25 2003.

Market risk

Foreign currency risk

Some companies within the Group (of the Sogefi group in particular) are exposed to foreign exchange risk resulting from their use of different currencies. Exchange rate movements in the foreign currencies can affect the fair value of their assets and liabilities.

This risk is however limited by the fact that the companies operate in the local currency, they are active both in their home markets and abroad and in the event of such a need arising financial resources are raised locally.

Regarding the net investment in Medinvest Plc, expressed in USD, a specific hedging strategy is followed with purpose of hedging the net investment from the volatility of the spot EUR/USD exchange rate used to translate the subsidiary's net investment into the functional currency of the Group, i.e. the euro.

Price risk

The Group is exposed to price risk on its commodities, such as paper, cellulose products, steel, plastic products, aluminium, oil and gas.

These risks are managed centrally by the individual sub-holdings through the diversification of their sourcing and, where deemed necessary, through suitable derivative hedging products.

Credit risk

Credit risk can be evaluated both in commercial terms in relation to client type, contractual conditions and concentration of sales, and also in financial terms in relation to the type of counterparty of the financial transactions. Within the Group there are no significant concentrations of credit risk.

Adequate policies have been in place for a considerable time to ensure that sales are made to clients with an appropriate credit rating. Counterparties for derivatives instruments and cash transactions are exclusively financial institutions with a high credit rating. The Group also has policies which limit credit exposure to single financial institutions.

Liquidity risk

Prudent management of liquidity risk implies maintaining sufficient liquidity and tradable securities as well as having the availability of financial resources obtainable through an adequate supply of credit lines.

The Group respects the maturity dates of its commitments systematically, which allows it to operate in the market with flexibility and the availability of funds in order to maintain a correct balance between funding and the application of its financial resources.

Interest rate risk (fair value risk and cash flow risk)

Interest rate risk depends on the movements in interest rates on the market which can change the fair value of the cash flows of financial assets or liabilities.

Interest rates on leasing contracts are determined at the commencement of the contract and there is no exposure to a change in the fair value of the interest rate.

There is interest rate risk associated with long-term bond issues, which having been issued at a fixed rate, expose the Group to the risk of a change in the fair value of the bonds due to interest rates movements.

Following risk management policies, the Parent Company and the subsidiaries have entered into various IRS contracts throughout the years in order to hedge fair value interest rate risk on their bond issues.

Derivative instruments are recognized at their fair value.

The accounting models for hedging transactions are as follows:

- *fair value hedges* (hedging against changes in market value) if they are subject to price changes in the market value of the underlying asset or liability;
- *cash flow hedges* (hedging cash flows) if they are entered into to protect from the risk of changes in cash flows resulting from an existing asset and liability, or from a future transaction.
- *hedges of a net investment in a foreign operation* if they are entered into to hedge the net investments from the exchange rate risk arising from the translation of the net investment in subsidiaries denominated in currencies other than the functional currency of the Group.

For derivative financial instruments classified as fair value hedges gains and losses resulting from both the determination of their market value and the adjustment to fair value of the element underlying the hedge are recognized to the income statement.

For derivative financial instruments classified as *cash flow hedges* (for example interest rate swaps) the effective portion of gains and losses due to their fair value are recognized directly into a separate component of equity while any ineffective portion is recognized to the income statement.

For derivative financial instruments classified as *hedges of a net investment in a foreign operation* the effective portion of gains and losses due to their fair value are recognized directly into a separate component of equity while any ineffective portion is recognized to the income statement.

Hedge accounting specifies that derivatives for hedging purposes be accompanied by a hedging relationship which documents the individual instruments being hedged, and describes how the effectiveness of the hedging strategy in relation to the instrument being hedged will be assessed.

The effectiveness of the hedges is assessed regularly. More specifically, the hedge is considered effective when the change in fair value or in the cash flows of the item being hedged is almost entirely compensated for by the change in the fair value or the cash flows of the hedging instrument and the actual results are in a range of between 80% and 125%.

At June 30 2006, in particular, the Group had the following derivatives contracts outstanding, which were recognized under hedge accounting:

- (a) interest rate swaps on bonds:
 - fixed/floating rate IRS contracts for a notional amount of €400 million expiring in March 2009 entered into by CIR International;
- (b) forward foreign currency sale contracts on the net investment in Medinvest Plc.:
 - 11 forward sales of USD against EUR for a notional amount of USD 415 million entered into by CIR International;

- (c) 19 commodity hedging contracts entered into by the Sorgenia group for a total of €81.6 million, maturing in August 2006;
- (d) 1 forward sale of GBP 2 million with a maturity of September 2006 and 2 forward sales of USD 18.4 million with maturity September 2006, entered into by the Sogefi group;
- (e) 3 forward purchases of Yen 42.6 million maturing in 2006, regarding the Sogefi group.

6. ACCOUNTING PRINCIPLES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

The criteria for making estimates and measurements are re-examined on a regular basis and are based on historical experience and on other factors such as expectations of future events that are believed to be reasonable under the circumstances.

If the initial application of a principle affects the current year or the previous one, its effect is recognized by indicating the change resulting from any transitional rules, the nature of the change, the description of the transitional rules, which may also affect future years, and the amount of any adjustments made in years preceding those being presented.

If a voluntary change of a principle affects the current or previous year this effect is shown by indicating the nature of the change, the reasons for the adoption of the new principle, the amount of any adjustments made in years preceding those being presented.

In the event of a new principle/interpretation issued but not yet endorsed, an indication is given of the fact, of its potential impact, the reason for the principle/interpretation, the date on which it will take effect and the date on which it will first be applied.

A change in accounting estimates involves an indication of the nature and the impact of the change. Estimates are used mainly to show impairments of assets recorded, provisions made for risks, employees benefits, taxes and other provisions and reserves. Estimates and assumptions are reviewed regularly and the effects of any such changes are reflected in the income statement.

Lastly, the treatment of accounting errors involves an indication of the nature of the error, the amount of the adjustments to be made at the beginning of the first accounting period following its recognition.

7. NON-CURRENT ASSETS HELD FOR SALE (IFRS 5)

A non-current asset is held for sale if its carrying value will be recovered principally through a sale rather than through use. For this condition to be satisfied the asset must be immediately sellable in its present condition and the sale must be considered as highly likely.

The assets or groups of assets for disposal that are classified as held for sale are valued at the lower of their carrying value and fair value less costs to sell.

Individual assets or assets belonging to a group classified as held for sale are not amortized. The above assets are shown in the financial statements in a single item of the income statement giving profit and loss net of taxes resulting from the sale. Similarly the assets and liabilities must be shown on a separate line of the Balance Sheet. The key balance sheet and income figures for transactions carried out during the year are given in the note regarding the “Consolidation Area” (2 c).

8. INFORMATION ON THE BUSINESS SECTORS

The business sectors coincide with the Groups of companies in which CIR S.p.A. holds a controlling stake. These are:

- the Espresso group: media;
- the Sorgenia group: utilities;
- the Sogefi group: automotive components;
- the HSS group: healthcare.

Geographically speaking, with the exception of the Sogefi group, all the business activities are carried out in Italy.

An analysis of the income contribution and the balance sheet and equity figures for the primary sector is given in the Management Report, while the breakdown of revenues by geographical area (secondary sector) is given in the Explanatory Notes to the Financial Statements in the section regarding revenues (note 14).

BALANCE SHEET: NOTES

9. **NON-CURRENT ASSETS**

9.a. INTANGIBLE ASSETS

	Opening balances			Changes during the period		
	Original cost	Accrued amort. & write-downs	Balance 31.12.2005	Purchases	Combinations sales of businesses	
					increases	decreases
<i>(in thousands of euro)</i>						
Start-up and expansion costs	3,199	(3,168)	31	..	..	..
Capitalized development costs						
- purchased	..	..	..	..	..	..
- produced internally	34,805	(18,934)	15,871	2,879	..	..
Industrial patents and intellectual property rights	21,794	(18,869)	2,925	120	..	..
Concessions, licenses, trademarks & similar rights	52,807	(40,579)	12,228	1,812	101	..
Publications	400,245	..	400,245	..	..	..
Frequencies	195,961	..	195,961	2,747	..	..
Goodwill	284,067	(52,572)	231,495	15,279	48,196	..
Assets in process and advance payments						
- purchased	2,135	..	2,135	1,596	..	..
- produced internally	1,519	..	1,519	583	..	..
Others	10,303	(8,277)	2,026	1,486	..	..
Total	1,006,835	(142,399)	864,436	26,502	48,297	..

Intangible assets rose from €864,436 thousand at December 31 2005 to €932,197 thousand at June 30 2006.

The item Goodwill rose during the period mainly as a result of the acquisition of the Anni Azzurri group by HSS and of the acquisition of further shares in Gruppo Editoriale L'Espresso by CIR S.p.A..

<i>Changes during the period</i>				<i>Closing balances</i>		
<i>Exch. rate differences</i>	<i>Other changes</i>	<i>Net disposals cost</i>	<i>Amortizatio & write-downs</i>	<i>Original cost</i>	<i>Accrued amort. & write-downs</i>	<i>Balance 30.06.2006</i>
--	(11)	--	(4)	149	(133)	16
--	--	--	--	--	--	--
(62)	(45)	(65)	(2,867)	40,252	(24,541)	15,711
(5)	269	--	(786)	22,128	(19,605)	2,523
(25)	169	(36)	(2,941)	54,681	(43,373)	11,308
--	--	--	--	400,245	--	400,245
--	--	(60)	--	198,648	--	198,648
--	--	--	--	349,554	(54,584)	294,970
(59)	157	(70)	--	3,759	--	3,759
(3)	(439)	--	--	1,660	--	1,660
(37)	--	--	(118)	11,131	(7,774)	3,357
(191)	100	(231)	(6,716)	1,082,207	(150,010)	932,197

AMORTIZATION RATES

<i>Description</i>	<i>%</i>
Capitalized development costs	20-33%
Industrial patents and intellectual property rights	4-20%
Concessions, licenses, trademarks and similar rights	16-30%
Other intangible assets	16-30%

A more detailed analysis of the main items of intangible assets is given in the following charts.

Newspapers:

<i>(in thousands of euro)</i>	<i>30.06.2006</i>	<i>31.12.2005</i>
la Repubblica	229,952	229,952
Il Piccolo / Messaggero Veneto	104,527	104,527
Other local newspapers	61,222	61,222
Other publications	4,544	4,544
Total	400,245	400,245

Frequencies:

<i>(in thousands of euro)</i>	<i>30.06.2006</i>	<i>31.12.2005</i>
Radio frequencies	61,567	58,937
Television frequencies	137,081	137,024
Total	198,648	195,961

Goodwill:

<i>(in thousands of euro)</i>	<i>30.06.2006</i>	<i>31.12.2005</i>
Gruppo Editoriale L'Espresso S.p.A.	110,309	98,447
Sogefi S.p.A.	91,292	91,292
Energia Holding S.p.A.	23,095	22,463
Holding Sanità e Servizi S.p.A.	70,274	19,293
Total	294,970	231,495

For the purposes of carrying out the Impairment test on goodwill, the estimate of the value recoverable for each *cash generating unit*, as defined by IAS 38, was carried out on the basis of the value in use calculated by discounting to net present value, at an appropriate discount rate, the future cash flows generated by the unit in its productive phase and at the moment of its disposal (*discounted cash flow method*).

The cash flows of the single operating units were extrapolated from the budgets and forecasts made by management. These plans were then processed on the basis of economic trends recorded in previous years and using the forecasts made by top analysts on the outlook for the respective markets and more in general on the evolution of each business sector.

In order to determine the discount rate to use, an estimate was made of the weighted average cost of capital invested (WACC) net of inflation, gross of taxes and independently of the financial structure of the individual company/subgroup.

The impairment tests carried out using the cash flow method and other methods of valuation showed that there had been no losses of value.

9.b. TANGIBLE ASSETS

<i>(in thousands of euro)</i>	<i>Opening balances</i>			<i>Changes during the period</i>		
	<i>Original cost</i>	<i>Accrued deprec. & write-downs</i>	<i>Balance 31.12.2005</i>	<i>Purchases</i>	<i>Combinations sales of businesses</i>	
					<i>increases</i>	<i>decreases</i>
Land	26,533	(152)	26,381	781	9,070	--
Buildings used for business	202,408	(89,028)	113,380	571	78,890	--
Property, plant and equipment	917,526	(613,797)	303,729	7,201	2,645	--
Power stations	5,928	(949)	4,979	44	601	--
Industrial and commercial equipment	100,800	(84,094)	16,706	2,949	1,012	--
Other assets	153,349	(111,494)	41,855	5,859	12,035	--
Assets in process and advance payments	390,942	--	390,942	67,214	1,628	--
Total	1,797,486	(899,514)	897,972	84,619	105,881	--

Tangible assets rose from €897,972 thousand at December 31 2005 to €1,032,333 thousand at June 30 2006. The increases during the period refer to investment in plant and machinery made mainly in the automotive components sector and in the media sector, payments on account for the construction of the Termoli power plant and the recognition of technical assets resulting from the consolidation of Azzurri into HSS. The most significant increases resulting from this acquisition are in the items Buildings and Land.

DEPRECIATION RATES

<i>Description</i>	<i>%</i>
Buildings used for business	3.00%
Plant and machinery	10.00-25.00%
<i>Other assets:</i>	
- Electronic office equipment	20.00%
- Furniture and fittings	12.00%
- Motor vehicles	25.00%

<i>Changes during the period</i>					<i>Closing balances</i>		
<i>Capitalized financial expenses</i>	<i>Exch. rate differences</i>	<i>Other changes</i>	<i>Net disposals cost</i>	<i>Depreciation & write-downs</i>	<i>Original cost</i>	<i>Accrued deprec. & write-downs</i>	<i>Balance 30.06.2006</i>
--	(37)	--	(199)	--	36,148	(152)	35,996
--	(267)	(2,428)	(482)	(3,534)	281,895	(95,765)	186,130
--	(1,916)	3,312	(647)	(28,830)	929,061	(643,567)	285,494
--	--	35	--	(176)	6,716	(1,233)	5,483
--	(90)	1,051	(20)	(2,791)	107,235	(88,418)	18,817
--	(146)	763	(111)	(5,601)	177,627	(122,973)	54,654
--	(345)	(13,680)	--	--	445,759	--	445,759
--	(2,801)	(10,947)	(1,459)	(40,932)	1,984,441	(952,108)	1,032,333

9.c. REAL-ESTATE INVESTMENT

<i>(in thousands of euro)</i>	<i>Opening balances</i>			<i>Changes during the period</i>		
	<i>Original cost</i>	<i>Accrued deprec. & write-downs</i>	<i>Balance 31.12.2005</i>	<i>Purchases</i>	<i>Combinations sales of businesses</i>	
					<i>increases</i>	<i>decreases</i>
Real estate	7,050	(106)	6,944	2,684	..	..
Total	7,050	(106)	6,944	2,684	..	..

Real-estate investment rose from €6,944 thousand December 31 2005 to €17,361 thousand at June 30 2006. The increases during the period refer to the completion of renovation work on a building situated in the centre of Milan, the carrying value of which is very close to market value.

DEPRECIATION RATES

<i>Description</i>	<i>%</i>
Buildings	3.00%

<i>Changes during the period</i>					<i>Closing balances</i>		
<i>Capitalized financial expenses</i>	<i>Exch. rate differences</i>	<i>Other changes</i>	<i>Net disposals cost</i>	<i>Depreciation & write-downs</i>	<i>Original cost</i>	<i>Accrued deprec. & write-downs</i>	<i>Balance 30.06.2006</i>
--	--	7,918	--	(185)	17,652	(291)	17,361
--	--	7,918	--	(185)	17,652	(291)	17,361

LEASING

The situation of assets under leasing as of June 30 2006 and of the restrictions applied to tangible assets on account of guarantees and commitments is as follows:

<i>(in thousands of euro)</i>	<i>Gross leasing amount</i>		<i>Accrued depreciation</i>		<i>Restrictions for guarantees and commitments</i>	
	<i>30.06.2006</i>	<i>31.12.2005</i>	<i>30.06.2006</i>	<i>31.12.2005</i>	<i>30.06.2006</i>	<i>31.12.2005</i>
Land	827	827	--	--	2,678	2,678
Buildings	14,806	14,844	3,181	2,914	6,939	6,939
Property, plant and equipment	18,695	24,104	9,238	11,408	251,554	251,558
Other assets	563	1,498	276	477	264	264

9.d. INVESTMENTS IN COMPANIES VALUED AT EQUITY

<i>(in thousands of euro)</i>	<i>%</i>	<i>Balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Dividends</i>	<i>Contribution Loss</i>	<i>Income</i>	<i>Other changes</i>	<i>Balance</i>
		<i>31.12.2005</i>							<i>30.06.2006</i>
Aire/Tirreno Power	50.00	193,745	--	--	--	--	20,372	334	214,451
Le Scienze S.p.A.	50.00	348	--	(285)	--	--	77	--	140
Saire S.r.l.	50.00	363	--	--	--	--	9	--	372
Editoriale La Libertà S.p.A.	35.00	22,543	--	(875)	--	--	522	--	22,190
Corriere di Romagna S.p.A.	40.00	--	2,400	--	--	--	10	--	2,410
Altrimedia S.p.A.	35.00	671	--	(105)	--	--	70	--	636
Allevard Ressorts Composites S.A.	50.00	372	--	--	--	(82)	--	--	290
KS Automotive Suspensions Asia Private Ltd	50.00	3,000	--	(3,000)	--	--	--	--	--
Total		221,042	2,400	(4,265)	--	(82)	21,060	334	240,489

9.e. OTHER EQUITY INVESTMENTS

<i>(in thousands of euro)</i>	<i>%</i>	<i>30.06.2006</i>	<i>31.12.2005</i>
Dumenil Leblé Belgium <i>(in liquidation)</i>	100.00	331	331
Ansa S. Coop. A.R.L.	16.97	2,209	2,209
E-Ink Corporation	0.43	1,481	1,481
Tecnoparco Valbasento	20.00	516	516
Emittenti Titoli S.p.A.	5.44	132	132
Energy Star S.r.l.	100.00	1,050	--
Anemon S.p.A.	100.00	--	1,763
Others	--	1,938	1,097
Total		7,657	7,529

9.f. OTHER RECEIVABLES

The item "Other receivables" had a balance at June 30 2006 of €251,330 thousand compared with €261,403 thousand at December 31 2005 and refers for €167,943 thousand (€163,014

thousand at December 31 2005) to the long-term loan made by Energia Italiana to Tirreno Power at market conditions to support its development plan. At June 30 2006 this item also includes €67,644 thousand of tax assets referring to VAT rebates requested by the Sorgenia group.

9.g. SECURITIES

“Securities” totalled €82,291 thousand at June 30 2006 compared with €59,841 thousand at December 31 2005 and refer to investments in private equity funds for €72,534 thousand and to investments in venture capital made by the subsidiary CIR Ventures for €9,757 thousand. These funds were measured at fair value recognizing to the fair value reserve an amount of €11,482 thousand (€12,482 thousand at December 31 2005). During the year the portion of the fair value reserve relating to these funds and charged to the statement of income was €1,026 thousand.

9.h. DEFERRED TAXES

The amounts refer to taxes resulting from temporary deductible differences and from losses carried forward, which are deemed to be recoverable.

The breakdown of “Deferred tax assets and liabilities” by type of temporary difference, is the following:

<i>(in thousands of euro)</i>	<i>30.06.2006</i>		<i>31.12.2005</i>	
	<i>Difference</i>	<i>Tax</i>	<i>Difference</i>	<i>Tax</i>
Temporary difference liability from write-down of current assets	45,057	16,005	37,362	13,208
Temporary difference liability from write-down of fixed assets	44,986	15,826	29,419	15,104
Temporary difference liability from revaluation of current liabilities	7,487	2,999	24,845	7,669
Temporary difference liability from revaluation of personnel provisions	38,176	12,020	9,332	3,069
Temporary difference liability from revaluation of provisions for risks and losses	37,308	12,155	63,232	18,179
Temporary difference liability from write-down of financial instruments	13,463	4,543	12,029	4,094
Temporary difference liability from tax losses of prior periods	64,184	21,123	64,100	21,068
Total deferred tax assets	250,661	84,671	240,319	82,391
Temporary difference asset from revaluation of current assets	3,334	1,146	3,300	1,117
Temporary difference asset from revaluation of fixed assets	335,813	121,399	325,895	117,159
Temporary difference asset from write-down of current liabilities	9,201	3,266	6,995	1,850
Temporary difference asset from valuation of personnel provisions	7,353	2,482	6,871	2,282
Temporary difference asset from write-down of provisions for risks and losses	2,184	722	191	633
Temporary difference asset from write-down of medium-long term loans	1,208	453	..	..
Temporary difference asset from revaluation of financial instruments	8,097	2,972	8,755	3,219
Total deferred tax liabilities	367,190	132,440	352,007	126,260
Net deferred taxes		(47,769)		(43,869)

The deferred taxes debited directly to shareholders’ equity during the period amounted to €97 thousand.

Earlier losses not utilized for the calculation of deferred taxes refer to the Espresso group for €105,7 million of which €84 million can be carried forward for an unlimited time, to the company CIR International for €559,7 million that can again be carried forward for an unlimited time and to the Sogefi group for €14,3 million of which €9 million can be carried forward for an unlimited time. It should be pointed out that no deferred tax assets were calculated for these losses because at present conditions are such that there is no certainty that they can be recovered.

10. CURRENT ASSETS

10.a. INVENTORIES

Inventories can be broken down as follows:

<i>(in thousands of euro)</i>	<i>30.06.2006</i>	<i>31.12.2005</i>
Raw materials, secondary materials and consumables	75,013	72,304
Work in progress and semi-finished goods	13,050	13,579
Finished goods and merchandise	85,966	76,948
Advance payments	58	33
Total	174,087	162,864

Inventories of finished goods and merchandise rose mainly as a result of the higher volumes of gas stored for marketing and sale by Sorgenia S.p.A..

The value of stocks is shown net of any write-down made either in past periods or in this current one, taking into account the degree of obsolescence of finished goods, merchandise and secondary materials.

10.b. TRADE RECEIVABLES

<i>(in thousands of euro)</i>	<i>30.06.2006</i>	<i>31.12.2005</i>
Receivables - clients	854,667	784,505
Receivables – parent companies	260	--
Receivables - subsidiaries	7,198	5,665
Receivables – affiliated companies	271	574
Total	862,396	790,744

The “Receivables - clients” are non-interest bearing and have an average maturity in line with market conditions. The net increase is mainly due to the increase in revenues.

Trade receivables are shown net of any write-downs, taking into account the credit risk. During the first half of the year 2006 provisions were made to the reserve for the write-down of receivables for the sum of €4,937 thousand.

The item “Receivables – parent companies “ refers to services provided to the parent company Cofide S.p.A. during the first half of the year.

The “Receivables - subsidiaries” represents intercompany receivables not eliminated because they refer to companies not consolidated using the line-by-line method. The balance at June 30

2006 refers mainly to receivables from CIGA Luxembourg for €5,531 thousand and to receivables from Tirreno Power S.p.A. for €1,406 thousand.

10.c. OTHER RECEIVABLES

<i>(in thousands of euro)</i>	<i>30.06.2006</i>	<i>31.12.2005</i>
Financial receivables from affiliated companies	650	256
Tax receivables	164,594	146,327
Receivables - others	100,554	54,779
Total	265,798	201,362

“Tax receivables” amounted to €164,594 thousand compared with €146,327 thousand at December 31 2005. The increase in this item was mainly caused by the higher VAT receivables of Energia Molise S.p.A. linked to the investment in the Termoli power plant and to higher duties due on the higher volumes generated by the Sorgenia group.

10.d. FINANCIAL RECEIVABLES

“Financial receivables” declined from €26,513 thousand at December 31 2005 to €9,729 thousand at June 30 2006 and refer to the fair value of outstanding interest rate swaps on bonds. Of these a total of €6,971 thousand are offset in the item containing the effective hedges of Bonds.

10.e. SECURITIES

This item consists of the following categories of securities:

<i>(in thousands of euro)</i>	<i>30.06.2006</i>	<i>31.12.2005</i>
Italian Government securities or similar securities	15,910	39,218
Investment funds or similar funds	83,844	53,939
Bonds	124,551	97,203
Certificates of deposit and miscellaneous securities	347,514	277,599
Total	571,819	467,959

The fair value of the item “Securities” involved a positive adjustment to the statement of income of €12,5 million.

10.f. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This item refers in its entirety to shares in hedge funds and redeemable shares in asset management companies held by Medinvest which collects excess liquidity that the Group has available on a regular basis. The degree of liquidity of the investment is a function of the time required for the redemption of the funds in which Medinvest invests, which normally varies from one to three months.

Diversification between categories of funds give the performance of Medinvest a low level of volatility.

Assigning a fair value to the funds held by Medinvest meant making an adjustment to the value of these funds which at June 30 2006 amounted to €125,587 thousand (€136,524 thousands at December 31 2005). The effects of this valuation on CIR's shareholders' equity for the amount pertaining to the Group total €109,286 thousand (€118,803 thousand at December 31 2005). The amount of fair value recognized to the income statement after the sale of certain funds came to €10,229 thousand.

To cover the exchange rate risk resulting from the translation of the part of the equity of Medinvest denominated in \$USD into the functional currency of the Group, hedging contracts were entered into, the effects of which are indicated under item 11.b. "Reserves" in the breakdown of the "Translation reserve".

10.g. CASH AND CASH EQUIVALENTS

Cash and cash equivalents decreased from €762,289 thousand at December 31 2005 to €592,988 thousand at June 30 2006.

A breakdown of the change during the period is given in the cash flow statement.

11. SHAREHOLDERS' EQUITY

11.a. SHARE CAPITAL

Share capital rose from €389,620,833.50 at December 31 2005 (comprising 779,241,667 shares each with a nominal value €0.50) to €390,040,133.50 (780,080,267 shares) at June 30 2006 as a result of the issuance of 838,600 shares in execution of options rights.

At June 30 2006 the Company was holding 33,844,000 of its own shares (4.34% of share capital) for a total value of €76,351 thousand, up from 27,216,642 shares for a total value of €61,321 thousand at December 31 2005.

In application of IAS 32, as from January 1 2005 the treasury stock held by the Parent Company has been deducted from shareholders' equity.

The share capital has been fully subscribed and paid in. No shares carry any rights, privileges or limitations in the distribution of dividends, except for the own shares held as treasury stock.

It should be pointed out that the Board of Directors has been given the power for a period of five years starting from April 27 2006 to increase the share capital either in one or several tranches up to a maximum of €500 million (nominal value) and for a further maximum of €20 million (nominal value) in favour of employees of the Company and of its subsidiaries and parent companies.

Regarding the stock option plans, at June 30 2006 there were 39,344,400 options in circulation, corresponding to the same number of shares. The total notional cost of the stock options assigned to employees, which was all posted to a special equity reserve, at June 30 2006 totalled €966 thousand.

11.b. RESERVES

The evolution and breakdown of the item “Reserves” is given below:

<i>(in thousands of euro)</i>	<i>Additional paid-in capital</i>	<i>Legal reserve</i>	<i>Fair value reserve</i>	<i>Translation reserve</i>	<i>Stock option reserve</i>	<i>Other reserves</i>	<i>Total reserves</i>
<i>Balance at January 1 2005</i>	7,699	115,969	89,761	(1,389)	1,915	160,573	374,528
Capital increases	1,381	--	--	--	--	--	1,381
Shareholder resolution to buy back own shares	(3,553)	--	--	--	--	15,412	11,859
Fair value recognition of hedging instruments	--	--	(265)	--	--	--	(265)
Fair value recognition of securities	--	--	13,816	--	--	--	13,816
Fair value reserve recognized to the statement of income	--	--	(4,261)	--	--	--	(4,261)
Adjustment for own share transactions	--	--	--	--	--	(22,311)	(22,311)
Employee stock option schemes	--	--	--	--	4,637	--	4,637
Effects of equity changes in subsidiaries	--	--	--	--	--	2,416	2,416
Currency translation adjustment	--	--	--	7,388	--	--	7,388
<i>Balance at June 30 2005</i>	5,527	115,969	99,051	5,999	6,552	156,090	389,188

<i>(in thousands of euro)</i>	<i>Additional paid-in capital</i>	<i>Legal reserve</i>	<i>Fair value reserve</i>	<i>Translation reserve</i>	<i>Stock option reserve</i>	<i>Other reserves</i>	<i>Total reserves</i>
<i>Balance at December 31 2005</i>	6,419	115,969	130,950	7,785	7,652	133,019	401,794
Capital increase	487	--	--	--	--	--	487
Cancellation of resolution adopted by AGM of April 27 2005 to buy back own shares	16,422	--	--	--	--	(71,238)	(54,816)
Fair value recognition of hedging instruments	--	--	178	--	--	--	178
Fair value recognition of securities	--	--	738	--	--	--	738
Fair value reserve recognized to the statement of income	--	--	(11,255)	--	--	--	(11,255)
Adjustment for own share transactions	--	--	--	--	--	(5,664)	(5,664)
Employee stock option schemes	--	--	--	--	966	--	966
Effects of equity changes in subsidiaries	--	--	--	--	--	15,121	15,121
Currency translation adjustment	--	--	--	(14,162)	--	--	(14,162)
<i>Balance at June 30 2006</i>	23,328	115,969	120,611	(6,377)	8,618	71,238	333,387

The “Additional paid-in capital” reserve totalled €23,328 thousand at June 30 2006 compared to €6,419 thousand at December 31 2005. The change is due to the subscription of stock option plans for €487 thousand and for €16,422 thousand is due to the resolution adopted on April 27 2006 by the Ordinary Shareholders’ Meeting which cancelled the previous resolution of April 27 2005 to buy back own shares, giving a new authorization for eighteen months from the aforesaid date to buy back a maximum of 25,000,000 shares at a minimum price per share of €0.50 and a maximum of €4.00.

The “Fair Value reserve” totalled €120,611 thousand at June 30 2006 (€130,950 thousand at December 31 2005) and referred for €11,482 thousand (€12,482 thousand at December 31 2005) to the valuation of “Securities” in item 9.g., for €109,286 (€118,803 thousand at December 31 2005) to the valuation of “Available-for-sale financial assets” in item 10.f., net of the negative valuation of the hedging instruments for €157 thousand (€335 thousand at December 31 2005).

The “Translation reserve” at June 30 2006, totalled €6,377 thousand and consisted of the following breakdown:

<i>(in thousands of euro)</i>	<i>31.12.2005</i>	<i>Increases</i>	<i>Decreases</i>	<i>30.06.2006</i>
Sogefi Group	5,952	--	(1,221)	4,731
CIR Ventures	1,032	--	(2,813)	(1,781)
Medinvest	36,435	--	(23,333)	13,102
Medinvest hedging effect	(35,726)	13,205	--	(22,521)
Others	92	--	--	92
Total	7,785	13,205	(27,367)	(6,377)

The item “Other reserves” at June 30 2006 comprised the following:

<i>(in thousands of euro)</i>	
Reserve for capital increases	3
Extraordinary reserve	21
Consolidation reserve	71,214
Total	71,238

The movement of treasury stock during the period was as follows:

<i>(in thousands of euro)</i>	<i>Number of shares</i>	<i>Value</i>
Balance at December 31 2005	27,216,642	61,321
Increases	6,627,358	15,030
Balance at June 30 2006	33,844,000	76,351

11.c. RETAINED EARNINGS (LOSSES)

The changes in Retained earnings (losses) are shown in the “Chart showing changes in Shareholders’ equity”.

12. NON-CURRENT LIABILITIES

12.a. BONDS

The detail of the item “Bonds”, net of intercompany elimination, is as follows:

<i>(in thousands of euro)</i>	<i>Effective rate</i>	<i>30.06.2006</i>	<i>Fair value at 30.06.2006</i>	<i>31.12.2005</i>	<i>Fair value at 31.12.2005</i>
CIR S.p.A. Bond issue 5.75% 2004/2024	5.90%	274,002	252,707	266,225	262,502
CIR International Bond issue 6.375% 2003/2011	6.03%	192,978	196,008	199,162	203,870
CIR International Bond issue 5.25% 1999/2009	5.41%	405,667	405,667	424,769	424,769
Gruppo Editoriale L'Espresso Bond issue 5.125% 2004/2014	4.82%	316,424	305,749	309,095	315,558
Total		1,189,071	1,160,131	1,199,251	1,206,699

In application of IAS 32 and 39, at January 1 2005 the original values of bonds issued were written down to account for expenses incurred and bond issuance discount. Liabilities relating to fixed/floating interest rate swaps entered into for hedging purposes were also recognized, as indicated in note 10.d..

At June 30 2006 CIR International also held a nominal €30,000 thousand (unchanged from December 31 2005) of the CIR 5.75% Bond issue 2004/2024.

12.b. OTHER BORROWINGS

<i>(in thousands of euro)</i>	<i>30.06.2006</i>	<i>31.12.2005</i>
Loans from banks secured by collateral	203,601	134,812
Other loans from banks	461,286	496,319
Leasing	17,703	19,799
Other borrowings	11,717	3,855
Total	694,307	654,785

The increase in the item “Loans from banks secured by collateral” was mainly due to the change in the consolidation area following the acquisition of the Anni Azzurri group.

The item “Other loans from banks” consists mainly of the following items:

- €59,000 thousand granted in 2003 to Energia Italiana by Banca Monte dei Paschi di Siena for the acquisition of Tirreno Power, with a maturity of January 2010 and a floating rate of Euribor plus 150 basis points;
- €50,000 thousand made during 2004 to Sorgenia, with a maturity of March 2009, a syndicated loan organized by Banca Popolare di Vicenza with a floating rate of Euribor plus 140 basis points;
- €30,000 thousand made on December 23 2005 to Sorgenia by Centrobanca with a maturity of June 2007 at a floating rate;
- €273,703 thousand, €141,673 thousand of which were paid out during the year to Energia Molise by Banca Monte dei Paschi di Siena in relation to the construction of the Termoli thermo-electric power plant, maturing in 2014 and with a floating rate, and a non-recourse basis;

- €40,000 thousand, made during 2003 to Sogefi, as partial drawdown of a syndicated loan facility of €100,000 thousand, with a maturity of December 2008 and a floating rate of Euribor plus 60 basis points.

12.c. PERSONNEL OBLIGATIONS

The detail is the following:

<i>(in thousands of euro)</i>	<i>30.06.2006</i>	<i>31.12.2005</i>
Employee severance indemnity fund (TFR)	125,985	120,431
Retirement fund and similar obligations	42,481	43,240
Total	168,466	163,671

<i>(in thousands of euro)</i>	<i>30.06.2006</i>	<i>31.12.2005</i>
Starting balance	163,671	157,759
Provisions made for work done during the period	8,727	16,522
Increases for interest	2,669	5,804
Actuarial expenses or income	200	1,763
Benefits paid out	(11,642)	(17,153)
Increases or decreases due to changes in the consolidation area	4,983	(1,809)
Other changes	(142)	785
Closing balance	168,466	163,671

In compliance with IAS 19, personnel funds were valued using special actuarial methods based on demographic, economic and financial factors.

The methods of calculating the 'TFR' fund, the 'Pension funds' and the 'Fixed Indemnity Fund' included in the item "Retirement funds and similar obligations" are summarized in the following chart:

TFR and Defined Benefit Provisions

Annual discount rate for calculating present value	4.0% - 4.25%
Annual inflation rate	2%
Annual rate of pay increases	2% - 3%
Annual rate of TFR increase	3%
Annual payout probability rate	4%
Voluntary resignation rate	2% - 5% of staff

Pension Funds

Annual discount rate for calculating present value	4.8%
Annual inflation rate	2.8%
Annual rate of pay increases	3.25% - 4%
Return on assets servicing the plan	3.25% - 6%
Retirement age	63

STOCK OPTION PLANS OUTSTANDING AT JUNE 30 2006

The following chart shows the stock option plans of the Parent Company CIR S.p.A..

	<i>Options in circulation at the beginning of the year</i>		<i>Options awarded during the year</i>		<i>Options exercised during the year</i>		<i>Options in circulation at the end of the year</i>			<i>Options exercisable at the end of the year</i>	
	<i>No. of options</i>	<i>Weighted average strike price</i>	<i>No. of options</i>	<i>Weighted average strike price</i>	<i>No. of options</i>	<i>Weighted average strike price</i>	<i>No. of options</i>	<i>Weighted average strike price</i>	<i>Average duration (years)</i>	<i>No. of options</i>	<i>Weighted average strike price</i>
Stock Option Plan March 7 2000	3,110,000	3.70	-	-	-	-	3,110,000	3.70	4.25	3,110,000	3.70
Stock Option Plan September 13 2000	70,000	4.06	-	-	-	-	70,000	4.06	4.75	70,000	4.06
Stock Option Plan January 30 2001	1,743,000	2.62	-	-	-	-	1,743,000	2.62	5.25	1,743,000	2.62
Stock Option Plan September 7 2001	2,359,600	1.28	-	-	-	-	2,359,600	1.28	5.51	2,359,600	1.28
Stock Option Plan March 14 2002	578,600	1.20	-	-	70,300	1.20	508,300	1.20	6.26	508,300	1.20
Stock Option Plan September 13 2002	769,400	1.02	-	-	72,300	1.02	697,100	1.02	6.67	487,850	1.02
Stock Option Plan March 7 2003	1,141,800	0.84	-	-	422,700	0.84	719,100	0.84	7.26	198,250	0.84
Stock Option Plan September 5 2003	1,353,800	1.13	-	-	85,200	1.13	1,268,600	1.13	7.67	484,900	1.13
Stock Option Plan March 12 2004	2,031,900	1.60	-	-	91,500	1.60	1,940,400	1.60	8.26	769,700	1.60
Stock Option Plan June 8 2004	3,500,000	1.60	-	-	-	1.60	3,500,000	1.60	2.96	3,500,000	1.60
Stock Option Plan September 6 2004	2,212,100	1.56	-	-	96,600	1.56	2,115,500	1.56	8.67	610,400	1.56
Stock Option Plan March 11 2005	4,407,800	2.34	-	-	-	2.34	4,407,800	2.34	9.26	1,306,800	2.34
Stock Option Plan September 6 2005	2,790,000	2.49	-	-	-	-	2,790,000	2.49	9.67	502,200	2.49
Stock Option Plan May 18 2006	-	-	2,765,000	2.50	-	-	2,765,000	2.50	10.51	-	-
Total	26,068,000	2.03	2,765,000	2.50	838,600	1.08	27,994,400	2.10	7.15	15,651,000	2.13

TREASURY STOCK HELD

Stock Option Plan January 11 2005	11,550,000	2.15	-	-	200,000	2.15	11,350,000	2.15	3.84	11,350,000	2.15
Total	11,550,000	2.15	-	-	200,000	2.15	11,350,000	2.15	3.84	11,350,000	2.15

Grand total	37,618,000	2.03	2,765,000	2.50	1,038,600	1.29	39,344,400	2.12	6.19	27,001,000	2.14
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12.d. PROVISIONS FOR RISKS AND LOSSES

The breakdown and the movements of the non-current part of these provisions is as follows:

<i>(in thousands of euro)</i>	<i>Provision for disputes in progress</i>	<i>Provision for restructuring charges</i>	<i>Provision for miscellaneous risks</i>	<i>Total</i>
Balance at December 31 2005	18,840	15,597	8,028	42,465
Sums set aside during the period	2,705	2,011	6,126	10,842
Withdrawals	(1,287)	(5,030)	(3,483)	(9,800)
Exchange rate differences	(31)	(18)	(7)	(56)
Other movements	(2,467)	--	3,484	1,017
Balance at June 30 2006	17,760	12,560	14,148	44,468

The breakdown and the movements of the current part of these provisions is as follows:

<i>(in thousands of euro)</i>	<i>Provision for disputes in progress</i>	<i>Provision for restructuring charges</i>	<i>Provision for miscellaneous risks</i>	<i>Total</i>
Balance at December 31 2005	5,295	2,860	35,451	43,606
Sums set aside during the period	51	576	2,144	2,771
Withdrawals	(1,606)	(1,231)	(6,443)	(9,280)
Other movements	2,790	--	(3,463)	(673)
Balance at June 30 2006	6,530	2,205	27,689	36,424

Apart from the libel disputes regarding the Espresso group, which are typical of all publishing businesses, the Provision for disputes in progress includes risks for disputes of a commercial nature and labour disputes.

The Provision for restructuring charges includes sums set aside for restructuring action that has been announced to the parties concerned and in particular refers to the production reorganization programs of the Sogefi group.

The provision for miscellaneous risks is mainly to cover tax disputes outstanding with local tax authorities.

13. CURRENT LIABILITIES

13.a. OTHER BORROWINGS

<i>(in thousands of euro)</i>	<i>30.06.2006</i>	<i>31.12.2005</i>
Loans from banks secured by collateral	54,903	12,023
Other loans from banks	166,813	109,811
Leasing	2,526	2,910
Other borrowings	70,909	50,887
Loans from subsidiaries	247	250
Total	295,398	175,881

The item “Other loans from banks” includes a loan of €80,000 thousand made in 2001 to Sogefi in the form of a syndicated loan maturing in December 2006 at a floating interest rate of 70 basis points over Euribor.

13.b. TRADE PAYABLES

<i>(in thousands of euro)</i>	<i>30.06.2006</i>	<i>31.12.2005</i>
Payables – parent companies	915	--
Payables - subsidiaries	9,591	16,560
Payables – affiliated companies	439	694
Payables - suppliers	617,799	629,809
Advance payments	1,843	2,052
Payables in the form of notes	43	651
Total	630,630	649,766

The item “Payables – parent companies” refers to management support and communication services provided by the parent company Cofide S.p.A..

The item “Payables - subsidiaries” refers mainly to the trade payable due by Sorgenia S.p.A. to Tirreno Power S.p.A..

Trade payables are settled on average between 60 and 90 days and are not subject to interest.

13.c. OTHER PAYABLES

<i>(in thousands of euro)</i>	<i>30.06.2006</i>	<i>31.12.2005</i>
Due to employees	64,766	58,617
Taxes payable	127,711	60,755
Social security payables	28,699	32,635
Other payables	82,253	61,761
Total	303,429	213,768

INCOME STATEMENT: NOTES

14. REVENUES

BREAKDOWN BY BUSINESS SECTOR

<i>(in millions of euro)</i>	<i>1st half 2006</i>		<i>1st half 2005</i>		<i>Change %</i>
	<i>amount</i>	<i>%</i>	<i>amount</i>	<i>%</i>	
Media	601.5	29.8	567.6	33.3	6.0
Utilities	855.8	42.3	575.9	33.8	48.6
Automotive components	532.9	26.4	535.4	31.4	(0.5)
Healthcare	31.0	1.5	23.2	1.4	33.6
Others	0.2	--	2.4	0.1	n.a.
Total consolidated revenues	2,021.4	100.0	1,704.5	100.0	18.6

BREAKDOWN BY GEOGRAPHICAL AREA

<i>(in millions of euro)</i>							
<i>1st half 2006</i>	<i>Total revenues</i>	<i>Italy</i>	<i>Other European countries</i>	<i>North America</i>	<i>South America</i>	<i>Asia</i>	<i>Other Countries</i>
Media	601.5	601.5	--	--	--	--	--
Utilities	855.8	855.8	--	--	--	--	--
Automotive components	532.9	54.3	397.6	13.3	60.4	5.0	2.3
Healthcare	31.0	31.0	--	--	--	--	--
Others	0.2	0.2	--	--	--	--	--
Total consolidated revenues	2,021.4	1,542.8	397.6	13.3	60.4	5.0	2.3
Percentage	100.0%	76.3%	19.7%	0.7%	3.0%	0.2%	0.1%

<i>(in millions of euro)</i>							
<i>1st half 2005</i>	<i>Total revenues</i>	<i>Italy</i>	<i>Other European countries</i>	<i>North America</i>	<i>South America</i>	<i>Asia</i>	<i>Other Countries</i>
Media	567.6	567.6	--	--	--	--	--
Utilities	575.9	575.9	--	--	--	--	--
Automotive components	535.4	60.5	400.2	16.3	52.1	2.2	4.1
Healthcare	23.2	23.2	--	--	--	--	--
Others	2.4	--	1.2	0.2	0.6	0.1	0.3
Total consolidated revenues	1,704.5	1,227.2	401.4	16.5	52.7	2.3	4.4
Percentage	100.0%	72.0%	23.5%	1.0%	3.1%	0.1%	0.3%

The types of products marketed by the Group and the nature of the business sectors in which it operates mean that revenues flows are reasonably linear throughout the year and are not subject to any particular cyclical phenomena provided that the basis of consolidation remains unchanged.

15. OPERATING COSTS AND REVENUES

15.a. COSTS FOR THE PURCHASE OF GOODS

This item rose from €881,992 thousand in the first half of 2005, to €1,148,838 thousand in the first half of 2006.

The increase recorded (+30.4%) is mainly attributable on the one hand to the Sorgenia group, being closely connected to the rate of revenue growth in the utilities sector (+48.6%), and on the other hand to the Sogefi group as a result of the rise in the cost of steel and in production volumes.

15.b. COSTS FOR SERVICES

The item rose from €336,552 thousand in the first half of 2005 to €382,416 thousand in the first half of 2006, as can be seen from the following breakdown:

<i>(in thousands of euro)</i>	<i>1st half 2006</i>	<i>1st half 2005</i>
Technical and professional consulting	39,072	33,208
Directors' and Statutory Auditors' fees	3,848	3,179
Distribution and transportation costs	33,089	23,049
Outsourcing	63,846	67,523
Other expenses	242,561	209,593
Total	382,416	336,552

The rise in costs for services (+13.6%) was also due to the increased business of the Group which led to a greater need for external services.

15.c. PERSONNEL EXPENSES

Personnel expenses totalled €288,971 thousand in the first half of 2006 (€284,77 thousand in the first half of 2005) and are as follows:

<i>(in thousands of euro)</i>	<i>1st half 2006</i>	<i>1st half 2005</i>
Salaries and wages	198,690	195,348
Social security contributions	64,882	60,615
Severance indemnity	7,189	9,400
Retirement and similar benefits	2,017	2,814
Valuation of stock option plans	4,142	6,373
Other costs	12,051	9,727
Total	288,971	284,277

The Group had an average of 10,316 employees in the first half of 2006.

15.d. OTHER OPERATING REVENUES

This item can be broken down as follows:

<i>(in thousands of euro)</i>	<i>1st half 2006</i>	<i>1st half 2005</i>
State grants and contributions	2,350	7,976
Capital gains on disposals	3,847	101
Non-recurring gains and other income	69,541	34,708
Total	75,738	42,785

The item “Non-recurring gains and other income” was positively affected by the penalties billed by the Sorgenia group to the EPC Contractor as liquidated damage cost as specified in the Management Report.

15.e. OTHER OPERATING COSTS

This item can be broken down as follows:

<i>(in thousands of euro)</i>	<i>1st half 2006</i>	<i>1st half 2005</i>
Write-downs and losses on receivables	4,963	5,646
Provisions made for risks and losses	6,644	9,341
Income taxes and indirect taxes	11,338	9,343
Taxes relating to prior periods	16	558
Capital losses on disposals	43	21
Non-recurring losses and other charges	18,623	8,186
Total	41,627	33,095

The increase in the item “Non-recurring losses and other charges” refers mainly to the provision made for the write-down of receivables and to higher costs relating to prior periods in the Sorgenia group.

16. FINANCIAL INCOME AND EXPENSES

16.a. FINANCIAL INCOME

This item includes the following:

<i>(in thousands of euro)</i>	<i>1st half 2006</i>	<i>1st half 2005</i>
Interest income on bank accounts	7,735	7,192
Interest on securities	9,898	4,998
Other interest income	6,097	9,048
Interest rate derivatives	2,953	12,071
Gains from exchange rate differences	1,870	7,623
Other financial income	3,516	3,245
Total	32,069	44,177

16.b. FINANCIAL EXPENSES

This item includes the following:

<i>(in thousands of euro)</i>	<i>1st half 2006</i>	<i>1st half 2005</i>
Interest expense on bank accounts	11,115	7,201
Interest expense on bonds	31,552	39,650
Other interest expense	7,609	4,851
Interest rate derivatives	303	2,872
Losses from exchange rate differences	4,156	5,323
Other financial expenses	6,022	3,468
Total	60,757	63,365

The item “Interest rate derivatives” for the sum of €303 thousand includes €139 thousand which refers to the net fair value estimation of hedging transactions.

16.c. GAINS FROM TRADING SECURITIES

The breakdown of “Gains from trading securities” is the following:

<i>(in thousands of euro)</i>	<i>1st half 2006</i>	<i>1st half 2005</i>
Shares in subsidiaries	688	5,074
Shares in other companies	21,725	34,931
Other securities and other gains	30,858	5,868
Total	53,271	45,873

16.d. LOSSES FROM TRADING SECURITIES

The breakdown of “Losses from trading securities” is the following:

<i>(in thousands of euro)</i>	<i>1st half 2006</i>	<i>1st half 2005</i>
Shares in subsidiaries	2,083	4,087
Shares in other companies	17,701	36,172
Other securities and other losses	5,966	11,435
Total	25,750	51,694

17. INCOME TAXES

Income taxes can be broken down as follows:

<i>(in thousands of euro)</i>	<i>1st half 2006</i>	<i>1st half 2005</i>
Current taxes	62,319	51,052
Deferred taxes	5,662	5,927
Total	67,981	56,979

18. EARNINGS PER SHARE

The basic earnings per share is calculated by dividing the net income for the period attributable to ordinary Shareholders by the weighted average number of shares in circulation. The diluted earnings per share is calculated by dividing the net income for the period attributable to ordinary Shareholders by the weighted average number of ordinary shares in circulation during the period, adjusted for the capital dilution effects of any options outstanding. The calculation of the shares in circulation does not include own shares held as treasury stock.

The company has only one category of potential ordinary shares, which are those shares resulting from the stock options assigned to employees.

To determine the average number of options, the average fair value of the shares for the period under examination was used. The average fair value of CIR ordinary shares in the first half of 2006 was €2,398 compared to an average fair value of €2,233 in the first half of 2005.

The following chart shows the information on the shares used to calculate the basic and diluted earnings per share.

	<i>1st half 2006</i>	<i>1st half 2005</i>
Net income attributable to the Shareholders (in thousands of euro)	62,658	37,541
Weighted average number of ordinary shares in circulation	750,614,560	761,382,434
Basic earnings per share (euro)	0.0835	0.0493
Net income attributable to the Shareholders (in thousands of euro)	62,658	37,541
Weighted average number of ordinary shares in circulation	750,614,560	761,382,434
Weighted average number of options	37,411,500	33,176,233
Fair value of weighted average number of options	5,444,960	4,204,743
Adjusted weighted average number of shares in circulation	756,059,520	765,587,177
Diluted earnings per share (euro)	0.0829	0.0490

19. DIVIDENDS PAID OUT

Dividends paid out in the first half of 2006 (relative to the distribution of earnings for 2005, as per the shareholders' resolution adopted on April 27 2006) amounted to €37,520 thousand, equivalent to €0.050 per share.

The Company has not issued any other shares apart from ordinary ones and treasury stock is always excluded from the dividend payout.

In the first half of 2005 the dividend payout totalled €38,009 thousand, equivalent to €0.050 per share.

OTHER INFORMATION

20. GUARANTEES AND COMMITMENTS

At June 30 2006 the situation of guarantees and commitments was as follows:

CIR S.p.A.

Guarantees issued in favour of the ENI group following the agreements for the supply of Norwegian and Libyan gas starting from October 2001. Supply contracts generally include take or pay clauses with purchase price revision based on the trend of certain oil products. These clauses are substantially in line with normal market conditions

Espresso group

Guarantees issued totalled €8,880 thousand and referred to guarantees made by the parent company of the Group and the subsidiaries Elemedia, Editoriale La Nuova Sardegna and A. Manzoni & C. for the lease of their respective premises and by the subsidiary Ksolutions in favour of Public Administration clients with whom they have service contracts.

Commitments outstanding, for a total of €5,038 thousand, referred to:

- contracts for the purchase of plant and equipment (€3,891 thousand) mainly for Repubblica and Editoriale La Nuova Sardegna as part of the full-colour project;
- risks linked to a ruling in the court case in which Editoriale FVG is involved (€1,147 thousand).

Sorgenia Group

Guarantees for a total of €239,748 thousand at June 30 2006, were issued by banking institutions to cover contractual commitments and the application for a VAT rebate. Shares representing the capital of the subsidiaries Energia Molise S.p.A. and Energia Modugno S.p.A., totalling €134,078 thousand, have been pledged in favour of a pool of banks lead-managed by Monte dei Paschi di Siena against loan facilities granted for the construction of the Termoli and Modugno power plants. At June 30 2006 the loan amounted to €297,408 thousand.

Sorgenia S.p.A. has also issued a guarantee in favour of Banca Monte dei Paschi di Siena on behalf of Energia Molise to cover administrative petitions to the Regional Administrative Court (TAR) of Molise, which were outstanding at the date on which the loan agreement was signed. CIR has issued a counter-guarantee for €193,881 thousand in favour of the lending bank, a sum equivalent to 60.24% of the guarantee issued by Sorgenia.

Sogefi group

Operating Leases

For accounting purposes, leasing and hire contracts are classified as operating leases when the following conditions apply:

- a significant part of the risks and benefits of ownership are maintained by the lessor;
- there are no options giving the right to buy the leased property at a price that does not represent the presumed market value of the same at the close of the period ;
- the duration of the contract does not extend over most of the useful life of the property rented or hired.

The rental payments for operating leases are recognized to the income statement in line with the underlying contracts.

The main operating lease recorded refers to a contract signed by the American subsidiary Alleward Spring U.S.A. Inc. for the lease of the production site situated in Prichard (West Virginia). The contract terminates on October 27 2018 and the remaining instalments total USD 5,178 thousand, of which USD 386 thousand by the end of this year.

Against this contract Sogefi S.p.A. has issued a guarantee for approximately 50% of the remaining lease instalments which is renewed at the end of each year on the basis of the remaining amount. There are no restrictions of any kind connected with this kind of leasing and at the end of the contract the US company will have the right to buy the property at a market price.

Commitments for investments

At June 30 2006 there were commitments for investments for a total of €4,576 thousand.

Guarantees issued

The detail of these guarantees is as follows:

<i>(in thousands of euro)</i>	<i>30.6.2006</i>	<i>31.12.2005</i>
Guarantees in favour of third parties	1,938	2,601
Other guarantees in favour of third parties	9,714	9,714
Collateral security provided for debt shown on the balance sheet	6,060	5,905

Guarantees issued refer to borrowings and are recognized at the value of the commitment outstanding as of the date of these accounts.

The item Other guarantees in favour of third parties refers to the commitment of LPDN GmbH towards the employee pension fund of the two business divisions at the time of the acquisition made in 1996. This commitment is covered by contractual obligations on the part of the vendor, a prime German economic operator.

Collateral security refers to bonds or privileges granted to lenders against loans obtained for the purchase of assets.

Other risks

At June 30 2006 the Sogefi group had assets belonging to third parties on the premises of its companies for €4,211 thousand.

21. JOINT VENTURES

The only company of the Group consisting of a joint venture is Tirreno Power. International accounting standards give two methods for consolidating holdings in joint ventures:

- . the reference method, which involves consolidation pro-rata;
- . the alternative method allowed, which involves using the equity method.

The Group has adopted valuation using the equity method for consistency with the way the accounts have been presented until now.

The chart below shows the key financial figures for the company Tirreno Power:

<i>(in millions of euro)</i>	<i>1st half 2006</i>	<i>1st half 2005</i>	<i>Change in absolute terms</i>	<i>Change %</i>
Statement of income				
Electricity sold (TWh)	6.5	5.3	1.2	22.6
Revenues from sales and services	498.4	327.3	171.1	52.3
Gross operating margin (EBIT)	132.5	75.8	56.7	74.8
Net income	39.8	12.3	27.5	n.a.

	<i>30.06.2006</i>	<i>31.12.2005</i>	<i>Change in absolute terms</i>
Balance Sheet			
Net capital invested	1,267.1	1,286.4	(19.3)
Net financial debt	922.2	981.2	(59.0)
Shareholders' equity	345.0	305.2	39.8
No. of employees	631	651	(20)

The pertinent part of the earnings of Tirreno Power, consolidated using the equity method on the basis of values determined by the application of IAS/IFRS accounting standards, totalled €20.4 million in the first half of 2006 compared with €8.4 million in the first half of 2005.

21. BUSINESS COMBINATIONS

Regarding business combinations, it should be remembered that on June 7 2006 the HSS acquired the Anni Azzurri group.

The following chart shows the balance sheet of the Anni Azzurri group at June 30 2006:

(in thousands of euro)

<i>Asset items</i>		<i>Equity and liability items</i>	
Intangible assets	103,750	TFR Fund	5,014
Tangible assets	882	Payables	148,389
Financial assets	117,308	Total payables	153,403
Total fixed assets	221,940	Shareholders' equity	91,370
Current assets	22,833		
Total assets	244,773	Total equity and liabilities	244,773

The excess amount paid for acquiring the identifiable assets and liabilities as well as any potential liabilities as of the date of the acquisition represents goodwill which in the case of the Anni Azzurri group was recognized to the extent of €50,615 thousand.

23. NET FINANCIAL POSITION

The net financial position can be broken down as follows:

<i>(in thousands of euro)</i>	<i>30.06.2006</i>	<i>31.12.2005</i>
A. Cash and bank deposits	592,988	762,289
B. Other free cash flow	354,734	362,930
C. Securities held for trading	571,819	467,959
D. Cash and cash equivalents (A) + (B) + (C)	1,519,541	1,593,178
E. Current financial receivables	9,729	26,513
F. Current bank borrowings	(358,571)	(176,796)
G. Current part of non-current debt	(73,435)	(53,797)
H. Other current borrowings	(247)	(250)
I. Current financial debt (F) + (G) + (H)	(432,253)	(230,843)
J. Net current financial position (I) + (E) + (D)	1,097,017	1,388,848
K. Non-current bank borrowings	(664,887)	(631,131)
L. Bonds issued	(1,189,071)	(1,199,251)
M. Other non-current borrowings	(29,420)	(23,654)
N. Non-current financial debt (K) + (L) + (M)	(1,883,378)	(1,854,036)
O. Net financial position (J) + (N)	(786,361)	(465,188)

24. CHART SHOWING THE KEY FIGURES OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY
COFIDE S.p.A.
 (Art. 2497-bis paragraph 4 Civil Code)

BALANCE SHEET

(in euro)

ASSETS	31.12.2005
NON-CURRENT ASSETS	571,317,323
CURRENT ASSETS	116,11,365
TOTAL ASSETS	687,28,688

LIABILITIES AND SHAREHOLDERS' EQUITY	31.12.2005
SHAREHOLDERS' EQUITY	569,283,982
NON-CURRENT LIABILITIES	10,096,075
CURRENT LIABILITIES	108,548,631
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	687,928,688

INCOME STATEMENT

(in euro)

	2005
MISCELLANEOUS REVENUES AND INCOME	1,816,056
COSTS FOR PURCHASE OF GOODS	(63,256)
COSTS FOR SERVICES	(2,545,774)
PERSONNEL COSTS	(1,185,374)
OTHER OPERATING COSTS	(363,560)
AMORTIZATION, DEPRECIATION AND WRITE-DOWNS	(45,925)
OPERATING INCOME	(2,387,833)
FINANCIAL INCOME	1,834,854
FINANCIAL EXPENSES	(4,029,905)
DIVIDENDS	20,315,131
GAINS FROM TRADING SECURITIES	31,800
LOSSES FROM TRADING SECURITIES	(296,860)
ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS	(59,352)
INCOME / (LOSS) BEFORE TAXES	15,407,835
INCOME TAXES	15,817
NET INCOME (LOSS) FOR THE YEAR	15,423,652

The financial highlights of the parent company COFIDE S.p.A. are shown in the chart above, which is required by article 2497-bis of the Civil Code, and are extrapolated from the financial statements of that company for the year ended December 31 2005. For a correct and full understanding of the equity and financial situation of COFIDE S.p.A. at December 31 2005, and of the results the company obtained in the year ended as of that date, we would refer readers to the financial statements in question which of course include the Report of the Statutory Auditors and that of the Independent Auditors and are available at the Company offices or with Borsa Italiana.

CIR S.p.A.

Financial statements of the Parent Company

BALANCE SHEET

INCOME STATEMENT

CASH FLOW STATEMENT

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

1. BALANCE SHEET

(in euro)

ASSETS	<i>Notes</i>	<i>30.06.2006</i>	<i>31.12.2005</i>
NON-CURRENT ASSETS		960,688,294	919,464,511
INTANGIBLE ASSETS	(6.a)	52,656	55,667
TANGIBLE ASSETS	(6.b)	4,329,738	11,911,546
REAL-ESTATE INVESTMENTS	(6.c)	17,361,196	6,944,487
EQUITY INVESTMENTS	(6.d)	937,705,968	898,728,609
MISCELLANEOUS RECEIVABLES	(6.e)	210,927	211,859
DEFERRED TAX ASSETS	(6.f)	1,027,809	1,612,343
CURRENT ASSETS		374,999,012	409,885,235
MISCELLANEOUS RECEIVABLES	(7.a)	57,985,713	52,328,165
SECURITIES	(7.b)	233,422,333	180,962,954
CASH AND CASH EQUIVALENTS	(7.c)	83,590,966	176,594,116
TOTAL ASSETS		1,335,687,306	1,329,349,746
LIABILITIES AND SHAREHOLDERS' EQUITY		<i>30.06.2006</i>	<i>31.12.2005</i>
SHAREHOLDERS' EQUITY		952,186,005	953,217,713
SHARE CAPITAL	(8.a)	390,040,134	389,620,834
RESERVES	(8.b)	310,149,561	369,175,921
RETAINED EARNINGS (LOSSES)	(8.c)	202,350,553	189,622,482
NET INCOME FOR THE PERIOD		49,645,757	4,798,476
NON-CURRENT LIABILITIES		305,904,095	297,286,488
BONDS	(9.a)	304,114,971	295,483,269
OTHER BORROWINGS		--	--
DEFERRED TAX LIABILITIES	(6.f)	260,385	340,908
PERSONNEL OBLIGATIONS	(9.b)	1,528,739	1,462,311
CURRENT LIABILITIES		77,597,206	78,845,545
FINANCIAL PAYABLES - SUBSIDIARIES	(10.a)	42,922,701	42,102,350
OTHER PAYABLES	(10.b)	31,639,801	33,708,491
PROVISIONS FOR RISKS AND LOSSES	(10.c)	3,034,704	3,034,704
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,335,687,306	1,329,349,746

2. INCOME STATEMENT

(in euro)

	<i>Notes</i>	<i>1st half 2006</i>	<i>1st half 2005</i>
MISCELLANEOUS REVENUES AND INCOME	(11)	3,011,983	2,714,725
COSTS FOR SERVICES	(12)	(4,798,318)	(4,423,316)
PERSONNEL COSTS	(13)	(3,131,061)	(6,672,975)
OTHER OPERATING COSTS	(14)	(668,994)	(654,967)
AMORTIZATION, DEPRECIATION AND WRITE-DOWNS		(251,445)	(50,918)
OPERATING INCOME (LOSS)		(5,837,835)	(9,087,451)
FINANCIAL INCOME	(15)	5,841,179	5,811,382
FINANCIAL EXPENSES	(16)	(10,228,507)	(9,286,713)
DIVIDENDS	(17)	61,079,051	42,791,314
GAINS FROM TRADING SECURITIES	(18)	827,090	197,650
LOSSES FROM TRADING SECURITIES	(19)	(276,800)	(76,050)
ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS	(20)	(5,926,688)	(1,775,530)
INCOME / (LOSS) BEFORE TAXES		45,477,490	28,574,602
INCOME TAXES	(21)	4,168,267	6,044,599
NET INCOME FOR THE YEAR		49,645,757	34,619,201
BASIC EARNINGS PER SHARE (in euro)		0.0661	0.0455
DILUTED EARNINGS PER SHARE (in euro)		0.0657	0.0452

3. CASH FLOW STATEMENT

(in euro)

	<i>1st half</i> <i>2006</i>	<i>1st half</i> <i>2005</i>
OPERATING ACTIVITY		
NET INCOME FOR THE PERIOD	49,645,757	34,619,201
ADJUSTMENTS:		
AMORTIZATION, DEPRECIATION AND WRITE-DOWNS	6,178,133	4,143,919
ACTUARIAL VALUATION OF STOCK OPTION PLANS	966,165	4,637,196
(INCREASE) REDUCTION IN NET WORKING CAPITAL	(6,905,889)	11,929,627
OTHER NON MONETARY CHANGES	9,107,073	4,031,407
CASH FLOW FROM OPERATING ACTIVITY	58,991,239	59,361,350
of which:		
- interest received (paid out)	4,082,375	4,672,611
- dividends received	61,079,051	42,791,314
- inflows (disbursements) for income taxes *	--	3,602,464
INVESTING ACTIVITY		
PURCHASE OF CURRENT SECURITIES	(57,988,089)	(25,300,984)
PURCHASE OF FIXED ASSETS	(42,362,670)	(41,797,519)
CASH FLOW FROM INVESTING ACTIVITY	(100,350,759)	(67,098,503)
FINANCING ACTIVITY		
PROCEEDS FROM CAPITAL INCREASES	906,546	2,168,000
BUY-BACK OF OWN SHARES	(15,029,996)	(22,311,196)
DIVIDENDS PAID TO SHAREHOLDERS	(37,520,180)	(38,008,840)
CASH FLOW FROM FINANCING ACTIVITY	(51,643,630)	(58,152,036)
INCREASE (DECREASE) IN NET CASH AND CASH EQUIVALENTS	(93,003,150)	(65,889,189)
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	176,594,116	315,916,569
NET CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	83,590,966	250,027,380

* The balance for first half 2005 refers to current tax assets received subsequent to application of the tax consolidation regime.

4. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

<i>(in euro)</i>	<i>Share capital</i>	<i>Reserves</i>	<i>Retained earnings (losses)</i>	<i>Net income for period</i>	<i>Total</i>
BALANCE AT JANUARY 1 2005	388,278,784	385,186,096	213,553,049	26,644,945	1,013,662,874
Capital increases	786,550	1,381,202	--	--	2,167,752
Dividends to Shareholders	--	--	(12,071,908)	(25,936,932)	(38,008,840)
Amount available to the Board of Directors	--	--	--	(708,013)	(708,013)
Shareholder Resolution to buy back own shares	--	11,858,659	(11,858,659)	--	--
Adjustment for own share transactions	--	(22,310,948)	--	--	(22,310,948)
Notional credit of employee stock options	--	4,637,196	--	--	4,637,196
Net income for the period	--	--	--	34,619,201	34,619,201
BALANCE AT JUNE 30 2005	389,065,334	380,752,205	189,622,482	34,619,201	994,059,222
BALANCE AT DECEMBER 31 2005	389,620,834	369,175,921	189,622,482	4,798,476	953,217,713
Capital increases	419,300	487,246	--	--	906,546
Dividends to Shareholders	--	--	(32,721,704)	(4,798,476)	(37,520,180)
Adjustment for own share transactions	--	(5,664,381)	(9,365,615)	--	(15,029,996)
Notional credit of employee stock options	--	966,165	--	--	966,165
Cancellation of resolution of April 27 2005 to buy back own share	--	(54,815,390)	54,815,390	--	--
Net income for the period	--	--	--	49,645,757	49,645,757
BALANCE AT JUNE 30 2006	390,040,134	310,149,561	202,350,553	49,645,757	952,186,005

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY OF THE GROUP

5. ACCOUNTING PRINCIPLES

The accounting standards and valuation criteria used to prepare these interim financial statements have not changed from those used for the last Annual Report which should be referred to and they correspond, where applicable, to those used for the consolidated financial statements which should be consulted for a full description.

These interim financial statements have been prepared in a reduced form in accordance with the terms of IAS 34 approved by European Regulation 1725/2003 and subsequent approvals.

BALANCE SHEET

6. NON-CURRENT ASSETS

6.a INTANGIBLE ASSETS

<i>(in thousands of euro)</i>	<i>Opening balances</i>			<i>Changes for the period</i>		<i>Closing balances</i>		
	<i>Original cost</i>	<i>Accrued amort. and write-downs</i>	<i>Balance 31.12.2005</i>	<i>Purchases</i>	<i>Amort. and write-downs</i>	<i>Original cost</i>	<i>Accrued amort. and write-downs</i>	<i>Balance 30.06.2006</i>
Concessions, licenses, trademarks and similar rights	421	(365)	56	7	(10)	428	(375)	53

AMORTIZATION RATES

<i>Description</i>	<i>%</i>
Concessions, licenses, trademarks and similar rights	16-30%
Other intangible assets	16-30%

6.b. TANGIBLE ASSETS

<i>(in thousands of euro)</i>	<i>Opening Balances</i>			<i>Changes for the period</i>
	<i>Original cost</i>	<i>Accrued deprec. and write-downs</i>	<i>Balance 31.12.2005</i>	<i>Purchases</i>
Land	1,961	--	1,961	--
Buildings	4,179	(4,100)	79	14
Equipment and machinery	782	(743)	39	33
Other assets	3,623	(2,022)	1,601	347
Assets in process and advance payments	8,231	--	8,231	--
Total	18,776	(6,865)	11,911	394

6.c. REAL-ESTATE INVESTMENTS

<i>(in thousands of euro)</i>	<i>Opening Balances</i>			<i>Changes for the period</i>
	<i>Original cost</i>	<i>Accrued deprec. and write-downs</i>	<i>Balance 31.12.2005</i>	<i>Purchases</i>
	7,050	(106)	6,944	2,684

The increases during the period refer to additional work to complete the renovation of a building situated in the centre of Milan, which is recognized in the accounts at a value that substantially corresponds to its market value.

DEPRECIATION RATES

<i>Description</i>	<i>%</i>
Buildings and real-estate investments	3.00%
Equipment and machinery	10.00-25.00%
<i>Other assets:</i>	
- Electronic office equipment	20.00%
- Furniture and fittings	12.00%
- Motor vehicles	25.00%

<i>Reclassification</i>	<i>Changes for the period</i>			<i>Closing balances</i>		
	<i>Disposals cost</i>	<i>acc. deprec.</i>	<i>Depreciation and write-downs</i>	<i>Original cost</i>	<i>Accrued deprec. and write-downs</i>	<i>Balance 30.06.2006</i>
--	--	--	--	1,961	--	1,961
--	--	--	(2)	4,193	(4,102)	91
8	--	--	(9)	823	(752)	71
305	--	--	(46)	4,275	(2,068)	2,207
(8,231)	--	--	--	--	--	--
(7,918)	--	--	(57)	11,252	(6,922)	4,330

<i>Reclassification</i>	<i>Changes for the period</i>			<i>Closing balances</i>		
	<i>Disposals cost</i>	<i>acc. deprec.</i>	<i>Deprec. and write-downs</i>	<i>Original cost</i>	<i>Accrued deprec. and write-downs</i>	<i>Balance 30.06.2006</i>
7,918	--	--	(185)	17,652	(291)	17,361

6.d. EQUITY INVESTMENTS

<i>(in thousands of euro)</i>	<i>Opening balances</i>		<i>Changes for the period</i>					<i>Closing balances</i>	
	<i>31.12.2005</i>		<i>Increases</i>		<i>Decreases</i>		<i>Write-downs/ Revaluation</i>	<i>30.06.2006</i>	
	<i>no. of shares</i>	<i>amount</i>	<i>no. of shares</i>	<i>amount</i>	<i>no. of shares</i>	<i>amount</i>	<i>Val.restored amount</i>	<i>no. of shares</i>	<i>amount</i>
<i>Subsidiaries</i>									
GRUPPO EDITORIALE L'ESPRESSO S.p.A.	218,825,235	333,862	1,950,000	7,818	--	--	--	220,775,235	341,680
ENERGIA HOLDING S.p.A.	88,337,809	184,858	--	--	--	--	--	88,337,809	184,858
SOGEFI S.p.A.	65,194,962	105,193	--	--	--	--	--	65,194,962	105,193
HOLDING SANITÀ E SERVIZI S.p.A.	1,889,382	32,790	1,416,325	31,159	--	--	--	3,305,707	63,949
DRY PRODUCTS S.p.A.	55,000	--	--	--	--	--	--	55,000	--
CIR INTERNATIONAL S.A.	25,000,000	238,686	--	--	--	--	--	25,000,000	238,686
CIRINVEST B.V. <i>(in liquidation)</i>	18,152	24	--	6	--	--	(6)	18,152	24
COFIDEFIN SERVICOS LDA	93,000	180	--	--	--	--	--	93,000	180
INTERGEFI S.r.l.	500,000	512	--	--	--	--	--	500,000	512
CIR VENTURE S.r.l.	10,000	10	--	--	--	--	--	10,000	10
SCALA CAPITAL S.p.A.	1,000,000	1,000	--	--	--	--	--	1,000,000	1,000
JUPITER FINANCE S.p.A.	592,800	1,482	--	296	--	--	(296)	592,800	1,482
Total subsidiaries		898,597		39,279			-- (302)		937,574
<i>Other companies</i>									
C IDC S.p.A. <i>(in liquidation and arrangement before bankruptcy)</i>	1,231,319	--	--	--	--	--	--	1,231,319	--
EMITTENTI TITOLI S.p.A.	232,000	132	--	--	--	--	--	232,000	132
FILIPPO FOCHI S.p.A. <i>(in receivership)</i>	409,520	--	--	--	--	--	--	409,520	--
IST. EDIL. ECONOM. POPOLARE S.r.l.	1,350	1	--	--	--	--	--	1,350	1
Total other companies		133		--			--		133
TOTAL EQUITY INVESTMENTS		898,730		39,279			-- (302)		937,707

The changes during the period were mainly to do with the purchase of shares in Gruppo Editoriale L'Espresso S.p.A. following favourable conditions in the market and to the subscription of a capital increase in HSS to finance its development, especially for the acquisition of the company Anni Azzurri.

6.e. MISCELLANEOUS RECEIVABLES

The balance at June 30 2006 includes security deposits for a nominal value of €180 thousand (€179 thousand at December 31 2005) and advance taxes on severance indemnity, revalued in accordance with the law by €30 thousand (€33 thousand at December 31 2005).

6.f. DEFERRED TAX ASSETS

The breakdown of “Deferred tax assets and liabilities” by type of temporary difference, is the following:

<i>(in thousands of euro)</i>	<i>30.06.2006</i>		<i>31.12.2005</i>	
	<i>Amount of temporary differences</i>	<i>Tax effect</i>	<i>Amount of temporary differences</i>	<i>Tax effect</i>
Deferred tax assets:				
Write-down of fixed assets	4,794	1,582	7,836	2,586
Provisions for risks and losses	(1,679)	(554)	(2,987)	(974)
Total deferred tax assets		1,028		1,612
Deferred tax liabilities:				
Valuation of financial instruments	(54)	(19)	(54)	(19)
Capital gain on sale of real estate	(4,601)	(241)	(6,135)	(322)
Total deferred tax liabilities		(260)		(341)
Total net deferred taxes		768		1,271

During the first half of the year 2006 no deferred taxes were posted directly to shareholders' equity, neither were there any prior losses for which the Company has not set aside deferred taxes.

7. CURRENT ASSETS

7.a. MISCELLANEOUS RECEIVABLES

<i>(in thousands of euro)</i>	<i>30.06.2006</i>	<i>31.12.2005</i>
Tax receivables	44,502	39,719
Financial receivables - subsidiaries	7,500	6,522
Other receivables – parent companies	260	--
Other receivables - subsidiaries	2,529	2,929
Receivables - Others	3,194	3,158
Total	57,985	52,328

The item “Financial receivables - subsidiaries” can be broken down as follows:

<i>(in thousands of euro)</i>	<i>30.06.2006</i>	<i>31.12.2005</i>
Dry Products S.p.A.	--	3,530
Jupiter Finance S.p.A.	4,300	--
Intergefi S.r.l.	3,200	2,992
Total	7,500	6,522

The changes during the period are mainly due to the receipt of the receivable owing to the company Dry Products which received liquidity from the sale of its subsidiary Ricciarelli S.p.A. and also to the non-interest-bearing loan granted to the subsidiary Jupiter Finance to support the new business in the non-performing loans sector.

The item “Other receivables – parent companies” refers to services rendered on behalf of the parent company Cofide in the first half of the year (see item 11 “Miscellaneous revenues and income” which will be billed in the second half of the year.

The item “Other receivables – subsidiaries” includes the balance of “Invoices to be issued” which refers to services rendered on behalf of subsidiaries during the first half of the year (see item 11 “Miscellaneous revenues and income”) which will be billed in the second half of the year.

7.b. SECURITIES

The item “Securities” consists of the following categories of securities:

<i>(in thousands of euro)</i>	<i>30.06.2006</i>	<i>31.12.2005</i>
Italian Government securities or similar securities	11,902	37,085
Investment funds and similar funds	14,980	--
Bonds	62,309	51,627
Miscellaneous securities	139,797	89,070
Interest on securities	4,434	3,181
Total	233,422	180,963

The new category “Investment funds and similar funds” refers to money-market funds for the investment of short term liquidity.

The recognition of “Securities” at fair value involved making a negative adjustment to the statement of income of €5,625 thousand.

7.c. CASH AND CASH EQUIVALENTS

Cash and cash equivalents went down by €93,003 thousand from €176,594 thousand at December 31 2005 to €83,591 thousand at June 30 2006. A breakdown of the changes is given in the cash flow statement.

8. SHAREHOLDERS' EQUITY

8.a. SHARE CAPITAL

Share capital rose from €389,620,833.50 at December 31 2005 (comprising 779,241,667 shares each with a nominal value of €0.50) to €390,040,133.50 (780,080,267 shares) at June 30 2006 as a result of the issuance of 838,600 shares in execution of stock option plans.

At June 30 2006 the Company was holding 33,844,000 of its own shares (4.34% of capital) for a total value of €76,351 thousand, up from 27,216,642 shares at December 31 2005.

In application of IAS 32, as from January 1 2005 the treasury stock held by the Parent Company is deducted from shareholders' equity.

The share capital is fully subscribed and paid up. No shares have any rights, privileges or limitations on the distribution of dividends, with the exception of treasury stock.

It should be pointed out that the Board of Directors has been given the power for a period of five years starting from April 27 2006 to increase the share capital either in a single or in several tranches up to a maximum of €500 million (nominal value) and for a further maximum of €20 million (nominal value) in favour of employees of the Company and of its subsidiaries and parent companies.

8.b. RESERVES

The breakdown of the item “Reserves” is given below:

<i>(in thousands of euro)</i>	<i>Additional paid-in capital</i>	<i>Legal reserve</i>	<i>Statutory reserve</i>	<i>Reserve for treasury stock held</i>	<i>Reserve for purchase of treasury stock</i>	<i>Treasury stock held</i>	<i>Reserve for “First adoption of IFRS”</i>	<i>Stock option reserve</i>	<i>Reserve for future capital increases</i>	<i>Total reserves</i>
<i>Balance at January 1 2005</i>	7,699	115,969	21	25,442	97,369	(25,442)	162,210	1,915	3	385,186
Capital increases	1,381	--	--	--	--	--	--	--	--	1,381
Buy-back of own shares	--	--	--	22,311	(22,311)	(22,311)	--	--	--	(22,311)
Shareholder resolution to buy back own shares	(3,553)	--	--	--	15,412	--	--	--	--	11,859
Posting of notional cost of stock options	--	--	--	--	--	--	--	4,637	--	4,637
<i>Balance at June 30 2005</i>	5,527	115,969	21	47,753	90,470	(47,753)	162,210	6,552	3	380,752

<i>(in thousands of euro)</i>	<i>Additional paid-in capital</i>	<i>Legal reserve</i>	<i>Statutory reserve</i>	<i>Reserve for treasury stock held</i>	<i>Reserve for purchase of treasury stock</i>	<i>Treasury stock held</i>	<i>Reserve for “First adoption of IFRS”</i>	<i>Stock option reserve</i>	<i>Reserve for future capital increases</i>	<i>Total reserves</i>
<i>Balance at December 31 2005</i>	6,419	115,969	21	61,321	76,902	(61,321)	162,210	7,652	3	369,176
Capital increases	487	--	--	--	--	--	--	--	--	487
Buy-back of own shares	--	--	--	15,030	(5,664)	(15,030)	--	--	--	(5,664)
Cancellation of resolution to buy back own shares adopted on April 27 2005	16,422	--	--	--	(71,238)	--	--	--	--	(54,816)
Posting of notional cost of stock options	--	--	--	--	--	--	--	966	--	966
<i>Balance at June 30 2006</i>	23,328	115,969	21	76,351	--	(76,351)	162,210	8,618	3	310,149

It should be remembered that on April 27 2006 the Ordinary Meeting of the Shareholders voted to revoke the previous resolution adopted on April 27 2005 to buy back the Company's own shares and to give a new authorization, for eighteen months as from that date, to buy back a maximum of 25,000,000 shares at a minimum price per share of €0.50 and a maximum of €4.00.

The "Stock option reserve" contains the value of the notional cost of the stock option plans assigned to employees and approved after November 7 2002.

8.c. RETAINED EARNINGS (LOSSES)

The changes in Retained earnings (losses) are shown in the "Chart showing changes in Shareholders' equity".

9. NON-CURRENT LIABILITIES

9.a. BONDS

The item "Bonds" amounted to €304,115 thousand at June 30 2006, in comparison to €295,483 thousand at December 31 2005 and referred to the Bond issue made by the Company in December 2004 for a nominal €300 million with a maturity in 2024 and a fixed interest rate of 5.75%. Using the amortized cost method, this loan was accounted for including the accrued interest for the period and deducting the issuance discount and expenses. The effective interest rate is 5.90%. The bonds are listed on the Luxembourg Bourse. The fair value of the Bond was €280,785 thousand at June 30 2006 and €291,668 thousand at December 31 2005.

9.b. PERSONNEL OBLIGATIONS

The changes in the "Employee severance indemnity fund (TFR)" are the following:

<i>(in thousands of euro)</i>	<i>30.06.2006</i>	<i>31.12.2005</i>
Opening balance	1,462	1,362
Amount accrued during the period	124	232
Amount paid out	(57)	(132)
Total	1,529	1,462

10. CURRENT LIABILITIES

10.a. FINANCIAL PAYABLES - SUBSIDIARIES

The balance of this item at June 30 2006 was €42,923 thousand (€42,102 at December 31 2005) and referred to a loan received from CIR International S.A., including €1,565 thousand of interest at the rate of 4%. The increase refers to interest accrued during the first half of the year.

10.b. OTHER PAYABLES

<i>(in thousands of euro)</i>	<i>30.06.2006</i>	<i>31.12.2005</i>
Taxes payable	12,828	13,496
Payables – parent companies	913	--
Payables - subsidiaries	11,766	15,172
Trade payables	1,866	1,509
Other payables	4,267	3,532
Total	31,640	33,709

The item “Payables - subsidiaries” refers for €11,726 thousand to sums payable to the companies that took part in the tax consolidation regime (€8,745 thousand to companies of the Espresso group, €2,658 thousand to companies of the Sorgenia group, €210 thousand to companies of the Sogefi group and €113 thousand to companies of the HSS group) and for €40 thousand to the payable due to the subsidiary Dry Products as the charge-back of costs.

10.c. PROVISIONS FOR RISKS AND LOSSES

The breakdown and movements of these provisions are as follows:

<i>(in thousands of euro)</i>	<i>Balance at 31.12.2005</i>	<i>Provisions made</i>	<i>Withdrawals</i>	<i>Balance at 30.06.2006</i>
Others	3,035	--	--	3,035
Total	3,035	--	--	3,035

INCOME STATEMENT

12. MISCELLANEOUS REVENUES AND INCOME

This item includes the following:

<i>(in thousands of euro)</i>	<i>1st half 2006</i>	<i>1st half 2005</i>
Services rendered to subsidiaries	2,529	2,452
Services rendered to parent company	260	243
Real estate revenues	206	4
Other revenues and recovery of costs	17	16
Total	3,012	2,715

Revenues from services rendered to subsidiaries refer to the charge-back of fees for strategic and management support services and specific administrative, financial and fiscal assistance given to the subsidiaries. The services rendered to the parent company are mainly of an administrative and financial nature.

Revenues from services rendered to companies of the Group during the first half of the year 2006 can be broken down as follows:

<i>(in thousands of euro)</i>	<i>1st half 2006</i>	<i>1st half 2005</i>
COFIDE S.p.A.	260	243
Gruppo Editoriale L'Espresso S.p.A.	1,250	1,225
Sorgenia S.p.A.	300	300
Sogefi S.p.A.	961	887
Holding Sanità e Servizi S.p.A.	18	15
Dry Products S.p.A.	--	25
Total	2,789	2,695

12. COSTS FOR SERVICES

This item can be broken down as follow:

<i>(in thousands of euro)</i>	<i>1st half 2006</i>	<i>1st half 2005</i>
Administrative, fiscal, legal and corporate governance consulting fees	1,506	1,768
Services provided by the parent company COFIDE S.p.A.	910	843
Charge-back of costs by subsidiaries	40	63
Directors' and Statutory Auditors' emoluments	859	598
Other expenses	1,483	1,151
Total	4,798	4,423

Services provided by the parent company Cofide S.p.A. were management support and communication services.

13. PERSONNEL COSTS

Personnel costs decreased by €3,542 thousand from €6,673 thousand in the first half of 2005 to €3,131 thousand in the first half of 2006. The item includes the notional cost, equal to €966 thousand (€4,637 thousand in the first half of 2005) resulting from the measurement of the existing stock option plans, approved after November 7 2002.

The chart below shows the changes in the number of employees in the different categories during the period:

	<i>31.12.2005</i>	<i>Hires</i>	<i>Departures</i>	<i>30.06.2006</i>	<i>Average for the period</i>
Executives	10	--	1	9	9
Managers and Office Staff	18	--	--	18	18
Total	28	--	1	27	27

14. OTHER OPERATING COSTS

<i>(in thousands of euro)</i>	<i>1st half 2006</i>	<i>1st half 2005</i>
Non-deductible VAT and other taxes and duties	285	324
Other charges and non-operating expenses	371	331
Other non-recurring charges	13	--
Total	669	655

15. FINANCIAL INCOME

This item consists of the following:

<i>(in thousands of euro)</i>	<i>1st half 2006</i>	<i>1st half 2005</i>
Interest income from securities	4,243	2,228
Interest income on deposits	1,391	2,431
Interest income from subsidiaries	65	236
Other interest income	142	916
Total	5,841	5,811

The breakdown of the interest income from subsidiaries is the following:

<i>(in thousands of euro)</i>	<i>1st half 2006</i>	<i>1st half 2005</i>
Dry Products S.p.A.	20	172
Intergefi S.r.l.	45	54
Total	65	236

16. FINANCIAL EXPENSES

This item consists of the following:

<i>(in thousands of euro)</i>	<i>1st half 2006</i>	<i>1st half 2005</i>
Interest expense on bonds	8,605	8,603
Interest expense on borrowings from subsidiaries	890	422
Other interest expense and bank charges	733	262
Total	10,228	9,287

The item “Interest expense on borrowings from subsidiaries” for the first half of the year 2006 refers for €820 thousand to interest accrued on the loan made by CIR International S.A. and for €70 thousand to charges due to Gruppo Editoriale L’Espresso S.p.A. for taking part in the tax consolidation.

17. DIVIDENDS

This item consists of the following:

<i>(in thousands of euro)</i>	<i>1st half 2006</i>	<i>1st half 2005</i>
<i>Dividends from subsidiaries:</i>		
Gruppo Editoriale L’Espresso S.p.A.	31,730	28,447
Energia Holding S.p.A.	3,666	..
Sogefi S.p.A.	11,409	10,431
CIR International S.A.	10,000	..
Cofidefin Serviços de Consultoria	4,241	3,869
<i>Total dividends relating to subsidiaries</i>	<i>61,046</i>	<i>42,747</i>
Dividends from other companies	33	44
Total dividends	61,079	42,791

18. GAINS FROM TRADING SECURITIES

These total €827 thousand (€198 thousand in the first half of the year 2005) and refer for €688 thousand to transactions with a premium on equities and for €139 thousand to bond trading.

19. LOSSES FROM TRADING SECURITIES

These amounted to €277 thousand (€76 thousand in the first half of the year 2005).

20. ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS

This item consists of the following:

<i>(in thousands of euro)</i>	<i>1st half 2006</i>	<i>1st half 2005</i>
Write-down of bonds	(6,135)	(270)
Write-down of investments in subsidiaries	(302)	(4,093)
Write down of equities	--	(42)
(Increases to) / Withdrawals from provisions for covering losses from equity investments	--	2,110
Revaluation of bonds	474	520
Revaluation of other securities	36	--
Total	(5,927)	(1,775)

The most significant change was in the write-down of bonds, which refers in particular to medium and long term structured bonds which are indexed to the interest rate curve from 2 to 10 years. The recognition of these bonds at fair value meant posting a loss that should be recovered with the expectation of higher long-term interest rates.

21. INCOME TAXES

This item consists of the following:

<i>(in thousands of euro)</i>	<i>1st half 2006</i>	<i>1st half 2005</i>
Current taxes	4,672	8,006
Deferred taxes	(504)	(1,962)
Total	4,168	6,044

OTHER INFORMATION

22. GUARANTEES AND COMMITMENTS

At June 30 2006 the situation of guarantees and commitments was as follow:

- Guarantees issued in favour of the ENI group following the agreements for the supply of Norwegian and Libyan gas starting from October 2001. Supply contracts generally include take or pay clauses with purchase price revision based on the trend of certain oil products. These clauses are substantially in line with normal market conditions;
- Guarantee for €585 million, issued by banks on behalf of CIR International covering the bond issues;

- Guarantees in favour of the Tax Authorities for VAT receivables for the amount of €6,781 thousand;
- Guarantee of €193,881 thousand in favour of Banca Monte dei Paschi di Siena and on behalf of Sorgenia S.p.A. (Energia Molise) covering administrative petitions filed to the Regional Administrative Court (TAR) of Molise and outstanding as of the date on which the loan agreement was signed.

23. TRANSACTIONS WITH RELATED PARTIES

Information regarding the impact that related-party transactions had on the financial situation and on the income statement for the first half of the year can be found in the comment on the individual items of the financial statements.

The paragraph “Other information” of the Financial Management Report shows the type of transactions entered into with related parties, the amounts of which are given in the Explanatory Notes.

24. NET FINANCIAL POSITION

The net financial position can be broken down as follows:

<i>(in thousands of euro)</i>	<i>30.06.2006</i>	<i>31.12.2005</i>
A. Cash and bank deposits	83,591	176,594
B. Other free cash flow	--	--
C. Securities held for trading	233,422	180,963
D. Cash and cash equivalents (A) + (B) + (C)	317,013	357,557
E. Current financial receivables	--	--
F. Current bank borrowings	--	--
G. Current part of non-current borrowings	--	--
H. Other current financial borrowings	(42,923)	(42,102)
I. Current financial debt (F) + (G) + (H)	(42,923)	(42,102)
J. Net current financial position (I) + (E) + (D)	274,090	315,455
K. Non-current bank borrowings	--	--
L. Bond issues	(304,115)	(295,483)
M. Other non-current borrowings	--	--
N. Non-current financial debt (K) + (L) + (M)	(304,115)	(295,483)
O. Net financial position (J) + (N)	(30,025)	19,972

**LIST OF EQUITY INVESTMENTS
AS AT JUNE 30 2006**

**in accordance with Art. 38.2 of
D.L. no. 127/91**

SUBSIDIARIES CONSOLIDATED WITH THE FULL LINE-BY-LINE METHOD

(in euro or foreign currency)

Name of Company	Registered Offices	Share capital	Currency	Parent companies	% of ownership
CIR GROUP					
CIR INTERNATIONAL S.A.	Luxembourg	250,000,000.00	€	CIR S.p.A.	100.00
CIRINVEST B.V. (in liquidation)	Netherlands	18,152.00	€	CIR S.p.A.	100.00
INTERGEFI S.r.l.	Italy	500,000.00	€	CIR S.p.A.	100.00
COFIDEFIN SERVICOS DE CONSULTORIA Lda	Portugal	125,000.00	€	CIR S.p.A.	74.40
SCALA CAPITAL S.p.A.	Italy	1,000,000.00	€	CIR S.p.A.	100.00
JUPITER FINANCE S.p.A.	Italy	600,000.00	€	CIR S.p.A.	98.80
JUPITER MARKETPLACE S.p.A.	Italy	5,000,000.00	€	JUPITER FINANCE S.p.A.	100.00
ESPRESSO GROUP					
GRUPPO EDITORIALE L'ESPRESSO S.p.A. (*)	Italy	65,107,025.70	€	CIR S.p.A.	50.86
FIN.E.GI.L. EDITORIALE S.p.A.	Italy	18,161,000.00	€	GRUPPO EDITORIALE L'ESPRESSO S.p.A.	100.00
S.E.T.A. S.p.A.	Italy	774,750.00	€	GRUPPO EDITORIALE L'ESPRESSO S.p.A.	71.00
A. MANZONI & C. S.p.A.	Italy	15,000,000.00	€	GRUPPO EDITORIALE L'ESPRESSO S.p.A.	100.00
CENTRO PREPARAZIONE STAMPA – C.P.S. S.p.A.	Italy	520,000.00	€	GRUPPO EDITORIALE L'ESPRESSO S.p.A.	100.00
ROTOCOLOR S.p.A.	Italy	23,000,000.00	€	GRUPPO EDITORIALE L'ESPRESSO S.p.A.	100.00
SOMEDIA S.p.A.	Italy	500,000.00	€	GRUPPO EDITORIALE L'ESPRESSO S.p.A.	100.00
RODOSUD S.p.A.	Italy	2,860,000.00	€	GRUPPO EDITORIALE L'ESPRESSO S.p.A.	100.00
ELEMEDIA S.p.A.	Italy	25,000,000.00	€	GRUPPO EDITORIALE L'ESPRESSO S.p.A.	100.00
EDITORIALE FVG S.p.A.	Italy	87,959,976.00	€	GRUPPO EDITORIALE L'ESPRESSO S.p.A.	91.99
EDITORIALE LA NUOVA SARDEGNA S.p.A.	Italy	775,500.00	€	FIN.E.GI.L. EDITORIALE S.p.A.	100.00
E.A.G. S.p.A.	Italy	815,000.00	€	FIN.E.GI.L. EDITORIALE S.p.A.	100.00
EDIZIONI NUOVA EUROPA S.p.A.	Italy	104,000.00	€	FIN.E.GI.L. EDITORIALE S.p.A.	100.00
EDITORIALE LA CITTÀ S.p.A.	Italy	774,000.00	€	FIN.E.GI.L. EDITORIALE S.p.A.	100.00
S.E.L.P.I. S.p.A.	Italy	3,202,300.00	€	GRUPPO EDITORIALE L'ESPRESSO S.p.A. FIN.E.GI.L. EDITORIALE S.p.A.	70.00 30.00 100.00
EDIGRAF S.r.l.	Italy	312,000.00	€	EDITORIALE FVG S.p.A.	66.67
KATAWEB NEWS S.r.l.	Italy	10,330.00	€	ELEMEDIA S.p.A.	100.00
KSOLUTIONS S.p.A.	Italy	1,000,000.00	€	ELEMEDIA S.p.A.	100.00
EDITORIALE METROPOLI S.p.A.	Italy	500,000.00	€	ELEMEDIA S.p.A.	100.00
RETE A S.p.A.	Italy	9,198,000.00	€	GRUPPO EDITORIALE L'ESPRESSO S.p.A.	100.00
ALL MUSIC S.p.A.	Italy	6,500,000.00	€	RETE A S.p.A.	100.00
SORGENIA GROUP					
ENERGIA HOLDING S.p.A.	Italy	120,351,238.00	€	CIR S.p.A.	73.40
ENERGIA S.p.A.	Italy	8,059,812.65	€	ENERGIA HOLDING S.p.A.	79.35
ENERGIA ITALIANA S.p.A.	Italy	26,050,000.00	€	ENERGIA S.p.A.	62.00
ENERGIA PLASSIER S.r.l.	Italy	50,000.00	€	ENERGIA S.p.A.	100.00

(*) 51.82% of voting rights

<i>Name of Company</i>	<i>Registered Offices</i>	<i>Share capital</i>	<i>Currency</i>	<i>Parent companies</i>	<i>% of ownership</i>
ENERGIA LUCANA S.p.A.	Italy	2,500,000.00	€	ENERGIA S.p.A. TECNOPARCO VALBASENTO S.p.A.	80.00 20.00 100.00
ENERGIA PROGETTI S.r.l.	Italy	500,000.00	€	ENERGIA S.p.A.	80.00
ENERGIA MOLISE S.p.A.	Italy	2,000,000.00	€	ENERGIA S.p.A.	100.00
ENERGIA OPERATION S.p.A.	Italy	100,000.00	€	ENERGIA S.p.A.	100.00
ENERGIA APRILIA S.r.l.	Italy	10,000.00	€	ENERGIA S.p.A.	90.00
ENERGIA MINERVINO S.p.A.	Italy	200,000.00	€	ENERGIA S.p.A.	75.00
ENERGIA LOMBARDA S.p.A.	Italy	120,000.00	€	ENERGIA S.p.A.	100.00
ENERGIA MODUGNO S.p.A.	Italy	1,620,000.00	€	ENERGIA S.p.A.	90.00
SOLUXIA S.p.A.	Italy	500,000.00	€	ENERGIA S.p.A.	100.00
ANEMON S.p.A.	Italy	1,343,156.00	€	ENERGIA S.p.A.	100.00
ELIGENT S.r.l.	Italy	136,050.00	€	ENERGIA S.p.A.	70.00
<i>SOGEFI GROUP</i>					
SOGEFI S.p.A. (**)	Italy	58,770,499.84	€	CIR S.p.A.	57.67
REJNA S.p.A.	Italy	5,200,000.00	€	SOGEFI S.p.A.	99.84
FILTRAUTO S.A.	France	5,750,000.00	€	SOGEFI S.p.A.	99.99
SOGEFI FILTRATION Ltd	Britain	5,126,737	GBP	SOGEFI S.p.A.	100.00
SOGEFI FILTRATION B.V.	Netherlands	1,125,000.00	€	SOGEFI S.p.A.	100.00
SOGEFI FILTRATION A.B.	Sweden	100,000	SEK	SOGEFI S.p.A.	100.00
SOGEFI FILTRATION S.A.	Spain	12,953,713.60	€	SOGEFI S.p.A. FILTRAUTO S.A.	86.08 13.92 100.00
SOGEFI FILTRATION d.o.o.	Slovenia	2,466,326,560	Sit.	SOGEFI S.p.A.	100.00
ALLEVARD REJNA AUTOSUSPENSIONS S.A.	France	36,000,000.00	€	SOGEFI S.p.A.	99.98
SOGEFI Inc.	United States	1,000	\$USA	SOGEFI S.p.A.	100.00
SOGEFI FILTRATION S.p.A.	Italy	21,951,000.00	€	SOGEFI S.p.A.	100.00
FILTRAUTO GmbH (<i>in liquidation</i>)	Germany	51,130.00	€	SOGEFI FILTRATION B.V.	100.00
FILTRAUTO U.K. Ltd (<i>in liquidation</i>)	Britain	6,810,000	GBP	SOGEFI FILTRATION Ltd	100.00
SOGEFI FILTRATION DO BRASIL Ltda	Brazil	29,857,374	Real	SOGEFI FILTRATION S.A.	99.99
SOGEFI FILTRATION ARGENTINA S.A.	Argentina	10,691,607	Pesos	SOGEFI FILTRATION DO BRASIL Ltda FILTRAUTO S.A. SOGEFI FILTRATION S.p.A.	91.90 7.28 0.81 99.99
ALLEVARD SPRINGS Co. Ltd	Britain	4,000,002	GBP	ALLEVARD REJNA AUTOSUSPENSIONS S.A.	100.00
ALLEVARD FEDERN GmbH	Germany	1,529,030.00	€	ALLEVARD REJNA AUTOSUSPENSIONS S.A.	100.00
LIGGETT ARGENTINA S.A.	Argentina	600,000	Pesos	ALLEVARD REJNA AUTOSUSPENSIONS S.A.	99.97
IBERICA DE SUSPENSIONES S.L. (ISSA)	Spain	10,529,668.00	€	ALLEVARD REJNA AUTOSUSPENSIONS S.A.	50.00
ALLEVARD MOLAS DO BRAZIL Ltda	Brazil	37,161,683	Real	ALLEVARD REJNA AUTOSUSPENSIONS S.A. ALLEVARD SPRINGS Co. Ltd	99.99 0.01 100.00
UNITED SPRINGS Ltd	Britain	6,500,000	GBP	ALLEVARD REJNA AUTOSUSPENSIONS S.A.	100.00
UNITED SPRINGS B.V.	Netherlands	254,979.00	€	ALLEVARD REJNA AUTOSUSPENSIONS S.A.	100.00
SHANGHAI ALLEVARD SPRINGS Co. Ltd	China	52,746,597	Rmb.	ALLEVARD REJNA AUTOSUSPENSIONS S.A.	60.58
UNITED SPRINGS S.A.S.	France	10,218,000.00	€	ALLEVARD REJNA AUTOSUSPENSIONS S.A.	99.99

(**) 58.55% of voting rights

<i>Name of Company</i>	<i>Registered Offices</i>	<i>Share capital</i>	<i>Currency</i>	<i>Parent companies</i>	<i>% of ownership</i>
ALLEVARD SPRINGS U.S.A. Inc.	United States	20,055,000	\$USA	SOGEFI S.p.A. ALLEVARD REJNA AUTOSUSPENSIONS S.A.	31.41 58.12 89.53
COOPERS FILTERS Ltd	Britain	3,000,000	GBP	SOGEFI FILTRATION Ltd	100.00
LUHN & PULVERMACHER – DITTMANN & NEUHAUS GmbH	Germany	50,000.00	€	ALLEVARD FEDERN GmbH	100.00

HOLDING SANITÀ E SERVIZI GROUP

HSS – HOLDING SANITÀ E SERVIZI S.p.A.	Italy	3,913,845.00	€	CIR S.p.A.	84.46
PHYSIOCLINIC S.r.l.	Italy	118,800.00	€	HOLDING SANITÀ E SERVIZI S.p.A.	54.09
VILLA MARGHERITA S.r.l.	Italy	751,000.00	€	HOLDING SANITÀ E SERVIZI S.p.A.	100.00
CASAVARDE S.p.A	Italy	910,000.00	€	HOLDING SANITÀ E SERVIZI S.p.A.	100.00
REDANCIA S.r.l.	Italy	100,000.00	€	HOLDING SANITÀ E SERVIZI S.p.A.	100.00
CIMA S.r.l.	Italy	26,000.00	€	REDANCIA S.r.l.	100.00
REHAB S.r.l.	Italy	120,000.00	€	HOLDING SANITÀ E SERVIZI S.p.A.	100.00
OSPEDALE DI SUZZARA S.p.A.	Italy	1,000,000.00	€	HOLDING SANITÀ E SERVIZI S.p.A.	65.00
BLUEBOX S.r.l.	Italy	100,000.00	€	HOLDING SANITÀ E SERVIZI S.p.A.	100.00
SODEMARE S.A.	Luxembourg	671,000.00	€	BLUEBOX S.r.l.	100.00
RESIDENZE ANNI AZZURRI S.p.A.	Italy	15,567,034.00	€	SODEMARE S.A.	100.00
LA NUOVA PALMA S.p.A.	Italy	10,200.00	€	RESIDENZE ANNI AZZURRI S.p.A.	100.00
RESIDENZE ANNI MONZA S.p.A.	Italy	2,064,000.00	€	RESIDENZE ANNI AZZURRI S.p.A.	100.00

DRY PRODUCTS GROUP

DRY PRODUCTS S.p.A.	Italy	100,000.00	€	CIR S.p.A.	55.00
FOOD MACHINERY MEDIUM VOLUME S.p.A. (in liquidation)	Italy	3,000,000.00	€	DRY PRODUCTS S.p.A.	100.00

CIR INTERNATIONAL GROUP

CIR VENTURES L.P.	United States	32,020,000	\$USA	CIR INTERNATIONAL S.A.	99.00
MEDINVEST Plc	Ireland	361,489.87	\$USA	CIR INTERNATIONAL S.A.	87.02

SHAREHOLDINGS IN JOINT VENTURES AND AFFILIATED COMPANIES
VALUED USING THE EQUITY METHOD

(in euro or foreign currency)

Name of Company	Registered Offices	Share Capital	Currency	Parent companies	% of ownership
ESPRESSO GROUP					
LE SCIENZE S.p.A.	Italy	103,400.00	€	GRUPPO EDITORIALE L'ESPRESSO S.p.A.	50.00
SAIRE S.r.l.	Italy	46,800.00	€	GRUPPO EDITORIALE L'ESPRESSO S.p.A.	50.00
EDITORIALE CORRIERE ROMAGNA S.r.l.	Italy	2,856,000.00	€	FIN.E.GI.L. EDITORIALE S.p.A.	40.00
EDITORIALE LIBERTÀ S.p.A.	Italy	1,000,000.00	€	FIN.E.GI.L. EDITORIALE S.p.A.	35.00
ALTRIMEDIA S.p.A.	Italy	517,000.00	€	FIN.E.GI.L. EDITORIALE S.p.A.	35.00
SORGENIA GROUP					
TIRRENO POWER S.p.A.	Italy	91,130,000.00	€	ENERGIA ITALIANA S.p.A.	50.00
SOGEFI GROUP					
ALLEVARD RESSORTS COMPOSITES S.A.S.	France	300,000.00	€	ALLEVARD REJNA AUTOSUSPENSIONS S.A.	50.00

SHAREHOLDINGS IN SUBSIDIARIES AND AFFILIATED COMPANIES
VALUED USING THE COST METHOD (*)

(in euro or foreign currency)

Name of Company	Registered Offices	Share capital	Currency	Parent companies	% of ownership
CIR GROUP					
CIR VENTURE S.r.l. <i>(non operational)</i>	Italy	10,000.00	€	CIR S.p.A.	100.00
ESPRESSO GROUP					
SANDALYAWEB S.r.l. <i>(in liquidation)</i>	Italy	75,000.00	€	EDITORIALE LA NUOVA SARDEGNA S.p.A. ELEMEDIA S.p.A.	51.00 49.00 100.00
RADIO DEEJAY Kft <i>(in liquidation)</i>	Hungary	50,000,000	HuF.	ELEMEDIA S.p.A.	100.00
ENOTRYA S.r.l. <i>(in liquidation)</i>	Italy	78,000.00	€	ELEMEDIA S.p.A.	70.00
ZIVAGO S.p.A. <i>(in liquidation)</i>	Italy	3,096,000.00	€	ELEMEDIA S.p.A.	50.00
CELLULARMANIA.COM S.r.l. <i>(in liquidation)</i>	Italy	10,400.00	€	ELEMEDIA S.p.A.A.	100.00
UHURU MULTIMEDIA S.r.l. <i>(non operational)</i>	Italy	10,400.00	€	KSOLUTIONS S.p.A.	100.00
BENEDETTINE S.r.l. <i>(in liquidation)</i>	Italy	255,000.00	€	FIN.E.G.I.L. EDITORIALE S.p.A.	35.00
SORGENIA GROUP					
TECNOPARCO VALBASENTO S.p.A.	Italy	945,000.00	€	ENERGIA S.p.A.	20.00
E-ENERGY S.r.l.	Italy	15,000.00	€	ENERGIA S.p.A.	20.00
EOLICA BISACCIA S.r.l.	Italy	10,000.00	€	ENERGIA S.p.A.	20.00
ENERGY STAR S.r.l.	Italy	10,200.00	€	ENERGIA S.p.A.	100.00
ITALY ENERGIA S.r.l.	Italy	10,000.00	€	ENERGIA S.p.A.	100.00
SENECA S.c.a.r.l.	Italy	10,000.00	€	ENERGIA S.p.A.	86.25
SOGEFI GROUP					
MAKKAWI CARS & LORRIES Co.	Sudan	900,000	Ls.Pt.	REJNA S.p.A.	25.00
HOLDING SANITÀ E SERVIZI GROUP					
CONSORZIO PRO.RI.MAN. <i>(in liquidation)</i>	Italy	9,000.00	€	CASAVERDE S.p.A.	33.33
CONSORZIO CORIMADE	Italy	6,000.00	€	CASAVERDE S.p.A.	50.00
CIR INTERNATIONAL GROUP					
CIGA - Luxembourg S.a.r.l.	Luxembourg	3,500,000.00	€	CIR INTERNATIONAL S.A.	100.00
BANQUE DUMENIL LEBLE S.A. <i>(in liquidation)</i>	France	16,007,146.81	€	CIR INTERNATIONAL S.A.	100.00
DUMENIL LEBLE (BELGIUM) S.A. <i>(in liquidation)</i>	Belgium	7,561,217.00	€	CIR INTERNATIONAL S.A.	100.00
DUMENIL LEBLE (SUISSE) S.A.	Sweden	11,495,000	CHF	CIR INTERNATIONAL S.A.	100.00
VELASQUEZ VIE S.A. <i>(in liquidation)</i>	France	59,980.46	€	CIR INTERNATIONAL S.A.	100.00
PHA – Participations Hotelieres Astor	France	12,150.00	€	CIR INTERNATIONAL S.A.	99.99
CIR VENTURES MANAGEMENT CO. L.L.C.	United States	266,666	\$USA	CIR INTERNATIONAL S.A.	20.00

() Holdings that are non-significant, non operational or of recent acquisition, unless stated otherwise*

SHAREHOLDINGS IN OTHER COMPANIES
VALUED USING THE COST METHOD (*)

(in euro or foreign currency)

<i>Name of Company</i>	<i>Registered Offices</i>	<i>Share capital</i>	<i>Currency</i>	<i>Parent companies</i>	<i>% of ownership</i>
CIR GROUP					
C IDC S.p.A. (in liquidation and settlement with creditors)	Italy	4,000,000.00	€	CIR S.p.A.	1.23
ESPRESSO GROUP					
A.G.F. S.r.l.	Italy	30,000.00	€	GRUPPO EDITORIALE L'ESPRESSO S.p.A.	10.00
AGENZIA A.N.S.A. S. COOP. A.r.l.	Italy	12,307,880.82	€	GRUPPO EDITORIALE L'ESPRESSO S.p.A.	3.21
				FIN.E.G.I.L. EDITORIALE S.p.A.	3.21
				EDITORIALE LA NUOVA SARDEGNA S.p.A.	3.21
				EDITORIALE FVG S.p.A.	3.21
				S.E.T.A. S.p.A.	2.56
				E.A.G. S.p.A.	1.92
					17.32
CONSULEDIT S. CONSORTILE a.r.l.	Italy	20,000.00	€	GRUPPO EDITORIALE L'ESPRESSO S.p.A.	6.62
				FIN.E.G.I.L. EDITORIALE S.p.A.	3.99
				EDITORIALE LA NUOVA SARDEGNA S.p.A.	0.62
				S.E.T.A. S.p.A.	0.49
				EDITORIALE FVG S.p.A.	0.47
				E.A.G. S.p.A.	0.39
					12.58
E-INK CORPORATION	United States	71,190,856	\$USA	GRUPPO EDITORIALE L'ESPRESSO S.p.A.	0.26
IMMOBILIARE EDITORI GIORNALI S.r.l.	Italy	830,462.00	€	S.E.T.A. S.p.A.	0.17
				EDITORIALE LA NUOVA SARDEGNA S.p.A.	0.12
					0.29
TRENTO PRESS SERVICE S.r.l.	Italy	260,000.00	€	S.E.T.A. S.p.A.	14.40
AGENZIA INFORMATIVA ADRIATICA d.o.o.	Slovenia	2,120,000	Sit.	EDITORIALE FVG S.p.A.	19.00
CLUB D.A.B. ITALY – CONSORZIO	Italy	18,075.96	€	ELEMEDIA S.p.A.	14.29
AUDIRADIO S.r.l.	Italy	258,000.00	€	A. MANZONI & C. S.p.A.	3.63
CONSORZIO ENERGIA SASSARI (in liquidation)	Italy	3,615.15	€	EDITORIALE LA NUOVA SARDEGNA S.p.A.	14.29
PRESTO TECHNOLOGIES Inc. (non operational)	United States	7,663,998.4	\$USA	ELEMEDIA S.p.A.	7.83
CERT – CONSORZIO EMITTENTI RADIO TELEVISIVE	Italy	178,563.57	€	RETE A S.p.A.	6.67
CONSORZIO COLLE MADDALENA	Italy	62,223.84	€	RETE A S.p.A.	4.17
TELELIBERTÀ S.p.A.	Italy	500.00	€	FIN.E.G.I.L. S.p.A.	19.00
SORGENIA GROUP					
8.2 ENERGIA S.r.l.	Italy	100,000.00	€	ANEMON S.p.A.	2.50
SOGEFI GROUP					
AFICO FILTERS S.A.E.	Egypt	10,000,000	EGP	SOGEFI FILTRATION S.p.A.	19.00

(*) Holdings lower than 20%

SHAREHOLDINGS IN SUBSIDIARIES AND AFFILIATED COMPANIES AND IN OTHER COMPANIES
NOT INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

(in euro or foreign currency)

<i>Name of Company</i>	<i>Registered Offices</i>	<i>Share capital</i>	<i>Currency</i>	<i>Parent companies</i>	<i>% of ownership</i>
<i>SOGEFI GROUP</i>					
FILTRAUTO DO BRASIL Ltda	Brazil	354,600	Real	SOGEFI FILTRATION DO BRASIL Ltda FILTRAUTO S.A.	99.00 1.00 <u>100.00</u>
INTEGRAL S.A.	Argentina	2,515,600	Pesos	FILTRAUTO S.A. SOGEFI FILTRATION ARGENTINA S.A.	93.50 6.50 <u>100.00</u>
LES NOUVEAUX ATELIERS MECANIQUES S.A. <i>(in liquidation)</i>	Belgium	2,880,000.00	€	SOGEFI S.p.A. REJNA S.p.A.	74.90 25.10 <u>100.00</u>
<i>CIR INTERNATIONAL GROUP</i>					
C.B.D.O. - COMPAGNIE BOURGUIGNONNE DES OENOPILES EURL	France	9,000.00	€	CIGA LUXEMBOURG S.a.r.l.	100.00
SO.GE.LOC. S.a.r.l.	France	7,622.45	€	C.B.D.O. EURL	99.80
VICTOR HUGO CENTRE D'AFFAIRES S.a.r.l.	France	7,622.45	€	C.B.D.O. EURL	76.00
FINAL S.A.	France	2,324,847.00	€	C.B.D.O. EURL	47.73

Report of the Independent Auditors

AUDITORS' REPORT ON THE LIMITED REVIEW OF INTERIM FINANCIAL REPORTING FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2006 PREPARED IN ACCORDANCE WITH ARTICLE 81 OF CONSOB REGULATION APPROVED BY RESOLUTION No. 11971 OF 14 MAY 1999 AND SUBSEQUENT AMENDMENTS AND INTEGRATIONS

To the Shareholders of
CIR SPA

- 1 We have performed a limited review of the separate interim financial statements and consolidated interim financial statements consisting of balance sheets, income statements, statements of changes in shareholders' equity and cash flows (hereinafter "accounting statements") and related explanatory and supplementary notes of CIR SpA (parent company) and CIR Group included in the interim financial reporting of CIR SpA for the period ended at 30 June 2006. The interim financial reporting is the responsibility of CIR SpA's Directors. Our responsibility is to issue this report based on our limited review. We have also checked the part of the notes related to the information on operations for the sole purpose of verifying the consistency with the remaining part of the interim financial reporting.
- 2 Our work was conducted in accordance with the criteria for a limited review recommended by the National Commission for Companies and the Stock Exchange (CONSOB) with resolution no. 10867 of 31 July 1997. The limited review consisted principally of inquiries of company personnel about the information reported in the interim financial statements and about the consistency of the accounting principles utilised therein as well as the application of analytical review procedures on the data contained in the interim financial statements. The limited review excluded certain auditing procedures such as compliance testing and verification and validation tests of the assets and liabilities and was therefore substantially less in scope than an audit performed in accordance with generally accepted auditing standards. Accordingly, unlike the audit on the annual separate and consolidated financial statements, we do not express a professional audit opinion on the interim financial reporting.
- 3 Regarding the comparative data of the separate and consolidated financial statements of the prior year and of the prior year interim financial reporting presented in the "accounting statements", reference should be made to our reports dated 7 April 2006 and dated 10 October 2005 respectively.

- 4 Based on our review, no significant changes or adjustments came to our attention that should be made to the “accounting statements” and related explanatory and supplementary notes of CIR SpA (parent company) and consolidated, identified in paragraph 1 of this report, in order to make them consistent with the international accounting standard IAS 34 and with the criteria for the preparation of interim financial reporting established by Article 81 of the CONSOB Regulation approved by Resolution no. 11971 of 14 May 1999 and subsequent amendments and integrations.

Milan, 19 September 2006

PricewaterhouseCoopers SpA
Signed by Gerolamo Negroni
(Partner)

This report has been translated into the English language solely for the convenience of international readers.