TODINI COSTRUZIONI GENERALI S.p.A.

Rome - Via del Serafico 200

Share capital € 31,705,620

Entered in the Rome Company Register under Fiscal Code no. 08105460581

Rome R.E.A. (Economic and Administrative Index) no. 644647

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ANNUAL REPORT

CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2005

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Dear Shareholders,

The consolidated financial statements for the year ended 31 December 2005, hereby submitted to your attention and approval, confirm the objectives set out in the Planning document and constitute, particularly as regards the CAGR (Compound Annual Growth Rate) recorded by the Value of Production, the basis for growth to bring the group to a leading position among its competitors in the sector over the medium term.

The most significant data are as follows:

- the **value of production** is equal to € 328.4 million, for an increase in production of 24.8% compared to the previous year;
- the **gross operating margin (EBITDA)** amounts to € 30.4 million, equal to 9.3% of the value of production (€ 27.1 million in the previous period), while **operating income** equals € 12.5

million, equal to 3.8% of the value of production (€ 14.4 million in 2004);

- consolidated **net profit** amounts to € 4.0 million (group share is 3.8) after amortisation, depreciation and provisions totalling to € 18.0 million and the allocation of € 5.2 million for income taxes for the year;
- the net **financial position** is equal to € (-76.5) million (€ (-60.4) million during the previous period);
- the **backlog** at the end of the period amounts to € 984.7 million (€ 778.7 million at 31.12.2004).

The above shown results are very positive and encourage the Group to continue in implementing its own Business Model, which is oriented towards keeping management in-house, albeit with the option, where considered useful and possible, to implement a partnership policy with large Italian and foreign companies as well as with specialised firms; in other words, ensuring the direct management and control of the business, without delegating it to third parties.

We believe that this Model, which is expected to be confirmed in the future, can only increase the value of the Parent Company.

In this context of operations, aimed at ensuring consistency with the strategy of growth in terms of size, diversification and consolidation outlined by the planning tools, we must account for the actions implemented in order to strengthen the competitive positioning of the Group in the Market, with particular regard to those aimed at increasing the backlog by external means, and those aimed at consolidating a presence in foreign markets where, in an environment of controlled risk, there is a greater opportunity of generating adequate income. At the same time, we feel it is useful to highlight the activities carried out in order to penetrate all fields of the national Construction market, going beyond the sector of Public Works.

➢ ***Increase in the backlog by external means.***

TRANSFER TO YOUR COMPANY OF THE "MOTORWAY WORKS", INCLUDING THE RESIDUAL PORTION OF THE INITIATIVE RELATIVE TO THE WORKS ON THE MAIN TUNNEL OF THE "VARIANTE DI VALICO" UNDERWAY WITH AUTOSTRADE PER L'ITALIA S.P.A..(FORMERLY OF CONSORZIO RISALTO).

As you know, Consorzio Stabile Risalto, established between your company, Salini Costruttori S.p.A. and Rizzani de Eccher S.p.A. (hereinafter, "Salini" and "Rizzani"), pursuant to and in accordance with articles 10 and 12 of Law 109/94, was awarded with the contracts for performance of the following works on behalf of and in the interest of the consortium members:

- from the company "Autostrade per l'Italia S.p.A.", works to expand and upgrade the "Motorway A1 main tunnel – Lot 9-11 – Variante di Valico" for € 498.5 million;
- from the company "Roma Metropolitane S.p.A.", works for realization of the "Rome Underground - Line B1" for € 353.2 million.

During the year under analysis, the consortium companies decided to implement the technical-organizational procedures stated in the Statement of Agreement stipulated *inter partes* on 4 April 2005, in order to achieve, subject to prior approval by Autostrade per l'Italia S.p.A. and Roma Metropolitane S.p.A., a transfer by the Consortium of the business line that includes the contract with Roma Metropolitane SpA directly to Salini and of the business line that includes the contract with Autostrade per l'Italia SpA directly to your company. This would go beyond the consortium structure, fully and effectively releasing each consortium member, where not directly involved in the performance of the aforementioned works, from any direct, auxiliary and/or joint and several obligation and from any contractual responsibilities, as these are taken on by each Party that has become assignee of the works, enforceable against clients and any other third party (banks, financial institutions and insurance companies, leasing and factoring companies, suppliers, subcontractors, employees, workers, etc.) involved for any reason and at any level in the execution of works awarded to the Consortium.

Before the end of aforementioned transactions, now fully completed, pursuant to art. 12, second paragraph of Law 109/94 and art. 97, first paragraph, of the Regulation, the Consortium assigned execution of the contract with Autostrade per l'Italia SpA to your Company and the Roma Metropolitane S.p.A. contract to Salini, communicating this to the respective Clients.

More specifically, the Parties have established that, as a result of said assignment:

- any profit, expense, right or obligation related to the performance of said works, including proceeds from all claims proposed and/or to be proposed to the Client are exclusively owing to and/or borne by the assignee company;

- each assignee company (your Company and Salini) releases the other two consortium companies and the consortium itself, respectively, from any responsibility and/or obligation resulting from the execution of their respective works;
- each assignee company (your Company and Salini) recognizes and pays, respectively, in favor of the other two consortium companies, an amount substantially corresponding to all costs and expenses (operating costs and deferred charges) charged back to the latter by the Consortium with reference to the specific contract up to the date of assignment, less the total revenues attributable to the same for works related to the same contract and completed up to the above-mentioned date;
- financial settlement of the amounts set forth in the previous point will take place partly through a taking over by the assignee company of the payables net of receivables owed by the other two consortium companies to the Consortium, and for the residual amount via bank transfer.

Based on the above, and in accordance with the intentions of the Parties, your Company and Salini have, as assignee companies:

- <u>in terms of economic effects,</u> acquired full responsibility and benefits for all charges and proceeds <u>both, past and future</u>, resulting from respective contracts;
- <u>in terms of income and financial effects</u>, acquired ownership of all receivables and all payables of the Consortium related to and resulting from your respective contracts;

- in terms of legal effects, acquired every obligation and responsibility inherent to and resulting from the execution of works related to your respective contracts.

Regarding the procedural path actually implemented by the Parties following the Statement of Agreement, it is necessary to state that said behaviors effectively occurred, in strict accordance with the specific technical-legal requirements set forth and regulated therein.

On 16 December 2005, Your Company – now legitimate and exclusive contractor of the Variante di Valico Contract – and Autostrade per l'Italia S.p.A. – as Client company – stipulated an "amicable agreement", according to the procedure set forth in article 31-bis of Law 109/94, through which all "claims" allocated for greater costs resulting from the performance of works, sustained first by the Consortium and then by Your Company, due to unexpected and/or unforeseeable events that made the work more costly than originally planned and regulated by the contract, were contractually defined exclusively in favor of Your Company.

TRANSFER BY THE BANKRUPTCY OF GI.CO. COSTRUZIONI SPA OF THE LINE OF BUSINESS CONSISTING OF WORKS COMMISSIONED BY THE "MINISTÈRE DES RESSOURCES EN EAU – ALGERIA" (MINISTRY OF WATER RESOURCES).

Following deep negotiations, the Parent Company, with deed by public notary Paolo Soccorsi Aliforni dated 1/6/2005, acquired, from the bankruptcy of GI.CO. Costruzioni Società per azioni, the line of business including:

- the entire equity investment in the “GI.CO.-Todini” Consortium, holder of the contract for construction of the Intercity Drain Main Line in the city of Algiers – with client *Ministère des Ressources en Eau Direction des Ressources Hydrauliques et de l’Economie de l’eau de la Wilaya d’Alger*;
- the contract relative to work on the hydraulic system of the “El Harrach” river, lots 1, 2 and 3, same client;
- the completed project involving the design, technical assistance and supply of strands for construction of the deck for the “Place 1er Mai” interchange, carried out as a subcontractor of the ENGOA-SAPTA group of companies;
- equipment and machinery.

On 22 December 2005, with a subsequent deed by the public notary Soccorsi Aliforni, the “GI.CO.–Todini” Consortium, whose name was changed to Consorzio Todini Algeri, sold the “lavori Algeria” (Algeria works) business line to the Parent Company, consisting in the contract for construction of the Intercity Drain Main Line in the city of Algiers.

As a result of the aforementioned deeds, the Parent Company increased its backlog by € 21.8 million and acquired equipment and machinery for a value at 31/12/2005 of € 2.6 million, after depreciation of € 0.3 million.

However, it is important to note that for the Intercity Drain Main Line project, a design revision is under approval, which will produce an increase of the contract amount between € 10 million and € 13 million.

- ***Consolidation in foreign markets with greater profit capacity***

  Among the principal results obtained with the actions implemented, notable mention goes to the following:

  - Expansion of the corporate structure in Algeria which, together with greater visibility and reliability of the Group, also as a result of the aforementioned acquisition of a new client, the Ministry of Water Resources, have enabled the company to consolidate its presence in the Algerian market.

    In this connection, the **acquisition of the contract for the construction of the Dam of Kef Eddir** – Client Agence Nationale des Barrages et Transferts (ANBT) – was carried out during the early months of this year, in partnership with Pizzarotti S.p.A., for an amount of € 72.4 million (€ 36.2 million pertaining to the Parent Company). The dam, designed to create a reservoir for the storage of drinking water for the areas of Damaous, Beni-Milleuk and for the "*wilaya*" of Chierf, in addition to providing irrigation for 700 ha of agricultural land, is of the "zoned type" built with a central core composed by alluvial clayey material, protected both upstream and downstream by sand filters and by transition materials composed by "tout-venant" of river.

    The height of the dam is 93 meters with a crown of 478 meters.

In addition, the Parent Company, in joint-venture with Alstom Transport of France and a local partner, submitted an offer for the tender for the construction of the **Tramway of Algiers** (€ 289.2 million), which was selected by the Client (Enterprise Metro d'Alger) as the best offer.

The project entails the construction of the first tram line of Algiers, with a total length of approximately 16.3 km.

The project is divided into two lots:

– *Infrastructures Lot*: civil works for the line (excavation, 5 major concrete structures, paving, lighting, urban design, etc.);
– *Systems Lot*: specialized works on the line (track-line, electric traction, signalling, etc.) and supply of rolling stock (29 trams of about 45 m each).

The duration of works is 36 months.

- Consolidation of the Group in the areas of Central Asia, characterized by the expectations of a significant increase in market opportunities produced by the growing demand for infrastructure related to mining and oil extraction activities. Access into the market of Azerbaijan via **acquisition of a € 31.5 million contract for the rehabilitation of the Hajigabul (Gazimannea) – Kyurdamir road** (85 km.) is the result of commercial actions aimed at achieving the aforementioned objective and strengthening the Group's presence in that country and in Kazakhstan, where **another**

contract has been acquired by the Eni Group for the realization of a 30 km road section in the area of Aktobe. Furthermore, it is to be noted that the contracts acquired and those expected to be acquired in the area are characterised by the presence of the advance payment amounting to 15%-20% of the contractual price.

- The launch of monitoring for new opportunities in the Mediterranean region and in the Eastern Countries of the European Union.
- Implementation of diversification measures in the Romanian region, through assessment of a series of residential real estate development initiatives. Projects will be selected for a total investment (equity, free cash flow and debt) of up to € 50 million.

- *Penetration of the "larger" Construction sector*

The domestic Public Works market, in which the Group operates, represents about 20% of total investments in the Construction Sector.

However, we must highlight the fact that the Group, due to the Business Model adopted, represents one of the most successful examples of *General Contractor*, able to penetrate the larger Construction sector through its capacity to compete in complex and multidisciplinary projects.

Interesting opportunities emerge from the *Public-Private Partnership*, with particular reference to projects for development of the territory or of portions of medium/large-sized urban areas. As part of these opportunities, the Group is able to independently carry out the designated role of *Partner*, such as an entity able on the one hand to ensure a constant relationship with the public agencies and with the productive and social entities, acting in the area of intervention, and on the other hand, to autonomously organize, by means of the know-how developed within its own organization, the complex of multidisciplinary skills (realization of infrastructures and real estate developments) that said entities require, thanks to the above mentioned Business Model adopted.

The Group is already performing this role.

The Parent Company in joint-venture with the subsidiary Ediltevere SpA, has been awarded – following the complex procedure set forth by art. 37 bis et seq. (procedure of the promoter) of Law 109/94 and subsequent amendments and supplements (Merloni law) – **with the concession contract of the completion of Corso del Popolo, as implementation of the "zona Corso del Popolo" detailed plan of the Municipality of Terni**.

The procedure was initiated on 12/05/2000 with publication of the tender and concluded with the signing of the Concession Agreement on 7/07/2005 (file number 35861) between the Municipality of Terni (Assignor) and the "Project Company" Corso del Popolo SpA (Concessionaire) established on 1/02/2005.

The execution of the works will be carried out, as stated above, under a concession contract. The form of payment consists of the disposal by the Assignor of a land where **the Assignee will perform a real estate development initiative** with residential, commercial and office areas, and of the right to **operate and economically exploit for a period of thirty years an underground parking garage with more than 1,000 parking spaces**.

The public intervention will involve:

- construction of an underground parking garage with 1,036 parking spaces;
- construction of a building to be used for public offices (with an area of about 6,000 m^2);
- the displacement of Via C.Gugliermi and its partial placement underground;
- construction of a pedestrian bridge crossing the Nera river;
- realization (above the underground parking level) of an equipped public park (public park, bicycle path, urban design, etc.);
- repair and upgrading of the Vocabolo Staino Area, located outside of the Detailed Plan.

The real estate development project comprises 4 tower buildings and one crescent-shaped building divided into three sections, with a total gross floor area of 18,000 m^2 – of which, 13,585 m^2 for residential use, 3,375 m^2 for commercial use and 1,040 m^2 for office use – plus an additional 9,000 m^2 underground.

The total estimated investment amounts to about € 66 million, with the public works scheduled to be completed within 32 months.

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Here below are described, in addition to those already mentioned above, the **major events characterizing the activities of the Group during the year under analysis**.

- Variation order to the contract for the realization of the **Variante di Valico**, increasing the contractprice from € 498.5 million to € 552.5 million and, as previously mentioned, the definition of the claims through procedure pursuant to art. 31 bis of Law 109/94 for € 27.8 million already entirely collected.
- Conclusion of the arbitration proceedings initiated to resolve the dispute between the Parent Company and ANAS with respect to **modernization work as per CNR/80 code on the Motorway A3 Salerno-Reggio Calabria (Section 1, Stretch 1, Lot 9, 2nd excerpt)**.

  The proceedings were concluded on 30/06/05 with the issue of arbitrator's decision that substantially accepted the claims raised by the Parent Company.

  The Parent Company reiterated to ANAS the requests for voluntary fulfillment of the arbitration's decision, without obtaining any response. Consequently, an attempt was made to amicably resolve the stalemate. Upon conclusion of negotiations, the definitive acceptance of the arbitrator's decision by ANAS was achieved with confirmation of termination of the contract *inter partes*, with renunciation by the Parent Company of part of the receivables claimed and definitive acceptance, as full settlement of any amounts owing to it in relation to the aforementioned decision, of the all-inclusive sum of € 5 million.

Since the nature of the dispute was related to the termination of the contract and the measurement of the works carried out, it was necessary, for the final text of the settlement agreement, to prepare the final situation with the related final payment certificate and the testing for the final handing over, which occurred on 24/03/2006.

MARKET AND COMPETITIVE POSITIONING

Before commenting on the performance of the market in which the Group operates, we would like to mention a few brief macroeconomic points.

In 2005, worldwide GDP grew by 4.8% in real terms, with a growth of 2.7% attributable to advanced countries and 7.2% to other countries (emerging and developing).

Among the latter, we recall growth in areas and countries of direct interest to the Parent Company, such as "CSI" (former USSR countries) (+ 6.5%), Central-Eastern Europe (+ 5.3%), Algeria (+ 5.3%) and the Middle-East (+ 5.9%).

The trade volume for goods and services grew 7.3% globally, lower growth compared to that of 2004 but greater than the average recorded during the three-year period 2001-03.

The increase in GDP in the euro zone was much more limited at 1.3%, while Italy recorded stagnation (+ 0.1%).

Particularly critical for our country is the variation of the productivity of labor which was negative again in 2005, although it showed improvement compared to previous years.

However, regarding the inflation rate (2.1%) and the public deficit (4.1%), the Italian data are close to the average figures of the more advanced economies (1.7% inflation and 3.9% deficit).

Moving on to an analysis of the markets of interest in the construction sector, there is continued lively demand for new infrastructures in the countries of Central Asia and Maghreb.

Eastern Europe and Romania provide good opportunities in the real estate development sector, while there is a sort of stagnation in the tenders for the realization of public works financed by the EU or by multilateral financial institutions such as the EIB (European Investment Bank) and the EBRD (European Bank for Reconstruction and Development).

In Poland, another interesting market, although dominated by large German, Austrian, Spanish or Swedish companies, this is a significant increase in tenders for new road and railway infrastructures, especially as a result of considerable EU financing (€ 10 billion for the period 2007-09).

In Italy, the construction sector continues to be strategic for economic and social development, generating 46% of fixed investments of the country, producing almost one-tenth of national GDP and providing employment to about 2 million people.

The table below outlines the size of tenders participated in 2004 and 2005 in the New Market (and then by type of procedure) and in the Traditional Market).

BIDS FOR LARGE PROJECTS (amount greater than community limit for type of procedure)	**2004**		**2005**		**Var. % - 05/04**	
	Number	Amount (€/million)	Number	Amount (€/million)	Number	Amount
Concessions of constructions and operation	29	915	29	1,953	0.0	+113.4
Project Financing	39	676	56	2,549	43.6	+276.8
Integrated Contract	119	4,563	126	4,196	5.9	-8.1
General Contracting	8	8,630	2	2,581	-75.0	-70.1
Total New Market	**195**	**14,785**	**213**	**11,279**	**9.2**	**-23.7**
Traditional Market	**441**	**8,669**	**499**	**8,763**	**13.2**	**+1.1**
Total Large Works	**636**	**23,454**	**712**	**20,041**	**11.9**	**-14.5**

Source: CRESME - Il sole 24 Ore

It is immediately clear that:

- the decrease in opportunities offered by the New Market, although within a scenario in which the increase in financing through the Project Financing method – a segment of particular interest for the Group, as already mentioned – partially offsets the considerable decline in tenders to award with the General Contractor method;
- the Traditional Market is still solid.

Another element that comes out is the increase of the number of the contracts awarded under the community limit price, a sign of splitting of the projects.

In terms of Public-Private Partnerships, 2005 confirmed a growth trend, with 1,699 initiatives for a value of € 16.9 billion, compared to 1,478 initiatives for a value of € 13.4 billion in 2004.

According to data by the National Observatory on Project Financing Initiatives, the share of tenders by PPP with respect to the overall tenders market for public works amounts to 28%, compared to 15% in 2004.

Municipalities are the main entities issuing project financing initiatives (1,475 announcements), in the form of "the promoter" as well as through concession, highlighting however that only about 10% of announcements completes the procedures and becomes contracts. The most common interventions are small ones, regarding sports facilities, parking and cemeteries.

We believe, as also stated by IGI, that growth in Project Financing should be supported through suitable political measures, as is the case in the United Kingdom, and by creating, in collaboration with universities, public administration and the banking world, specific university courses in the various disciplines with specialization in PPP.

On this occasion, we also wish to express our appreciation for the issuance of the new Code of public contracts for works, services and supplies, which incorporates European community directives nos. 17 and 18 of 2004. More specifically, we are in agreement with the code, which we hope will be translated into actual streamlining of operations in our sector, as it adopts a philosophy of greater flexibility with respect to previous legislation, also restoring to the Employers a reasonable amount of administrative discretion, with a less punitive scenario for sector operators. Particular mention also goes to the subdivision of legislative responsibilities between the State and the Regions regarding tender procedures and the execution of contracts, which must be homogeneous throughout the entire national territory.

For the upcoming future, we hope there is no interruption of the process initiated by the so-called "*Legge Obiettivo*" (Strategic Infrastructure Act) aimed at recovering the infrastructural gap with other European countries, demonstrated by the impact of investments in construction with respect to GDP, which in Italy has been, since several years, about 2 percentage points less than the EU-15 average. Implementation of the European TEN-T plan (trans-European transport networks), which contains 30 priority projects on a continental scale so far, would also be fundamental. For the financing of said projects, it would be necessary to create innovative mechanisms, such as the "common European company" and the issue of ad hoc bonds ("*union bonds*").

Through a structured process of strategic planning, the Board of Directors of the Parent Company pays constant attention to the identification of key success factors, in order to capture all opportunities to strengthen its competitive positioning.

To this end, markets are continuously monitored, in order to identify those in which to compete, based on a careful analysis of the political, economic and financial risks, the business opportunities expected over the medium and long-term and the reliability of clients. In terms of the latter, we can assure you that development activities are focused exclusively on clients with proven reliability and solvency.

ORGANIZATION AND PERSONNEL

Corporate Planning places the utmost focus on the enhancement of human resources, recognizing their involvement in formulating corporate strategies as a success factor, along with their strong motivation and orientation towards actions aimed at achievement of the identified objectives.

The Board of Directors of the Parent Company has made and will continue to make every effort to guarantee a modern organization, efficient and effective, as well as dynamically evolving, able to consolidate the competitive position of the Group, required by the rapid growth over recent years which is expected to continue, and able to stimulate the sense of belonging to the Group by human resources.

To this end, it has decided to implement the following actions:

- A two-year program has been launched by the Parent Company, with the initial objective of ensuring significant **improvement in the data treatment process and in communication between operating units** and a subsequent objective of **implementing an ERP system** (developed on Oracle "EBS" platform), which allows integrated management of corporate processes, starting from planning and control activities guaranteed by proprietary software also developed with Oracle database and tools.

The first phase of the program has been implemented, while production of the ERP System and the relative use by the central and peripheral units – for which an investment of about €/million 0.4 is expected during this year – is planned for January 2007.

The ERP system allows for greater control of changes in the level of financial debts, a parameter focused on heavily by the Board of Directors of the Parent Company, through actions aimed at:

- ensuring acceptable differences between actual cash flows generated and those budgeted;
- improving the conditions for the purchase of goods and services with respect to those of sale, also under the financial profile.

To achieve said objectives, the Board of Directors of the Parent Company believe it is necessary to assign greater responsibility to the productive structure of the Group with respect to cash flow performance, revising the criteria for allocation of financial resources to the production units.

➢ The often-mentioned growth of the Group, replacement of the machines with modern and efficient ones and the subsequent need to provide suitable instruments, also under the logistics profile, to ensure planned maintenance both, ordinary and extraordinary of the same, have lead the Board of Directors of the Parent Company to **reconsider the present logistic structure** , in terms of dimension as well as location, keeping in mind the objective of reducing operating costs and freeing the relative financial resources to take advantage of the best investment opportunities.

The relative decisions will be finalized within the upcoming year.

- The Parent Company is committed to a complex and large activity aimed at the **closure of contractual positions no longer active** in the national territory; closures are often the necessary step in order to proceed with **cancellation of Companies in liquidation and to be liquidated**.

  This activity is feeded by physiological positions and represents a significant component of the complex corporate operations. It has been estimated that regulating this specific activity in order to properly coordinate the actions of the resources involved – interdisciplinary resources, linked transversally across the company's organizational structure and, in general, not dedicated to the activity on a full-time basis – can guarantee to the same an improvement in unity and homogeneity of action, managerial efficiency and effectiveness and, finally, the achievement of more ambitious objectives under the economic, financial, asset and risk control profile, as well as in terms of reduction in the time period for settlement.

  Therefore, a specific Department has been organized within the Parent Company, also appointed to said activity of coordination, with respect to which the significant role of economic, financial and income forecasts is highlighted – with particular reference to their impacts on policies regarding working capital and the performance of capital invested – as well as of the optimal management of the risks involved, all elements which, when appropriately parameterized, constitute specific objectives for the aforementioned Department.

- A study is under way on the **outsourcing of non-core activities**; even in this case, the relative choices will be finalized at the same time of those regarding logistic instruments.

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Further events impacted and will have an effect on the Group's activities:

- On 23 March 2006, the national labor contract for workers in the construction sector was renewed.

  The agreed increases in the basic salary and wages for the two-year period 2006-2007 have been fixed on the basis of the forecast inflation rate and include recovery of the difference between forecast and real inflation rate for the years 2004-2005.

  The increase is provided in two equal instalments as of 1/3/2006 and 1/1/2007.

  In absolute terms, each instalment involves:

  – for workers, a higher hourly cost of between € 0.74 and € 0.83;

  – for employees, a higher monthly cost of between € 65.00 and € 126.00.

  In percentage terms, the increase, compared to the average company cost as at 31 December 2005, is:

  – equal to 2.8% for workers;

– equal to 2.6% for employees.

Furthermore, the maximum increase cap of the EET was determined, in the amount of 3% of the minimum salary and wage from 1/7/2006. It is estimated that this increase will result in a further increase in costs during the second half of 2006, equal to approximately 0.9%.

- On 10/3/2006, the Company Framework Agreement for the Variante di Valico site of the Parent Company was signed.
- For the year 2005, as implementation of the provisions set forth by Quality Procedure P18, the Board of Directors of the Parent Company resolved a formation program for Parent Company personnel for an estimated cost of € 56,000.

  The program involved updating courses on specific and specialized issues, such as accounting and tax regulations, administration and personnel management, laws 626 and 231, legislation on public works, management and coordination of secretarial staff, etc..

  In addition to these, other basic training was provided, aimed at larger segments of the population: English, French and computers (Microsoft Office applications).

  For the Operating Division of the Parent Company, training courses on the issues of Quality and Safety were implemented and documented by:

  – the Kazakhstan area;

  – the Quirra Site;

– the Fiumicino Site;

– the Milan Lecco Site;

– the Menaggio Site.

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A comparison between staff numbers at 31/12/05 and at 31/12/04 is provided below.

	2005			2004		
	ITALY	**FOREIGN**	**TOTAL**	**ITALY**	**FOREIGN**	**TOTAL**
Employees	207	336 *	543	157	315 *	321
Supervisors	26	9	35	23	8	31
Workers	456	1,742 **	2,198	327	1,561 **	2,039
Managers	27	10	37	26	7	33
Total	**716**	**2,097**	**2,813**	**533**	**1,891**	**2,424**

* of which 228 local — * of which 181 local

** of which 1,729 local — ** of which 1,555 local

INDUSTRIAL ACTIVITIES

The value of production of the past period consolidates the growth trend of the Group, achieving a percent increase of 24.8% compared to 2004 and 71.2% compared to 2003.

However, it should be noted that the growth was more moderate compared to the values forecasted in the Planning Document 2005-2007, due to the lower contribution recorded for the following reasons:

- postponement of the starting of production activities, previously suspended, related to the Parent Company’s contract for upgrading of the Alifana railway, due to a delay in the approval procedure of a variation order;

- a slowdown in activities for several projects of the Parent Company: due to delay by the Client in approving a variation order (National Road SS 125 Orientale Sarda, between S. Priamo and Tertenia, dessert roads to the Rome-Fiumicino Motorway, Menaggio variant) and to the use of micro-explosives (again, Menaggio variant); due to the suspension of works ordered by the Client as a result of lack of availability of the areas (laying of a second track on the Milan-Lecco line), and for the necessary reclamation of polluted areas (SS 125) and due to unforeseen difficulty in the procurement of aggregates (East-West Motorway in Algeria); finally, for the reasons mentioned above (Sibiu-Romania).

These circumstances have resulted in the Group having to sustain unproductive costs and damages, the recovery of which will be initiated through the appropriate and necessary action for contractual protection (registration of claims). The outcomes of some of these claims, initiated in the past as well, have been recorded in these financial statements, supported by the usual criteria of precision and prudence.

Under this general scenario, information regarding the main activities of the Group in the Large Works and Real Estate Development sectors is provided below, with comments on activities related to the Variante di Valico contract of the Parent Company provided in the introduction.

Large Works Sector

- Infrastructure - Italy

  - *Road works*

    After the resolution of expropriation problems by ANAS, execution of the works by the Parent Company relative to realization of the **S. Priamo-Tertenia** lot **of SS 125 Orientale Sarda** are progressing regularly.

    Nevertheless, production in the last year has also been impacted by the lack of a solution to the problems regarding pollution, which affect part of the area where the works are to be executed.

    The lot, awarded in 2002, but handed over only partially in 2003 and conditioned, as mentioned above, by the presence of polluted land and expropriation issues, records 58% cumulative progress.

    In April 2006, a variation order was approved without any variation in the contract price; in this context, the Parent Company was granted with an extension of the contractual completion time up to 5 December 2006.

    Construction works for the Parent Company on the **Menaggio Variant at SS "Regina"** are under execution, with progress at 36%.

    This contract was secured in 2002, but serious design and geological issues unforeseen by the design delayed the immediate start-up of works and, in addition, prevented completion of the pilot hole made with a driller, simultaneously making it impossible the use of explosives during tunnel excavation.

Excavation of the tunnel is currently under progress, as well as work on the viaduct of the Menaggio interchange.

The Client, with written request dated 4.11.2005, imposed a variation order that was disputated by the Parent Company under the legal, temporal and economic profile.

In addition, a proposal of design variation for realization of the first 350 meters of the northern tunnel entrance was submitted to the same Client.

Subsequent to site handing over, which occurred on 28/07/04, production by the Parent Company with respect to works for the realization of **the dessert roads to the Rome–Fiumicino Airport Motorway, for the upgrading of the Rome-Fiumicino coastal road system – 1st lot**, did not begin regularly, except for some site preparation work. This was due to the presence of widespread archeological finds and interference with the existing sub-services facilities.

On 11/02/05, a variation order was issued, leading to an increase in the contractual amount of € 11.9 million, bringing the amount of works to € 73.7 million. In addition to other minor aspects, said variation order included the addition of archeological survey activities.

Following the initial clearances by the relevant Authorities, the site was prepared in order to ensure barely acceptable production levels, with reference to the amount of production factors available, only from spring 2005.

Cumulative production as at December was equal to 37% of the total amount.

Regarding transformation of the **SGC Grosseto-Fano, Grosseto-Siena Section, lot 9** into four lanes, completion works were carried out during the year under examination by the Parent Company, aimed at opening the road to traffic, which occurred on 27 March 2006.

Works related to execution of the **variant to SS 3 Flaminia, Spoleto (Eggi)–Foligno (S. Eraclio) stretch** assigned by ANAS in 1999 to the temporary association consisting of Parent Company Todini SpA (agent) and Ediltevere Spa (principal) were completed and inspected. During the year, expropriations were carried out by TODEDIL Scarl, company established for the joint implementation of activities, and these are expected to be completed during the current year.

Works are underway, with 16% progress, for execution of the variant **to SS 219 "Eugubina" for a distance of Km. 7 + 413**, assigned by ANAS in September 2004 to the temporary association consisting of Parent Company Todini SpA (agent) and Ediltevere SpA (principal).

During the year, PERUGIA 219 Scarl, company established for the joint implementation of activities, carried out the excavation activities for the formation of reclamations and embankments, interrupted on 17/11/2005, upon order by the Works Supervisor, due to adverse weather conditions which did not allow regular execution of the embankments with modified materials.

Work resumed on 07/04/2006.

During the period under analysis, the Berlin bulkhead of the artificial tunnel “Crocicchio”, with the relative consolidation works (micropiles and beams), were carried out, in addition to the foundations, partly with large diameter poles, of 3 viaducts and 5 box-shaped underpasses.

- *Railway and Underground Works*

Regarding the works of the Parent Company for the **laying of a second track on the Milan-Lecco railway line, Carnate Usmate – Airuno section** of about 14 km, subsequent to the handover of works on 30/08/2004, the Client, on 30/09/2004, partially suspended works due to the unavailability of about 85% of the areas involved. After removal of the impediments, a report on the total recovery of works was drafted on 17/10/2005.

Works continued on realization of the **double-track urban railway junction between the stations of Bari–Lamasinata on the Bari-Barletta railway line and the S. Paolo district**, where the Parent Company is the assignee of civil works (while Alstom and Fersalento carry out technological works through vertical association).

During 2005, works were carried out for the completion of the stations, as set forth in the Additional Document, and in particular that of the Hospital, where a metallic structure was built in order to cover the station and tracks, along with waterproofing of the uneven track planking of the viaduct and external repairs.

In addition, as per the written request by the Client, works have begun to ensure safety measures in the stations left unfinished following the excerpt enforced by the aforementioned Additional Document.

Total progress of the works is at 98%.

Regarding the **realization of civil works on the railway section Piscinola–Secondigliano from km 0+00 to km 2+060 as part of the modernization and development of the Alifana railway**, there continue to be problems related to the effective availability of the areas. Therefore, production achieved this year is limited, with a total progress level of 9.6%.

The unproductive costs sustained by the Parent Company with respect to the aforementioned problems were partially recovered under another amicable agreement as per article 31 bis, for € 2.5 million.

Moreover, following regulation no. 393 by the Campania Region – Transport Department, which approved the Overall Project for Piscinola Capodichino during its session on 28/03/2006, it was possible to agree upon a second additional document to the contract of 23/01/2001 which, among other things, increases the net amount of works, previously set at € 23.3 million, to € 54.7 million, in addition to € 5.5 million for expropriations.

Works were completed as regards the **creation of overpasses and adaptation of the external road system for the new Turin-Milan High Speed Railway and the A4 Motorway,** assigned by Consorzio Cav.To.Mi. in 2002 to the temporary association consisting of Parent Company Todini Spa (agent), Ediltevere SpA (principal) and CGS SpA (principal), and the final accounting was prepared in May 2005.

During the year, work continued, under the supervision of SCAV Scarl, company established for the joint implementation of activities, to resolve the dispute, which concluded with the signing of the final report on 22/12/2005 and with the agreement on the remaining dispute reached in February 2006.

- *Construction works.*

Works assigned to the Parent Company to build **structures completing the main wing of the passenger air terminal (Terminal A) of Malpensa Airport** were completed on 25/09/2005, and the relative certificate was issued on 27/09/2005.

During the year under examination, Project Change no. 2 was formalized, raising the contract amount to approximately € 22.9 million and setting the deadline for realization of contract works at 25/09/2005.

Last December, the “Final assessment report with recognition of costs” (n°3) was formalized, which acknowledged the petition for a change in prices due to the anomalous trend in prices of iron materials submitted by the Parent Company, recognizing to the same a total amount of about € 0.7 million for the two-year period 2004-2005.

During the year, the Extraordinary Commissioner nominated to re-establish the agreement in place with the Parent Company for realization of the **New District Penitentiary of Marsala**, completed the new preliminary design and the corresponding economic evaluation, simultaneously sending the relative conclusions to the Attorney General's Office, in order to acquire the definitive advice to proceed with the effective reactivation of the agreement.

- *Consolidation works*

  Works continued with respect to **reclamation of the landslide in the area of Cascate delle Marmore,** assigned by the Umbria Region to the temporary association consisting of Parent Company Todini SpA (agent), Salvati Spa (principal) and Betti SpA (principal), with the completion of safety work of the ridge at "Campacci", execution of shaft 9 and activities related to the local seismic system.

  On 26/10/2005, under the supervision of MARMORE Scarl, company established for the joint implementation of activities, a supplementary project was approved, as a result of which the completion of works was extended to 30.06.2006.

- Foreign
  - *Algeria Branch* – 7 Rue de Biskra Mohammadia – El Harrach – 16300 Algiers.

As previously mentioned, the business line which includes Algiers' **Intercity Drain Main Line** project was acquired as a result of the bankruptcy of GI.CO**.**

Works are continuing exclusively for the intermediate and end section, while the initial section, consisting of a tunnel of approximately 1,800 meters and 5 shafts, is, as mentioned previously, the subject of a project change, with the increase in cost to be defined during the first half of the current year.

Works are also continuing on the **hydraulic system of the El Harrach river**, which is also part of the business line acquired from the bankruptcy of GI.CO.; in particular, the progress achieved in the contracts regarding lots 1 and 2 is equal to 94% while that of lot 3 is at 99%.

In 2003, the Groupement Todini-Enaler was established between the Algerian Branch of Todini and the Algerian company Enaler, and, during the same year, was awarded the contract **to build the road and relevant works of the Autoroute Est-Ouest Bouira-El Adjiba** for a total amount of € 74.3 million. The Groupement has in turn assigned the execution of this work to its partners. At 31/12/2005, the progress of works is at about 53 %.

Works by the Parent Company's Branch has proceeded with significant difficulty, due to the aforementioned difficulty in the procurement of aggregates but also to barriers related to the unavailability of areas and to the lack of definition of a project for some works.

The activities acquired by the Parent Company in 2002, following acquisition of the Algerian business line of SCI Costruzioni, regard the execution of road works **related to the realization of 11 km of the Autoroute Est-Ouest near Costantine.**

These activities are carried out with two different contracts secured in association with local companies:

- √ Groupement G.R.T.A. (Todini-Cosider), contractor for the relevant works (bridges and viaducts); these have already been completed and the final test has been issued.
- √ Groupement Todini-Sonatro, contractor for excavation and road paving. The project change, approved only at the end of 2004, has enabled execution during the period of part of the works to restore the landslide area. In fact, these works have been suspended for modifications to the technical solution adopted.

Except for the area of landslides, the works have been completed and handed over provisionally. However, the entire 11 km route of highway has been opened to traffic.

The *Consorzio AFT*, established in 2001 *between Astaldi and Todini*, was awarded the contract for **construction of the Kramis dam**, measuring 48 meters in height and 650 meters in width of the crowning structures, complete with electromechanical plants, by the Minstère des Ressources en Eau – Agence Nationale des Barrages et Transferts.

The volume of the reservoir is equal to 3.8 million cubic meters, to be used for irrigation purposes.

The works have essentially been completed and were handed over provisionally on 30.12.2004.

The year 2005 saw the completion of electromechanical works during the second half of the year and realization of smaller works included in the contractual maintenance period.

At the beginning of 2006, strong rains caused damage to some works, and the technical/economic evaluation of repairs is underway.

- *Azerbaijan Branch* – Av. Akmed Djamil, 64/66 – Baku – AZ 1073

Works have begun on **reconstruction of the Road Hajigabul (Gazimannea) – Kyurdamir**, commissioned to the Parent Company by the Ministry of Transport of the Republic of Azerbaijan. In particular, during the year under examination, there was a mobilization for progress of 50% and several initial phases were carried out for a progress rate of about 6.5%.

- *Kazakhstan Branch*
  - South Kazakhstan Region – Ulitza Mendeeleva, 3 – 708600 Zhetisay
  - Western Kazakhstan – Ulitza Volgograddskaya 31 – 417015 Uralsk

In full respect of the contractual schedule, works related to the realization **of the road system of western Kazakhstan in the**

section between Atyrau and Oral, commissioned by the Ministry of Transport and Communications, were handed over. Total progress amounted to 95.4%, with part of the side shoulders and road markings to be carried out during the maintenance period, as agreed with the Client.

Even the works relative to the **modernization project for the irrigation and drainage system of southern Kazakhstan** were completed and delivered last September. These had been commissioned by the Ministry of Agriculture.

The maintenance period is underway.

Work relative to **reconstruction of the Atyrau-Karabatan road**, commissioned by Agip Kco of the ENI Group, has begun.

Progress has recorded 29% production.

The Branch established, with a 100% stake, the company Todini Central Asia T.O.O., which during the current year acquired from the Ministry of Transport and Telecommunications the contract for **reconstruction of a stretch of road in the Astana area** for € 42.0 million.

- *Tajikistan Branch* – Ulitza Uini, 14 – 734042 Dushanbe

During the period under examination, works relative to the **Dushanbe – Kurgan Tyube – Dangara – Kulyab road rehabilitation project** advanced in accordance with forecasts, recording total progress of 99.6%.

Provisional testing for contracts 3 and 8 was carried out in mid-October and mid-November 2005, respectively.

The guarantee period lasts one year, and the respective definitive testing certificates will be issued in October and November 2006.

On 18/03/2006, the Parent Company communicated to the Client its willingness to terminate both contracts, providing as a reason the delayed payment of approved SALs; the Client requested the opinion of Works Supervisor in this matter.

Consequently, a series of meetings were held between the Parent Company, the Client and the Works Supervisor, during which a proposal was made to the Client for cancellation of the termination for both contracts in exchange for acceptance of the following conditions:

– completion, during the guarantee period, of works still to be carried out, such as road markings, small drains, etc.;
– restoration of the contractual value of the unit price for “cold milling”, previously reduced arbitrarily by the Works Supervisor, with the subsequent payment of an amount equal to approximately $400,000 US;
– agreement on the alleged inaccuracy of indices for price adjustments, the subject of a previous dispute;
– payment within June, against a bank guarantee, of 50% of the security guarantee (that represents 5% of the contractual amount and is still held by the Client after issuance of the provisional testing certificate).

Excluded from the conditions is the dispute underway for recognition of the Somoni Tajiki/US$ exchange rate difference relative to the price adjustment, which we believe can be settled amicably with the Client.

- *Romania Branch* – Str. Stefan cel Mare, 195 – Sibiu

The Parent Company is currently **building a stretch of highway spanning 24 km and constituting the bypass of the city of Sibiu** which, following its designation as Cultural Capital of Europe, will be the destination of a significant number of tourists in 2007.

The infrastructure is part of the Pan European corridor IV.

Performance during production was significantly impacted by design projects, by the unavailability of areas and by highly unfavorable weather conditions that did not allow all activities to be launched at full capacity, despite the total mobilization of human and technical resources.

The total progress of the works at the end of the period under examination is equal to 20.3%.

A project change is underway in order to determine new prices and a review of the contractual amount, as well as the procedure set forth by the FIDIC contract for resolution of part of the dispute with the Client for recognition of the extension in contractual times, the consequent recovery of indirect unproductive construction site and company costs sustained, as well as the costs relative to under-usage of the equipment and systems and financial charges.

- *Tunisia Branch* – Immeuble Pacha Center – Lotissement Mellouli Route Touristique – 1002 Monplaisir/El Kantaoui.
  The Parent Company has works underway for **construction of lot 1 M’Saken-Karkar of highway M’Saken-Gabes-Ras Jedir,** in Groupement with EHTP-Entreprise Hamila des Travaux Publics**.**

  The relevant works have been assigned to the Parent Company, while those related to excavation and to the road surface are carried out by its partner Hamila.

  Works for which the Parent Company is responsible will be completed by the end of 2006, while those of partner Hamila and the road markings (by the Parent Company) will be completed by the contractual deadline, set at March 2007.

For completeness of information, a list of the other branches and representative offices of the Group which are closing or for which no significant activities have been recorded, is provided below.

- *Moldavia* - Bd. Renasterii n° 22/1 - 2005 Chisinau
- *Russia* – Ul. Sadovniceskaia, 76/71 -Moscow, 115054
- *Argentina* - Calle Paraguay 2302 19° Piso, D.to 5 - C1121ABL Capital Federal
- *Greece* – Nikitara str., 3 – 154451 N. Psichico – Athens

The Joint Venture Aktor A.T.E.-Todini acquired the contract for realization **of the Athens underground**.

Works relative to the station’s structure were carried out in 2005 slightly in advance with respect to forecasts.

The Todini-Aktor Consortium was awarded the contract for **construction of a building complex on behalf of the Ministry of Labor and Social Welfare**.

The works, which resumed after the end of the Athens Olympics, were essentially completed with transformation into offices of the buildings equipped as accommodation for the athletes during the Games.

Works relative to construction of the Kallidromo railway tunnel – carried out by the joint venture (JV) Kallidromo Pantekniki-ALTE-Todini – were tested in 2005 and the JV is responsible for maintenance until awarding of the completion works, for which a call for tenders has been launched during the year. The JV must dispose of the assets still present in the construction site during the current year.

§ § §

Real Estate Development Sector

- *Urban redevelopment of an area located in Venice-Marghera*.

The company that owns the land, CEDIV SpA, subsidiary of the Parent Company, intends to assign to said Parent Company the activities of Asset and Project Management aimed at obtaining the zoning authorization and building a complex with mixed residential and tertiary designated use.

The objective of the investment is on the one hand to consolidate use of the area by identifying functional areas able to satisfy the requirements of city with its diversified uses, and on the other to qualify the area as an equipped link for pedestrians between the interchange functions of the railway station and the public areas system of Venice-Marghera, through realization of the new accessorized park planned for the area.

Activities were carried out during the period aimed at acquiring the necessary approval of the variation to the planning tool (Detailed Plan) following the relative adoption (Municipal Council Deliberation no. 213 of 23/03/05), subsequent to adoption (Municipal Council Deliberation no.139 of 24/10/2004) and approval (Municipal Council Deliberation no. 186 of 20/12/2005), of the technical file pursuant to Regulation C/AS no.8 of the Master Plan.

Following said approval, the designated uses of the initiative, expressed in gross surface area, are as follows:

– Residential	15,640 sqm
– Office	15,960 sqm
– Hotel	8,060 sqm
– Commercial	4,740 sqm
– Underground garages	26,688 sqm
– Multi-level parking	11,560 sqm

Works are expected to begin in the second half of 2007.

The amount of investment is equal to € 85 million.

- *Development of the land in the Magliana-Muratella area of Rome*.

Approval of the new Rome Master Plan has lead to the possibility of building on a portion of land owned by the Parent Company, previously classified as agricultural and located in Magliana-Muratella.

Possible development and executive solutions are being evaluated for said building possibilities, with implementation tools compliant with the general tool, although these can be quickened following the indications dictated by Municipal council deliberation no. 333 of 2004 (procedures regarding implementation of building adjustments set forth by the zoning tools adopted or approved).

COMMERCIAL ACTIVITIES

Acquisitions in the **Large Works segment** focused on the objectives defined in the Planning Document 2005-2007 and, therefore, for the national market, on opportunities related to the “New Initiatives” (acquisitions through the General Contractor and Project Financing methods) and traditional contracts and, for the foreign market, on those opportunities aimed at consolidating and introducing (in new regions) the presence of the Parent Company in the areas of the Southern Mediterranean, Eastern Europe and Central Asia.

In 2005, the Parent Company participated in 19 tenders amounting to € 2,970 million, subdivided as follows:

– <u>By type of construction</u>

Railway works	€	220
Building works	€	--
Road works	€	2,111
Plumbing works	€	517
Airport works	€	122

– <u>By type of contract</u>

New Initiatives	€	1,892
Traditional Contracts	€	1,078

– <u>By geographical area</u>

Italy	€	2,073
Foreign	€	897

New contracts were acquired in the national market for a total amount of € 579.9 million, of which € 498.5 million externally, € 4.9 million in tenders under the traditional contracts segment (with a success rate of 17%) and € 76.3 million following contractual variations or equity investments in consortiums or temporary associations.

In terms of the foreign market, acquisitions resulted in an increase in orders of € 112.0 million, of which € 21.8 million through acquisition of third companies, € 47.6 million following tenders (with a success rate of 17%) and € 42.6 million following contractual variations or equity investments in joint ventures.

The Planning Document 2005-2007 included, for the period under review, acquisitions in the domestic market for a total amount of € 80 million and € 120 million of acquisitions in the foreign market.

The **backlog of the Parent Company** grew from € 738.8 million at 31 December 2004 (of which € 574.6 million in Italy and € 164.2 million abroad) to **€ 940.5 million at 31 December 2005** (of which € 782.1 million in Italy and € 158.4 million abroad), excluding contributions of contracts in the portfolio of Consorzio Risalto. The following tables provide a subdivision by type of construction and type of contract:

Backlog by **Type of Construction**:

	2005		2004	
Railways/Urban Transport	109.5	11.64%	224.5	30.39%
Hydraulics/Reclamation	25.9	2.75%	15.5	2.10%
Building	52.9	5.62%	38.2	5.17%
Roads	746.9	79.42%	457.3	61.90%
Airports	5.3	0.56%	3.3	0.45%

Backlog by **Type of Contract**:

	2005		2004	
New Initiatives	40.1	4.26%	36.5	4.94%
Traditional Contracts, Italy	742.0	78.89%	538.1	72.83%
Foreign Contracts	158.4	16.84%	164.2	22.23%

The backlog of the Group amounts to € 984.7 million at 31 December 2005, after adding, to those of the Parent Company, the orders of Ediltevere SpA, € 32 million, and CGS Spa, € 12.7 million.

§ § §

Regarding the **Real Estate Development segment**, the most significant indicators describing the portfolio managed by the Parent Company at 31 December 2005 are provided below:

– The **area of product under development** amounts to 63,400 sqm, subdivided by product type as follows:
  - Residential 29,225 sqm
  - Tertiary 34,175 sqm, of which

* Office 17,000 sqm
* Hotel 8,000 sqm
* Commercial 8,115 sqm

– The estimated value at 31/12/05, but at the end of the production process for the building product, is equal to € 165 million, subdivided as follows by product type:
  - Residential € 77.5 million
  - Tertiary € 87.5 million, of which
    * Office € 44.8 million
    * Hotel € 20.7 million
    * Commercial € 22.0 million

In addition, there are also real estate development initiatives underway in Romania.

The portfolio currently consists of two pieces of land designated as industrial use:

– one near the city of Sibiu, currently rented;

– the other at km 73 of the Bucharest-Pitesti highway, for which development hypotheses oriented toward the oil industry are currently being studied.

FINANCIAL ACTIVITIES

As already illustrated in previous sections, growth of the business and, in particular, growth of investments related to the launch of new projects, has lead to the consequent increase in financial requirements, impacted, during the latter part of the year, by slower payments by Italian clients.

The primary objective, therefore, is to support the growth of the Group while containing the effects on the net financial position.
To this end, due to delays by ANAS, the Parent Company decided, during the month of December, to assign receivables owing for invoices issued to ANAS and expired for a total of € 21.2 million, through assignment without recourse to Capitalia L&F.
The net financial borrowings at 31/12/2005, therefore, amount to approximately € -76.5 million, up € 16.1 million compared to 31 December 2004.
Having examined the objectives of the business plan, revisited in light of acquisition of the *Variante di Valico* contract, the Board of Directors of the Parent Company has undertaken various measures to rebalance the company's financial sources, initiating a process of reorganization of debt from short to medium/long-term, balancing the financial sources with respect to expected requirements.
To this end, a financing contract was prepared for the Parent Company during the month of June for € 40 million and with duration 4 years, organized by "La Compagnia Finanziaria", a pool of 15 banks lead by Banca Antonveneta, and assisted by the channeling of a portfolio of receivables created from Public Clients or clients of primary standing.
In addition, further financing for the Parent Company was acquired during the year with MPS, Banca Antonveneta and B.Pop.Sondrio, for a total of about € 9.5 million with expiry in 2007.

Due to the above-mentioned transactions, financial borrowings beyond one year have increased from 53% to 56% of the Net Financial Position.

In order to support further growth expected over the next three-year period, the Parent Company has also incremented its own overall access to financing, increasing its “cash” credit lines from about € 159 million to about € 215 million. Among these is a credit line of € 40 million granted in equal amounts by Unicredit (lead bank) and SanPaolo IMI in support of the *Variante di Valico* project.

Total credit commitments at 31/12/2005 were equal to € 177.6 million, down € 15.8 million compared to the previous period, with credit lines granted by Banks and Insurance Companies amounting to € 306.5 million, compared to the previous € 318.4 million.

The figure relative to credit commitments, resulting from the combined effect of releases for works completed and increases for new Contracts acquired, is undoubtedly satisfactory, taking into account the significant increase in the value of production and of the orders portfolio.

Finally, the average cost of debt during 2005 was equal to 4.2%.

FINANCIAL, ECONOMIC AND ASSET ANALYSIS

The economic, financial and asset data for 2005, subject of the analysis on the pages below, are compared to those of 2004.

To provide a homogeneous comparison, data relative to the previous period were reclassified, when necessary.

Data reported in the analytical results tables are expressed in thousands of euros, unless otherwise indicated.

ECONOMIC ANALYSIS

	(thousands of euros)	31.12.2005	31.12.2004
	TABLE FOR THE ANALYSIS OF INCOME		
A	**REVENUES FROM SALES AND SERVICES**	**289,508**	**240,771**
	Changes in inventories of work in progress, semi-finished and finished products	842	1,806
	Changes in contract work in progress	13,863	9,181
	Own work capitalized	8,423	5,136
	Other revenues and income	15,759	6,350
B.	**VALUE OF PRODUCTION**	**328,395**	**263,243**
	Consumables and services	-227,335	-190,935
	Sundry overhead charges	-26,372	-8,114
C	**VALUE ADDED**	**74,688**	**64,194**
	Personnel costs	-44,280	-37,007
D	**GROSS OPERATING MARGIN (EBITDA)**	**30,409**	**27,187**
	Amortization, depreciation and write-downs	-17,576	-11,158
	Allocation to provisions for risks and charges	-378	-1,591
E.	**OPERATING INCOME (EBIT)**	**12,455**	**14,438**
	Financial income and expenses	-4,224	-4,558
	Value adjustments to financial assets	253	-76
F.	**PROFIT (LOSS) BEFORE EXTRAORDINARY INCOME AND TAXES**	**8,484**	**9,804**
	Extraordinary income and expenses	787	3
G	**PROFIT (LOSS) BEFORE TAXES**	**9,271**	**9,807**

	Income taxes for the year	-5,240	-4,685
H	**PROFIT (LOSS) FOR THE YEAR**	**4,031**	**5,122**
	Minority profit/*loss* for the year	*223*	*602*
	Group profit/*loss* for the year	***3,808***	***4,520***

The value of production shows an increase of 24.8% compared to the previous year.

Consumables and Services increased by € 36.4 million in absolute terms, but their impact on the Value of production declined from 72.5 to 69.2%.

Consequently, the Value added increased by € 10.4 million in absolute terms, maintaining its impact on the Value of production at 23%.

The Gross operating margin (EBITDA) shows an increase of € 3.2 million compared to 2004, for a 9% impact on Value of production.

Amortization, depreciation and write-downs show an increase of € 5.2 million.

Operating income (EBIT) shows a decrease of € 1.9 million compared to 2004, equal to 4% of the Value of production.

ASSET ANALYSIS

	(thousands of euros)	31.12.2005	31.12.2004
	TABLE FOR THE ANALYSIS OF ASSET STRUCTURE		
A	**FIXED ASSETS**		
	Intangible fixed assets	25,262	16,523
	Tangible fixed assets	28,806	19,656
	Financial fixed assets	10,904	2,386
	Total	**64,972**	**38,565**

B	**OPERATING CAPITAL**		
	Inventories	117,510	125,644
	Trade receivables	101,781	65,946
	Other assets	40,324	48,204
	Trade payables	-125,343	-92,686
	Advances from clients	-29,527	-29,935
	Provisions for risks and charges	-13,442	-10,627
	Other liabilities	-23,349	-31,472
	Total	**67,954**	**75,075**
C	**CAPITAL INVESTED NET OF LIABILITIES FOR THE YEAR (A+B)**	**132,926**	**113,640**
D	**EMPLOYEE SEVERANCE INDEMNITY**	-4,252	-3,604
E	**CAPITAL INVESTED NET OF LIABILITIES FOR THE YEAR AND EMPLOYEE SEVERANCE INDEMNITY**	**128,674**	**110,036**
	Covered by:		
F	**EQUITY**	52,216	49,634
G	**MEDIUM/LONG-TERM NET FINANCIAL BORROWINGS**		
	- Medium and long-term financial payables	46,357	35,995
	- Financial debts held as fixed assets	-3,232	-4,151
	Total	**43,124**	**31,844**
H	**SHORT-TERM NET FINANCIAL BORROWINGS**		
	Short-term financial payables	53,307	52,015
	Short-term availability for financial debts	-19,973	-23,457

	Total	33,334	28,558
	TOTAL FINANCIAL BORROWINGS (G+H)	76,458	60,402
I.	TOTAL AS IN "E" (F+G+H)	128,674	110,036

Fixed assets show a net increase of € 26.4 million, of which € 8.8 million is attributable to intangible fixed assets, € 9.1 million to tangible fixed assets and € 8.5 million to financial fixed assets.

The individual transactions are described in the notes.

Operating capital decreased, in absolute terms, by € 5.1 million compared to 2004, with a percent impact of 20.7% of the value of ordinary production (28.5% in 2004, 45.6% in 2003, 35.6% in 2002).

Net capital invested is covered by equity for 40.6% and by net financial borrowings for 59.4%.

The composition of the net financial position, which shows an increase in current assets of € 4.8 million and an increase in medium/long-term assets of € 11.3 million, is broken down as follows (thousands of euros):

	at **31.12.2005**	at **31.12.2004**
Current assets		
- Cash and cash equivalents	19,966	23,457
- Floating assets	7	0
- Short-term borrowings from banks	-53,046	-51,636
- Due to subsidiaries	0	0
- Due to parent company	0	0
- Due to others	-261	-379
Total current situation	**-33,334**	**-28,558**

Medium and long-term assets		
- Receivables due from subsidiaries	293	162
- Receivables due from associated companies	1,426	1,682
- Receivables due from others	1,513	2,307
- Long-term borrowings from banks	-46,134	-30,736
- Long-term financial payables	-223	- 5,259
Total medium and long-term assets	**-43,124**	**-31,844**
Net financial position	**-76,458**	**-60,402**

A brief summary of asset structure is provided in the table below:

(thousands of euros)	**Es. 2005**	**Es. 2004**
- Operating capital	67,954	75,075
- Fixed assets	64,972	38,565
Gross invested capital (a)	*132,926*	*113,640*
- Employee severance indemnity (b)	*-4,252*	-3,604
Net invested capital (a-b)	**128,674**	**110,036**
- Net financial borrowings	76,458	60,402
- Equity	52,216	49,634
Total	**128,674**	**110,036**

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FINANCIAL ANALYSIS		
CASH FLOW STATEMENT		
(Amounts in thousands of euros)	**31.12.05**	**31.12.04**
A. Net opening financial availability (borrowings)	**(60,402)**	**(67,240)**

B. Cash flow from operating activities:		
Group profit (loss) for the year	3,808	4,520
Minority profit (loss) for the year	223	602
Amortization and depreciation	17,127	10,562
Write-downs of non-consolidated equity investments	(253)	76
Capital gains/losses from the disposal of equity investments	1,632	0
Net change in the employee severance indemnity	648	57
Net change in other provisions	2,815	2,961
Change in net current assets:		
(increase)/decrease in inventories	8,134	(27,834)
(increase)/decrease in receivables	(25,560)	15,449
(increase)/decrease in accrued income and prepaid expenses	(2,395)	(1,068)
(increase)/decrease in payables – excluding advances	23,279	16,650
(increase)/decrease in advances	(408)	(3,149)
(increase)/decrease in accrued expenses and deferred income	1,255	1,298
Non-monetary variations (changes in scope of consolidation)		629
Total	**30,305**	**20,753**
C. Cash flow from investments:		
Investments in fixed assets:		
Intangible	(22,604)	(9,653)
Tangible	(16,171)	(5,018)
Net financial	(9,898)	(1,091)
Profit from disinvestment in tangible and intangible fixed assets	3,760	99
Non-monetary variations (changes in scope of consolidation)		(43)
Total	**(44,913)**	**(15,706)**

D. Other Sources (Uses)		
Dividends	0	0
Equity reserves	0	0
Increase /(decrease) in share capital	0	2,480
Changes in group equity (change in scope of consolidation)	47	(210)
Changes in minority equity (change in scope of consolidation)	(1,496)	(479)
Total Other Sources	**(1,449)**	**1,791**
E. Total cash flow (B+C+D)	**(16,056)**	**6,838**
F. Net final financial availability (borrowings) (A+E)	**(76,458)**	**(60,402)**
The change in net financial borrowings is determined as follows:		
(amounts in thousands of euros)	**31,12,05**	**31,12,04**
Increase (decrease) in borrowings from change in scope of consolidation	0	1,612
Increase (decrease) in short-term borrowings	11,280	22,185
Increase (decrease) in medium/long-term borrowings	4,776	(30,634)
Total	**16,056**	**(6,838)**

TREASURY SHARES AND SHAREHOLDING GROUP

Pursuant to article 2428 of the Civil Code, we declare that:

– the Parent Company does not hold directly, nor via trust companies or third parties, treasury shares or shares of the Parent Group;

– during the year, the Parent Company did not acquire or sell, either directly or through trust companies or third parties, treasury shares or shares of the Parent Group;

– the shareholding group of the Parent Company at the current date is as follows:

* Todini Finanziaria S.P.A. (wholly owned by Luisa Todini)	86.27%
* Luisa Todini	0.81%
* Stefano Todini	12.92%

TRANSACTIONS WITH SUBSIDIARIES, ASSOCIATED COMPANIES, PARENT COMPANIES AND COMPANIES CONTROLLED BY THE LATTER

Transactions carried out by the Parent Company with group companies essentially regard the exchange of goods, the rendering of services and the supply and use of financial resources with subsidiary and associated companies.

All transactions are part of the day-to-day operations of the company and are settled at normal market conditions.

Equity investments, described in detail in the notes, mainly refer to consortiums, established together with other companies for the joint implementation of works acquired as a group.

The debit and credit positions existing with these companies concern the settlement of financial and sales transactions.

Said transactions are regulated at arm’s length and, more specifically:

– sales and purchases at prices between independent operators;
– interest at current bank rates.

The main transactions outstanding with the Parent Group and with the subsidiaries controlled by it, as well as with associated companies of the Parent Company that are not part of the scope of consolidation are provided below; the results and activities of the main subsidiaries are provided as well.

- TODINI FINANZIARIA S.P.A. (Parent Group of the Parent Company)

Receivables	€	48.1 thousand
Payables	€	3.8 thousand
Costs	€	0 thousand
Revenues	€	0.9 thousand

- CEDIV S.P.A. (Associated company not included under the scope of consolidation)

Receivables	€	243.7 thousand
Payables	€	0 thousand
Costs	€	0 thousand
Revenues	€	0 thousand

- EDILTEVERE S.P.A. (stake of 70%)

This company operates in the construction sector and in the production of aggregates, cement and bituminous concrete. Its activities are mainly carried out in Umbria and in the surrounding regions.

The value of production carried out amounts to € 23.4 million, up 21% from the previous year.

In 2005, works continued on the parceling out of land in Todi – Ponte Rio, completing a significant portion of the urbanization works and selling several lots. The company is building a series of terraced houses on one of these lots, which are currently in the completion phase.

In addition, the company completed the road system as per the Master Plan for the Municipality of Marsciano, through project financing, and the construction (with subsequent management) of a fuel station.

- LITOIDE S.R.L. (stake of 59.5%, indirectly held by Ediltevere SpA)

The company carries out construction activities and the production of aggregates and concrete in Umbria, along with the exploitation of a proprietary quarry located in San Gemini (Terni).
The value of production carried out amounts to € 7.5 million, down 9% compared to the previous year, due to the drop in demand for the concrete plant.

- C.G.S. S.P.A. (stake of 76%)

Like the previous two, this company also operates in the sector of construction and production of aggregates, cement and bituminous concrete. Its activities are carried out mainly in Northern Italy, especially in the Triveneto region.
The value of production was equal to € 13.9 million, a decrease of 23% compared to the previous year. This is the first year showing a downturn after a long period of growth, also due to the decision to secure projects with higher profitability and for the most part located in the same region (Friuli Venezia Giulia).
Among the most significant events of the past year, mention goes to acquisition of the contract from the F.V.G. Region and from the Civil Defense for work on the hydraulic system and consolidation of the slopes in the Municipalities of Malborghetto, Valbruna and Tarvisio, as well as the contract, under project financing, for the design and construction of a multi-level parking lot in the Municipality of Grado.

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Provided below is further information, previously not reported, regarding activities carried out by the Parent Company in the Large Works segment in Italy and abroad through Consortiums and Joint

Ventures not included in the scope of consolidation, divided by type of construction involved in the works;

- Infrastructures - Italy
  - *Hydraulic works*

    IRRIGAZIONE FURORE Scarl (stake of 40%).

    This Company was established for management of the contract regarding **works on the 2nd lot, 1st excerpt of the project for construction of the water system for distribution to the irrigation zones of the Naro-Furore reservoir**, assigned by ESA to the temporary association Condotte SpA (agent) and Todini Spa (principal).

    During the year, all works, except for the finishes and minor works that do not alter the functional structure of the irrigation system, were completed. Works still to be completed include the activities borne by the Agent, such as restoration and reconditioning of the works carried out before the suspension of 31.07.1995 (art. 4 paragraph b of the Settlement agreement), which is expected to be completed by the end of the current year.

    Activities have also been initiated to begin operations of the irrigation network, for the functional assessments before delivery of the works to the client.

LEGISLATIVE DECREE 231/2001

On 29 April 2005, in compliance with Legislative Decree 231/2001, the Board of Directors of the Parent Company appointed as single-subject Supervisory Body, as per the aforementioned law, Mr. Marco Cardia, an external lawyer.

On the same date, the Board of Directors of the Parent Company also approved the Organization, Management and Control Model as per Legislative Decree 231/2001.

The Model consists of four parts, one general and two special which regulate offenses against Public Administration and corporate crime; the fourth part is relative to protocols, meaning those rules to which the organization and those involved in business dealings with it must adhere.

Respect for the rules of the Model is the subject of periodic reporting to the Supervisory Body by the corporate functions involved; in addition, respect of said rules is verified through specific audits by the Supervisory Body on the so-called “sensitive” processes.

PROTECTION OF PRIVACY

Regarding aspects relative to Privacy, as per Legislative Decree 196 of 30/6/2003, we inform you that on 30 March 2006, the Programmatic Document on Security was defined within the Parent Company, with the objective of establishing the organizational, physical and logical security measures to be adopted in order to respect the obligations in terms of security in the treatment of data carried out by the Parent Company in respect of the provisions of the aforementioned Legislative Decree.

GOVERNANCE

The Corporate Governance system of the Parent Company is compliant with the provisions of the Civil Code.

The Board of Directors of the Parent Company has complete powers to carry out all actions for the implementation and achievement of corporate objectives, carrying out a strategic role and safeguarding the interests and assets of the Parent Company.

As you know, in the session of 9 February 2006, the Board of Directors of the Parent Company, following the resignation of Chairman and Director Mrs. Luisa Todini, who assumed the Chairmanship of Todini Finanziaria Spa (Group Holding), upon occurrence of the conditions set forth in art. 2386 paragraph 1 of the Civil Code, replaced the outgoing Director by appointing Mr. Michele De Capoa, with the approval of the Board of Statutory Auditors.

During the same session, following the official resignations of Messrs Aldo Serafini, Giuseppe Crini and Raffaele Cocciò from their respective offices of Deputy Chairman, Chief Executive Officer (CEO) and Managing Director, the Board appointed

Mr. Aldo Serafini	Chairman
Mr. Michele De Capoa	CEO and General Manager

and confirmed:

Mr. Giuseppe Crini	Director
Mr. Raffaele Cocciò	Director
Mr. Luigi Ferretti	Director

Said deliberation was then ratified by the Shareholders' Meeting that took place on 13/4/2006.

The Board of Directors in office during the year under review met 17 times to examine and carry out deliberations regarding ordinary business activities, management decisions of particular interest for the Parent Company and specific decisions with respect to which, although relative to issues already subject to evaluation by the Directors, it has opted for discussion within the Executive Office.

IMPORTANT EVENTS REGARDING CORPORATE RESPONSIBILITY

On 24/5/2005, as already mentioned in last year’s report, a day nursery was inaugurated at the offices of the Parent Company, run by a specialized company (with which the Parent Company has signed an agreement), in an area of almost 600 sqm and able to welcome up to 50 children aged from 3 months to 3 years.

This initiative was instantly successful with families of employees of the Parent Company as well as among individuals working or living in the area, as the structure is open to municipal lists, offering its services until 7:00 pm.

In addition to the social value of the initiative, it represents a contribution by the company to its employees in order to balance professional and family life.

Mention also goes to the many charity initiatives to which the Parent Company has contributed, such as the event in September 2005 called “*Neonati in campo a Todi*”, which collected funds for the care of newborns affected by particular pathologies in the hospitals Bambin Gesù of Rome and the Polyclinic of Perugia.

We would like to take this opportunity to renew our commitment, as member of the UN Global Compact project, to respect for the ten fundamental principles promoted by the same for the protection of human rights, workers and the environment and for the fight against corruption.

SIGNIFICANT EVENTS OCCURING AFTER YEAR-END

In addition to what has been described in the present report, we mention the following:

- Subscription by the Parent Company on 07/02/2006 of the Amicable Agreement (as per art. 31 bis) with Client ANAS, as closure of the dispute relative to SS 131 “Di Carlo Felice” for an amount of approximately € 1.8 million, collected in March.
- Formalization by the Parent Company of the agreement in which ANAS accepts the arbitrator’s award issued as a result of the dispute regarding lot 9 of the Salerno-Reggio Calabria Motorway – discussed extensively at the beginning of this report – with confirmation of termination of the contract *inter partes* and recognition of the amount of € 5 million.
- The agreement reached by the Parent Company during the proceedings as per art. 31 bis with Ferrotranviaria to resolve the dispute relative to the performance of works on the urban railway link between the stations of Bari and Lamasinata, with recognition of the amount of € 5.5 million; as part of this agreement, which will presumably be completed by the end of the current period, the Parent Company is assigned the finishing works, consisting of

completion of the civil works for the four stations and construction of fire prevention, air conditioning, electrical and hydraulic systems for said stations, as well as emergency entrances to the tunnel, for an amount of approximately € 5.7 million.

- Opening to traffic of the temporary road system accessing the New Fair of Rome, in occasion of the opening ceremonies, last 20 April, for the first two pavilions. The event was made possible thanks to a significant increase in organization of the productive cycle of the Parent Company's construction site, which enabled the guarantee of very impressive production volumes, with peaks registered in March (about € 6 million). In addition, meetings are underway with the client in order to evaluate the technical-economic feasibility of an acceleration program, in order to open the definitive road system to traffic by September 2006.
- Approval by C.N.M. of the contract relative to construction of the Kef Eddir dam for the Parent Company.
- Maximum effort made in actions aimed at defining disputes filed for certain contracts of the Parent Company, in closure and underway; in particular:
  - procedures have been initiated as per art. 31 bis for the contracts "Menaggio Variant" and "Addition to the Rome-Fiumicino Airport Highway";

– the board of arbitrators has been established for definition of the dispute relative to infrastructure "S.G.C. Grosseto-Fano – lot 9", as previously mentioned, opened to traffic last 27 March

- As a result of the dispute filed, with reference to the contract "Sibiu Bypass", before the DAB (Dispute Adjudication Board), the latter expressed its decision with reference to the Statement of Case (SOC) presented by the Parent Company on 20.12.05, following refusal by the Works Supervisor to take into consideration claims 1, 2 and 3 communicated in December 2004. This decision, which becomes binding if not contested by the parties within 28 days, sanctions the validity of all three reserves of the SOC, and, as a fundamental factor for the subsequent valuation of extension of time, validates both the calendar as well as the productivity at the basis of the Parent Company's argument, harshly contested by the Client's consultants.

  The particular complexity of the SOC, which covers a period from 15.10.2003 to 16.06.2005, was recognized several times by the DAB which, as we know, consists of international experts registered in the lists FIDIC (International Federation of Consulting Engineers).

  In fact, analysis of the document, received by the DAB on 20/12/05 and discussed with the representatives of the Client and of the Parent Company during the Hearing held on 13-14/02/06 in Bucharest, required, by written admission of the DAB, an extra two months and a half before the final verdict, for a total of four months.

It should also be noted that the Client decided, for the same reasons and for the first time since the DAB has been called to settle these controversies in Romania, to seek the assistance and representation of the firm Corbett of London, one of the most prestigious legal firms and author of a practical guide to the FIDIC in 1991.

In light of the above, DAB's decision is even more significant.

Having established, therefore, that the principles on which the SOC presented by the Parent Company is based are correct, a decision that represents a strong point should the Client request arbitration, the DAB requested that the consultants of the Client and of the Parent Company meet in order to verify the impact of various "*fragnets*" (causes of delay attributable to both the Parent Company as well as the Client) with respect to the original Works Program, in order to determine the time extension and the additional charges.

- Acquisition by the Parent Company – in addition to the contract for construction of the Kef Eddir dam (€ 72.4 million, of which € 36.2 million pertaining to your Parent Company) – of the contract for reconstruction of the Astana-Baravai road section (€ 42.0 million) and of contracts relative to construction of the Atyrau-Karabatan ($ 20.0 million) road in Kazakhstan and the Karabatan-Dossor road (€ 30.0 million).

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Rome 16/5/2006

for THE BOARD OF DIRECTORS

The Chairman

(Aldo SERAFINI)