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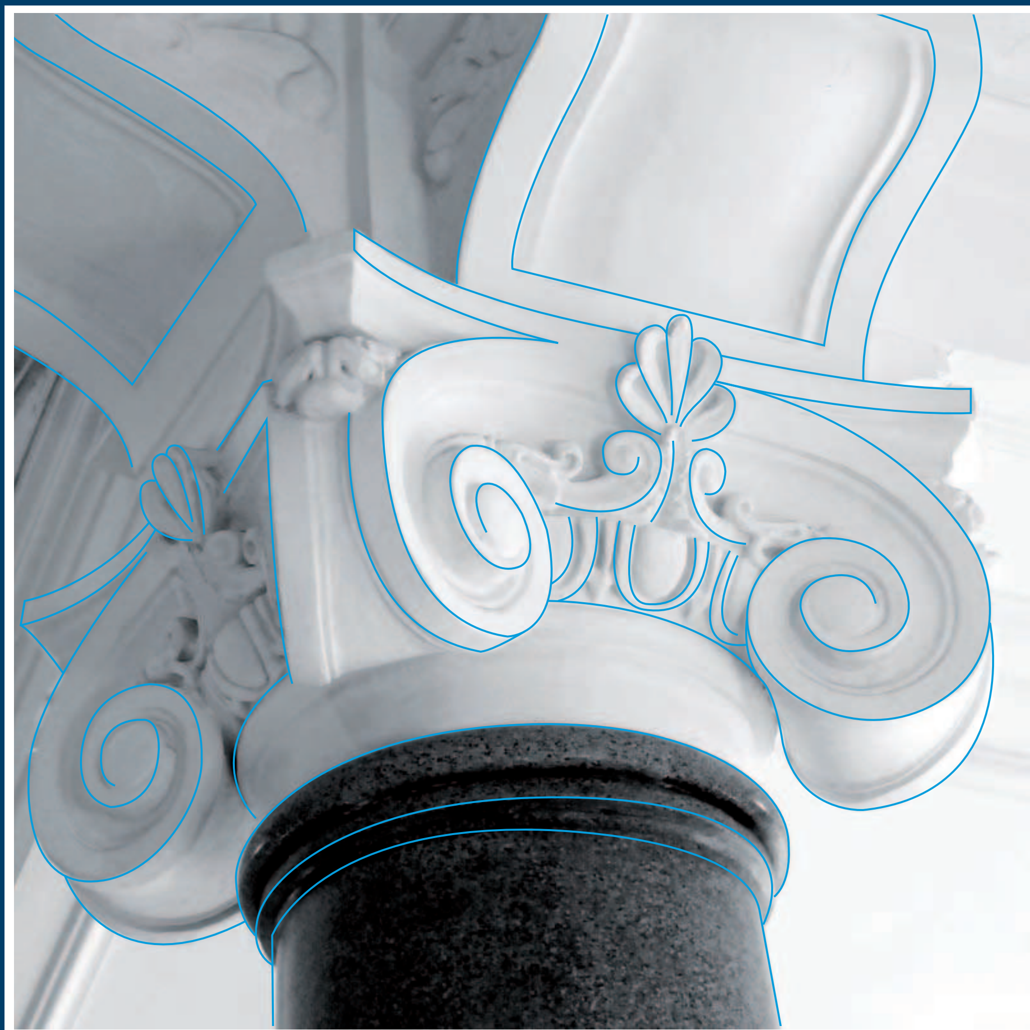

CDP Group
Consolidated Report and Financial Statements

at 31 december 2011

Cassa depositi e prestiti

(Translation from the Italian original)

2011 Consolidated Financial Statements

CDP GROUP

Cassa depositi e prestiti S.p.A.

parent company of the CDP Group

REGISTERED OFFICE

ROME– Via Goito, 4

COMPANY REGISTER OF ROME

Entered in Company Register of Rome no. 80199230584

Registered with Chamber of Commerce of Rome at no. REA 1053767

SHARE CAPITAL

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Tax code 80199230584 – VAT registration no. 07756511007

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(YEAR ENDED 31 DECEMBER 2011)

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1. PRESENTATION OF THE GROUP

1.1 INTRODUCTION

The report on operations and other documentation contained here have been prepared because Cassa depositi e prestiti S.p.A. ("CDP") exercises de facto control over Terna S.p.A. and exercises statutory control over CDP GAS S.r.l. ("CDP GAS"), Fondo Strategico Italiano S.p.A. ("FSI") and CDP Investimenti Società di Gestione del Risparmio S.p.A. ("CDPI SGR").

These circumstances require CDP to prepare consolidated financial statements in addition to its individual separate financial statements. The consolidated financial statements are prepared using the formats established in Bank of Italy circular 262 of 22 December 2005 as updated, consolidating the assets, liabilities, costs and revenues of the Terna Group, CDP GAS, FSI and CDPI SGR on a line-by-line basis, even though some of them use different formats for their own financial statements that are more appropriate for representing their specific operations.

In order to harmonise the data for consolidation purposes, the consolidated companies were asked to reclassify their financial statements on the basis of the formats established by the Bank of Italy for banks, which have already been adopted by CDP.

In order to facilitate understanding of the CDP Group's results for the period, the analysis of the consolidated balance sheet and income statement uses the statements reclassified based on operational criteria.

The operational representation obtained reflects the consolidation in a single document of data on assets, liabilities and performance of companies with engaged in different activities. Therefore, the reader should refer to the relevant individual separate financial statements for more information.

1.2 THE CDP GROUP

At 31 December 2011, the CDP Group is composed of the parent company CDP, CDPI SGR, Terna, CDP GAS, FSI and their respective subsidiaries and associates.

PARENT COMPANY

Name	Registered office
Cassa depositi e prestiti S.p.A.	Rome

CONSOLIDATED COMPANIES

Name	Registered office	Investor	% holding	Method of consolidation
CDP GAS S.r.l.	Rome	CDP S.p.A.	100.00%	line-by-line
Fondo Strategico Italiano S.p.A.	Milan	CDP S.p.A.	90.00%	line-by-line
CDP Investimenti SGR S.p.A.	Rome	CDP S.p.A.	70.00%	line-by-line
Terna S.p.A.	Rome	CDP S.p.A.	29.85%	line-by-line
Terna Rete Italia S.r.l.	Rome	Terna S.p.A.	100.00%	line-by-line
SunTergrid S.p.A.	Rome	Terna S.p.A.	100.00%	line-by-line
Terna Plus S.r.l.	Rome	Terna S.p.A.	100.00%	line-by-line
Terna Crna Gora d.o.o.	Podgorica	Terna S.p.A.	100.00%	line-by-line
Rete Solare S.r.l.	Rome	SunTergrid S.p.A.	100.00%	line-by-line
Galaxy S.àr.l. SICAR	Luxembourg	CDP S.p.A.	40.00%	equity
Europrogetti & Finanza S.p.A. in liquidazione	Rome	CDP S.p.A.	31.80%	equity
Eni S.p.A.	Rome	CDP S.p.A.	26.37%	equity
Trans Austria Gasleitung GmbH	Vienna	CDP GAS S.r.l.	89.00%	equity
Elmed Etudes S.àr.l.	Tunis	Terna S.p.A.	50.00%	equity
Cesi S.p.A.	Milan	Terna S.p.A.	42.41%	equity
Coreso S.A.	Brussels	Terna S.p.A.	22.49%	equity
CGES AD	Podgorica	Terna S.p.A.	22.09%	equity

Compared with 31 December 2010, the scope of consolidation has changed as follows:

- the incorporation on 2 August 2011 of FSI, a holding company dedicated to acquiring equity interests in companies of "major national interest" that have a sound financial position and adequate profitability and significant growth prospects. CDP owns 90% of the company, while the remaining 10% was acquired by Fintecna S.p.A.;
- the incorporation in November 2011 of CDP GAS, an investment vehicle wholly owned by CDP through which on 22 December 2011 the Group acquired from Eni International B.V. an 89% interest in Trans Austria Gasleitung GmbH ("TAG"), to which 94% of financial rights attach;
- the transfer on 31 March 2011 of 100% of Rete Rinnovabile S.r.l. ("RTR") to RTR Acquisition S.r.l. (an indirect subsidiary of Terra Firma Investment GP 3 Limited);
- the incorporation by Terna on 22 June 2011 of Terna Crna Gora d.o.o., a limited liability company organised under the laws of Montenegro. The new

company will build and subsequently operate the local transmission infrastructure of the Italy-Montenegro electrical interconnection;
- the incorporation by Terna S.p.A. on 15 December 2011 of Terna Plus S.r.l. with share capital amounting to €50,000. The corporate purpose is the design, construction, development, operation and maintenance of plants, equipment and infrastructure. This comprises networks and systems, including systems for the distributed storage of energy and pumping and/or other storage;
- the acquisition by Terna S.p.A. of an additional 2.5% of Cesi S.p.A.;
- the acquisition by Terna S.p.A. of 22.089% of CrnoGorski Elektroprenosni Sistem AD ("CGES") following the execution of the definitive strategic partnership agreement with the government of Montenegro, the majority shareholders, and the transmission system operator of Montenegro, for the construction of the new Italy-Montenegro power interconnection and the TERNA-CGES strategic partnership.

On 8 March 2011, the Terna subsidiary SunTergrid S.p.A. incorporated Nuova Rete Solare S.r.l. ("NRTS"), which, with a view to developing the investment programme in renewable energy, had also acquired the entire share capital of three companies (Reno Solar 2 S.r.l., Lira PV S.r.l. and Solar Margherita S.r.l.), which were subsequently merged into NRTS. On 24 October 2011, NRTS was sold to RTR Holding III S.r.l. – an indirect subsidiary of Terra Firma Capital Partners III, L.P. ("Terra Firma") through RTR Capital S.r.l.

On 21 December 2011, the Shareholders' Meeting of Terna Linee Alta Tensione S.r.l. ("TELAT") voted to change the company name to "Terna Rete Italia S.r.l.".

Finally, the equity investment in Eni S.p.A. already held by CDP at 31 December 2010 was accounted for using the equity method for the first time in 2011. In 2010, the carrying amount of the investment was the purchase price. The change was prompted by the fact that the size of the stake increased to a level that would indicated that CDP could exercise a significant influence over Eni S.p.A. at the end of 2010 following the completion of the share exchange with the Ministry for the Economy and Finance ("MEF").

1.2.1 Cassa depositi e prestiti S.p.A.

For more information on CDP and the portfolio of equity investments it holds, please see the separate report and financial statements.

1.2.2 CDP Investimenti SGR S.p.A.

CDPI SGR was established in February 2009 by CDP together with Associazione delle Fondazioni bancarie e Casse di Risparmio S.p.A. (ACRI) and the Italian Banking Association (ABI). The company is registered in Rome and has share capital of €2 million, fully paid up, of which CDP holds 70%.

The company, which in January 2010 received Bank of Italy authorisation to engage in collective asset management, seeks to create a new platform for the launch of real estate investment funds, with a view to expanding residential housing.

In the first half of 2010, the Bank of Italy approved the rules of CDPI SGR's first closed-end real estate investment fund reserved for qualified investors called Fondo Investimenti per l'Abitare.

At 31 December 2011, the fund, which had completed its fourth closing, had raised €1,928 million from leading Italian institutional investors such as, in addition to CDP, the Ministry for Infrastructure and Transport, leading banks and insurance companies and a number of privatised pension funds.

CDPI SGR held no equity investments at 31 December 2011.

1.2.3 Terna Group

On 15 September 2005 CDP acquired 29.99% of Terna.

Following the acquisition, CDP determined that it exercised de facto control over Terna pursuant to Article 2359.1 and 2, of the Italian Civil Code, as cited in Article 93 of the Consolidated Law on Financial Intermediation.

The analysis conducted by CDP that showed that control was ongoing and not determined by contingent or occasional circumstances examined the following elements:

a) the composition and degree of fragmentation of the shareholder base;
b) developments in especially important shareholders' meetings;
c) the composition of the board of directors.

Terna S.p.A. is in turn the parent company of the Terna Group, which is described in more detail below.

1.2.4 CDP GAS S.r.l.

CDP GAS is an investment vehicle formed in November 2011 and wholly owned by CDP through which, on 22 December 2011 acquired from Eni International B.V. an 89% interest in TAG, to which 94% of financial rights attach.

TAG is the exclusive operator for the transport of gas in the nearly 400-km Austrian segment of the gas pipeline linking Russia to Italy through Ukraine, Slovakia and Austria. The infrastructure transports Russian gas to Italy, accounting for about 30% of Italy's gas imports, thus representing an asset of strategic importance to the country.

1.2.5 Fondo Strategico Italiano S.p.A.

FSI is a holding company that invests in companies in order to create value for its shareholders by promoting the growth, operating efficiency, consolidation and international competitiveness of the companies in which it takes a stake.

The company was incorporated on 2 August 2011 with share capital of €1 billion, of which €600 million had been paid in as at 31 December 2011.

The controlling shareholder is CDP, which subscribed 90% at incorporation, while the remaining 10% is held by Fintecna S.p.A.

FSI held no equity investments at 31 December 2011.

1.3 CDP GROUP'S MISSION

1.3.1 CDP's mission

For more information on the role and mission of CDP in addition to its corporate profile, please see the separate report and financial statements.

1.3.2 CDPI SGR's mission

CDPI SGR's mission is to promote the development of financially sustainable private social housing projects, through the promotion and management of Fondo Investimenti per l'Abitare, which operates as a resource catalyst for the launch of real estate investment funds and local initiatives to expand the supply of social housing, as defined under the Ministerial Decree of 22 April 2008, leased at controlled rents or sold at facilitated prices.

Private social housing is targeted at the "grey bracket" of the population, i.e. those people who do not meet the requirements to be assigned public housing under public residential building programmes but who, at the same time, do not have a high enough income to find accommodation in the private home rental or purchase market. CDPI operates completely independently in managing Fondo Investimenti per l'Abitare ("FIA"), in the interest of its investors, on the basis of strategic guidelines it establishes and assessing the economic and financial feasibility of the investments it plans to make.

On 20 December 2011 the board of directors of CDPI SGR approved a document setting out a number of strategic lines of development that will contribute to extending the role and mission of CDPI SGR in 2012. Among other things, the document envisages: (i) the updating of the investment procedure, distinguishing between the processes for indirect and direct investments; (ii) the possibility of adding a share of debt financing to investments in equity carried out by the FIA, with a consequent amendment of the operating rules; (iii) the creation of a new fund sponsored and operated by CDPI SGR, to which 10% of the resources of the FIA will be channelled, for direct investments that exceed the ceiling of 40% of the capital of the investee; and (iv) the option of establishing other funds, including those with contributions of property in kind.

The strategic guidelines for 2012 therefore provide for the expansion of the range of action of CDPI SGR, with the launch of real estate investment funds for the direct investment in property, property rights and real estate companies.

CDPI SGR may also consider the possibility of forming real estate investment funds with the contribution of properties already rented to tenants owned by institutional actors such as social security institutions, religious entities, public entities, with the goal of offering long-term leases. CDPI SGR may also establish real estate funds not involved in social housing, with a focus on leveraging the value of public property assets. In this context, CDPI SGR participated in the pre-qualification stage of the tender called by the Ministry of Defence for the selection of an asset management company for the creation of real estate investment funds pursuant to Article 314, paragraph 4, of Legislative Decree 66/2010.

The operational scope of the real estate funds to be established and managed by CDPI SGR remains tied to investments in initiatives and projects of economic and

social interest. Activities in private social housing and any initiatives to develop, repurpose or dispose of the property assets of public entities both directed at making investments that generate sustainable financial returns for long-term institutional investors and, at the same time, have a positive economic and social impact for the country.

At 31 December 2011, the shareholders of CDPI SGR were as follows:

- CDP, with 70%;
- ABI, with 15%;
- ACRI, with 15%.

1.3.3 Terna Group's mission

Terna – Rete Elettrica Nazionale S.p.A. is a major operator of electricity transmission grids. It is the operator and the main owner of the high-voltage National Transmission Grid (NTG).

Terna is responsible for the planning, development and maintenance of the grid, bringing together skills, technologies and innovation in line with international best practice. It is also the company responsible for the transmission and dispatching of electricity on the high and very-high-voltage grid in Italy and, as such, it is charged with safely balancing electricity supply and demand. The company is also responsible for planning, developing and maintaining the NTG.

The current structure of the company is the result of the unification of ownership and operation of the NTG in November 2005 (in implementation of the Prime Minister's Order of 11 May 2004).

Since June 2004 the company has been listed on the Italian Stock Exchange. As of the date of the preparation of these financial statements, Cassa depositi e prestiti S.p.A. held a plurality of the share capital, with 29.85%. According to the periodic census conducted by the company, of the total Terna share capital, at 31 December 2011, about 70% is held by Italian investors and 30% by foreign institutional investors.

Terna is an international group: it has consolidated its position at the world level and is one of the leading players in the sector, the largest in Europe and seventh in the world among independent grid operators.

Terna is also a founding member of ENTSO-E, the major European network of transmission operators. The organisation acts as a cooperative entity at the European level to promote the internal market in electricity and cross-border trade and to provide coordinated management of electricity transmission grids. The membership of ENTSO-E is composed of 41 transmission operators from 34 countries. Its main goal is to develop European grid codes and adopt the ten-year European grid development plan, as well as providing medium/long-term forecasts of the adequacy of generation capacity.

The companies of the Terna Group

At 31 December 2011 the Terna Group included, in addition to the parent company, the following fully consolidated companies:

- SunTergrid S.p.A. (formerly inTERNAtional S.p.A.), Terna Rete Italia S.r.l. (formerly TELAT S.r.l.), Terna Plus S.r.l. and Terna CG d.o.o, directly controlled by Terna S.p.A. with a stake of 100%;
- Rete Solare S.r.l. (RTS), an Italian company indirectly controlled through SunTergrid S.p.A., with a stake of 100%.

The Terna Group's scope of consolidation also includes the associated company Cesi S.p.A. (in which Terna has a 42.41% holding), CrnoGorski Elektroprenosni Sistem AD – CGES (22.09%), the joint venture Elmed Etudes S.àr.l. (50%) and Coreso S.A. (22.49%), all accounted for using the equity method.

The parent company, Terna, is responsible for the operational management of the subsidiaries under special service agreements for providing assistance, coordination and consulting services to the companies during the construction and operation of plants (relating to, for example, applications for permits or measures of any kind, procurement procedures, contract and tender management, accounting and financial services).

1.3.4 CDP GAS's mission

The mission of CDP GAS is the management of the equity investment in TAG, monitoring the adequate development and maintenance of the infrastructure it operates.

To this end, CDP GAS intends to develop skills in the gas transport sector, in order to oversee its investment most effectively.

1.3.5 FSI's mission

FSI operates by acquiring equity interests – generally minority stakes – in companies of "major national interest", that have a sound financial position and adequate profitability and significant growth prospects that can generate value for the fund's investors.

Pursuant to the decree of the Ministry for the Economy and Finance of 8 May 2011 and the articles of association, companies of major national interest include those that operate in the sectors of defence, security, infrastructure, transportation, communications, energy, insurance and financial intermediation, research and high-tech innovation and public services.

Outside those sectors, possible targets for FSI also include companies with annual net turnover of at least €300 million and an average number of employees of at least 250. The size requirements can be reduced to €240 million in turnover and 200 employees in the case of companies whose business has a significant impact in terms of spillovers and benefits for the economy as a whole, including through production facilities located in Italian territory.

1.4 STRUCTURE AND PERSONNEL OF THE CDP GROUP

1.4.1 Structure and personnel of CDP

For information on the organizational structure of CDP, please see the separate report and financial statements.

1.4.2 Structure and personnel of CDPI SGR

At 31 December 2011, CDPI SGR had 18 employees: three senior managers, ten junior managers and five office personnel.

In the area of internal controls, the company has established an organizational structure designed to identify, measure, monitor and control the risks associated with its activity, both with the implementation of control activities and with the engagement of specific outsourcers.

In addition, on 26 January 2011, the parent company, CDP, began to exercise its management and coordination role with CDPI SGR.

1.4.3 Structure and personnel of the Terna Group

No significant changes were made to the Terna S.p.A.'s corporate structure in 2011.

At 31 December 2011, the parent company, Terna, had 3,493 employees (3,468 at the end of 2010). Also at that date the subsidiary Terna Crna Gora d.o.o. had two local employees, while the other subsidiaries had no employees. Data for both periods are reported net of terminations taking effect from 31 December.

1.4.4 Structure and personnel of CDP GAS

In view of the recent formation of the company, at 31 December 2011 it had no employees. On 1 January 2012, a highly experienced expert in the gas sector was hired and seconded to TAG to act as Managing Director.

1.4.5 Structure and personnel of FSI

FSI is organised into two main areas: the Investment department, which is responsible for selecting, assessing and carrying out investments, and the Operations department, which is responsible for support and governance processes.

Internal audit and compliance duties are functionally and hierarchically independent of the operating units and report directly to the board of directors, operating in close contact with the parent company.

This organisational structure enables to perform its mission fully, as well as maximising operating synergies with the lead shareholder. In this context, FSI and CDP coordinate closely in the main staff and support functions, with a view to economising the use of Group resources.

With regard to the size of the workforce, FSI has essentially completed the hiring plans set out in the business plan to enable the start-up of operations. Staff at the end of 2011 numbered 7 employees (as well as the Chief Executive Officer and the CDP staff involved in staff and support functions), who were joined by an additional 6 employees at the end of March 2012, completing the basic workforce needed to manage operations.

Finally, on 30 November 2011, the parent company, CDP, undertook to exercise its management and coordination role with FSI.

2. THE MARKET

2.1 THE MACROECONOMIC SITUATION

The outlook for the world economy, already impacted by the effects of the 2008 financial crisis, deteriorated further in mid-2011 as economic conditions worsened. More specifically, in the advanced economies the recovery in domestic demand is slowing, while employment remains well below its pre-crisis levels. At the same time, the fiscal policies of the main countries appear to have exhausted their expansionary impetus. Stringent budget constraints and the continuing turbulence in sovereign debt markets, especially in the euro area, have fuelled uncertainty about developments in economic activity.

To tackle these increasingly difficult challenges, the European Council approved a series of measures designed to reinforce fiscal policy coordination and the mechanisms in place to rescue countries in difficulty. In particular, agreement was reached on the so-called Fiscal Compact, under which the 25 participating countries have undertaken to achieve budget balance and to reduce their public debt in excess of 60% of GDP by one twentieth of that amount per year. In this context, the restrictive policies necessary to consolidate the public finances have contributed to weakening domestic demand. In parallel with these structural developments, other exogenous factors had an adverse impact on the economic situation, such as the rise in commodity and oil prices and the impact of the earthquake in Japan.

In 2011, world GDP continued to grow (3.8%),[1] albeit at a slower pace than in 2010 (5.2%). International growth has mainly been driven by the emerging countries, which, although less robustly than their performance in 2010, are continuing to expand, posting growth rates of 6.2% and 7.3% in 2011 and 2010 respectively. Meanwhile, the advanced economies have grown much more slowly (1.6% in 2011 and 3.2% in 2010), as has consumption in those countries (2.2% in the United States, 0.3% in the European Union and -0.5% in Japan). In this environment, inflation has remained subdued.

In Italy, GDP grew by 1.5%[2] in 2011, in line with growth in the euro area (1.6%[3]). Nevertheless, with decreases in both the second and third quarters of

[1] See International Monetary Fund, *World Economic Outlook Update*, January 2012.
[2] See Bank of Italy, *Economic Bulletin* no. 63, January 2012.
[3] See International Monetary Fund, *ibid.*

2011 (-0.2% and -0.7% respectively[4]), Italy effectively dropped back into recession. Domestic demand remained slack, reflecting the impact of the budget measures intended to reduce the public deficit and debt on income and household expectations.

Industrial activity slowed during 2011, ending the year with no change on 2010. The contraction in the production of consumer goods was only partly offset by the rise in output of capital goods and intermediate goods, especially in the machinery and equipment segment (+8.6%). Unemployment began to increase over the course of the year, reaching 8.9% in December 2011.

Despite the stagnation in aggregate demand and the low pressure on the prices of industrial goods, inflation rose to 2.8%, compared with 1% in 2010. The moderate rise in disposable income reduced households' purchasing power and, consequently, the savings rate declined, reaching 11.6% of income in the third quarter of 2011.[5]

2.2 THE FINANCIAL MARKET AND INTEREST RATES

Beginning in the second half of 2011, conditions in international financial markets were adversely impacted by the worsening sovereign debt crisis involving the peripheral countries of the euro area. Repeated downgrades by the leading rating agencies and recessionary expectations caused risk aversion to rise among investors, with a consequent increase in securities yields. In a context of uncertainty and volatility, bank stocks were severely penalised and, more generally, demand for financial assets diminished during the second half of the year.

In order to tackle the fund-raising difficulties of banks and to expand liquidity, at the end of the year the ECB decided to reduce the reserve requirement from 2% to 1% and carried out extraordinary refinancing operations (LTROs) involving loans with a maturity of 3 years.

The additional liquidity injected into the banking system alleviated funding difficulties in the final months of the year and fostered reinvestment in the euro-area's government securities markets. Alongside these measures, the ECB returned the rate corridor to its level during the financial crisis, with the main

[4] See ISTAT, *Stima preliminare del PIL*, February 2012.
[5] See ISTAT, *Reddito e Risparmio delle Famiglie e Profitti delle Società*, January 2012 (most recent figures).

refinancing rate set at 1%, the rate on the marginal lending facility at 1.75% and that on the deposit facility at 0.25%, a step facilitated by inflationary conditions not considered worrying.

As a result, the interbank yield curve, and the short-term segment in particular, progressively declined from the peak reached in mid-2011.

In Italy, euro-area sovereign debt crisis had a major impact on the yield curve for government securities, raising borrowing costs to their highest level since the creation of the euro. The spread between 10-year Italian and German bonds, which began the year at around 185 basis points, widened during the year to a maximum of around 580 basis points.[6]

The performance of equity markets was negatively affected by the uncertainty engendered by the debt crisis. In 2011, the Borsa Italiana index posted substantial losses (-25%), in line with those in other major European countries (-24% in Germany and -20% in France). At the international level, stock markets, while experiencing difficulties, limited their losses: the Dow Jones index lost 2% over the year, while the Morgan Stanley index comprising the world's main indices fell by 8%.[7]

The uncertainty in Europe fostered a broad depreciation of the euro against the other main currencies. More specifically, it fell by a nominal 10% against the US dollar, 6% against the British pound and 25% against the Japanese yen.[8] The trend was steepest in the second half of the year, in conjunction with the sovereign debt crisis.

2.3 CDP Group reference market and activities

2.3.1 CDP reference market and activities

For more information on the CDP's reference market and activities in 2011, please see the separate report and financial statements.

[6] Source: Datastream.
[7] Source: Datastream.
[8] Source: Datastream.

2.3.2 CDPI SGR reference market and activities

The company operates in general in the real estate investment fund sector. At 31 December 2011, CDPI SGR operated one closed-end real estate fund for qualified investors specialising in residential real estate, in the private social housing sector ("PSH").

In the context of the Italian real estate sector, "private social housing" regards the development and management of real estate offering housing and services to those who have difficulty in meeting their housing needs on the market for economic reasons or due to the lack of adequate supply, with the aim of creating a sustainable supply of housing – mainly rental – over the medium/long-term.

Today, "housing distress" does not just affect the poorest segments of the population, which are supported by the government and local authorities through public housing. It also impacts people in the lower middle classes who for various reasons, including income level, do not qualify as disadvantaged but still cannot meet their need for housing in the open market. This is the segment that has been growing the fastest most recently, and it lies in a grey area between public housing and the market. The demand for housing thus comprises (i) typical users, such as households and the elderly on medium/low-incomes, but also (ii) new social segments with diverse needs, such as single-income families, young couples, immigrants, students living away from home, commuters and people on temporary contracts or other non-permanent employment situation (for example, teachers, law enforcement personnel, nurses, young professionals, etc.).

As noted, CDPI SGR operates in the PSH sector through its activity with the Fondo Investimenti per l'Abitare, which, following the award of the contract tendered by the Ministry for Infrastructure and Transport, qualifies as a national fund under the Integrated Fund System. The company's long-term plans envisage the start-up of other real estate funds specialising in direct investment in the PSH sector as well as the establishment of funds to develop the real estate assets of public entities, the pension funds of professional associations and religious orders.

In the light of the recent developments in the macroeconomic environment, notably the decline in the disposable income of Italian households and the rising cost of mortgage loans, according to OASIT, the Italian social housing observatory, the number of households facing housing distress, defined as those for which housing takes up more than 30% of their income, is equal to about 2.4

million, of which 1.5 million renting households and just under 900 thousand owners.

OASIT also reports that the percentage of households living in overcrowded conditions or low-quality accommodation (for example, problems with humidity, light, sanitation systems, heating systems, etc.) puts Italy towards the bottom of the ranking of European countries, with 7.3% of households in situations of objective housing distress, compared with 3% in France, 2.9% in the United Kingdom and 2.1% in Germany, while the European average is 6%.

The problem of housing distress is especially critical for renters. While incomes in general have not kept up property prices for families who have purchased a home – facilitated in recent years by easy credit – the gap is widest for renting households, whose incomes are well under the national average. In many cases, then, renting is no longer a choice but rather represents exclusion from home ownership, and the average annual income of households in rented accommodation continues to decline with respect to the Italian household average.

THE ACTIVITIES OF CDPI SGR

The promotion of the approaches taken by CDPI SGR and the FIA in their operations in the private social housing sector was pursued in 2011 through four lines of action:

- contributions to sector publications;
- participation in sector trade fairs and events (EIRE in Milan, Urbanpromo);
- local workshops in cooperation with ANCI, the national association of Italian municipalities (ten events in various Italian cities) and participation in 30 social housing conferences organised by others;
- creation of a website, online since March 2011 (more than 6,000 visitors and some 26,000 pageviews since it started).

As regards the identification and assessment of potential investment opportunities, in 2011 the company approved investments in 11 real estate funds totalling about €335 million, together with a non-binding commitment to appropriate resources for Fondo Investimenti per l'Abitare. Under the terms of the strategic agreement with the *Fondazione Housing Sociale*, signed in February 2011, the Local Relations unit of CDPI SGR was also involved in scouting investment opportunities and informational activities aimed at the public and private actors most able to promote PSH projects appropriate for investment by Fondo Investimenti per l'Abitare. As a result of these activities, the company has

developed a pipeline of potential investment opportunities, made up of 249 projects, distributed across 34 local funds, with a total potential investment of more than €4.5 billion. They include:

- 21 funds with 178 real estate projects, with a total value of about €3.1 billion in northern Italy;
- 6 funds with 23 real estate projects, with a total value of about €650 million in central Italy;
- 7 funds with 48 real estate projects, with a total value of about €800 million in southern Italy and the Islands.

At 31 December 2011, the board of directors had approved definitive resolutions for subscriptions totalling €123 million of the following funds: Fondo Polaris Parma Social House, Fondo Federale Immobiliare di Lombardia, Fondo Real Quercia, Fondo Piemonte C.A.S.E. and Fondo Veneto Casa.

As regards the subscription of units in the FIA, in 2011 two partial closings were carried out:

- the first on 30 June 2011, in the amount of €98 million; participants includes leading pension funds belonging to *Associazione degli Enti di Previdenza Privati*, the association of private pension funds;
- the second on 22 December 2011, in the amount of €160 million; participants included the Ministry for Infrastructure and Transport, in the amount of €140 million, and another pension fund of a professional association for the remainder.

At 31 December 2011, following the first four partial closings, subscriptions amounted to €1.93 billion, represented by 3,856 units with a nominal value of €500 thousand each.

With resolutions approved on 9 December 2010 and 1 February 2011, the board of directors had approved the start of real estate advisory activities by the company, postponing the detailed specification of the scope of these activities and their rules to a later date. This line of business was never actually initiated, and in view of the changes in the company’s strategies, including at the Group level, on 7 June 2011 the board of directors of the company approved the suspension of its advisory activities. At its meeting in November 2011, the board of directors of CDPI SGR also approved a new procedure for monitoring indirect investments, completing a study of the issue undertaken during the course of 2011.

2.3.3 Terna Group reference market and activities

ELECTRICITY DEMAND IN ITALY

According to provisional data, the demand for electricity during 2011 amounted to 332,274 GWh, up by 0.6% with respect to 2010.

In order to compare of the results for 2011 with the prior year, a number of factors must be considered. First of all, calendar differences: 2011 had three fewer business days than 2010 (252). Secondly, weather conditions, with similar conditions being recorded in the respective 12-month periods. Therefore, adjusting for both number of days and temperature, the change in electricity demand came to +0.9%.

ELECTRICITY GENERATION

According to initial estimates, in 2011 net domestic power generation decreased by 0.5% on the year-earlier period.

Breaking down the figures for generation by main source, net of ancillary services, there was a decrease in thermal power generation of 1.6% compared with 2010. In 2011, hydroelectric generation was significantly lower compared with 2010, with a fall of 11.4% net of ancillary services. Net generation from renewables, namely wind, photovoltaic and geothermal energy, again rose strongly compared with the previous year, expanding by 51.1% overall.

DISPATCHING AND SALES

Electricity business

During the year, of total demand for electricity:

- 86.3% was met by domestic power generation (86.6% in 2010), net of consumption by ancillary services and pumping;
- 13.7% was covered by net imports (13.4% in 2010), for a total of 45,626 GWh, compared with 44,160 GWh for the previous year. Export trade was calculated as the difference between energy received from suppliers and that sold to foreign customers, which rose by 3.3%.

Peak daily demand in 2011 occurred on 13 July at 12 noon, when demand reached 56,474 MW, virtually unchanged (+0.1%) with respect to the peak in 2010, recorded on 16 July at 12 noon with 56,425 MW. The highest peak in the

individual months of the year exceeded that registered in 2010, with the exception of November and December.

Coverage of demand

Coverage of power demand in 2011 was guaranteed with suitable margins, thanks to scheduled maintenance work on the grid and coordinating maintenance with the unavailability of power generation from Terna. Another factor was the entry into operation of new generation plants, including distributed generation facilities.

Foreign trade showed an increase in imports compared with the previous year of approximately 1.1 TWh. This was partly due to the 23% increase in the price differential between the Italian energy market and the French and German markets (€22/MWh vs. €18/MWh).

NATIONAL TRANSMISSION GRID

The number of plants belonging to the Terna Group at 31 December 2011 and 31 December 2010 is shown in the following table:

	Terna Group		
	31/12/2011	**31/12/2010**	**Change**
No. of stations	454	431	23
No. of transformers	643	634	9
MVA	126,765	125,571	1,194
No. of bays	4,936	4,825	111
Lines - km	57,651	57,638	13
No. of 3-phase power lines	4,043	3,981	62
km	63,626	63,578	49

Stations

In relation to stations, there was a net increase of 23 facilities:

- 6 at 380 kV: Maleo (LO), Chignolo Po (PV), Le Rose (FI), Aprilia (LT), Deliceto (FG) and Troia (FG);
- 3 at 220 kV: Salvemini (TO), Gerbido (TO) and Torino Nord (TO);
- 15 at 132-150 kV: Lovero (SO), Olevano Lomellina (PV), Merate (LC), Canaro (RO), Populonia (LI), Sant'Alberto (RA), Alfonsine (RA), San Vittore (FR), San Martino in Pensilis (CB), Ginestra degli Schiavoni (BN), Castelpagano (BN), Marianopoli (CL), Cammarata (AG), Patti (ME) and Serramanna (VS);

- retirement of the 132 kV station of Contarina (RO).

Transformers

At the Group level, the number of transformers increased by 9 units compared with 31 December 2010. At the Terna S.p.A. level, the number of transformers rose by 4, with an increase in total transformation capacity in operation of 1,052 MVA. More specifically, the changes involved the activation of:

- a new 220 kV phase shifting transformer of 450 MVA at the Camporosso station;
- 5 new 380/150 kV plants (for a total of 1,250 MVA) at the stations of Deliceto, Troia and Brindisi Sud;
- 2 new 380/132 kV plants (for a total of 500 MVA) at the stations of Maleo and Flero;
- the two existing 220/132 kV plants (for a total of 267 MVA) were strengthened with the addition of two new transformers (for a total of 410 MVA) at the stations of Bussolengo San Salvar and Castelbello.

These increases were offset by the disconnection from the grid of 2 380/220 kV transformers (for a total of 800 MVA) at the station of Poggio a Caiano and the retirement of 6 220/132 kV plants (for a total 488 MVA) at the stations of Este, Tavarnuzze, Tavazzano Ovest, Colà and Marghera Station 1.

In addition, the subsidiary Suntergrid has 5 new transformers (Lanuvio, Torretta, Galatina Ovest, Cancarro and Alfonsine)

Power lines

As regards power lines, the total length of the Group's three-phase lines increased by 49 km compared with 31 December 2010, while that of other power lines rose by 13 km.

At the Terna S.p.A. level, in addition to the acquisition from Terna Rete Italia of 25 lines for a total of 279.8 km, 5 new lines for a total of 62.7 km entered service: Chignolo Po-Maleo 380 kV, Gerbido-Salvemini 220 kV, Salvemini-Turin Ovest 220 kV and Villa di Tirano-Lovero 132 kV.

As regards the subsidiary Terna Rete Italia, the change in the size of the network was attributable to the combined effect of the following factors: the sale to Terna of 25 lines; modifications, rigid derivations and/or changes in route with a total reduction of 6.2 km in three-phase lines; the retirement and/or bundling of operating lines with a total decrease of 3 three-phase power lines for a total of 43.2 km; the partial restructuring of the grid south of Naples, with a total

decrease of 1 three-phase line and 20.6 km; the entry into service of 4 new lines for a total of 5.9 km: Torre Centrale-Torre Nord 150 kV, Siniscola 2-Buzzi Unicem 150 kV, Sarroch-Air Liquide 150 kV, and CP Imperia-Imperia RFI 132 kV; the development of 16 inbound-outbound derivations on the same number of operating lines with a total increase of the same number of three-phase lines and 6.9 km.

The subsidiary Suntergrid also added 3 short cable lines of 150 kV connecting Cancarro-Troia, Galatina Ovest-Galatina and Torretta-Deliceto.

2011 Development plan

On 28 January 2011, in compliance with the Ministerial Decree of 20 April 2005, the 2011 Development Plan was sent to the competent authorities for approval. The Plan had been approved by the Terna board of directors on 16 December 2010, having already been favourably received by the Users' Consultative Committee[9] (which approved the new development initiatives included in the Plan on 4 November and the Plan in its entirety on 15 December 2010).
The latest version of the Development Plan takes account of the instructions that the Ministry for Economic Development attached to its Final Approval of the 2010 Development Plan.[10]

The 2011 Development Plan follows the structure of the previous year's version and is divided into two sections: 2011 Development Plan – Section I, which sets out the new development requirements that emerged during 2010 (pursuant to Legislative Decree 152/2006, this section is subject to a Strategic Environmental Assessment (SEA), which commenced on 18 October 2010); and Progress of Prior Plans – Section II, which describes the progress made on the work envisaged in the Development Plans approved previously that has been confirmed in the current Plan. In particular, the first section contains a specific part devoted to grid development to encourage production from renewable sources (in accordance with the National Action Plan) and the expansion of the European grid.

The 10-year Network Development Plan (2010 edition) was prepared as part of the ENTSO-E project, in which Terna is directly involved in the following Regional

[9] The Users' Consultative Committee, established with the Prime Minister's Order of 11 May 2004, expresses a non-binding opinion on the Development Plan as required by Competition Authority Decision no. 14542 of 4 August 2005.
[10] On 15 March 2011, the Ministry for Economic Development approved the 2010 Development Plan pursuant to Legislative Decree 152 of 3 April 2006 as amended, publishing its final decision in the *Gazzetta Ufficiale* no. 62 of 16 March 2011.

Forums: Continental Central South (for which Terna is coordinator and member) and Continental South East (member only). The next edition of the plan will be published in 2012, along with the Regional Investment Plans and the System Outlook and Adequacy Forecast, as well as the "pilot" edition of the European Network Code, under the provisions of the EU Regulation for the Third Energy Package.

The 2011 Development Plan envisages investment of about €3.8 billion in the period 2011-2015 and €3.7 billion in the following 5 years. Implementation of the Development Plan will add about 5,400 km of new lines to the NTG and 141 new stations with new transformation capacity of about 44,800 MVA.

Supplemental document for the 2011 Development Plan

On 1 July 2011, the Ministry for Economic Development was sent the supplemental document for the 2011 Development Plan regarding distributed electricity storage systems drawn up in accordance with Legislative Decree 28 of 3 March 2011, which establishes that the interventions envisaged by Terna may include distributed electricity storage systems with a view to facilitating the dispatching of non-schedulable plants.

The document describes the reference framework, the forecasting scenarios and the new development requirements, with particular attention paid to the installation of distributed storage systems able to provide maximum support for system security and reducing congestion on the portions of grid to which non-schedulable renewable generation plants are connected, with specific reference to the critical issues seen on the parts of the grid most affected by the rapid development of the non-schedulable renewable generation plants and the potential critical issues that may involve segments of the grid in the short and medium term.

The supplementary document to the 2011 Development Plan envisages investments of about €0.4 billion.

SEA procedure for the 2011 Development Plan

The consultation phase of the Development Plan and preparation of the related Environmental Report commenced on 18 March 2011.

On 1 October 2011, the Ministry for Economic Development initiated the consultation phase of supplemental document for the 2011 Development Plan concerning distributed electricity storage systems.

The process for obtaining approval from the Ministry for Economic Development requires the release of a reasoned SEA opinion from the Ministry for the Environment together with the Ministry for Culture Heritage. As soon as final approval is given, the Ministry for Economic Development must also issue a summary statement outlining whether and how it intends to act on any comments that may have been included in the opinion issued by the Minister for the Environment and the Minister for Culture Heritage.

Work performed in the period

The most important projects – still in progress – carried out during 2011 involved activities to reduce network congestion, connect new generation plants (especially those using renewable energy resources) and increase the reliability of the NTG with ever greater attention to environmental and safety issues.
The following major works are currently in progress and completed in 2011:

- new 380 kV "SORGENTE-RIZZICONI" underwater connection: the work sites have been opened and the civil works involved for the stations of Scilla (Calabria) and Sorgente (Sicily) are at an advanced stage; site work has begun and the site is being organised for the station of Villafranca (Sicily). The works relating to the three 380 kV stations specified above are at an advanced stage. For Scilla in particular, electro-mechanical and electrical assembly is at an advanced stage, while at the 380 kV power station of Rizziconi expansion works are under way. The first of six underwater cables between Villafranca and Favazzina for the 380 kV double three-phase connections has been laid. The preliminary works for the development of the Favazzina tunnel have been completed. The construction of the 380 kV power lines (overhead part) on the Calabria side is at an advanced stage;
- 380 kV stations to connect renewable-resource plants: from 2009 to 2010, work began on 380 kV stations to help reduce congestion and to connect new renewable-resource plants in the areas of Maida, Bisaccia, Deliceto, Troia, Brindisi Sud, Castellaneta, Tuscania and Rotello. In 2010, works were completed at the stations of Maida and Bisaccia. During 2011, works were completed at the stations of Deliceto and Troia and the second stage of the Brindisi Sud station was activated;

- 380 kV rationalisation in the province of Lodi: two new 380 kV stations in the municipalities of Chignolo Po and Maleo entered service and the new 380 kV double three-phase connection between the stations themselves was completed;
- Val D'Ossola Sud – Borgomanero cables: micro-tunnelling work and the laying of cables and accessories for both lines was completed;
- work began on a new 380 kV double three-phase line connecting the 380 kV stations at Trino in the province of Vercelli and Lacchiarella in the province of Milan, totalling more than 100 km;
- installation of two system phase shifters, one at the Foggia station and one at the Villanova station, is under way.

2.3.4 CDP GAS reference market and activities

The disposal of TAG was undertaken by Eni S.p.A. within the framework of a series of commitments made to the European Commission with a view to closing an antitrust proceeding against Eni S.p.A. concerning the operation of three European gas pipelines.

In 2009, the European Commission opened an infraction proceeding against the Eni Group for abuse of a dominant position in respect of the management of transport rights on TAG (Austria) and the Tenp (Germany) and Transitgas (Switzerland) pipelines. In this context, CDP, given its institutional role, assessed the possibility of investing in the company, with a view to retain a position in the infrastructure, which is a strategic asset for the national energy system.

As regards the regulatory framework, Directive 2009/73/EC (the "Third Gas Directive") establishes common rules for the transmission, distribution, supply and storage of natural gas. For the gas transmission segment, it establishes that as from 3 March 2012, the Member States must separate transmission systems and transmission system operators (unbundling). Austria transposed the directive, providing for the implementation by operators of one of the following models:

- full ownership unbundling, which involves the separation of ownership between the entity that holds and operates the network and the enterprises engaged in commercial supply (Article 9);
- independent system operator (ISO), under which vertically integrated undertakings can retain ownership of network assets as long as operation

of the network is delegated to an independent operator charged with performing all transmission functions (Article 14);

- independent transmission operator (ITO), under which the vertically integrated undertaking can retain ownership and control of the company that owns the network and manages transmission activities while ensuring decision-making and function independence (Chapter IV, Article 17 et seq.).

As of the date of preparation of these financial statements, TAG had submitted an application to the Austrian regulator to adopt the ISO model and is awaiting a response.

Since its incorporation, CDP GAS, in addition to completing the acquisition of the stake in TAG, has granted a shareholder loan (revolving) to TAG in the total amount of €300.8 million and receive a shareholder loan in the same amount from its sole shareholder, CDP, on the same terms and conditions.

CDP GAS has also commissioned services on an outsourcing basis from Eni GTS – for technical and industrial aspects – and from CDP – for administrative, accounting, legal and logistical services – in order to equip itself with all the necessary skills and services to manage operations effectively.

2.3.5 FSI reference market and activities

Compared with two other major European countries, Germany and France, the Italian economy is characterised by a smaller number of large companies. Italy has only 23 companies with revenues of more than €5 billion, while there are 73 in France and 106 in Germany. Nor is the comparison in Italy's favour with regard to companies with annual revenues of between €1 billion and €5 billion: there are about 200 such Italian companies, compared with 600 in France and 900 in Germany.

Empirical evidence points to a positive correlation between company size and three critical variables for company competitiveness: R&D expenditure per employee, value added per employee and export capacity. It is no surprise, then, that Italy has a smaller share of global exports that Germany and even France. The comparison is even starker for exports to the emerging economies, which

are growing the fastest: for example, German exports to the BRIC countries[11] in 2010 were four times Italian exports.

Size also impacts the capacity to invest abroad and the degree of international expansion: at the end of 2010, Italy's stock of foreign direct investment was about one third that of Germany and France, and the exports of large Italian multinationals were only 2.2 times greater than their Italian sales, compared 3.6 times for Germany.

In the last three years, which have been dominated by the severe crisis for the Western economies, including Italy, companies that maintained their revenues and profits in line with pre-2007 levels were those with revenues of between €250 million and €5 billion, the segment on which FSI is focused.

One of the factors behind the smaller size of Italian companies compared with their German and French competitors is a less robust capital structure: Italian enterprises have less equity capital and more debt. They also tend to make more use of short-term debt, even to finance investments with medium/long-term expected returns. The difficulty of raising equity capital in Italy is partly attributable to a limited stock market, which has not facilitated generational transition, a sensitive issue for many companies. In fact, in a number of situations, the crisis has forced the return of first generation founders, who had been planning their succession.

Italy also has to make gains in its capacity to innovate and promote R&D. For example, in addition to its scale (€46 billion, compared with €10 billion in Italy), German corporate R&D is also coordinated among the main private and public actors, who for years have jointly developed research issues and projects regarding specific sectors.

Turning our attention to the mergers and acquisitions market, recent years have experienced a sharp decline in domestic consolidation, i.e. Italian companies buying other Italian companies. The value of domestic M&A transactions has historically tracked the business cycle, but has never fallen as low as it has in the period since 2008. By contrast, foreign investors have capitalised on Italy's difficulties to acquire control of Italian companies at an increasingly fast pace: in

[11] Brazil, Russia, India and China.

the first nine months of 2011, acquisitions of Italian companies by foreign companies accounted for more than 70% of all M&A activity in Italy, i.e. €15 billion, compared with €10 billion for all of 2010 and €7 billion for 2009.

THE ACTIVITIES OF FSI

FSI began operating in September 2011, following the appointment of its Chief Executive Officer and the consequent delegation of management powers by the board of directors on 12 September 2011. Less than two months later the company had drafted (and on 14 November 2011 approved) its 2012-2016 Business Plan, setting out FSI's strategic and operational objectives.

Even though it has yet to implement any form of planned communication, FSI has already attracted significant interest in its core activity from the Italian business community, local government leaders, labour representatives and trade associations. In its first few months of operation, FSI's management has met with more than 170 entrepreneurs (many of whom made visits on their own initiative), receiving a positive response, even from those most reluctant to contemplate opening up to possible equity partnerships.

The main strengths identified comprised: (i) a meritocratic investment process directly at financially sound companies; (ii) a general preference for investing through the subscription of capital increases; (iii) the policy of acquiring minority stakes, which facilitates relationships even with entrepreneurs less inclined to open up to the market; and (iv) the long-term time horizon, with market returns.

The requests received or identified to date focus on the idea that FSI can act as a "facilitator" in M&A processes or in the creation of company clusters, as in the local public services sector, in the acquisition of competitors abroad or in the creation of international distribution networks.

All of FSI's contacts have been analysed in detail. In some cases this produced a variety of investment possibilities, in other cases it was decided not to pursue the initiative and the proposed investments did not meet the requirements imposed by FSI's articles of association and/or its investment guidelines.

The company also undertook a range of activities to voluntarily develop guidelines, mechanisms and procedures based on the regulatory requirements for investment firms subject to supervision, adapted to the needs and special features of FSI. These guidelines were approved by the board of directors and

will be updated by the board on the basis of the experience gained during actual investment operations.

More specifically:

- in consideration of the activity performed by FSI and its scope of operation, it was felt advisable to establish a register of individuals who have regular or occasional access to confidential information, based on the functions and professional duties performed in by those persons on behalf of FSI;
- "investment guidelines" were developed in order to identify, assess and select investment opportunities by the corporate bodies and/or management of FSI. As such they have internal relevance only;
- a procedure was developed to govern the selection of investments and the operational investment process for internal use by FSI units. The procedure consists of a set of internal rules to be followed by the parties involved in the various parts of the investment process in the performance of their duties. The investment process was broken down in to sub-processes, operating phases and elementary activities. This will enable the identification of operational risks (including compliance risk);
- guidelines were also defined for the assessment of the corporate governance of the companies in which an investment is being contemplated. The document was prepared solely for the purpose of giving FSI's management and operating units general, non-binding guidance for use in negotiations concerning the governance of the target companies, with the aim of safeguarding FSI's investment;
- conflict-of-interest rules were specified. In view of the scope of FSI's activities and purposes, possible conflicts of interest and the potential adverse effects these could have with regard to the investee companies have been identified. In addition, principles designed to ensure that actions in the interest of the investee company are conducted with integrity and transparency. For the same reasons, rules governing transactions with related parties and a procedure for personal transactions by relevant persons were also approved.

Finally, the company has also prepared an internal organisational manual to ensure the orderly start of ordinary operations, governing the acquisition of expenditure commitments, the management of liquidity and the definition of the company's initial operating rules.

3. CONSOLIDATED FINANCIAL POSITION AND PERFORMANCE

The financial position and performance of the CDP Group at 31 December 2011 is presented below. In order to facilitate understanding of the CDP Group's results for the period, the analysis of the consolidated balance sheet and income statement uses the statements reclassified based on operational criteria.

These reclassifications mainly concerned:

- the allocation of interest-bearing amounts into separate aggregates from the non-interest-bearing items;
- the revision of the portfolios for IAS/IFRS purposes, reclassifying them into uniform aggregates by both product and area of business.

For more detailed information on financial position and performance, please see the separate reports and financial statements of the CDP Group companies, which contain all the relevant accounting information and an analysis of the performance of these companies.

CDPI SGR, FSI and CDP GAS made only a limited contribution to the overall performance of the CDP Group since they only recently started operations.

3.1 RECLASSIFIED CONSOLIDATED BALANCE SHEET

The following table presents the situation of the CDP Group, with specific reporting of the contributions of financial operations (CDP, CDPI SGR and FSI) and non-financial operations (Terna Group and CDP GAS). The difference between the consolidated results and the sum of the contributions of the two spheres of operations is the result of consolidation eliminations and adjustments.

Reclassified consolidated balance sheet

(millions of euros)

	31/12/2011			31/12/2010	% change
ASSETS	**CDP Group**	***of which financial operations***	***of which non-financial operations***	**CDP Group**	
Cash and cash equivalents	129,888	129,224	1,265	128,050	1.4%
Loans to customers and banks	98,091	98,591	177	91,955	6.7%
Debt securities	17,194	17,194	-	5,464	214.7%
Equity investments and shares	18,960	19,826	601	17,344	9.3%
Assets held for trading and hedging derivatives	1,512	941	572	1,440	5.1%
Property, plant and equipment and intangible assets	11,542	204	9,089	10,774	7.1%
Accrued income, prepaid expenses and other non-interest-bearing assets	7,365	7,363	6	2,963	148.6%
Other assets	2,591	854	1,738	2,935	-11.7%
Total assets	**287,143**	**274,197**	**13,447**	**260,924**	**10.0%**

At 31 December 2011 the total assets of the CDP Group came to more than €287 billion, up about 10% on 31 December 2010. The rise was mainly attributable to the increase in "Loans to customers and banks" and "Debt securities" (both pertaining largely to the parent company).

The stock of loans to customers and banks increased substantially compared with the end of 2010 (+7%). The aggregate came to more than €98 billion, mainly thanks to the development of the parent company's activity in providing support to the economy and, to a lesser extent, lending to enterprises and public entities. The item includes loans granted by CDP to Terna (€500 million) and to CDP GAS (€177 million), which are eliminated in consolidation.

"Debt securities", which at 31 December 2011 amounted to more than €17 billion, more than triple their level at the end of 2010. The increase is mainly attributable to purchases of government securities by CDP during the year and, to a lesser extent, the subscription of the securities needed to established the separate asset pool securing covered bonds.

The stock of cash and cash equivalents, attributable almost entirely to the parent company, CDP, rose to nearly €130 billion (up almost €2 billion on the end of 2010). Deposits of the Terna Group and FSI contributed a residual amount to this aggregate (nearly €2 billion, well up on the €156 million reported at the end of 2010). The increase is attributable to the operations of the Terna Group and the liquidity of FSI in respect of the payment of part of its share capital by the shareholders (the latter is eliminated in consolidation).

Equity investments and shares increased by 9% from their level at the end of 2010, to nearly €19 billion. As regards the balance attributable to the parent company, the increase reflects the formation of FSI, the acquisition through CDP GAS of 89% of TAG and, to a smaller extent, draws on investment funds and other investment vehicles subscribed by CDP. The Terna Group reported a rise of €43 million as a result of increases associated with equity investments accounted for using the equity method, mainly the acquisition of the stake in CGES in the amount of about €36 million.

Assets held for trading and hedging derivatives went from about €1.4 billion to more than €1.5 billion (up about 5% on 2010), a change attributable mainly to the combined effect of the decrease in the balance attributable to the parent company (€282 million) and an increase in that pertaining to the Terna Group (€355 million). This aggregate reports the fair value (if positive) of derivative instruments used for hedging, which includes operational hedges that are not recognised as such for accounting purposes. Specifically, the results for the parent company CDP at 31 December 2011 mainly reflected the decrease in the fair value of options acquired to hedge the option component of equity-linked bonds (indexed bonds and *Premia* bonds). For the Terna Group, the positive change reflected the increase in the fair value of derivatives hedging interest rate risk, due to the decline in the long-term segment of the yield curve. This had an impact on both the fair value of new fair value hedge derivatives, subscribed to hedge the bonds issued in March 2011, and fair value of instruments already in place at 31 December 2010.

Property, plant and equipment and intangible assets totalled more than €11 billion, up 7% over the end of 2010, pertaining almost entirely to non-financial operations. The Terna Group reports a figure of more than €9 billion (about €8 billion at the end of 2010), of which nearly all (€8.6 billion) relates to property, plant and equipment, with an additional €500 million in respect of intangible assets. The increase compared with the end of 2010 is attributable to ordinary changes during the period in respect of capital expenditure, disposals and depreciation and amortisation. The total capital expenditure by the Terna Group in 2011 amounted to about €1.2 billion (almost entirely relating to property, plant and equipment), up slightly on 2010. The total for the parent company came to €204 million, of which €200 million relating to property, plant and equipment and the remainder to intangible assets. The total was essentially unchanged because investments made during 2011 were equal to the depreciation and amortisation recognised on existing assets during the year.

Accrued income, prepaid expenses and other non-interest-bearing assets more than doubled compared with the end of 2010, going from €2,963 million to €7,365 million, almost entirely attributable to the parent company. This change was attributable a variety of factors: an increase compared with 2010 in the fair value of the loans hedged for financial risks using derivative instruments, a rise in accrued interest on liquidity and a substantial rise in past-due loans to be settled, which reflects the fact that the payment date for instalments falling due at year-end was a holiday, meaning that payments on many loans came in early January 2012.

Finally, other assets amounted to more than €2.5 billion, down 12% from the end of 2010. For CDP this item amounted to around €853 million, broadly in line with the end of 2010. It includes the balance of current and deferred tax assets, as well as advances paid for withholding tax on postal passbook accounts and other assets. For the Terna Group, the aggregate, which includes tax assets and trade receivables, amounted to €1.7 billion, down about €400 million on 31 December 2010. More specifically, the change reflects the disposal of the assets in respect of the photovoltaic plants of RTR, which was sold to Terra Firma Investment (GP) 3 Limited on 31 March 2011, the increase in trade receivables for pass-through items relating to dispatching and receivables due from customers in its diversified lines of business, as well as the increase in receivables for grid transmission fees (CTR) related to remuneration owed to Terna and other owners for the use of the National Transmission Grid by electricity distributors and generators (mainly due to rate adjustments).

(millions of euros)

	31/12/2011			31/12/2010	% change
	CDP Group	*of which financial operations*	*of which non-financial operations*	CDP Group	
LIABILITIES AND EQUITY					
Funding	259.391	254.214	6.456	235.914	10,0%
- of which: postal funding	*218.408*	*218.408*	*-*	*207.324*	*5,3%*
- of which: funding from banks	*20.674*	*18.680*	*1.994*	*9.674*	*113,7%*
- of which: funding from customers	*8.456*	*9.057*	*677*	*9.121*	*-7,3%*
- of which: funding from bonds	*11.852*	*8.069*	*3.784*	*9.795*	*21,0%*
Liabilities held for trading and hedging derivatives	3.271	3.154	118	2.236	46,3%
Accrued expenses, deferred income and other non-interest-bearing liabilities	1.357	757	604	959	41,5%
Other liabilities	2.825	541	2.285	3.179	-11,1%
Provisions for contingencies, taxes and staff severance pay	1.950	457	702	1.824	6,9%
Equity	18.349	15.075	3.284	16.813	9,1%
- of which pertaining to shareholders of the parent company	*15.525*			*13.917*	*11,6%*
Total liabilities and equity	**287.143**	**274.197**	**13.447**	**260.924**	**10,0%**

Total funding at 31 December 2011 came to more than €259 billion (+10% over the end of 2010).

Within this aggregate, postal funding, attributable to the parent company, continued to grow (up about 5% over the end of 2010), thanks to the positive flow of net funding for CDP for the period.

Funding from banks increased, going from nearly €10 billion at 31 December 2010 to nearly €21 billion at 31 December 2011. This reflected the combined impact of the increase in CDP's bank funding (up about €12 billion) and the net decrease registered by the Terna Group (down €558 million). As regards CDP, the increase is attributable to greater funding on the interbank market and, to a lesser extent, new draws on EIB lines of credit. As regards the Terna Group, the decline is attributable to the impact of new financing drawn on the credit lines granted by the EIB (net of repayments on previous credit lines), which was more than offset by the repayment of the Revolving Credit Facility in the amount of €750 million and, to a lesser extent, repayments of maturing instalments in respect of past operations.

Funding from customers contracted by 7% compared with the end of 2010 to over €8 billion, almost entirely pertaining to the parent company, CDP. It largely regards the portion of specific-purpose loans in repayment as at 31 December 2011 and not yet disbursed. The item includes the €500 million loan from the parent company to Terna S.p.A., FSI's deposit of about €600 million with CDP and the loan of about €177 million from the parent company to CDP GAS, although these are eliminated as intercompany items.

Funding from bonds increased by about €2 billion (+21%) compared with the end of 2010. Of the total increase, €1.2 billion is attributable to the Terna Group as a result of the new bond issue carried out in the first half of 2011 by Terna S.p.A. The parent company's contribution rose by €800 million owing to net funding through bond issues under the EMTN programme.

Liabilities held for trading and hedging derivatives increased by more than €1 billion from the end of 2010, almost entirely attributable to the parent company, rising from €2,236 million to €3,271 million. The aggregate includes the fair value (if negative) of derivatives used for hedging, including operational hedges that are not recognised as such for accounting purposes. Specifically, for CDP the

change in the balance was attributable to the decrease in the fair value of the option component unbundled from the indexed bonds and *Premia* bonds, which only partially offset the increase in the negative fair value of hedging derivatives. For Terna, the increase in the item reflects the impact of the decline in the yield curve on derivatives hedging floating-rate debt (cash flow hedges).

Accrued expenses, deferred income and other non-interest-bearing liabilities rose by 42% compared with the end of 2010, going from €959 million to €1,357 million. CDP contributed €757 million to this figure, in line with the amount at the end of 2010. The Terna Group's contribution rose by about €375 million, mainly due to the rise in the valuation of hedged funding and, to a smaller extent, higher accrued expenses on bonds and bank loans.

Other liabilities came to €2,825 million (-11% from end-2010), of which €2.3 billion attributable to the Terna Group and the remainder to financial operations. The parent company posted a substantial decrease compared with the end of 2010, mainly as the result of the decline in the liability to be settled with Poste Italiane in respect of fees for the postal savings placement and administration service for 2011. For the Terna Group, the item mainly reports trade payables generated by its specific business activities, which rose by more than €300 million. Compared with 2010, the figures for 2011 no longer include the liabilities of RTR following its sale, as noted for the corresponding item of assets.

Provisions for contingencies, taxes and staff severance pay came to €1,950 million, an increase of 7% on the end of 2010. The rise mainly reflects the increase in current and deferred taxation following the introduction of the IRES surtax (the so-called Robin Hood tax) for companies operating in the production, transmission and dispatching, distribution and sale of electricity.

Equity at the end of 2011 amounted to about €18.3 billion, up on the €16.8 billion registered at the end of 2010. This was attributable to the net income generated by the various Group companies, offset by dividends paid to shareholders out of income for 2010. Around €15.5 billion of total equity is attributable to the parent company (an increase of 12% on 2010) and about €2.8 billion to non-controlling interests (broadly in line with the previous year).

Equity

	31/12/2011	31/12/2010
		(millions of euros)
Equity of the parent company	15,525	13,917
Non-controlling interests	2,824	2,896
Total equity	**18,349**	**16,813**

3.2 RECLASSIFIED CONSOLIDATED INCOME STATEMENT

The following table presents the situation of the CDP Group, with specific reporting of the contributions of financial operations (CDP, CDPI SGR and FSI) and non-financial operations (Terna Group and CDP GAS). The difference between the consolidated results and the sum of the contributions of the two spheres of operations is the result of consolidation eliminations and adjustments.

Reclassified income statement

(millions of euros)

	31/12/2011			31/12/2010	% change
	CDP Group	***of which financial operations***	***of which non-financial operations***	**CDP Group**	
Net interest income	**2,214**	**2,332**	**(124)**	**1,566**	**41.4%**
Dividends	3	1,229	-	811	-99.6%
Net commission income	(1,483)	(1,481)	(2)	(710)	108.9%
Other net costs and revenues	(69)	(39)	2	210	n/s
Gross income	**665**	**2,042**	**(124)**	**1,877**	**-64.6%**
Net writedowns	(10)	(10)	-	(4)	168.8%
Overheads	(937)	(99)	(793)	(904)	3.7%
of which: administrative expenses	*(488)*	*(91)*	*(397)*	*(489)*	*-0.3%*
Operating income	**1,799**	**1,944**	**1,108**	**2,967**	**-39.4%**
Net income	**2,345**	**1,615**	**440**	**2,749**	**-14.7%**
Net income (loss) for the year pertaining to non-controlling interests	177			406	-56.3%
Net income (loss) for the year pertaining to shareholders of the parent company	**2,167**			**2,344**	**-7.5%**

The net income achieved by the CDP Group is not fully comparable with that posted the previous year, due – for the parent company – both to non-recurring gains recognised in 2010 on the share exchange carried out with the Ministry for

the Economy and Finance (MEF) and the change in the nature and method of calculating fees paid to Poste Italiane for its placement and postal savings management services. These new arrangements mean that costs that under the previous system had been amortized over a number of years are now expensed entirely. Without this discontinuity, net income for the year would have increased by about 18%. As regards the Terna Group, non-recurring revenues were recorded in both 2010 and 2011 in respect of operating assets sold and held for sale.

Group net income for 2011 amounted to €2,345 million (€2,167 million of which attributable to the parent company), a decline of 15% compared with 2010.

Net interest income, in particular, came to €2,214 million, a rise of more than 40% from 2010, due mainly to the increase of about 30 basis points in the spread between lending and funding registered by the parent company. This was only minimally offset by the increase (€30 million) in the net financial expense of the Terna Group.

The rise in net interest income was offset by the decline in subsequent aggregates of the income statement, nearly all attributable to the parent company. The aforementioned increase in commission expense on postal savings incurred in 2011 was only partially offset by the rise in dividends received as a result of the expansion of CDP's portfolio of equity investments. Another factor was the negative contribution of other net revenues in 2011, which reflected: (i) a worsening of the performance of trading and hedging activities, which among other things was affected by the reclassification of the derivative hedging the intercompany loan from CDP to Terna under liabilities held for trading, which therefore entailed recognising the effect through profit or loss; and (ii) the non-recurring revenues recognised in 2010 in respect of the transfer of the investment in Enel S.p.A. to the MEF.

Overhead costs include staff costs and other administrative expenses, as well as writedowns of property, plant and equipment and intangible assets. This item increased by 4% over the same period of 2010 to €937 million, of which €99 million pertaining to financial operations and €793 million to non-financial operations. Specifically, the increase in the Terna Group figures (€22 million) mainly results from higher depreciation due to the entry into service of new plants, while there was no change in staff costs and a decline in operating costs (mainly related to IT and maintenance of plants). As regards financial operations,

the rise in overheads amounted to €11 million, due mainly to an increase in expenses pertaining to the parent company and, to a lesser extent, a slight rise in costs for CDPI SGR, as well as the expenses associated with the start-up of FSI. For CDP, the rise in costs is attributable to the increase in the size of the average workforce compared with 2010 and greater administrative expenses for IT associated with the start of the new technology innovation projects envisaged in the 2011-2013 Business Plan, as well as increased expenses connected with the branch offices in respect of rents and costs for services and utilities.

Operating income amounted to €1,799 million, down 39% on 2010. The figure for the Terna Group is composed of operating income representing revenues from the core businesses of Terna and its subsidiaries. There was an increase of €48 million in 2011 compared with the previous year, mainly due to the effects of Resolution 228/10 of the Authority for Electricity and Gas (revising rates for 2011), the grid fees due under the defence plan and the remuneration of the part of the NTG owned by Terna Rete Italia. For the parent company, the result reflects the factors discussed earlier.

Considering other residual items and income tax, net income for the year amounted to €2,345 million, a decline with respect to performance in 2010, primarily attributable to the non-recurring factors discussed earlier.

The contribution of financial operations came to €1,615 million, a decrease of €275 million compared with the previous year. Non-financial operations posted net income of €440 million, down about €172 million on 2010 (14%), mainly due to the impact of the second package of budget correction measures (the Robin Hood Tax), while income before tax was essentially unchanged. In addition, as noted, consolidated net income for 2011 also reflected the positive impact of about €600 million from the use of the equity method in accounting for the investment in Eni S.p.A.

The following schedule shows the reclassified consolidated income statement excluding the impact of non-recurring items in 2010 and 2011. For the parent company these include the gain on the share exchange with the MEF in 2010 and, in 2011, the negative impact of the change in the fee arrangements for postal savings services. For the Terna Group, these regard the exclusion of the positive contribution of operating assets sold and held for sale, which in 2011 regarded the disposal of the companies in the photovoltaic sector as well as the release of the hold-harmless guarantee issued in relation to the sale of Terna’s

Brazilian subsidiaries and in 2010 regarded the revenues from the sale of the photovoltaic plants as part of the disposal of the subsidiary Rete Rinnovabile.

Reclassified income statement - pro forma excluding non-recurring items

(millions of euros)

	31/12/2011			31/12/2010	% change
	CDP Group	*of which financial operations*	*of which non-financial operations*	CDP Group	
Net interest income	**2,127**	**2,246**	**(124)**	**1,566**	**35.9%**
Dividends	3	1,229	-	811	-99.6%
Net commission income	(857)	(856)	(2)	(710)	20.8%
Other net costs and revenues	(69)	(39)	2	81	n/s
Gross income	**1,204**	**2,581**	**(124)**	**1,748**	**-31.1%**
Net writedowns	(10)	(10)	-	(4)	168.8%
Overheads	(937)	(99)	(793)	(904)	3.7%
of which: administrative expenses	*(488)*	*(91)*	*(397)*	*(489)*	*-0.3%*
Operating income	**2,339**	**2,483**	**1,108**	**2,839**	**-17.6%**
Net income	**2,592**	**1,975**	**327**	**1,907**	**35.9%**
Net income (loss) for the year pertaining to non-controlling interests	98			303	-67.5%
Net income (loss) for the year pertaining to shareholders of the parent company	**2,494**			**1,604**	**55.4%**

3.3 RECONCILIATION OF EQUITY AND NET INCOME OF THE PARENT COMPANY AND CONSOLIDATED EQUITY AND NET INCOME

The following table reconciles the equity and net income of the parent company with the corresponding consolidated figures.

Reconciliation of equity and net income of the parent company and consolidated equity and net income

(thousands of euros)

2011 FINANCIAL YEAR	Net income	Capital and reserves	Total
PARENT COMPANY FINANCIAL STATEMENTS	**1.611.906**	**12.857.457**	**14.469.363**
Balance from financial statements of fully consolidated companies	443.138	3.446.030	3.889.168
Consolidation adjustments:	112.370	(2.946.130)	(2.833.760)
- carrying amount of fully consolidated equity investments		*(2.389.400)*	*(2.389.400)*
- goodwill		*295.669*	*295.669*
- revaluation of property, plant and equipment and intangibles		*2.340.100*	*2.340.100*
- elimination of revaluation of divested intangible assets		*(62.298)*	*(62.298)*
- depreciation/amortisation of revaluation of non-current assets	*(45.100)*	*(279.378)*	*(324.478)*
- dividends from fully consolidated companies	*(126.000)*	*126.000*	*0*
- valuation of equity investments accounted for with equity method	*617.220*	*305.128*	*922.348*
- elimination of intercompany transactions	*(16.373)*	*16.053*	*(320)*
- deferred tax assets and liabilities	*(140.010)*	*(651.208)*	*(791.218)*
- non-controlling interests	*(177.367)*	*(2.646.796)*	*(2.824.163)*
CONSOLIDATED FINANCIAL STATEMENTS	**2.167.414**	**13.357.357**	**15.524.771**

4. RISK MANAGEMENT

4.1 MONITORING RISK IN THE CDP GROUP

4.1.1 Monitoring risk in CDP

For more information on risk management by CDP, please see the separate report and financial statements.

4.1.2 Monitoring risk in CDPI SGR

The financial risks to which the company is exposed are those associated with the its investment of liquidity and with the management of the fund.

The former are limited as the entire liquidity of the company is deposited on a bank current account, while about €435 thousand has been invested in zero coupon CTZs maturing 30 September 2012. In view of the stability of management fees over the life of the investment, the realisation risk in respect of the investment are negligible as the securities will be held to maturity.

As regards the financial risks associated with the investment of the fund's resources, Risk Management:

- verifies compliance with legislative and regulatory limits;
- analyses proposed investments and issues an opinion on them for the board of directors;
- assesses the consistency of the investment and the management strategy of the fund;
- analyses – having obtained appropriate documentation– the risk management system adopted by the company operating the fund or by the vehicle company;
- focuses the attention of the business on especially critical issues for further study.

Liquidity risk is monitored through careful planning of the company's incoming and outgoing cash flows (the cash forecast). More generally, market risks are

managed using the risk technology of the parent company, CDP, to which the risk management function has been outsourced.

The Risk Management unit is also responsible for surveying and assessing operational risks. In May, it produced a mapping of the operational risks associated with the main procedures of the company, which was subsequently agreed with the company's internal structure and approved by the board of directors on 19 July 2011.
The mapping will be updated as from May 2012. Subsequently, the exposure to operational risks will be assessed on the basis of the updated risk map, so as to promptly identify material risks that require prompt mitigation action.

In view of the draw-down nature of Fondo Investimenti per l'Abitare, the company is exposed to credit risk in respect of the subscribers. In this regard, more than half of the resources of the fund have currently been subscribed by the controlling shareholder of the company. As the fund is reserved exclusively to qualified investors, the remaining subscribers are institutions, such as banks, insurance companies and pension funds, of proven high standing.
Credit risk in respect of subscribers is in any case managed with the use of specific provisions in the rules that safeguard the company and the fund in the event of default (for example, through the use of penalties levied on the subscribers for failure to make payments).

4.1.3 Monitoring risk in the Terna Group

In the conduct of its operations, the Terna Group is exposed to various financial risks: market risk (namely exchange rate risk, interest rate risk and inflation risk), liquidity risk and credit risk. Terna's risk management policies seek to identify and analyse the risks the Group is exposed to, establishing appropriate limits and controls and monitoring risks and compliance with such limits. These policies and the related systems are reviewed on a regular basis in order to take account of any changes in market conditions or in the operations of the Group companies.

As a part of the financial risk management policies approved by the board of directors, Terna has established the responsibilities and operating procedures for financial risk management, specifically as concerns the instruments to be used and the precise operating limits in managing them. The exposure of the Terna

Group to the aforementioned risks is substantially represented by the exposure of Terna S.p.A.

MARKET RISK

Market risk is the risk that the fair value or future cash flows of a financial instrument may fluctuate as a result of changes in financial market conditions. Market risk comprises three forms of risk: exchange rate risk, interest rate risk and inflation risk.

Generally Terna hedges exchange rate risk through the forward sale or purchase of currencies (forward contracts) or the use of options. Currency options give Terna the right or the obligation to buy or sell predetermined amounts of a currency at a specific exchange rate at the end of a specific period of time. Normally, both forward contracts and options have maturities of no more than 12 months. At 31 December 2011 (as at 31 December 2010), no financial instruments exposed to exchange rate risk were present.

Interest rate risk is represented by the uncertainty associated with movements in interest rates. The Terna Group's main source of interest rate risk is associated with items of net financial debt and the related hedging positions in derivative instruments that generate financial expense. The hedging instruments used, at various maturity dates, include both derivatives that transform fixed rates into floating rates and derivatives that transform floating rates into fixed rates.

As regards inflation risk, the rates established by regulators to remunerate Terna S.p.A.'s activities are determined so as to allow coverage of the sector's recognised costs. Such cost components are updated on an annual basis to consider the accrued impact of inflation. In 2007, the company used an inflation-linked bond issue to obtained an effective hedge of profit for the year: any decrease in expected revenues due to a decrease in the inflation rate can be offset by lower financial expense.

LIQUIDITY RISK

The liquidity risk is the risk Terna might encounter difficulty in discharging its obligations in respect of its financial liabilities and operational cycle. Liquidity risk management seeks to ensure adequate coverage of financial needs by obtaining adequate lines of credit and appropriate management of any surplus liquidity. At 31 December 2011 Terna had €500 million in medium-term credit lines and

€703.8 million in short-term credit lines. Such amount is sufficient to refinance the debt falling due discussed in the section on long-term loans (€59.7 million).

CREDIT RISK

Credit risk is the risk a customer or one of the counterparties in a transaction in financial instruments could cause a financial loss by failing to discharge an obligation. It is mainly generated by trade receivables and the financial investments of the company.

The credit risk originated by open positions on transactions in financial derivatives is considered to be marginal since the counterparties, in compliance with financial risk management policies, are leading international credit institutions with high ratings and such transactions are diversified in compliance with specific concentration limits.

Credit risk management is guided by the provisions of Resolution 111/06 of the Authority for Electricity and Gas (the Authority), which, at Article 49, introduced instruments for the limitation of risks related to the insolvency of dispatching customers, both on a preventive basis and in the event of actual default. In particular, the resolution establishes three instruments to safeguard the electricity market: a guarantee system (bank guarantees provided by individual dispatching customers, based on their revenues), the option of terminating dispatching contracts (in the event of insolvency or failure to replace enforced guarantees) and, finally, the possibility of recovering uncollected debts, after having taken all other possible collection actions, through a specific fee defined by the Authority.

The total value of the exposure to credit rate risk at 31 December 2011 is represented by the carrying amount of financial assets (current and non-current), trade receivables and cash and cash equivalents.

DEFAULT RISK AND DEBT COVENANTS

This risk is associated with the possibility that the loan contracts or bond rules to which the Company is party may contain provisions authorising counterparties to call in such loans immediately upon the occurrence of certain events, thereby generating liquidity risk. For more information on the contractual provisions of

outstanding loans at 31 December 2011, please see the section "Loans and financial liabilities" in the notes to the financial statements of Terna S.p.A.

LITIGATION

The main unrecognised commitments and contingencies of the Terna Group parent company and the subsidiary Terna Rete Italia at 31 December 2011 are discussed below. The other subsidiaries had no unrecognised commitments and contingencies at that date.

Environmental and urban planning litigation

Environmental litigation originates from the installation and operation of electrical plants and primarily involves the harm that could be caused by exposure to the electrical and magnetic fields generated by power lines. The Terna Group parent and the subsidiary Terna Rete Italia are involved in various civil and administrative suits requesting the transfer or change in operations of allegedly harmful power lines, even though they were installed in full compliance with applicable legislation (Law 36 of 22 February 2001 and the Prime Minister's Order of 8 July 2003). Only a very small number of cases include claims for damages for harm to health caused by electromagnetic fields.

In sporadic cases, adverse judgements have been issued against Terna S.p.A. These have been appealed and the appeals are still pending; adverse decisions are considered unlikely.

In addition, a number of cases relating to urban planning and environmental issues are pending in respect of the construction and operation of certain transmission lines. The possible effects of any unfavourable outcome to these cases are unpredictable and, accordingly, have not been considered when determining the "Provision for disputes and other contingencies".

In a limited number of cases, the possibility of an adverse outcome cannot be entirely ruled out. The possible consequences could, in addition to the award of damages, include, inter alia, the costs of modifying lines and the temporary suspension of their use. In any case, any unfavourable outcome would not jeopardise line operations. Examination of the above litigation, also considering the opinion of independent legal counsel, suggests that the likelihood of adverse outcomes is remote.

Litigation concerning concession activities

As it holds the concession for transmission and dispatching activities since November 1, 2005, the Terna Group parent company has been involved in a

number of cases appealing Authority, MED and/or Terna measures relating to activities operated under the concession. Only in those cases in which the plaintiffs claim not only defects in the measures, but also allege that Terna violated the rules established by such authorities has the company appeared in court. Within the scope of this litigation, although a number of cases have seen the voidance of Authority resolutions and the consequent Terna measures by courts at the first or second levels, it is felt there is little risk of adverse outcomes for Terna, as the matters regard normally pass-through items for the company, a position supported by the information provided by the external legal counsel representing the company in the cases involved. As the concession holder for transmission and dispatching activities, the measures taken by the company in applying the resolutions adopted by the Authority are sometimes the subject of challenges. In appropriate circumstances, the economic costs of such challenges may be recognised by the Authority.

4.1.4 Monitoring risk in CDP GAS

In view of the recent formation of the company, it is still assessing the most appropriate mechanisms to implement in order to ensure compliance with Group risk management procedures.

4.1.5 Monitoring risk in FSI

As part of its various start-up activities, FSI began a series of preliminary initiatives to monitor and manage the various types of risk to which it could be exposed in the performance of its business.

More specifically, acting in close coordination with CDP, FSI is developing the main basic operational principles and associated guidelines for identifying, measuring, monitoring and controlling the risks involved with its operations.

On the basis of the outlook for its core operations, it is felt that the main risks to be monitored will comprise operational, reputational and, above all, financial risks (for example, equity and market risk, concentration risk, liquidity risk, interest rate and exchange rate risk, counterparty risk and credit risk).

5. OUTLOOK FOR 2012

5.1 THE OUTLOOK FOR THE CDP GROUP

5.1.1 The outlook for CDP

For more information on the outlook for CDP for 2012, please see the separate report and financial statements.

5.1.2 The outlook for CDPI SGR

In 2012 new lines of business for CDPI will be initiated, with the possible establishment of new real estate investment funds, including a fund for direct investment in the PSH sector and possible funds with the contribution of properties from religious orders or private pension funds, as well as participation in calls for tenders to select fund management companies to leverage the property assets of public entities.

On 18 January 2012, the board of directors approved the company's budget for 2012, which envisages a significant increase in personnel to support the expected expansion of company operations.

At its meeting of 14 February 2012, the board expressed its approval of the possibility of implementing the company's growth by hiring certain staff from the finance area of the *Fondazione Housing Sociale*, the simultaneous termination of the contract with the latter and the insourcing of the scouting and initial structuring of investment projects. The placement of the *Fondazione Housing Sociale* personnel in Milan would also strengthen the company's operational coverage of northern Italy, where most of the social housing initiatives currently in the pipeline are located.

Work has begun on developing the new organisational arrangements to accommodate the insourcing of activities referred to above. The first step was taken on 1 March 2012, with the entry of a new executive from the *Fondazione* onto the staff of CDPI, who will support the General Manager in developing that program of activities.

In addition, on 28 February 2012 the company submitted its pre-qualification bid for the tender called by the Ministry of Defence to select an asset management company to manage the real estate funds established with the contribution of

properties that form part of public lands or state properties loaned free of charge to the Ministry for government use.

As regards the fund-raising process, on 9 March 2012 the fifth and final partial closing of the subscriptions of the FIA was carried out, with the participation of five insurance companies who had already subscribed FIA A units, increasing their investments. Thus, 9 March 2012 marked the end of the first subscription period. Total subscriptions of the FIA now amount to €2.028 billion, slightly over the initial funding target.

5.1.3 The outlook for the Terna Group

The 2012 financial year will see the company involved in implementing the actions under the 2012-2016 business plan, approved by the board of directors on 20 March 2012, with total investments in line with the year just ended.

More specifically, the Group will be committed to completing the implementation of the new corporate and organisational structure, which will have a greater focus on non-traditional businesses.

With reference to the business plan, the company will continue to develop and build interconnections (Montenegro and France), reduce grid congestion and ensure the connection of generation plants using renewable resources.

In addition, in 2012, preliminary activities will be started on the development of the electricity storage systems presented in the business plan.

Revenues from regulated activities are expected to rise as a result of investments made in 2010 and the impact of the recent revision of tariffs.

In continuity with previous years, the company will pursue the rationalisation of processes and enhancing the efficiency of operating expenses, while at the same time ensuring the maximum quality of transmission and dispatching services.

As regards financial management, the recent bond issue raised sufficient resources for use in business operations until 2015.

5.1.4 The outlook for CDP GAS

This year will represent the first year of operations for CDP GAS and, accordingly, the early part of the year will see the company primarily involved in completing the start-up phase, with the hiring of key staff and the execution of additional

contracts for services needed to ensure the effective management of the investment.

During the year CDP GAS will also receive the first dividends from TAG, which will represent the company’s main revenue item.

Finally, in 2012 CDP GAS will be involved in supporting TAG in implementing its new business model consequent upon the transposition of the Third Gas Directive.

5.1.5 The outlook for FSI

With the first meeting of the Investment Committee on 12 January 2012, the core operations of FSI began, with the examination and selection of equity investments in accordance with the criteria discussed in the previous sections of this report.

In these first few months of 2012 a number of investment opportunities began to take shape from among the many proposals received and assessed. The completion of a number of investments during this year is considered realistic.

Nevertheless, the erratic nature of the company’s investment operations must be underscored, in view of the fact that assessment and execution activities naturally take some time to complete and the probability of successfully closing deals is not easy to the estimate.

Rome, 18 April 2012

The Chairman
Franco Bassanini

* * *

With regard to the “Report on corporate governance and ownership structure: main characteristics of the risk management and internal control system with regard to separate and consolidated-level financial disclosure, pursuant to Article 123-bis.2, b) of the Consolidated Law on Financial Intermediation”, please see section 4.4.2 of the report on operations of the separate financial statements of CDP, which is also applicable to the consolidated financial statements with regard to the parent company, CDP.

As regards the Terna Group, please see the “Report on corporate governance and ownership structure”, published in conjunction with the 2011 Annual Report of Terna S.p.A.

REPORT OF THE BOARD OF AUDITORS

Shareholders,

The consolidated financial statements at 31 December 2011, which were transmitted to the Board of Auditors together with the report on operations, have been prepared in accordance with the international accounting standards issued by the International Accounting Standards Board (IASs/IFRSs) and endorsed by the European Commission pursuant to Regulation EC no. 1606 of 19 July 2002, in compliance with the formats and rules established by the Bank of Italy (circular no. 262/2005 as amended).

While the statutory audit, and thus the formulation of an opinion concerning the content and form of the consolidated financial statements are the responsibility of the statutory audit firm, PricewaterhouseCoopers S.p.A. (PWC), pursuant to applicable law (please see the opinion issued by them), we affirm that:

- the consolidated financial statements at 31 December 2011 have been prepared, in their general structure, in accordance with applicable law;
- the scope of consolidation includes all the entities over which the parent company exercises direct or indirect control. For more information on changes in the scope of consolidation during the year, please see the report on Group operations;
- the Board of Auditors feels that the information provided by the directors in their report on operations is appropriate.

No material information has emerged from our work, including our meetings with the audit firm, PWC, that would require reporting to the control bodies.

Rome, 24 April 2012

THE BOARD OF AUDITORS

/signature/Angelo Provasoli	Chairman
/signature/Paolo Fumagalli	Auditor
/signature/Biagio Mazzotta	Auditor
/signature/Gianfranco Romanelli	Auditor
/signature/Giuseppe Vincenzo Suppa	Auditor

REPORT OF THE INDEPENDENT AUDITORS

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE No. 39 OF 27 JANUARY 2010

To the Shareholders of
Cassa Depositi e Prestiti SpA

1. We have audited the consolidated financial statements of Cassa Depositi e Prestiti SpA and its subsidiaries ("Cassa Depositi e Prestiti Group") as of 31 December 2011 which comprise the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and related notes. The directors of Cassa Depositi e Prestiti SpA are responsible for the preparation of these financial statements in compliance with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB, the Italian Commission for Listed Companies and the Stock Exchange. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

   The consolidated financial statements present, for comparative purposes, the prior year corresponding figures. As illustrated in the notes to the consolidated financial statements, the directors have reclassified certain prior year comparative information compared to that previously presented that was audited by other auditors who issued a report dated 28 April 2011. The reclassification methods of the comparative information and the related disclosures in the notes have been examined by us for the purpose of expressing an opinion on the consolidated financial statements as of 31 December 2011.

3. In our opinion, the consolidated financial statements of the Cassa Depositi e Prestiti Group as of 31 December 2011 comply with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005; accordingly, they have been prepared clearly and give a true and fair view of the financial position, result of operations and cash flows of the Cassa Depositi e Prestiti Group for the year then ended.

4. The directors of Cassa Depositi e Prestiti SpA are responsible for the preparation of a report on operations in compliance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations and of the specific section on corporate governance and ownership structure, solely with reference to the information referred to in paragraph 2, letter b), of article 123-bis of Legislative Decree No. 58/98, with the financial statements, as required by law. For this purpose, we have performed the procedures required

PricewaterhouseCoopers SpA

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under Italian Auditing Standard No. 001 issued by the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili) and recommended by CONSOB. In our opinion, the report on operations and the information referred to in paragraph 2, letter b), of article 123-bis of Legislative Decree No. 58/98 presented in the specific section of the aforementioned report are consistent with the consolidated financial statements of Cassa Depositi e Prestiti SpA as of 31 December 2011.

Rome, 24 April 2012

PricewaterhouseCoopers SpA

Signed by

Lorenzo Pini Prato
(Partner)

This report has been translated into the English language from the original, which was issued in Italian, solely for the convenience of international readers

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS pursuant to Article 154-bis of Legislative Decree 58/1998

Certification of the consolidated financial statements pursuant to Article 81-ter of Consob Regulation no. 11971 of 14 May 1999 as amended

1. The undersigned Giovanni Gorno Tempini, in his capacity as Chief Executive Officer, and Andrea Novelli, in his capacity as the manager responsible for the preparation of the financial reports of Cassa Depositi e Prestiti S.p.A., hereby certify, taking account of the provisions of Article 154-bis.3 and 4, of Legislative Decree 58 of 24 February 1998:

- the appropriateness with respect to the characteristics of the company and
- the effective adoption

of the administrative and accounting procedures for the preparation of the consolidated financial statements in 2011.

2. In this regard:
2.1 the assessment of the appropriateness of the administrative and accounting procedures followed in preparing the consolidated financial statements at 31 December 2011 was based on a process developed by Cassa Depositi e Prestiti S.p.A. in line with the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission, which is a generally accepted framework at the international level;
2.2 in 2011 the manager responsible for the preparation of the financial reports of Cassa Depositi e Prestiti S.p.A. assessed the adequacy and effective adoption of existing administrative and accounting procedures, with reference to the internal control system for financial reporting. Work also continued on the process to upgrade information technology procedures of the parent company, which requires further activities for its completion.

3. In addition, we certify that:
3.1 the consolidated financial statements:
a) have been prepared in compliance with the international accounting standards adopted in the European Union pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
b) correspond to the information in the books and other accounting records;
c) provide a true and fair representation of the performance and financial position of the issuer and the companies included in the scope of consolidation;
3.2 the report on operations contains a reliable analysis of operations and performance, as well as the situation of the issuer and the companies included in the scope of consolidation, together with a description of the main risks and uncertainties to which they are exposed.

Rome, 24 April 2012

Chief Executive Officer	Financial Reporting Manager
/signature/Giovanni Gorno Tempini	/signature/Andrea Novelli

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

CONSOLIDATED FINANCIAL STATEMENTS

(YEAR ENDED 31 DECEMBER 2011)

FORM AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2011

The consolidated financial statements at 31 December 2011 have been prepared in conformity with the applicable regulations and are composed of:

- **CONSOLIDATED BALANCE SHEET;**
- **CONSOLIDATED INCOME STATEMENT;**
- **STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME**
- **STATEMENT OF CHANGES IN CONSOLIDATED EQUITY;**
- **CONSOLIDATED CASH FLOW STATEMENT;**
- **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.**

The notes to the consolidated financial statements are composed of:

INTRODUCTION

PART A – Accounting policies

PART B – Information on the consolidated balance sheet

PART C – Information on the consolidated income statement

PART D – Consolidated comprehensive income

PART E – Information on risks and related hedging policies

PART F - Consolidated capital

PART G – Business combinations

PART H – Transactions with related parties

PART I – Share-based payments

PART L – Operating segments

CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2011

Consolidated balance sheet

Consolidated income statement

Statement of consolidated comprehensive income

Statement of changes in consolidated equity

Consolidated cash flow statement

(thousands of euros)

CONSOLIDATED BALANCE SHEET

	Assets	31/12/2011	31/12/2010
10.	Cash and cash equivalents	701	118
20.	Financial assets held for trading	581,081	856,438
40.	Financial assets available for sale	2,715,044	2,288,808
	of which securing covered bonds	*200,479*	-
50.	Financial assets held to maturity	9,289,691	2,947,380
60.	Loans to banks	20,681,933	9,180,623
	of which securing covered bonds	*5,138,958*	-
70.	Loans to customers	220,035,532	214,079,162
	of which securing covered bonds	-	*14,052,249*
80.	Hedging derivatives	931,313	583,088
100.	Equity investments	18,774,671	17,273,669
120.	Property, plant and equipment	10,771,247	10,000,820
130.	Intangible assets	771,196	772,130
	of which:		
	- goodwill	*485,897*	*486,723*
140.	Tax assets	633,613	470,098
	a) current	415,582	431,796
	b) deferred	218,031	38,302
150.	Non-current assets and disposal groups held for sale	-	575,793
160.	Other assets	1,957,136	1,896,287
	Total assets	**287,143,158**	**260,924,414**

(thousands of euros)

CONSOLIDATED BALANCE SHEET

	Liabilities and equity	**31/12/2011**	**31/12/2010**
10.	Due to banks	21,420,820	10,394,396
20.	Due to customers	226,440,121	216,043,181
	of which amounts to be disbursed on loans securing covered bonds	-	*871,850*
30.	Securities issued	12,886,745	10,434,892
	of which covered bonds	*5,307,748*	*5,378,892*
40.	Financial liabilities held for trading	498,355	940,034
60.	Hedging derivatives	2,712,621	1,232,520
70.	Adjustment of financial liabilities hedged generically (+/-)	60,440	63,683
80.	Tax liabilities	1,625,477	1,510,489
	a) current	495,146	476,003
	b) deferred	1,130,331	1,034,486
90.	Liabilities associated with assets held for sale	-	148,737
100.	Other liabilities	2,825,384	3,039,257
110.	Staff severance pay	65,231	68,605
120.	Provisions	259,030	235,670
	b) other provisions	259,030	235,670
140.	Valuation reserves	292,111	103,386
170.	Reserves	9,559,258	7,967,184
180.	Share premium reserve	5,988	2,601
190.	Share capital	3,500,000	3,500,000
210.	Non-controlling interests (+/-)	2,824,163	2,896,223
220.	Net income (loss) for the year	2,167,414	2,343,556
	Total liabilities and equity	**287,143,158**	**260,924,414**

(thousands of euros)

CONSOLIDATED INCOME STATEMENT

		31/12/2011	31/12/2010
10.	Interest income and similar revenues	7,764,322	6,428,658
20.	Interest expense and similar charges	(5,550,742)	(4,863,099)
30.	**Net interest income**	**2,213,580**	**1,565,559**
40.	Commission income	23,448	14,220
50.	Commission expense	(1,506,161)	(723,861)
60.	**Net commission income**	**(1,482,713)**	**(709,641)**
70.	Dividends and similar revenues	2,862	810,961
80.	Net gain (loss) on trading activities	(47,758)	6,683
90.	Net gain (loss) on hedging activities	(27,469)	1,835
100.	Gains (losses) on disposal or repurchase of:	6,426	201,174
	a) loans	6,074	71,508
	b) financial assets available for sale	346	129,666
	c) financial assets held to maturity	6	-
120.	**Gross income**	**664,928**	**1,876,571**
130.	Net impairment adjustments of:	(10,189)	(3,791)
	a) loans	(7,566)	(3,791)
	d) other financial transactions	(2,623)	-
140.	**Financial income (expense), net**	**654,739**	**1,872,780**
180.	Administrative expenses	(488,167)	(489,422)
	a) staff costs	(267,763)	(261,804)
	b) other administrative expenses	(220,404)	(227,618)
190.	Net provisions	(9,030)	(6,456)
200.	Net adjustments of property, plant and equipment	(396,159)	(366,982)
210.	Net adjustments of intangible assets	(53,035)	(47,650)
220.	Other operating income (costs)	1,632,809	1,583,856
230.	**Operating costs**	**686,418**	**673,346**
240.	Gains (losses) on equity investments	1,711,002	695,629
270.	Gains (losses) on disposal of investments	3,604	3,052
280.	**Income (loss) before tax from continuing operations**	**3,055,763**	**3,244,807**
290.	Income tax for the period on continuing operations	(823,686)	(642,555)
300.	**Income (loss) after tax on continuing operations**	**2,232,077**	**2,602,252**
310.	Income (loss) after tax on disposal groups held for sale	112,704	146,848
320.	**Net income (loss) for the year**	**2,344,781**	**2,749,100**
330.	Net income (loss) for the year pertaining to non-controlling interests	177,367	405,544
340.	**Net income (loss) for the year pertaining to shareholders of the parent company**	**2,167,414**	**2,343,556**

(thousands of euros)

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

		31/12/2011	31/12/2010
10.	**Net income (loss) for the period**	**2,344,781**	**2,749,100**
	Other comprehensive income net of taxes		
20.	Financial assets available for sale	(164,055)	(879,310)
60.	Cash flow hedges	(31,830)	34,966
70.	Exchange rate differences	-	-
100.	Share of valuation reserves of equity investments accounted for using equity method	360,640	-
110.	**Total other comprehensive income net of taxes**	**164,755**	**(844,344)**
120.	**Comprehensive income (items 10+110)**	**2,509,536**	**1,904,756**
130.	Consolidated comprehensive income pertaining to non-controlling interests	153,397	434,907
140.	**Consolidated comprehensive income pertaining to shareholders of the parent company**	**2,356,139**	**1,469,849**

(thousands of euros)

STATEMENT OF CHANGES IN EQUITY

	Balance at 31.12.10	Changes in opening balance	Balance at 1.1.11	Allocation of net income for previous year		Changes for the period								Equity at 31/12/2011 - Group	Equity at 31/12/2011 - Non-controlling interests
							Equity transactions								
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of own shares	Special dividend distribution	Changes in equity instruments	Derivatives on own shares	Stock options	Comprehensive income for 2011		
Share capital:															
a) ordinary shares	2,450,000		2,450,000											**2,450,000**	**370,798**
b) preference shares	1,050,000		1,050,000											**1,050,000**	
Share premium reserve	2,601		2,601			(7)	3,394							**5,988**	**14,073**
Reserves:															
a) income	7,766,169	4,245	7,770,414	1,643,556		(11,531)								**9,402,439**	**1,976,704**
b) other	196,770		196,770			(39,650)						(301)		**156,819**	**322,849**
Valuation reserves	103,386		103,386										188,725	**292,111**	**(37,628)**
Equity instruments															
Treasury shares															
Net income (loss) for the year	2,344,028	(472)	2,343,556	(1,643,556)	(700,000)								2,167,414	**2,167,414**	**177,367**
Equity - Group	13,912,954	3,773	13,916,727	-	(700,000)	(51,188)	3,394					(301)	2,356,139	**15,524,771**	
Equity - Non-controlling interests	2,887,391	8,831	2,896,222	-	(296,100)	62,510	8,842					(707)	153,397		**2,824,163**

(thousands of euros)

STATEMENT OF CHANGES IN EQUITY

	Balance at 31.12.09	Changes in opening balance	Balance at 1.1.10	Allocation of net income for previous year		Changes for the period								Equity at 31/12/2010 - Group	Equity at 31/12/2010 - Non-controlling interests
							Equity transactions								
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of own shares	Special dividend distribution	Changes in equity instruments	Derivatives on own shares	Stock options	Comprehensive income for 2010		
Share capital:															
a) ordinary shares	2,450,000		2,450,000											**2,450,000**	**308,967**
b) preference shares	1,050,000		1,050,000											**1,050,000**	
Share premium reserve	539		539				2,062							**2,601**	**6,087**
Reserves:															
a) income	4,970,149		4,970,149	1,726,022		1,069,768	230							**7,766,169**	**1,718,718**
b) other	316,007		316,007			(119,108)						(129)		**196,770**	**460,571**
Valuation reserves	2,118,026		2,118,026			(1,140,933)							(873,707)	**103,386**	**(13,600)**
Equity instruments															
Treasury shares															
Net income (loss) for the year	2,026,022		2,026,022	(1,726,022)	(300,000)								2,344,028	**2,344,028**	**406,648**
Equity - Group	12,930,743		12,930,743	-	(300,000)	(190,273)	2,292					(129)	1,470,321	**13,912,954**	
Equity - Non-controlling interests	2,726,875		2,726,875	-	(266,617)	(13,940)	5,365					(303)	436,011		**2,887,391**

(thousands of euros)

CONSOLIDATED CASH FLOW STATEMENT (INDIRECT METHOD)

	31/12/2011	31/12/2010
A. OPERATING ACTIVITIES		
1. Operations	**4,172,460**	**3,148,445**
- net income for the year (+/-)	2,344,781	2,749,100
- gains (losses) on financial assets held for trading and on financial assets/liabilities at fair value (-/+)	34,356	(6,683)
- gains (losses) on hedging activities (-/+)	(189,919)	(1,835)
- net impairment adjustments (+/-)	10,188	3,791
- net value adjustments to property, plant and equipment and intangible assets (+/-)	449,195	414,632
- net provisions and other costs/revenues (+/-)	89,931	30,453
- unpaid taxes and duties (+)	434,673	407,716
- writedowns/writebacks of equity investments (+/-)	(1,703,631)	(295,645)
- other adjustments (+/-)	2,702,886	(153,084)
2. Cash generated by/used in financial assets	**(15,344,767)**	**(3,587,599)**
- financial assets held for trading	266,361	(143,845)
- financial assets available for sale	(670,074)	4,219,764
- loans to banks: on demand	(1,124,702)	350,000
- loans to banks: other	(10,121,092)	(3,467,434)
- loans to customers	(3,556,636)	(4,047,334)
- other assets	(138,624)	(498,750)
3. Cash generated by/used in financial liabilities	**19,309,603**	**20,922,534**
- due to banks: other	11,513,843	5,458,648
- due to customers	6,322,894	16,530,461
- securities issued	2,371,295	(826,875)
- financial liabilities held for trading	(468,218)	325,269
- other liabilities	(430,211)	(564,969)
Net cash generated by/used in operating activities	**8,137,296**	**20,483,380**
B. INVESTING ACTIVITIES		
1. Cash generated by	**1,377,280**	**3,900,533**
- sale of equity investments	-	3,695,057
- dividends from equity investments	1,100,272	203,624
- sale of financial assets held to maturity	259,988	-
- sale of property plant and equipment	17,020	1,852
2. Cash used in	**(8,316,963)**	**(15,165,076)**
- purchase of equity investments	(570,344)	(10,714,654)
- purchase of financial assets held to maturity	(6,510,089)	(2,716,440)
- purchase of property, plant and equipment	(1,183,603)	(1,674,688)
- purchase of intangible assets	(52,927)	(59,294)
Net cash generated by/used in investing activities	**(6,939,683)**	**(11,264,543)**
C. FINANCING ACTIVITIES		
- issue/purchase of capital instruments	61,200	7,657
- dividend distribution and other allocations	(996,100)	(580,557)
Net cash generated by/used in financing activities	**(934,900)**	**(572,900)**
NET CASH GENERATED/USED DURING THE YEAR	**262,713**	**8,645,937**

RECONCILIATION

(*)		
Cash and cash equivalents at beginning of year	**123,780,550**	**115,134,613**
Net cash generated/used during the year	262,713	8,645,937
Cash and cash equivalents at end of year	**124,043,263**	**123,780,550**

(*) The cash and cash equivalents reported in the consolidated cash flow statement comprise the balance of item 10 "Cash and cash equivalents", the balance on the current account held with the Central State Treasury, which is reported under item 70 "Loans to customers" and the positive balance of the bank current accounts reported under item 60 "Loans to banks" net of current accounts with a negative balance reported under item 10 "Due to banks" under liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 31 DECEMBER 2011)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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INTRODUCTION

STRUCTURE AND CONTENT OF THE FINANCIAL STATEMENTS

As in previous years, the CDP Group financial statements have been prepared in accordance with the regulations of the Bank of Italy, which are set out in its circular concerning banking and financial service supervision of 22 December 2005, updated to 18 November 2009, which set out the formats and rules for compiling bank financial statements, incorporating the introduction of International Financial Reporting Standards (IFRSs) for bank financial reporting.
With Regulation (EC) 1606/2002 of 19 July 2002, the European Union made it compulsory, as of the 2005 financial year, to adopt the IFRSs in preparing the financial statements of EU companies that issue equity or debt securities on a regulated market in the European Union.
Legislative Decree 38 of 20 February 2005 was then issued in Italy in order to govern the application of:

- the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB);
- the International Accounting Standards (IASs) issued by the International Accounting Standards Committee (IASC);

as well as the Implementation Guidance and Basis for Conclusions adopted by the International Financial Reporting Interpretations Committee (IFRIC, formerly the Standing Interpretations Committee, or SIC) and by the IASB.
The consolidated financial statements are expressed in euros and include the consolidated balance sheet, the consolidated income statement, the statement of consolidated comprehensive income, the statement of changes in consolidated equity, the consolidated cash flow statement and these explanatory notes to the financial statements, as well as the directors' report on operations.
The financial statements present a clear, true and fair overview of the company's financial performance and standing.
The account balances correspond with the company's accounting records and fully reflect the transactions conducted during the year.

BASIS OF PRESENTATION

In line with the rules issued by the Bank of Italy, the financial statements and the tables in the notes to the financial statements are expressed, unless

otherwise specified, in thousands of euros.
Accounts with zero balances for both the current and prior period have been excluded. In the income statement, revenues are indicated without a sign, while costs are shown in parentheses.
The figures in the tables of the notes to the financial statements have been rounded to the nearest thousand, and the rounded totals for the various figures are obtained by summing the rounded balances of the items making up such totals.
The cash and cash equivalents reported in the cash flow statement comprise the balance of item 10 "Cash and cash equivalents" of the balance sheet, the balances on the current account held with the Central State Treasury reported under item 70 "Loans to customers" and the positive balance on bank accounts reported under item 60 "Loans to banks" net of current accounts with a negative balance reported under item 10 "Due to banks" of liabilities.
The parts of the notes to the financial statements provided for in the Bank of Italy circular of 22 December 2005 that have not been reported regard issues that do not apply to the CDP Group.

COMPARISON AND DISCLOSURE

As detailed below, the notes to the financial statements provide all of the information required by law, as well as any supplemental information deemed necessary in order to provide a true and fair presentation the company's financial performance and standing.
The tables and other details required by the Bank of Italy have been numbered in accordance with the parts and sections specified in Annex "B" of the supervisory instructions issued by the Bank of Italy.
Tables with no amounts for both 2011 and 2010 have been omitted.

CDP SEGREGATED ASSET POOL

CDP holds the covered bond segregate asset pool. This is not a segregated asset pool as defined by the Italian Civil Code, but rather a separation related to certain CDP assets for which CDP has established guarantees/liens on the cash flows for the holders of the covered bonds issued, which enables the bond itself to have a higher rating than that of the issuer.
The separation initially regarded the future cash flows from the financial assets (loans), which constituted the collateral of the related bond issue. Since November 2011, that collateral has been replaced with a tied cash deposit on a segregated account that can be invested in eligible securities (rated AAA).

The assets are in the accounts with an "of which" indication on the financial statements, and the transaction is described in the notes to the financial statements under Part B – Information on the balance sheet – Other information.

AUDITING OF THE FINANCIAL STATEMENTS

The statutory audit of the CDP Group consolidated financial statements pursuant to Legislative Decree 39/2010 was performed by PricewaterhouseCoopers S.p.A., in execution of the shareholder resolution of 25 May 2011 which engaged this firm to audit the financial statements and accounts for the period 2011-2019.

PART A – ACCOUNTING POLICIES

A.1 – GENERAL INFORMATION

SECTION 1 – DECLARATION OF CONFORMITY WITH THE INTERNATIONAL ACCOUNTING STANDARDS

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) issued by the IASB (and related IFRIC and SIC interpretations) endorsed by the European Commission and with the Bank of Italy circular of 22 December 2005 updated to 18 November 2009, which establishes the required format of the financial statements and related methods of preparation, as well as the content of the related notes.

SECTION 2 – GENERAL PREPARATION PRINCIPLES

The financial statements have been prepared in accordance with the IFRSs issued by the IASB (including the SIC and IFRIC interpretations) endorsed by the European Commission pursuant to Regulation (EC) 1606 of 19 July 2002.

For the purposes of interpretation and to provide support in applying these standards, the following documents have also been considered, although they have not been endorsed by the European Commission:

- the *Framework for the Preparation and Presentation of Financial Statements* (issued by the International Accounting Standards Board in 2001);
- *Implementation Guidance, Basis for Conclusions*, IFRIC interpretations, and any other documentation prepared by the IASB or IFRIC to supplement the IFRSs;
- Interpretation documents concerning the application of the IFRSs in Italy, prepared by the *Organismo Italiano di Contabilità* (Italian Accounting Board; OIC) and by the Italian Banking Association (ABI).

Where the information required by the IFRSs and the regulations of the Bank of Italy is deemed to be inadequate in presenting the company’s financial standing in a true and fair manner, the notes to the financial statements also include supplemental information for such purpose.

The financial statements have been prepared on an accruals and going-concern basis. The general principles of the materiality and significance of information and the prevalence of substance over form have also been taken into account.

No assets have been offset with liabilities, nor revenues with costs, unless expressly required or allowed by the instructions of the Bank of Italy or by an accounting standard or a related interpretation.

In the tables of the notes to the financial statements, the contribution of companies that do not belong to the banking group to the various line items is reported only if significant.

USE OF ESTIMATES

The application of international accounting standards in preparing the consolidated financial statements requires the CDP Group to formulate estimates for certain balance sheet items that are considered reasonable and realistic on the basis of the information available at the time the estimate is made. Such estimates impact the carrying amount of the assets and liabilities and the disclosures on contingent assets and liabilities as of the reporting date, as well as the amounts reported for revenues and costs for the period under review.
Changes in the conditions underpinning the judgements, assumptions and estimates used could also have an impact on future results.
The main areas in which management is required to make subjective assessments are:

- the quantification of impairment losses on loans, equity investments and, in general, other financial assets;
- the use of valuation techniques to determine the fair value of financial instruments not quoted on an active market;
- the quantification of provisions for employees and provisions for liabilities and contingencies;
- the estimates and assumptions used in assessing the recoverability of deferred tax assets;
- the statistical and financial assumptions used in estimating repayment flows on postal savings products.

The description of the accounting treatment used for the main financial statement items provides details on the main assumptions and assessments used in preparing the financial statements.

SECTION 3 – SCOPE AND METHODS OF CONSOLIDATION

Subsidiaries are consolidated on a line-by-line basis, while companies subject to joint control or significant influence are accounted for using the equity method. The following table reports the companies included in the scope of consolidation on a full or proportionate basis.

EQUITY INVESTMENTS IN SUBSIDIARIES AND JOINT VENTURES (CONSOLIDATED PROPORTIONATELY)

Name	Registered office	Type of relationship (1)	Equity investment		% of votes (2)
			Investor	% holding	
A. Enterprises					
A.1 Consolidated on a line-by-line basis					
1. Terna S.p.A.	Rome	2	CDP S.p.A.	29.85%	29.85%
2. CDP Investimenti SGR S.p.A.	Rome	1	CDP S.p.A.	70%	70%
3. Fondo Strategico Italiano S.p.A	Milan	1	CDP S.p.A.	90%	90%
4. CDP GAS S.r.l.	Rome	1	CDP S.p.A.	100%	100%
5. Sun Tergrid S.p.A.	Rome	1	Terna S.p.A.	100%	100%
6. Terna Rete Italia S.r.l.	Rome	1	Terna S.p.A.	100%	100%
7. Terna Crna Gora	Podgorica	1	Terna S.p.A.	100%	100%
8. Rete Solare S.r.l	Rome	1	Terna S.p.A.	100%	100%
9. Terna Plus S.r.l	Rome	1	Terna S.p.A.	100%	100%
A.2 Consolidated proportionately					

Key
(1) Type of relationship
1 = Majority of voting rights in ordinary shareholders' meeting
2 = Dominant influence in ordinary shareholders' meeting
3 = Agreements with other shareholders
4 = Other form of control
5 = Unitary management pursuant to Article 26.1 of Legislative Decree 87/92
6 = Unitary management pursuant to Article 26.2 of Legislative Decree 87/92
7 = Joint control
(2) Actual percentage of votes in ordinary shareholders' meeting, distinguishing between effective and potential votes

The financial statements of the subsidiaries used for line-by-line consolidation are those at 31 December 2011, as approved by their competent corporate bodies, adjusted as necessary to harmonise them with the Group accounting policies and reclassified on the basis of the formats established by the Bank of Italy in circular 262 of 22 December 2005, updated to 18 November 2009.

SECTION 4 – EVENTS SUBSEQUENT TO THE REPORTING DATE

During the period between the reporting date for the financial statements and their approval by the Board of Directors on 18 April 2012, no events occurred that would require an adjustment to the figures approved or the provision of additional information.

SECTION 5 – OTHER ISSUES

FIRST-TIME ADOPTION/RECENTLY ADOPTED ACCOUNTING STANDARDS

During the year new accounting standards and interpretations entered force. Where applicable, account was taken of these standards and interpretations during the preparation of these financial statements:

Amendments to accounting standards (Improvements 2011)
On 19 February 2011, Regulation (EU) no. 149/2011 of 18 February 2011 was published in the *Official Journal of the European Union*, endorsing the "Improvements to International Financial Reporting Standards". For certain of these (IFRS 3, IFRS 7, IAS 21, IAS 28 and IAS 31) the amendments take effect as from reporting periods beginning after 30 June 2010. For the others (IAS 1, IAS 34 and IFRIC 13) the amendments take effect as from 1 January 2011.

Amendments to IFRS 7 - Financial instruments: Disclosures – Transfers of financial assets
Regulation (EU) no. 1205/2011 issued by the European Commission on 22 November 2011 expanded the disclosures to be included in the financial statements concerning financial instruments. The amendment seeks to assist users of financial statements to assess the exposure to risk in the transfer of financial assets and the impact of such risks on the entity's financial position. The amended standard introduces new disclosure requirements to enable users of the financial statements to better understand the relationship between transferred financial assets that have not been derecognised and the associated liabilities and to assess the nature, and related risks, of transferred assets in which the entity has a continuing involvementThe amendments did not have a material impact on the financial statements at 31 December 2011.

During the previous year, the European Commission endorsed the following standards and interpretations that are applicable for the period under review in these financial statements.

Amendments to IFRIC 14 – Prepayments of a Minimum Funding Requirement
On 20 July 2010, Regulation (EU) no. 633/2010 was published in the *Official Journal of the European Union*, adopting a number of amendments to IFRIC 14 –

Prepayments of a Minimum Funding Requirement. The changes, which are limited in scope, allows an entity to recognise an asset in respect of prepayments of minimum funding requirements. The amendments take effect as from reporting periods beginning on or after 1 January 2011.

"Revised IAS 24 - Related party disclosures"

Issued in November 2009, the standard allows companies that are subsidiaries or under the joint control or significant influence of a government agency to adopt special related-party disclosure rules allowing summary disclosure of transactions with the government agency and with other companies controlled by or under the significant influence of the government agency. The new version of IAS 24 also amends the definition of related parties for the purposes of disclosure in the notes to the financial statements. The revised IAS 24 will apply retrospectively as from periods beginning on or after 1 January 2011.

Standards and amendments awaiting endorsement

During the year or the previous year amendments were made to existing standards and new standards and interpretations were issued that will take effect prospectively. To date these changes have not yet been endorsed by the European Commission and are therefore not applicable.

	Date of issue by the IASB	Date of entry into force of IASB document	Expected date of endorsement by EU
Standards and Interpretations			
IFRS 10 Consolidated Financial Statements	May-11	1 January 2013	3rd quarter 2012
IFRS 11 Joint Arrangements	May-11	1 January 2013	3rd quarter 2012
IFRS 12 Disclosures of Interests in Other Entities	May-11	1 January 2013	3rd quarter 2012
IFRS 13 Fair Value Measurement	May-11	1 January 2013	3rd quarter 2012
IAS 27 Separate Financial Statements	May-11	1 January 2013	3rd quarter 2012
IAS 28 Investments in Associates and Joint Ventures	May-11	1 January 2013	3rd quarter 2012
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine	Oct-11	1 January 2013	2nd quarter 2012
Amendments			
Deferred tax: Recovery of Underlying Assets (Amendments to IAS 12)	Dec-10	1 January 2012	2nd quarter 2012
Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters (Amendments to IFRS 1)	Dec-10	1 July 2011	2nd quarter 2012
Presentation of items of Other Comprehensive Income (Amendments to IAS 1)	Jun-11	1 July 2012	1st quarter 2012
Amendments to IAS 19 Employee Benefits	Jun-11	1 January 2013	1st quarter 2012

OTHER INFORMATION

The Board of Directors approve the consolidated financial statements of CDP, which will be published in accordance with the procedures provided for in the regulations applicable to CDP.

RESTATEMENT OF THE 2010 FINANCIAL STATEMENTS

The Bank of Italy, as part of the informational monitoring to which CDP is current subject, requested the submission of reporting schedules, analogous to those

envisaged for banks, initially with regard to financial statement data only (Section III of the prudential returns "Financial statement information").
To ensure that the information contained in the financial statements and in the prudential returns is consistent, CDP and the Bank of Italy formed a technical panel to determine the appropriate technical classification of certain types of operations.
The reconciliation between the financial statements and the information reported revealed the need to reclassify certain technical forms reported in the financial statements.
More specifically, the cash held with the Central State Treasury was reclassified from balance sheet item 10 "Cash and cash equivalents" to item 70 "Loans to customers", and interest-bearing postal savings bonds were reclassified from item 30 "Securities issued" to item 20 "Due to customers" and item 10 "Due to banks".
Furthermore, in response to requests for clarification received from banks and financial intermediaries, the Bank of Italy specified that the reimbursement of individually documented travel and accommodation expenses incurred by employees on business trips and the costs of medical check-ups performed during the hiring process, as well as costs incurred for medical exams required by law shall be reported under item 180 b) "Other administrative expenses".
As a result, these costs were reclassified from income statement item 180 a) "Staff costs" to item 180 b) "Other administrative expenses".
In addition, changes were made to the accounting treatment of the effects of the decision made in 2009 by the subsidiary Terna S.p.A. to discharge the tax liability in respect of goodwill pursuant to Decree Law 185 of 29 November 2008, ratified with Law 2 of 28 January 2009.
The transition from the treatment of the tax as an advance on current taxes to the recognition of deferred tax assets increased item 170 "Reserves" by €4.2 million and decreased net income for the CDP Group at 31 December 2010 by €0.5 million (higher current taxes).

The reclassified financial statements at 31 December 2010 are shown below, with an indication of the reclassifications performed.

(thousands of euros)

CONSOLIDATED BALANCE SHEET

	Assets	31/12/2010 Restated	31/12/2010	Change
10.	Cash and cash equivalents	118	123,751,325	(123,751,207)
20.	Financial assets held for trading	856,438	856,438	
40.	Financial assets available for sale	2,288,808	2,288,808	
50.	Financial assets held to maturity	2,947,380	2,947,380	
60.	Loans to banks	9,180,623	9,180,623	
70.	Loans to customers	214,079,162	90,327,955	123,751,207
	of which securing covered bonds	*14,052,249*	*14,052,249*	
80.	Hedging derivatives	583,088	583,088	
100.	Equity investments	17,273,669	17,273,669	
120.	Property, plant and equipment	10,000,820	10,000,820	
130.	Intangible assets	772,130	772,130	
	of which:			
	- goodwill	*486,723*	*486,723*	
140.	Tax assets	470,098	482,696	(12,598)
	a) current	431,796	444,394	(12,598)
	b) deferred	38,302	38,302	
150.	Non-current assets and disposal groups held for sale	575,793	575,793	
160.	Other assets	1,896,287	1,896,287	
	Total assets	**260,924,414**	**260,937,012**	**(12,598)**

(thousands of euros)

CONSOLIDATED BALANCE SHEET

	Liabilities and equity	31/12/2010 Restated	31/12/2010	Change
10.	Due to banks	10,394,396	9,800,916	593,480
20.	Due to customers	216,043,181	106,988,550	109,054,631
	of which amounts to be disbursed on loans securing covered bonds	*871,850*	*871,850*	
30.	Securities issued	10,434,892	120,083,003	(109,648,111)
	of which covered bonds	*5,378,892*	*5,378,892*	
40.	Financial liabilities held for trading	940,034	940,034	
60.	Hedging derivatives	1,232,520	1,232,520	
70.	Adjustment of financial liabilities hedged generically (+/-)	63,683	63,683	
80.	Tax liabilities	1,510,489	1,535,692	(25,203)
	a) current	476,003	476,003	
	b) deferred	1,034,486	1,059,689	(25,203)
90.	Liabilities associated with assets held for sale	148,737	148,737	
100.	Other liabilities	3,039,257	3,039,257	
110.	Staff severance pay	68,605	68,605	
120.	Provisions	235,670	235,670	
	b) other provisions	235,670	235,670	
140.	Valuation reserves	103,386	103,386	
170.	Reserves	7,967,184	7,962,939	4,245
180.	Share premium reserve	2,601	2,601	
190.	Share capital	3,500,000	3,500,000	
210.	Non-controlling interests (+/-)	2,896,223	2,887,391	8,832
220.	Net income (loss) for the year	2,343,556	2,344,028	(472)
	Total liabilities and equity	**260,924,414**	**260,937,012**	**(12,598)**

(thousands of euros)

CONSOLIDATED INCOME STATEMENT

		31/12/2010 Restated	31/12/2010	Change
10.	Interest income and similar revenues	6,428,658	6,428,658	
20.	Interest expense and similar charges	(4,863,099)	(4,863,099)	
30.	**Net interest income**	**1,565,559**	**1,565,559**	
40.	Commission income	14,220	14,220	
50.	Commission expense	(723,861)	(723,861)	
60.	**Net commission income**	**(709,641)**	**(709,641)**	
70.	Dividends and similar revenues	810,961	810,961	
80.	Net gain (loss) on trading activities	6,683	6,683	
90.	Net gain (loss) on hedging activities	1,835	1,835	
100.	Gains (losses) on disposal or repurchase of:	201,174	201,174	
	a) loans	71,508	71,508	
	b) financial assets available for sale	129,666	129,666	
120.	**Gross income**	**1,876,571**	**1,876,571**	
130.	Net impairment adjustments of:	(3,791)	(3,791)	
	a) loans	(3,791)	(3,791)	
140.	**Financial income (expense), net**	**1,872,780**	**1,872,780**	
180.	Administrative expenses	(489,422)	(489,422)	
	a) staff costs	(261,804)	(262,593)	789
	b) other administrative expenses	(227,618)	(226,829)	(789)
190.	Net provisions	(6,456)	(6,456)	
200.	Net adjustments of property, plant and equipment	(366,982)	(366,982)	
210.	Net adjustments of intangible assets	(47,650)	(47,650)	
220.	Other operating income (costs)	1,583,856	1,583,856	
230.	**Operating costs**	**673,346**	**673,346**	
240.	Gains (losses) on equity investments	695,629	695,629	
270.	Gains (losses) on disposal of investments	3,052	3,052	
280.	**Income (loss) before tax from continuing operations**	**3,244,807**	**3,244,807**	
290.	Income tax for the period on continuing operations	(642,555)	(640,979)	(1,576)
300.	**Income (loss) after tax on continuing operations**	**2,602,252**	**2,603,828**	**(1,576)**
310.	Income (loss) after tax on disposal groups held for sale	146,848	146,848	
320.	**Net income (loss) for the year**	**2,749,100**	**2,750,676**	**(1,576)**
330.	Net income (loss) for the year pertaining to non-controlling interests	405,544	406,648	(1,104)
340.	**Net income (loss) for the year pertaining to shareholders of the parent company**	**2,343,556**	**2,344,028**	**(472)**

A.2 – THE MAIN FINANCIAL STATEMENT ACCOUNTS

The following pages provide a description of the accounting policies adopted in preparing the financial statements.

1 – FINANCIAL ASSETS HELD FOR TRADING

"Financial assets held for trading" (item 20) includes all financial assets, regardless of type (debt securities, equity, loans, derivatives, etc.), allocated to the trading portfolio and held for the purpose of generating profits over the short term as a result of changes in the price of such instruments, as well as the derivative contracts operationally connected with financial liabilities measured at fair value (under the fair value option) and derivatives with a positive value, including those resulting from the separation of embedded derivatives, that are not deemed to be effective for hedging purposes.
Financial assets held for trading meet the following prerequisites:

a) they are purchased with the intention of being sold in the short term;
b) they are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
c) they are derivatives (with the exception of derivatives that are designated and effective hedging instruments).

Such financial assets are initially recognised at fair value, which generally equals the amount paid or received net of transactions costs or income. Where the amount paid is different from the fair value, the financial asset is recognised at fair value, and the difference between the two amounts is recognised through profit or loss. Initial recognition is carried out at the subscription date for derivative contracts and on the settlement date for debt and equity securities, with the exception of those for which delivery is governed by conventions on the market concerned, for which initial recognition is at the settlement date.
Financial assets held for trading also include derivative contracts embedded in other financial instruments or contracts and which have financial and risk characteristics that are not correlated with the host instrument or which meet the requirements to be classified themselves as derivative contracts, recognising them separately after separating the embedded derivative from the main contract, which is then treated in accordance with the accounting rules for its

own category. This is not done in cases in which the compound instrument containing the derivative is measured at fair value through profit or loss.
The financial instruments are measured subsequently at fair value based on the official prices as of the reporting date if they are listed on active markets. For financial instruments, including equity, not listed on active markets, fair value is determined by using measurement techniques and information available on the market, such as the price of similar instruments on an active market, discounted cash flows, option pricing models and values registered in recent similar transactions. For equity securities and related derivative instruments, if the fair value obtained using such measurement techniques cannot be reliably determined, the financial instruments are measured at cost and written down in the event of impairment losses.
If the fair value of a financial asset becomes negative, it is recognised as a financial liability held for trading.
Financial assets held for trading are derecognised when payment is received, when the contractual rights to the cash flows expire, or a sale transfers all the risks and rewards connected with ownership to a third party. Conversely, when a prevalent share of the risks and rewards associated with the financial asset is retained, the asset remains on the balance sheet even if official title has been transferred.
The gains and losses on sale or redemption and unrealised gains and losses resulting from the fair value measurement of the trading portfolio are reported under "Net gain (loss) on trading activities" (item 80). The income components are recognised following the results of the measurement of the financial assets held for trading.

2 – FINANCIAL ASSETS AVAILABLE FOR SALE

"Financial assets available for sale" (item 40) are non-derivative financial assets (debt securities, equity, etc.) that are classified as being available for sale and not as (a) loans and receivables, (b) held-to-maturity investments, or (c) financial assets at fair value through profit or loss.
Available-for-sale financial assets are initially recognised on the contract date for all financial assets, with the exception of those for which delivery is governed by conventions on the market concerned, for which initial recognition is carried out at the settlement date and on the disbursement date in the case of loans.
The financial assets are initially recognised at fair value, which generally equals the amount paid or received net of transactions costs or gains. Where the amount paid is different from the fair value, the financial asset is recognised at

fair value, and the difference between the two amounts is recognised through profit or loss.
Investments in equity instruments that are not listed on an active market and for which it is not possible to measure fair value reliably, as well as derivatives connected to such instruments and/or that must be settled with the delivery of such instruments, are measured at cost.
Unrealised gains or losses on available-for-sale securities are recorded in a specific equity reserve, net of tax effects, until the investment is sold or written down.
Subsequent measurement is done at fair value based on the official prices as of the reporting date if the financial instruments are listed on active markets. For financial instruments, including equity securities, not listed on active markets, fair value is determined by using measurement techniques and information available on the market, such as the price of similar instruments on an active market, discounted cash flows, option pricing models and values registered in recent comparable transactions. For equity securities and related derivative instruments, if the fair value obtained using such measurement techniques cannot be reliably determined, the financial instruments are measured at cost and written down in the event of impairment losses.
Available-for-sale financial assets undergo impairment testing to determine whether there is objective evidence of impairment. Where the decline in the fair value of an available-for-sale security with respect to its initial cost value is significant or prolonged, an impairment is recognised through profit or loss. A decrease in fair value is deemed significant when is exceeds 40% of the initially recognised value and prolonged when it continues for a period of more than 24 months. Where an available-for-sale security is impaired, the cumulative, unrealised change in value recorded in the equity reserve is recognised in the income statement under "Net impairment adjustments of financial assets available for sale" (item 130.b). The impairment is recognised when the purchase cost (net of any amortisation and repayments of principal) of an available-for-sale financial asset exceeds its recoverable amount. The amount of this loss is measured using specific valuation techniques and models for equity securities. Any writebacks of investments in equity instruments are not recognised in the income statement but in an equity reserve, while any writebacks of investments in debt instruments go through the income statement. The value of the instrument after the writeback shall in any event not exceed the value that the instrument would have had in the absence of the prior adjustments.
Dividends on equity instruments that are available for sale are recognised as income when the right to receive payment is established.

In addition to the recognition of impairment losses, the cumulative gains or losses in the equity reserve are, as mentioned above, recognised in the income statement at the time of the sale of the asset. Accordingly, in the event of the disposal of an investment in available-for-sale securities, the related cumulative, unrealised change in value recorded in equity is recognised in the income statement as "Gains (losses) on the disposal or repurchase of financial assets available for sale" (item 100.b).
Available-for-sale financial assets are derecognised when payment is received, when the contractual rights to the cash flows expire, or a sale transfers all the risks and rewards connected with ownership to a third party. Conversely, when a prevalent share of the risks and rewards associated with the financial asset is retained, the asset remains on the balance sheet even if official title has been transferred.

3 – Financial assets held to maturity

Financial assets held to maturity include financial assets other than derivatives with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.
If, following a change in such intention or ability, it is no longer appropriate to continue to classify an investment as held to maturity, it is reclassified under financial assets available for sale.
Held-to-maturity financial assets are initially recognised at fair value, which is normally equal to the price paid or received. In cases where the price differs from fair value, the asset is recognised at fair value and the difference between the price and the fair value is taken to the income statement.
The value at which such assets are recognised includes incidental costs and revenues attributable to the transaction.
Following initial recognition, financial assets held to maturity are measured at amortised cost and undergo impairment testing. The amortised cost of a financial asset is equal to the amount at which it is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility. Such assets are derecognised when the contractual rights to the cash flows from the assets expire or when the assets are divested by transferring substantially all the risks and rewards of ownership of the assets.

4 – LOANS

The term "loans" refers to a portfolio of financial instruments, including debt securities, that are not listed on an active market and which IAS 39 refers to as "loans and receivables", for which the company has a right to receive future cash flows.
Loans are initially recognised at the disbursement date or, in the case of debt securities, at the settlement date.
Loans are recognised when the contract is executed, i.e. upon the unconditional acquisition of a right to payment of the amounts agreed, and are initially measured at fair value, which equals the amount disbursed including directly related transaction costs and commissions. Where the net amount disbursed does not equal the loan's fair value because the interest rate is lower than the market rate or the rate normally applied for similar loans, initial measurement is effected by discounting the future cash flows using an appropriate rate.
The loans made by the CDP Group to public entities and public-law bodies under the Separate Account portfolio have a number of features that distinguish them from loans granted by banks, which normally disburse the entire amount of the loan to its beneficiary at the time the loan is granted. Such loans are special-purpose loans generally granted to local authorities for public works and are disbursed to the beneficiaries only after verification of the progress of the works in question. Therefore, disbursements are intended to meet the debts actually accumulated by the authority as the work is performed by the various contractors involved.
Upon signing the finance agreement, the debtor assumes the obligation to repay the entire principal granted, and this amount is used to determine an amortisation schedule separately from the amount actually disbursed. Amounts still to be disbursed by the CDP Group earn interest that can be treated as a reimbursement of the interest income earned by the CDP Group on the non-disbursed portion. The CDP Group's special-purpose loans normally have an initial grace period, during which, in the absence of disbursements on the loan granted, the loan does not bear interest. The repayment plan for the amount granted begins, with certain exceptions, the year following the signing of the related contract. The CDP Group's accounting policy for special-purpose loans is to recognise a commitment to disburse the sums granted upon signing the loan agreement and to recognise a receivable (with a consequent reduction in the disbursement commitments) for the entire amount granted only when repayment begins.
Any disbursements requested by borrowers during the grace period effectively reduce the commitment and result in a "short-term" receivable for the amount

actually disbursed, with this amount accruing interest at the rate agreed upon by contract. The short-term receivable for advances on loans in their grace period is measured at cost in accordance with international accounting standards.
When repayment begins on a loan that has not yet been disbursed, both a payable and a receivable are recognised for the same amount in respect of the party responsible for repaying the loan. In accordance with the IASs/IFRSs, the receivable is measured at amortised cost (which, given the lack of transaction costs on the loans granted and with certain exceptions, equals cost), and the payable is a demand liability that decreases as the amounts are actually disbursed.
Loans granted by the CDP Group to borrowers other than public entities or public-law bodies are treated in a manner analogous to that for loans granted by banks.
The interest on loans and default interest is recognised as interest income and similar revenues on loans to banks and customers and are recognised on an accruals basis.
The carrying amount of loans is subject to periodic testing for impairment that could reduce their expected realisable value. This reduction becomes material when it is deemed probable that the amount due will not be paid in full, based on the original terms of the agreement, or that an equivalent asset will not be received.
Loans classified as bad debts, substandard or restructured are measured individually for positions that exceed a given value threshold. The measurement of writedowns of loans is based on discounting the expected future cash flows of principal and interest net of collection costs, taking account of any guarantees securing the positions and any advances received. The key to determining the value of the future cash flows is in defining the estimated collections, the related timing, and the discount rate to be applied.
The impairment of problem loans is then written back only when the quality of the loan improves to the point that there is a reasonable certainty of a greater recovery of principal and interest and/or greater receipts have been recorded than the previously recorded carrying amount of the loan. In any event, given the method used to measure impairment losses, as the due dates for credit collection approach with the passing of time, the value of the loan is “written back”, given that there is a reduction in the implicit finance costs previously recognised as a reduction in the value of the loans.
Recovery of all or a part of previously written down loans is recognised as a reduction to “Net impairment adjustments of loans” (item 130.a).

Loans are derecognised when paid in full, when all of the related risks and rewards have been transferred, or when a loan is deemed to be definitively uncollectible. The amount of the loss is recognised in the income statement net of previously recognised impairment losses.
Loans represented by positions with parties that are not classified under any of the risk categories listed above, but which are more than 180-days past due, also undergo individual impairment testing.
Loans for which no evidence of individual impairment has been identified undergo collective impairment testing.
The method used for collective testing is based on the internal parameters used for pricing loans and calculating (for internal purposes only) CDP's capital adequacy with respect to the exposures it has assumed.
The estimate of the incurred loss for the portfolio is determined by applying a number of corrective parameters to the 1-year expected loss.
These corrective parameters are determined by considering the degree of concentration of the loan portfolio (concentration adjustments) and the expected time between the default event and the emergence of confirmation of default (loss confirmation period).
"Loans to customers" include unlisted financial assets in respect of customers (loans, debt securities, operating receivables, etc.) that are allocated to the "loans" portfolio. The item also reports the liquidity represented by the balance on the current account held with the Central State Treasury.
This also includes receivables from Italian post offices and variation margins with clearing bodies for derivatives transactions.
"Loans to banks" include unlisted financial assets in respect of banks (current accounts, security deposits, debt securities, operating receivables, etc.) that are allocated to the "loans" portfolio. This also includes the amounts receivable from central banks other than free deposits (such as the reserve requirement).

6 – Hedging transactions

In accordance with the IAS definition, hedging instruments are designated derivatives or (limited to the hedging of foreign currency risk) non-derivative financial assets or liabilities the fair value or cash flows of which are expected to offset the changes in fair value or cash flows of a designated position (IAS 39, paragraphs 72-77 and Annex A, paragraph AG94). A hedged item is an asset, liability, firm commitment, a highly probable forecast transaction, or a net investment in a foreign operation that (a) exposes the organisation to the risk of a change in fair value or future cash flows and (b) is designated as being hedged

(paragraphs 78-84 and Annex A, paragraphs AG98-AG101). The effectiveness of the hedge is the extent to which the change in fair value or cash flows of the hedged position that is attributable to a hedged risk are offset by the change in fair value or cash flows of the hedging instrument (Annex A, paragraphs AG105-AG113).
When a financial instrument is classified as a hedging instrument, the following are to be formally documented:

1. the relationship between the hedging instrument and the position hedged, including the risk management objectives;
2. the hedging strategy, which must be in line with established risk management policies;
3. the methods to be used in order to verify the effectiveness of the hedge.

Accordingly, both at the inception of the hedge and throughout its life, the change in the fair value of the derivative is analysed in order to determine whether it is highly effective in offsetting the changes in fair value of the hedged position.
A hedge is deemed to be highly effective if, both at inception and throughout its life, the changes in fair value of the hedged position or in the expected cash flows attributable to the risk being hedged are almost entirely offset by the changes in fair value of the hedging derivative, with the relationship of these changes falling within a range of between 80% and 125%.
If the hedge is not effective as described above, the hedging instrument is reclassified under trading instruments, while the hedged item is measured in accordance with the criteria for its category and, in the case of cash flow hedges, any reserve is reversed to profit or loss. Hedge accounting also ceases in the event the hedging instrument expires, is sold or exercised or where the hedged item expires, is sold or is repaid.
Asset item 80 and liability item 60 report hedging derivatives (when not considered guarantees received in accordance with IAS 39), which at the reporting date have either a positive or negative value.

7 – Equity investments

The item includes equity interests in joint ventures (IAS 31) and associates subject to significant influence (IAS 28).
Joint ventures are companies in which control is shared with other parties, including on the basis of contractual agreements.
Associates are companies in which CDP holds, either directly or indirectly, at least 20% of the voting rights or, independently of the proportion of voting

rights, companies over which CDP has significant influence, which is defined as the power to participate in determining financial and operating policies, but without exercising either control or joint control. Minority holdings are recognised as financial assets available for sale (item 40) and are treated as described above.

Equity investments are initially recognised at cost at the settlement date. They are subsequently accounted for using the equity method. Acquisitions are treated in the same manner as business combinations. Accordingly, the difference with the price paid (difference between the purchase price and the fraction of equity acquired) is allocated on the basis of the fair value of the net identifiable assets of the associate. Any excess not allocated represents goodwill. The allocated excess is not reported separately but is instead included in the carrying amount of the equity investment (synthetic consolidation).

Any positive difference between the value of the share of equity in the investee and the cost of the investment is recognised as income.

In applying the equity method, account is also taken of treasury shares ehld by the investee.

Where there is evidence that the value of an equity investment may be impaired, its recoverable value is determined, taking account of both its market value and the present value of future cash flows.

If this value is lower than the carrying amount, the difference is recognised in the income statement as an impairment loss. This loss is only recognised when the loss in value is significant and prolonged. The reduction in fair value is deemed significant when it exceeds 40% of the initially recognised value and prolonged when it continues for a period of more than 24 months.

8 – PROPERTY, PLANT AND EQUIPMENT

"Property, plant and equipment" includes all non-current tangible assets used in operations governed by IAS 16 and investment property (land and buildings) governed by IAS 40. These include assets under finance leases (for the lessee) and operating leases (for the lessor), as well as leasehold improvement costs.

Property, plant and equipment is recognised at purchase cost including incidental expenses and non-deductible VAT, increased by revaluations carried out under the provisions of specific laws.

The carrying amount represents the book value of the assets net of depreciation. The depreciation rates used are felt to reflect the remaining useful economic lives of the assets.

Newly acquired assets are depreciated as from the period in which they enter service.
Land and buildings are treated as separate assets for accounting purposes, even if purchased together. Land is considered to have an indefinite life and, as such, is not depreciated.
Assets whose use or nature classifies them as capital equipment are depreciated on a straight line basis over their remaining useful lives.
In the event an asset should suffer a lasting impairment of value, independently of depreciation, it is written down. The original value is restored where the conditions that had prompted the writedown should cease to obtain.
Maintenance and repair costs that do not increase the utility or useful lives of assets are charged directly to income for the year.
Financial expense directly attributable to the acquisition, construction or production of an asset that qualifies for capitalisation under IAS 23 (revised in 2007) is capitalised in the carrying amount of the asset as part of its cost.
"Assets under construction and advances" are composed of advances or expenses incurred in respect of assets and materials that have not been completed or are undergoing testing before entering service. Since they have not yet entered the company's production cycle, depreciation is suspended.

9 – INTANGIBLE ASSETS

"Intangible assets" include goodwill, governed by IFRS 3, and other intangibles, governed by IAS 38.

Intangible assets are recognised at purchase or development cost including incidental expenses and are amortised over their estimated useful lives, which, at the end of each year, is subject to impairment testing in order to verify the appropriateness of the estimates.

An intangible asset is only recognised under the following conditions:

(a) future economic benefits from the asset are expected to flow to the entity;

(b) the cost of the asset can be measured reliably.

Goodwill generated from the acquisition of subsidiaries is allocated to each identified cash generating unit (CGU). Following initial recognition, goodwill is not amortised but is reduced for any impairment losses. The estimate of the recoverable value of goodwill recognised uses a discounted cash flow model, which determines value in use on the basis of an estimation of future cash flows and an appropriate discount rate.

If an impairment loss, independently of amortisation, is identified, the asset is written down, with the original value being restored if the reasons for the writedown no longer obtain.

Goodwill in respect of investments in associated companies and companies subject to joint control is included in the carrying amount of such companies. Negative goodwill is taken to the income statement at the time of the acquisition.

10 – NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

These items report non-current assets or groups of assets/liabilities held for sale whose carrying amount will mainly be recovered through a highly likely sale rather than ongoing use.
Such assets/liabilities are measured at the lower of their carrying amount and their fair value net of costs to sell. Revenues and expenses (net of tax effects) connected with divested operating units are reported in separate accounts in the income statement.

11 – CURRENT AND DEFERRED TAXATION

Corporate income tax (IRES) and the regional tax on business activities (IRAP) are recognised on an accruals basis using a realistic estimate of the negative and positive tax components for the period under applicable tax law.
Deferred tax items regard the recognition of the effects of differences between the valuation of accounting items under tax regulations, which are used to determine taxable income, and that under statutory reporting regulations (which seek to quantify the result for the year). "Taxable temporary differences" between statutory and tax values are those that will give rise to taxable amounts in future tax periods, while "deductible temporary differences" are those that will give rise to deductible amounts in the future.

Deferred tax liabilities – which are correlated with the amount of income that will become taxable in future years – calculated on the basis of the tax rates established by current regulations, are recognised in the tax provision without offsetting against deferred tax assets, which are recognised in the balance sheet under "Other assets".

If the deferred tax items regard developments that directly affect equity, they are recognised in equity.

12 – Provisions

"Provisions" (item 120) are recognised solely under following conditions:

(a) there is a present (legal or constructive) obligation resulting from a past event;

(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation;

(c) a reliable estimate can be made of the amount of the obligation.

When the financial impact of the time factor is significant and the dates of payment of the obligation can be estimated reliably, the provision is measured as the present value (discounted at market rates as of the reporting date) of the charges that are expected to be incurred in order to settle the obligation.
The provisions are only used when the charges for which they were originally established are incurred. When the outlay to fulfil the obligation is no longer deemed to be probable, the provision is reversed through the income statement.

13 – Debt and securities issued

"Amounts due to banks" (item 10) and "Amounts due to customers" (item 20) include all forms of interbank and customer funding. In particular, these items include all debt of any kind (deposits, current accounts, loans) other than "Financial liabilities held for trading" (item 40), "Financial liabilities at fair value through profit or loss" (item 50), and debt securities under item 30 ("Securities issued"). This includes operating payables. Securities issued, both listed and unlisted, are measured at amortised cost. The item is reported net of repurchased securities. It also includes securities which, as of the balance sheet date, have matured but have not yet been redeemed. It does not include the portion of the company's own debt securities issued but not yet placed with third parties.
These are initially measured at fair value including the costs incurred to issue the securities. Subsequent measurement is at amortised cost. The payables are eliminated when they mature or are extinguished.

14 – Financial liabilities held for trading

This item includes all forms of financial liabilities (debt securities, loans, etc.) designated as being held for trading purposes. It does not include the portion of the company's own debt securities issued but not yet placed with third parties.
The financial liabilities are initially recognised at fair value, which generally equals the amount received net of transactions costs or revenues. In cases in which the amount paid differs from the fair value, the financial liability is recognised at fair value, and the difference between the two amounts is recognised through profit or loss. Initial recognition is effected at the signing date for derivative contracts and at the settlement date for debt and equity securities, with the exception of those for which delivery is governed by conventions on the market concerned, for which initial recognition is at the settlement date.
Financial liabilities held for trading also include derivative contracts embedded in other financial instruments or contracts and which have financial and risk characteristics that are not correlated with the host instrument or which meet the requirements to be classified themselves as derivative contracts, recognising them separately after separating the embedded derivative from the main contract, which is then treated in accordance with the accounting rules for its own category. This is not done in cases in which the compound instrument containing the derivative is measured at fair value through profit or loss.
Subsequent measurement is at fair value. If the fair value of a financial liability becomes positive, it is recognised as a financial asset held for trading.
Financial liabilities held for trading are derecognised when the contractual rights to the cash flows expire or a sale transfers all the risks and rewards connected with ownership to a third party. Conversely, when a prevalent share of the risks and rewards associated with the financial liability are retained, the liability remains on the balance sheet even if official title has been transferred.
The gains and losses on sale or redemption and unrealised gains and losses resulting from changes in the fair value of the trading portfolio are reported under "Net gain (loss) on trading activities" (item 80). The income components are recognised following the results of the measurement of the financial liability held for trading.

16 – Foreign currency transactions

Transactions in a foreign currency are initially recognised in euros by translating the amount in the foreign currency into euros at the spot exchange rate prevailing on the date of the transaction.

In preparing the financial statements, assets denominated in a foreign currency are accounted for as follows:

- in the case of monetary instruments, at the spot exchange rate prevailing at the preparation date of the financial statements, recognising exchange rate differences under "Net gain (loss) on trading activities" in the income statement;
- in the case of non-monetary instruments, at cost using the exchange rate for the original transaction;
- in the case of non-monetary instruments measured at fair value, at the spot exchange rate prevailing at the preparation date of the financial statements.

Exchange rate differences in respect of non-monetary items are treated using the same rules for gains and losses on the original instruments.
The effects of foreign exchange differences related to the equity of investments measured using the equity method are recognised in an equity reserve.
The financial statements of each consolidated foreign company are prepared using the functional currency of the economy in which each company operates.
In these financial statements, all transactions in currencies other than the functional currency are recognised at the exchange rate prevailing on the transaction date. Monetary assets and liabilities denominated in currencies other than the functional currency are subsequently adjusted at the exchange rate prevailing at the balance sheet date and any foreign exchange gains or losses are recognised in the income statement.

17 - OTHER INFORMATION

STAFF SEVERANCE PAY

The liability in respect of employee benefits to be paid at the time of or subsequent to termination of the employment relationship under defined benefit and other long-term benefit plans is recognised net of any plan assets. It is determined separately for each plan on the basis of actuarial assumptions, estimating the amount of future benefits accrued by employees at the reference date. The liability is recognised over the period in which the entitlement accrues. The liability is estimated by independent actuaries.
It should also be noted that staff severance pay (*trattamento di fine rapporto* – TFR) for employees of the parent company is negligible given that CDP employees maintained their participation the INPDAP pension scheme after the transformation; therefore, contributions are paid to that institution. As such, the

amount shown for TFR for the parent company is related solely to newly hired employees (under the INPS pension scheme) for amounts accrued until 2006, given that the amounts accrued subsequently were not applied to this fund, but to the supplemental pension fund or to INPS in accordance with the applicable legislation.
Therefore, the effects of the application of IAS 19 with regard to the parent company's share of TFR are not significant and so the related liability continues to be reported in an amount based on statutory requirements (Article 2120 of the Italian Civil Code).

INTEREST INCOME AND EXPENSE

Interest income and expense is recognised in the income statement for all instruments based on amortised cost using the effective interest method.
Interest also includes the net positive or negative balance of the differences and margins related to financial derivative contracts.

COMMISSIONS

Commissions are recognised in the income statement on an accruals basis. This excludes commissions considered when calculating amortised cost for the purpose of determining the effective interest rate, which are recognised under interest.

DIVIDENDS

Dividends are recognised as income in the period in which they are approved for distribution.

CONTRACT WORK IN PROGRESS

When the profit or loss of a contract can be reliably estimated, the related contract costs and revenues are recognised separately in profit or loss on a percentage of completion basis. Progress is measured based on the work carried out and measured proportionally to the costs of contracts incurred up to the reporting date and estimated costs of the total contract. Differences between the value of completed contracts and payments on account received are recognised under balance sheet assets or liabilities, considering any impairment losses on the work carried out so as to take into account the risks of customers' refusal to recognise the work performed. Expected contract losses are taken immediately to profit or loss under contract costs.

Contract costs include all those costs that relate directly to the specific contract, as well as fixed and variable costs incurred by Group companies as part of normal operations.

SHARE-BASED PAYMENTS

The cost of employee service remunerated through stock option plans is measured at the fair value of the options granted to employees at the grant date. The fair value of options granted is recognised under staff costs over the vesting period, with a corresponding increase in equity, considering the best possible estimate of the number of options that employees will be able to exercise. Such estimate is reviewed where subsequent information indicates that the expected number of equity instruments that will vest differs from the estimate previously carried out, independently of market conditions.

The measurement method used to calculate fair value considers all the characteristics of the options (term, price and conditions, etc.), as well as the value of the underlying security at the grant date, volatility and the yield curve at the grant date, in line with the duration of the plan.

At maturity, the estimate is revised and recognised in the income statement to register the amount corresponding to the number of equity instruments that have effectively vested, independently of market conditions.

CAPITALISED BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of an asset that qualify for capitalisation are capitalised as part of the cost of the asset. The qualifying assets (property, plant and equipment and intangible assets) involved are those that require at least one year before being

ready for use. The directly attributable borrowing cost is that which would not have been incurred if the expenditure for the asset had not been incurred.
Where funds are borrowed specifically, costs eligible for capitalisation are the actual costs incurred less any income earned on the temporary investment of such borrowings. Where funds are part of a general pool, the eligible amount is determined by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate will be the weighted average of the borrowing costs applicable to the general pool, excluding any specifically borrowed funds. The amount of borrowing costs capitalised during a year shall in any case not exceed the amount of borrowing costs incurred during that year.
Capitalisation commences as from the date all the following conditions have been met: (a) expenditures have been incurred for the asset; (b) borrowing costs are being incurred; and (c) activities to prepare the asset for its intended use or sale are in progress.
Capitalisation ceases when the activities necessary to prepare the asset for its intended use or sale are substantially complete.

GRANTS

The revenues are recognised when it is probable that the economic benefits of the operation will flow to the entity. However, where the recoverability of an amount already included in the revenues is uncertain, the unrecoverable amount or the amount whose recovery is no longer probable is recognised as a cost.
Grants received in relation to specific assets whose value is recognised under non-current assets are, for plants already in operation before 31 December 2002, recognised under other liabilities and taken to the income statement over the depreciation period of the related assets. From 2003, grants for new plants entering service are recognised as a direct reduction of the value of the related asset.
Grants for operating expenses are recognised in full in the income statement when the conditions for recognition are satisfied.

REVENUES

Depending on the type of transaction, revenues are recognised on the basis of the following specific criteria:

- revenues from the sale of goods are recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer;

- revenues from services are recognised with reference to the stage of completion of the service. If revenues cannot be reliably measured, they are recognised to the extent of recoverable costs.

More specifically, revenues from fees for the use of the National Transmission Grid (NTG) are determined on the basis of the rates set by the Authority for Electricity and Gas.

Payments collected on behalf of third parties, such as fees for other non-Group grid owners, as well as fees recognised for the balancing of the national electrical energy system, which do not increase equity, are shown net of the related costs.

USE OF ESTIMATES

The application of international accounting standards in preparing the financial statements requires the company to formulate estimates for certain balance sheet items that are considered reasonable and realistic on the basis of the information available at the time the estimate is made. Such estimates impact the carrying amount of the assets and liabilities and the disclosures on contingent assets and liabilities as of the reporting date, as well as the amounts reported for revenues and costs for the period under review.
Changes in the conditions underpinning the judgements, assumptions and estimates used could also have an impact on future results.

DETERMINING FAIR VALUE

Fair value is the amount for which an asset (or liability) could be exchanged in an arm''s length transaction between parties with a reasonable level of knowledge about market conditions and the material circumstances of the object of the exchange.
In the definition of fair value a key assumption is that an entity is fully operational and does not have the need to liquidate or significantly reduce a position. Among other factors, the fair value of an instrument reflects its credit quality as it incorporates the default risk associated with the counterparty or the issuer.
For financial instruments, fair value is determined in three possible ways:

- in the case of instruments quoted on active markets, prices on financial markets are used (Level 1);
- in the case of financial instruments not quoted on active markets, recourse is made, where possible, to valuation techniques that use observable market parameters other than quoted prices for the instrument but connected with its fair value by non-arbitrage relationships (Level 2);

- in other cases, recourse is made to internal valuation techniques that also use as inputs parameters that are not observable on the market and thus are inevitably subjective to some degree (Level 3).

A market is considered active if prices are readily and regularly available on regulated markets, organised trading facilities, brokers, intermediaries, pricing services, etc. and if those prices can reasonably be considered to be representative of actual and regular market transactions carried out close to the valuation date.
In the case of financial instruments that are not quoted on active markets, valuation using Level 2 inputs requires the use of valuation techniques that process market parameters at different levels of complexity. For example, valuation techniques may, in addition to interpolations and extrapolations, involve the specification of stochastic processes that represent market dynamics and the use of simulations or other numerical techniques to determine the fair value of the instruments being measured.
In selecting the valuation techniques to be used in Level 2 measurements, CDP takes account of the following criteria:

- simpler valuation techniques are preferred to more complex techniques, all other conditions being equal and as long as they represents all of the relevant characteristics of the product, ensuring that they are reasonably in line with the practices and results of other sector operators;
- valuation techniques are applied consistently over time to uniform categories of instruments, unless objective grounds for replacement emerge;
- all other conditions being equal, preference is given to standard models whose mathematical structure and implementing procedures are familiar to practitioners and integrated into CDP's corporate systems.

Valuation techniques are validated by CDP's Risk Management and Anti-Money Laundering area. The development and validation of the techniques, and their application, are set out in specific process documentation.
The selection of market parameters as inputs for Level 2 valuations is carried out on the basis of non-arbitrage relationships or comparative relationships that define the fair value of the financial instrument being measured as the relative fair value compared with that of financial instruments quoted on active markets.
For derivatives and bonds, CDP has developed a reference framework that comprises the valuation criteria and models on which the valuation of each category of instrument is based.

The fair value of derivatives incorporates the counterparty credit risk and current and potential exposure using a simplified credit value adjustment (CVA) methodology. Nevertheless, given the generalised use of framework netting arrangements that provide for the exchange of collateral, as at 31 December 2011 such adjustments are confined to cases of limited importance.
In some cases, in determining fair value it is necessary to have recourse to valuation techniques that call for inputs that cannot be drawn directly from observable market variables, such as statistical or "expert-based" estimates by the party performing the valuation (Level 3).
More specifically, in the financial statements of CDP, the following measurements are classified as Level 3:

- the valuation of options on equity indices embedded in certain categories of postal bonds, which are separated and measured at fair value through profit or loss and require the use of parameters concerning the redemption behaviour of investors;
- certain inflation-linked derivatives, which call for parameters determined using "expert-based" assessments owing to the low liquidity of some market segments;
- equity interests and other unquoted equity instruments that are measured using non-market parameters.

Here, too, valuation techniques are applied consistently over time to uniform categories of instruments, unless objective grounds for replacement emerge. Similarly, parameters that cannot be drawn directly from observable market variables are applied consistently over time.

A.3 - DISCLOSURES ON FAIR VALUE MEASUREMENT

A.3.2 Hierarchy of fair value inputs

(thousands of euros)

A.3.2.1 PORTFOLIOS: BREAKDOWN BY LEVEL OF FAIR VALUE INPUTS

	31/12/2011			31/12/2010		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading		579,738	1,343		855,230	1,208
2. Financial assets at fair value						
3. Financial assets available for sale	2,524,232	5,971	184,841	2,211,559	7,270	69,979
4. Hedging derivatives		928,976	2,337		582,518	570
Total	**2,524,232**	**1,514,685**	**188,521**	**2,211,559**	**1,445,018**	**71,757**
1. Financial liabilities held for trading		64,046	434,309		190,910	749,124
2. Financial liabilities at fair value						
3. Hedging derivatives		2,704,082	8,539		1,217,337	15,183
Total		**2,768,128**	**442,848**		**1,408,247**	**764,307**

Key
L1 = Level 1
L2 = Level 2
L3 = Level 3

(thousands of euros)

A.3.2.2 CHANGE FOR THE YEAR IN FINANCIAL ASSETS AT FAIR VALUE (LEVEL 3)

	FINANCIAL ASSETS			
	held for trading	at fair value	available for sale	hedging
1. Opening balance	**1,208**		**69,979**	**570**
2. Increases	**135**		**135,979**	**1,767**
2.1 Purchases			131,582	
2.2 Profits taken to:	135		4,397	1,767
2.2.1 Income statement	135			1,767
- of which: capital gains	*135*			*1,767*
2.2.2 Equity	x	x	4,397	
2.3 Transfers from other levels				
2.4 Other increases				
3. Decreases			**21,117**	
3.1 Sales			4,702	
3.2 Repayments				
3.3 Losses taken to:			16,415	
3.3.1 Income statement				
- of which: capital losses				
3.3.2 Equity	x	x	16,415	
3.4 Transfers to other levels				
3.5 Other decreases				
4. Closing balance	**1,343**		**184,841**	**2,337**

(thousands of euros)

A.3.2.3 CHANGE FOR THE YEAR IN FINANCIAL LIABILITIES AT FAIR VALUE (LEVEL 3)

	FINANCIAL LIABILITIES		
	held for trading	**at fair value**	**hedging**
1. Opening balance	**749,124**		**15,183**
2. Increases	**33,563**		
2.1 Purchases	33,563		
2.2 Losses taken to:			
2.2.1 Income statement			
- of which: capital losses			
2.2.2 Equity	x	x	
2.3 Transfers from other levels			
2.4 Other increases			
3. Decreases	**348,378**		**6,644**
3.1 Sales			
3.2 Repayments	13,887		
3.3 Profits taken to:	334,491		6,644
3.3.1 Income statement	334,491		1,304
- of which: capital gains	*334,491*		*1,304*
3.3.2 Equity	x	x	5,340
3.4 Transfers to other levels			
3.5 Other decreases			
4. Closing balance	**434,309**		**8,539**

A.3.3 Disclosures on "day one profit/loss"

The carrying amount of financial instruments on recognition is equal to their fair value at the same date.

In the case of financial instruments other than those at fair value through profit or loss, the fair value at the recognition date is normally assumed to be equal to the amount received or paid.

In the case of financial instruments at fair value through profit or loss classified as Level 3, any difference with respect to the amount received or paid could in principle be recognised through profit or loss under the appropriate items, generating a so-called "day one profit/loss".

Such difference may only be recognised through profit or loss if it is generated by a change in the factors on which market participants base their valuations in determining prices (including the time effect).

If the instrument has a specified maturity and a model that monitors changes in the factors on which operators base prices is not immediately available, the day one profit/loss may be recognised through profit or loss over the life of the financial instrument.
CDP has not recognised any "day one profit/loss" on financial instruments in accordance with the provisions of paragraph 28 of IFRS 7 and other related provisions of the IAS/IFRS.

PART B – INFORMATION ON THE BALANCE SHEET

ASSETS

SECTION 1 – CASH AND CASH EQUIVALENTS – ITEM 10

1.1 Cash and cash equivalents: composition

(thousands of euros)

1.1 CASH AND CASH EQUIVALENTS: COMPOSITION

	31/12/2011	31/12/2010
a) Cash	701	118
b) Free deposits with central banks		
Total	**701**	**118**

SECTION 2 – FINANCIAL ASSETS HELD FOR TRADING – ITEM 20

2.1 Financial assets held for trading: composition by type

(thousands of euros)

2.1 FINANCIAL ASSETS HELD FOR TRADING: COMPOSITION BY TYPE

	31/12/2011			31/12/2010		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A On-balance-sheet assets						
1. Debt securities						
1.1 Structured securities						
1.2 Other debt securities						
2. Equity securities						
3. Units in collective investment undertakings						
4. Loans						
4.1 Repurchase agreements						
4.2 Other						
Total A						
B Derivatives						
1. Financial derivatives		579,738	1,343		855,230	1,208
1.1 trading					855,230	1,208
1.2 associated with fair value option						
1.3 other		579,738	1,343			
2. Credit derivatives						
2.1 trading						
2.2 associated with fair value option						
2.3 other						
Total B		**579,738**	**1,343**		**855,230**	**1,208**
Total (A+B)		**579,738**	**1,343**		**855,230**	**1,208**

The financial derivatives set out in the table mainly regard options purchased to hedge the embedded option component of bonds indexed to baskets of equities. This option component was separated from the host instrument and was classified among financial liabilities held for trading.

2.2 Financial assets held for trading: composition by debtor/issuer

(thousands of euros)

2.2 FINANCIAL ASSETS HELD FOR TRADING: COMPOSITION BY DEBTOR/ISSUER

	31/12/2011	31/12/2010
A. ON-BALANCE-SHEET ASSETS		
1. Debt securities		
a) Governments and central banks		
b) Other government agencies		
c) Banks		
d) Other		
2. Equity securities		
a) Banks		
b) Other issuers:		
- insurance undertakings		
- financial companies		
- non-financial companies		
- other		
3. Units in collective investment undertakings		
4. Loans		
a) Governments and central banks		
b) Other government agencies		
c) Banks		
d) Other		
Total A		
B. DERIVATIVES		
a) Banks	581,081	853,060
- fair value	581,081	853,060
b) Customers		3,378
- fair value		3,378
Total B	**581,081**	**856,438**
Total (A+B)	**581,081**	**856,438**

SECTION 4 – FINANCIAL ASSETS AVAILABLE FOR SALE – ITEM 40

4.1 Financial assets available for sale: composition by type

(thousands of euros)

4.1 FINANCIAL ASSETS AVAILABLE FOR SALE: COMPOSITION BY TYPE

	31/12/2011			31/12/2010		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	2,524,232	5,971		2,211,559	7,270	
1.1 Structured securities						
1.2 Other debt securities	2,524,232	5,971		2,211,559	7,270	
2. Equity securities			11,233			10,310
2.1 At fair value			8,534			
2.2 At cost			2,699			10,310
3. Units in collective investment undertakings			173,608			59,669
4. Loans						
Total	**2,524,232**	**5,971**	**184,841**	**2,211,559**	**7,270**	**69,979**

4.2 Financial assets available for sale: composition by debtor/issuer

(thousands of euros)

4.2 FINANCIAL ASSETS AVAILABLE FOR SALE: COMPOSITION BY DEBTOR/ISSUER

	31/12/2011	31/12/2010
1. Debt securities	**2,530,203**	**2,218,829**
a) Governments and central banks	2,524,232	2,011,444
b) Other government agencies	5,971	7,270
c) Banks		
d) Other		200,115
2. Equity securities	**11,233**	**10,310**
a) Banks	2,066	2,066
b) Other issuers	9,167	8,244
- insurance undertakings		
- financial companies	8,552	7,729
- non-financial companies	615	515
- other		
3. Units in collective investment undertakings	**173,608**	**59,669**
4. Loans		
a) Governments and central banks		
b) Other government agencies		
c) Banks		
d) Other		
Total	**2,715,044**	**2,288,808**

4.4 Financial assets available for sale: change for the year

(thousands of euros)

4.4 FINANCIAL ASSETS AVAILABLE FOR SALE: CHANGE FOR THE YEAR

	Debt securities	Equity securities	Units in collective investment undertakings	Loans	Total
A. Opening balance	**2,218,829**	**10,310**	**59,669**		**2,288,808**
B. Increases	**984,525**	**924**	**135,056**		**1,120,505**
B1. Purchases	982,229	100	131,483		1,113,812
B2. Fair value gains		824	3,573		4,397
B3. Writebacks					
- recognised through income statement					
- recognised through equity					
B4. Transfers from other portfolios					
B5. Other changes	2,296				2,296
C. Decreases	**673,151**	**1**	**21,117**		**694,269**
C1. Sales	87,728				87,728
C2. Repayments	351,306		4,702		356,008
C3. Fair value losses	234,117		16,415		250,532
C4. Writedowns for impairment					
- recognised through income statement					
- recognised through equity					
C5. Transfers to other portfolios					
C6. Other changes		1			1
D. Closing balance	**2,530,203**	**11,233**	**173,608**		**2,715,044**

SECTION 5 – FINANCIAL ASSETS HELD TO MATURITY – ITEM 50

5.1 Financial assets held to maturity: composition by type

(thousands of euros)

5.1 FINANCIAL ASSETS HELD TO MATURITY: COMPOSITION BY TYPE

	31/12/2011				31/12/2010			
	CA	FV			CA	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	**9,289,691**	**8,720,642**			**2,947,380**	**2,810,334**		
- structured								
- other	9,289,691	8,720,642			2,947,380	2,810,334		
2. Loans								
Total	**9,289,691**	**8,720,642**			**2,947,380**	**2,810,334**		

Key
FV = fair value
CA = carrying amount

The item includes fixed-rate Treasury bonds, with a nominal value of €7,523 million, and inflation-linked Treasury bonds with a nominal value of €2,050 million, the latter held to hedge the exposure to Italian inflation due to the issue of postal savings bonds indexed to inflation.

5.2 Financial assets held to maturity: composition by debtor/issuer

(thousands of euros)

5.2 FINANCIAL ASSETS HELD TO MATURITY: COMPOSITION BY DEBTOR/ISSUER

	31/12/2011	31/12/2010
1. Debt securities	**9,289,691**	**2,947,380**
a) Governments and central banks	9,289,691	2,947,380
b) Other government agencies		
c) Banks		
d) Other		
2. Loans		
a) Governments and central banks		
b) Other government agencies		
c) Banks		
d) Other		
Total	**9,289,691**	**2,947,380**
Total (fair value)	**8,720,642**	**2,810,334**

The increase over the previous year is attributable to the investment of a portion of liquidity in government securities.

5.4 Financial assets held to maturity: change for the year

(thousands of euros)

5.4 FINANCIAL ASSETS HELD TO MATURITY: CHANGE FOR THE YEAR

	Debt securities	Loans	Total
A. Opening balance	**2,947,380**		**2,947,380**
B. Increases	**6,602,299**		**6,602,299**
B1. Purchases	6,510,088		6,510,088
B2. Writebacks			
B3. Transfers from other portfolios			
B4. Other changes	92,211		92,211
C. Decreases	**259,988**		**259,988**
C1. Sales	259,988		259,988
C2. Repayments			
C3. Writedowns			
C4. Transfers to other portfolios			
C5. Other changes			
D. Closing balance	**9,289,691**		**9,289,691**

SECTION 6 – LOANS TO BANKS – ITEM 60

6.1 Loans to banks: composition by type

(thousands of euros)

6.1 LOANS TO BANKS: COMPOSITION BY TYPE

	31/12/2011	31/12/2010
A. Claims on central banks	**4,437,508**	**4,059,117**
1. Fixed-term deposits		
2. Reserve requirement	4,437,508	4,059,117
3. Repurchase agreements		
4. Other		
B. Loans to banks	**16,244,425**	**5,121,506**
1. Current accounts and free deposits	1,562,894	248,350
2. Fixed-term deposits	1,865,942	1,203,858
3. Other financing	7,678,213	3,669,298
3.1 repurchase agreements		
3.2 finance leasing		
3.3 other	7,678,213	3,669,298
4. Debt securities	5,137,376	
4.1 structured		
4.2 other debt securities	5,137,376	
Total (carrying amount)	**20,681,933**	**9,180,623**
Total (fair value)	**20,088,487**	**8,993,807**

Loans to banks are primarily composed of:

- the balance on the management account for the reserve requirement of about €4,438 million;
- loans amounting to about €7,678 million;
- debt securities amounting to about €5,137 million, acquired in order to serve as "eligible" (AAA rating) collateral for the existing covered bond issues;
- deposits in respect of Credit Support Annexes (cash collateral) at banks to hedge the counterparty credit risk on derivatives of about €1,866 million;
- current account balances totalling €1,563 million.

6.2 Loans to banks: assets hedged specifically

(thousands of euros)

6.2 LOANS TO BANKS: ASSETS HEDGED SPECIFICALLY

	31/12/2011	31/12/2010
1. Loans with specific fair value hedges:	**141,932**	**149,076**
a) interest rate risk	141,932	149,076
b) exchange rate risk		
c) credit risk		
d) multiple risks		
2. Loans with specific cash flow hedges:		
a) interest rate risk		
b) exchange rate risk		
c) other		
Total	**141,932**	**149,076**

SECTION 7 – LOANS TO CUSTOMERS – ITEM 70

7.1 Loans to customers: composition by type

Loans to customers mainly regard lending operations under the Separate Account and Ordinary Account of CDP and also include bonds subscribed as part of financing transactions with customers. The item also reports liquidity held with the Central State Treasury. The following table provides a breakdown of the positions by technical form.

(thousands of euros)

7.1 LOANS TO CUSTOMERS: COMPOSITION BY TYPE

	31/12/2011		31/12/2010	
	Performing	**Impaired**	**Performing**	**Impaired**
1. Current accounts	95		107	
1.1 Liquidity held with Central State Treasury	123,817,580		123,751,207	
2. Repurchase agreements				
3. Loans	93,981,362	46,253	88,808,086	37,131
4. Credit cards, personal loans and loans repaid by automatic deductions from wages				
5. Finance leasing				
6. Factoring				
7. Other	634,274	179	110,122	
8. Debt securities	1,555,789		1,372,509	
8.1 structured				
8.2 other debt securities	1,555,789		1,372,509	
Total (carrying amount)	**219,989,100**	**46,432**	**214,042,031**	**37,131**
Total (fair value)	**205,506,147**	**46,432**	**212,193,830**	**37,131**

Liquidity held with the Central State Treasury in current account no. 29814 in the name of "Cassa DP SPA - Gestione Separata" comprises liquidity generated by Separate Account transactions performed by CDP. As envisaged by Article 6.2 of the MEF decree of 5 December 2003, the Ministry for the Economy and Finance pays semi-annual interest at a floating rate equal to the simple arithmetic mean between the gross yield on 6-month Treasury bills and the monthly level of the Rendistato index. Interest accrued on current account no. 29814 and credited after the reporting date amounted to about €1,787 million.

"Other" mainly includes net funding from postal savings products that has not yet been deposited on the CDP's treasury account.
The difference between the fair value and carrying amount of loans to customers reflects the very high premium for the sovereign risk of the Italian Republic in the market at the end of 2011.

Similar differences of the opposite sign between fair values and carrying amounts could hypothetically be calculated for postal savings bonds, with an offsetting impact. However, as discussed in Section 2 – Due to customers – Item 20, taking account of the option for bondholders to redeem postal bonds on demand and the considerable uncertainty about redemptions in the market conditions experienced at the end of 2011, it was decided for prudential reasons that the best estimate of the fair value of postal savings bonds is their carrying amount.

7.2 Loans to customers: composition by debtor/issuer

(thousands of euros)

7.2 LOANS TO CUSTOMERS: COMPOSITION BY DEBTOR/ISSUER

	31/12/2011		31/12/2010	
	Performing	**Impaired**	**Performing**	**Impaired**
1. Debt securities:	**1,555,789**		**1,372,509**	
a) Governments	407,397		398,025	
b) Other government agencies	632,503		604,565	
c) Other issuers	515,889		369,919	
- non-financial companies	87,019		50,144	
- financial companies	428,870		319,775	
- insurance undertakings				
- other				
2. Loans to:	**218,433,311**	**46,432**	**212,669,522**	**37,131**
a) Governments	159,974,487		157,728,926	
b) Other government agencies	50,550,743	3,168	48,100,949	4,430
c) Other	7,908,081	43,264	6,839,647	32,701
- non-financial companies	7,841,397	43,264	6,759,969	32,053
- financial companies	33,308		40,169	
- insurance undertakings				
- other	33,376		39,509	648
Total	**219,989,100**	**46,432**	**214,042,031**	**37,131**

7.3 Loans to customers: assets hedged specifically

(thousands of euros)

7.3 LOANS TO CUSTOMERS: ASSETS HEDGED SPECIFICALLY

	31/12/2011	31/12/2010
1. Loans with specific fair value hedges:	**13,816,827**	**14,037,764**
a) interest rate risk	13,816,827	14,037,764
b) exchange rate risk		
c) credit risk		
d) multiple risks		
2. Loans with specific cash flow hedges:		
a) interest rate risk		
b) exchange rate risk		
c) other		
Total	**13,816,827**	**14,037,764**

SECTION 8 – HEDGING DERIVATIVES – ITEM 80

8.1 Hedging derivatives: composition by type of hedge and level of inputs

(thousands of euros)

8.1 HEDGING DERIVATIVES: COMPOSITION BY TYPE OF HEDGE AND LEVEL OF INPUTS

	31/12/2011			NV 31/12/2011	31/12/2010			NV 31/12/2010
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives:		**928,976**	**2,337**	**11,492,022**		**582,518**	**570**	**9,114,747**
1) Fair value		893,166	2,337	11,392,221		552,684	570	9,022,708
2) Cash flow		35,810		99,801		29,834		92,039
3) Investment in foreign operation								
B. Credit derivatives								
1) Fair value								
2) Cash flow								
Total		**928,976**	**2,337**	**11,492,022**		**582,518**	**570**	**9,114,747**

Key
NV= notional value
L1= Level 1
L2= Level 2
L3= Level 3

8.2 Hedging derivatives: composition by hedged portfolio and type of hedge (carrying amount)

(thousands of euros)

8.2 HEDGING DERIVATIVES: COMPOSITION BY HEDGED PORTFOLIO AND TYPE OF HEDGE

	Fair value						Cash flow		Investment in foreign operation
	Specific					Generic	Specific	Generic	
	interest rate risk	exchange rate risk	credit risk	price risk	multiple risks				
1. Financial assets available for sale						x		x	x
2. Loans				x		x		x	x
3. Financial assets held to maturity	x			x		x		x	x
4. Portfolio	x	x	x	x	x		x		x
5. Other						x		x	
Total assets									
1. Financial liabilities	832,678			x	62,825	x	35,810	x	x
2. Portfolio	x	x	x	x	x		x		x
Total liabilities	**832,678**				**62,825**		**35,810**		
1. Forecast transactions	x	x	x	x	x	x		x	x
2. Portfolio of financial assets and liabilities	x	x	x	x	x		x		

SECTION 10 – EQUITY INVESTMENTS – ITEM 100

10.1 Equity investments in joint ventures (accounted for with equity method) and in companies subject to significant influence: information on investments

10.1 EQUITY INVESTMENTS IN JOINT VENTURES (ACCOUNTED FOR WITH EQUITY METHOD) AND COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE: INFORMATION ON INVESTMENTS

	Registered office	Type of relationship	Equity investment		% of votes
			Investor	% holding	
A. Companies					
1. Eni S.p.A.	Rome	Significant influence	CDP S.p.A.	26.37%	26.37%
2. Galaxy S.àr.l. SICAR	Luxembourg	Significant influence	CDP S.p.A.	40.00%	40.00%
3. Europrogetti & Finanza S.p.A. in liquidazione	Rome	Significant influence	CDP S.p.A.	31.80%	31.80%
4. Trans Austria Gasleitung GmbH (*)	Vienna	Joint control	CDP GAS S.r.l.	89.00%	50.00%
5. Cesi S.p.A.	Milan	Significant influence	Terna S.p.A.	42.41%	42.41%
6. Elmed Etudes S.àr.l.	Tunis	Joint control	Terna S.p.A.	50.00%	50.00%
7. Coreso S.A.	Brussels	Significant influence	Terna S.p.A.	22.49%	22.49%
8. CrnoGorski Elektroprenosni sistem AD ("CGES")	Rome	Significant influence	Terna S.p.A.	22.09%	22.09%

(*) The financial rights attaching to the holding amount to 94%

The interest in Eni S.p.A. considered for the purposes of measuring the investment using the equity method, taking account of treasury shares held by Eni S.p.A., amounts to about 29.15%.

10.2 Equity investments in joint ventures and in companies subject to significant influence: accounting data

(thousands of euros)

10.2 EQUITY INVESTMENTS IN JOINT VENTURES AND COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE: ACCOUNTING DATA

	Total assets	Total revenues	Net income (loss)	Equity	Carrying amount	Fair value
A. Companies accounted for with equity method						
A.1 under joint control						
1. Elmed Etudes S.àr.l.	2,621		(119)	2,501		x
2. Trans Austria Gasleitung GmbH	674,335	289,372	81,118	209,094	533,407	x
A.2 under significant influence						
1. Cesi S.p.A.	124,180	101,727	10,859	59,008	30,409	30,409
2. Coreso S.A.	2,762	4,811	72,940	1,278	375	375
3. Eni S.p.A.	142,945,000	119,243,000	7,803,000	60,393,000	18,162,739	16,909,434
4. Galaxy S.àr.l. (1)	151,741	25,608	22,176	146,507	11,708	x
5. Europrogetti & Finanza S.p.A. in liquidazione (2)	6,863	783	(462)	(5,637)		x
6. CrnoGorski Elektroprenosni sistem AD	194,430	26,509	4,699	163,128	36,033	36,033

(1) Figures from financial statements at 30/06/11
(2) Figures from financial statements at 31/12/09

10.3 Equity investments: change for the year

(thousands of euros)

10.3 EQUITY INVESTMENTS: CHANGE FOR THE YEAR

	31/12/2011	31/12/2010
A. Opening balance	**17,273,669**	**3,815,099**
B. Increases	**2,601,274**	**17,486,184**
B.1 Purchases	570,344	10,714,654
B.2 Writebacks	15,912	
B.3 Revaluations	1,695,090	126,448
B.4 Other increases	319,928	6,645,082
C. Decreases	**1,100,272**	**4,027,614**
C.1 Sales		3,695,057
C.2 Writedowns		669
C.3 Other decreases	1,100,272	331,888
D. Closing balance	**18,774,671**	**17,273,669**
E. Total revaluations	**1,695,090**	
F. Total writedowns	**3,107**	**15,912**

The sub-item B.1 "Purchases" reports the acquisitions of interests in TAG, for €533 million, and in CGES, for about €37 million.

The sub-item B.3 "Revaluations" reports the share of net income pertaining to the Group of companies measured using the equity method.

The sub-item C.3 “Other decreases” reports dividends received from associated companies and deducted from the value of those companies.

10.5 Obligations relating to companies subject to significant influence

CDP is a shareholder of Galaxy S.àr.l. SICAR, a Luxembourg company that makes equity or quasi-equity investments in projects and infrastructure in the transportation sector.
Under the shareholders agreement, as from the end of the investment period, which terminated on 9 July 2008, additional payments can be requested from the shareholders only for: (i) payment of the company’s running costs (such as, for example, operating expenses and management commissions) and (ii) the completion of investments already improved.

SECTION 12 – PROPERTY, PLANT AND EQUIPMENT – ITEM 120

12.1 Property, plant and equipment: composition of assets measured at cost

(thousands of euros)

12.1 PROPERTY, PLANT AND EQUIPMENT: COMPOSITION OF ASSETS MEASURED AT COST

	Banking group	Other entities	31/12/2011	31/12/2010
A. Operating assets				
1.1 owned	**199,733**	**10,571,514**	**10,771,247**	**10,000,820**
a) land	117,406	93,752	211,158	199,120
b) buildings	65,135	806,130	871,265	739,175
c) movables	2,551	6,668	9,219	9,353
d) electrical plant	1,239	15,038	16,277	20,659
e) other	13,402	9,649,926	9,663,328	9,032,513
1.2 acquired under finance leases				
a) land				
b) buildings				
c) movables				
d) electrical plant				
e) other				
Total A	**199,733**	**10,571,514**	**10,771,247**	**10,000,820**
B. Investment property				
2.1 owned				
a) land				
b) buildings				
2.2 acquired under finance leases				
a) land				
b) buildings				
Total B				
Total (A+B)	**199,733**	**10,571,514**	**10,771,247**	**10,000,820**

12.3 Operating property, plant and equipment: change for the year

(thousands of euros)

12.3.1 OPERATING PROPERTY, PLANT AND EQUIPMENT: CHANGE FOR THE YEAR - BANKING GROUP

	Land	Buildings	Movables	Electrical plant	Other	Total
A. Opening gross balance	**117,406**	**82,889**	**12,218**	**17,911**	**27,798**	**258,222**
A.1 Total net writedowns	-	(15,501)	(9,136)	(16,048)	(17,724)	(58,409)
A.2 Opening net balance	**117,406**	**67,388**	**3,082**	**1,863**	**10,074**	**199,813**
B. Increases		**236**	**173**	**341**	**5,317**	**6,067**
B.1 Purchases		201	69	335	4,993	5,598
B.2 Capitalised improvement costs						
B.3 Writebacks						
B.4 Fair value gains recognised in						
a) equity						
b) income statement						
B.5 Positive exchange rate differences						
B.6 Transfers from investment property						
B.7 Other changes		35	104	6	324	469
C. Decreases		**2,489**	**704**	**964**	**1,990**	**6,147**
C.1 Sales						
C.2 Depreciation		2,489	704	964	1,520	5,677
C.3 Writedowns for impairment recognised in						
a) equity						
b) income statement						
C.4 Fair value losses recognised in						
a) equity						
b) income statement						
C.5 Negative exchange rate differences						
C.6 Transfers to						
a) investment property						
b) assets held for sale						
C.7 Other changes					470	470
D. Closing net balance	**117,406**	**65,135**	**2,551**	**1,240**	**13,401**	**199,733**
D.1 Total net writedowns	-	(17,991)	(9,839)	(16,499)	(19,201)	(63,530)
D.2 Closing gross balance	**117,406**	**83,126**	**12,390**	**17,739**	**32,602**	**263,263**
E. Measurement at cost						

(thousands of euros)

12.3.2 OPERATING PROPERTY, PLANT AND EQUIPMENT: CHANGE FOR THE YEAR - OTHER ENTITIES

	Land	Buildings	Movables	Electrical plant	Other	Total
A. Opening gross balance	**81,714**	**957,884**	**7,534**	**38,303**	**14,365,989**	**15,451,424**
A.1 Total net writedowns	-	(286,097)	(1,263)	(19,508)	(5,343,549)	(5,650,417)
A.2 Opening net balance	**81,714**	**671,787**	**6,271**	**18,795**	**9,022,440**	**9,801,007**
B. Increases	**12,045**	**160,004**	**863**	**2,264**	**1,158,879**	**1,334,055**
B.1 Purchases	410	17,850	863	3	1,158,879	1,178,005
B.2 Capitalised improvement costs						
B.3 Writebacks						
B.4 Fair value gains recognised in						
a) equity						
b) income statement						
B.5 Positive exchange rate differences						
B.6 Transfers from investment property						
B.7 Other changes	11,635	142,154		2,261		156,050
C. Decreases	**7**	**25,661**	**466**	**6,021**	**531,393**	**563,548**
C.1 Sales	7	594		681	3,723	5,005
C.2 Depreciation		25,067	466	5,340	357,494	388,367
C.3 Writedowns for impairment recognised in					2,115	2,115
a) equity						
b) income statement					2,115	2,115
C.4 Fair value losses recognised in						
a) equity						
b) income statement						
C.5 Negative exchange rate differences						
C.6 Transfers to						
a) investment property						
b) assets held for sale						
C.7 Other changes					168,061	168,061
D. Closing net balance	**93,752**	**806,130**	**6,668**	**15,038**	**9,649,926**	**10,571,514**
D.1 Total net writedowns	-	(311,164)	(1,729)	(24,848)	(5,703,158)	(6,040,899)
D.2 Closing gross balance	**93,752**	**1,117,294**	**8,397**	**39,886**	**15,353,084**	**16,612,413**
E. Measurement at cost						

SECTION 13 – INTANGIBLE ASSETS – ITEM 130

13.1 Intangible assets: composition by category

(thousands of euros)

13.1 INTANGIBLE ASSETS: COMPOSITION BY CATEGORY

	Banking group		Other entities		31/12/2011		31/12/2010	
	Definite life	Indefinite life	Definite life	Indefinite life	Definite life	Indefinite life	Definite life	Indefinite life
A.1 Goodwill	x		x	**485,897**	x	**485,897**	x	**486,723**
A.1.1 pertaining to Group	x		x	352,454	x	352,454	x	486,723
A.1.2 non-controlling interests	x		x	133,443	x	133,443	x	
A.2 Other intangible assets	**4,621**		**280,678**		**285,299**		**285,407**	
A.2.1 Assets carried at cost	4,621		280,678		285,299		285,407	
a) internally-generated intangible assets			30,621		30,621		32,729	
b) other assets	4,621		250,057		254,678		252,678	
A.2.2 Assets carried at fair value								
a) internally-generated intangible assets								
b) other assets								
Total	**4,621**		**280,678**	**485,897**	**285,299**	**485,897**	**285,407**	**486,723**

13.2 Intangible assets: change for the year

(thousands of euros)

13.2.1 INTANGIBLE ASSETS: CHANGE FOR THE YEAR - BANKING GROUP

	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total
		DEF	INDEF	DEF	INDEF	
A. Opening gross balance				**15,353**		**15,353**
A.1 Total net writedowns				(10,379)		(10,379)
A.2 Opening net balance				**4,974**		**4,974**
B. Increases				**1,860**		**1,860**
B.1 Purchases				1,860		1,860
B.2 Increases in internally-generated intangible assets	x					
B.3 Writebacks	x					
B.4 Fair value gains						
- equity	x					
- income statement	x					
B.5 Positive exchange rate differences						
B.6 Other changes						
C. Decreases				**2,213**		**2,213**
C.1 Sales						
C.2 Writedowns				2,213		2,213
- Amortisation	x			2,213		2,213
- Impairment						
+ equity	x					
+ income statement						
C.3 Fair value losses						
- equity	x					
- income statement	x					
C.4 Transfer to non-current assets held for sale						
C.5 Negative exchange rate differences						
C.6 Other changes						
D. Closing net balance				**4,621**		**4,621**
D.1 Total net writedowns				(12,592)		(12,592)
E. Closing gross balance				**17,213**		**17,213**
F. Measurement at cost						

Key
DEF: definite life
INDEF: indefinite life

(thousands of euros)

13.2.2 INTANGIBLE ASSETS: CHANGE FOR THE YEAR - OTHER ENTITIES

	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total
		DEF	INDEF	DEF	INDEF	
A. Opening gross balance	**486,723**	**104,449**		**412,147**		**1,003,319**
A.1 Total net writedowns	-	(71,720)		(164,443)		(236,163)
A.2 Opening net balance	**486,723**	**32,729**		**247,704**		**767,156**
B. Increases		**17,232**		**33,835**		**51,067**
B.1 Purchases		17,232		33,835		51,067
B.2 Increases in internally-generated intangible assets	x					
B.3 Writebacks	x					
B.4 Fair value gains						
- equity	x					
- income statement	x					
B.5 Positive exchange rate differences						
B.6 Other changes						
C. Decreases	**826**	**19,340**		**31,482**		**51,648**
C.1 Sales						
C.2 Writedowns		19,340		31,482		50,822
- Amortisation	x	19,340		31,482		50,822
- Impairment						
+ equity	x					
+ income statement						
C.3 Fair value losses						
- equity	x					
- income statement	x					
C.4 Transfer to non-current assets held for sale						
C.5 Negative exchange rate differences						
C.6 Other changes	826					826
D. Closing net balance	**485,897**	**30,621**		**250,057**		**766,575**
D.1 Total net writedowns	-	(91,060)		(195,925)		(286,985)
E. Closing gross balance	**485,897**	**121,681**		**445,982**		**1,053,560**
F. Measurement at cost						

Key
DEF: definite life
INDEF: indefinite life

SECTION 14 – TAX ASSETS AND LIABILITIES – ITEM 140 OF ASSETS AND ITEM 80 OF LIABILITIES

14.1 Deferred tax assets: composition

(thousands of euros)

14.1 DEFERRED TAX ASSETS: COMPOSITION

	Banking group	Other entities	31/12/2011	31/12/2010
Provisions for liabilities and contingencie	2,661	74	2,735	2,252
Depreciation and amortisation	3,708		3,708	3,626
Financial instruments	1,856		1,856	3,555
Assets available for sale	109,638		109,638	25,439
Payables	2,044		2,044	3,099
Other	98,050		98,050	331
Total	**217,957**	**74**	**218,031**	**38,302**

14.2 Deferred tax liabilities: composition

(thousands of euros)

14.2 DEFERRED TAX LIABILITIES: COMPOSITION

	Banking group	Other entities	31/12/2011	31/12/2010
Equity investments	97,346		97,346	77,297
Property, plant and equipment		1,192,619	1,192,619	1,021,055
Securities holding	2,194		2,194	-
Other financial instruments	176		176	928
Offsetting with deferred tax assets		(179,475)	(179,475)	(80,505)
Other	315	17,156	17,471	15,711
Total	**100,031**	**1,030,300**	**1,130,331**	**1,034,486**

14.3 Changes in deferred tax assets (recognised in income statement)

(thousands of euros)

14.3 CHANGES IN DEFERRED TAX ASSETS (RECOGNISED IN INCOME STATEMENT)

	31/12/2011	31/12/2010
Opening balance	**9,306**	**23,753**
2. Increases	**100,209**	**2,329**
2.1 Deferred tax assets recognised during the year	100,105	2,329
a) in respect of previous periods		
b) due to change in accounting policies		
c) writebacks		2,298
d) other	100,105	31
2.2 New taxes or increases in tax rates	104	
2.3 Other increases		
3. Decreases	**2,978**	**16,776**
3.1 Deferred tax assets derecognised during the year	2,978	16,776
a) reversals	2,978	16,776
b) writedowns for supervening non-recoverability		
c) due to change in accounting policies		
d) other		
3.2 Reduction in tax rates		
3.3 Other decreases		
3.4 Business combinations		
Closing balance	**106,537**	**9,306**

14.4 Changes in deferred tax liabilities (recognised in income statement)

(thousands of euros)

14.4 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNISED IN INCOME STATEMENT)

	31/12/2011	**31/12/2010**
1. Opening balance	**965,083**	**1,051,055**
2. Increases	**179,691**	**12,658**
2.1 Deferred tax liabilities recognised during the year	316	
a) in respect of previous periods		
b) due to change in accounting policies		
c) other	316	
2.2 New taxes or increases in tax rates	93,278	2,698
2.3 Other increases	86,097	9,960
2.4 Business combinations		
3. Decreases	**53,191**	**73,427**
3.1 Deferred tax liabilities derecognised during the year	53,191	71,000
a) reversals	53,191	71,000
b) due to change in accounting policies		
c) other		
3.2 Reduction in tax rates		
3.3 Other decreases		27,630
3.4 Business combinations		
4. Closing balance	**1,091,583**	**965,083**

14.5 Changes in deferred tax assets (recognised in equity)

(thousands of euros)

14.5 CHANGES IN DEFERRED TAX ASSETS (RECOGNISED IN EQUITY)

	31/12/2011	31/12/2010
1. Opening balance	**28,996**	**2,295**
2. Increases	**85,389**	**27,698**
2.1 Deferred tax assets recognised during the year	85,389	27,698
a) in respect of previous periods		
b) due to change in accounting policies		
c) other	84,907	27,564
2.2 New taxes or increases in tax rates	482	134
2.3 Other increases		
3. Decreases	**2,891**	**997**
3.1 Deferred tax assets derecognised during the year	2,891	997
a) reversals	2,891	997
b) writedowns for supervening non-recoverability		
c) due to changes in accounting policies		
d) other		
3.2 Reduction in tax rates		
3.3 Other decreases		
4. Closing balance	**111,494**	**28,996**

14.6 Changes in deferred tax liabilities (recognised in equity)

(thousands of euros)

14.6 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNISED IN EQUITY)

	31/12/2011	31/12/2010
1. Opening balance	**69,403**	**112,339**
2. Increases	**9,432**	**11,846**
2.1 Deferred tax liabilities recognised during the year	2,117	275
a) in respect of previous periods		
b) due to change in accounting policies		
c) other	2,117	275
2.2 New taxes or increases in tax rates	7,315	1,832
2.3 Other increases		9,739
3. Decreases	**40,087**	**54,782**
3.1 Deferred tax liabilities derecognised during the year	40,087	54,782
a) reversals	623	54,782
b) due to change in accounting policies		
c) other	39,464	
3.2 Reduction in tax rates		
3.3 Other decreases		
4. Closing balance	**38,748**	**69,403**

SECTION 15 – NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE AND ASSOCIATED LIABILITIES – ITEM 150 OF ASSETS AND ITEM 90 OF LIABILITIES

15.1 Non-current assets and disposal groups held for sale: composition by category

(thousands of euros)

15.1 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE: COMPOSITION BY CATEGORY

	31/12/2011	31/12/2010
A. Individual assets		
A.1 Financial assets		
A.2 Equity investments		
A.3 Property, plant and equipment		
A.4 Intangible assets		
A.5 Other		
Total A		
B. Disposal groups		
B.1 Financial assets held for trading		
B.2 Financial assets at fair value		
B.3 Financial assets available for sale		
B.4 Financial assets held to maturity		
B.5 Loans to banks		6,221
B.6 Loans to customers		
B.7 Equity investments		
B.8 Property, plant and equipment		
B.9 Intangible assets		1,409
B.10 Other assets		568,163
Total B	**-**	**575,793**
C. Liabilities associated with individual assets held for sale		
C.1 Payables		
C.2 Securities		
C.3 Other liabilities		
Total C		
D. Liabilities associated with disposal groups		
D.1 Due to banks		
D.2 Due to customers		
D.3 Securities issued		
D.4 Financial liabilities held for trading		
D.5 Financial assets at fair value		
D.6 Provisions		8,751
D.7 Other liabilities		139,986
Total D	**-**	**148,737**

SECTION 16 – OTHER ASSETS – ITEM 160

16.1 Other assets: composition

(thousands of euros)

16.1 OTHER ASSETS: COMPOSITION

	Banking group	Other entities	31/12/2011	31/12/2010
1. Trade receivables and advances to public entities	20,903		20,903	17,132
2. Receivables due from investees	22,969		22,969	2
3. Payments on account for withholding tax on interest on postal passbook savings accounts	188,558		188,558	347,430
4. Other trade receivables		1,690,220	1,690,220	1,495,402
5. Advances to personnel		6,282	6,282	6,086
6. Other	2,542	25,662	28,204	30,235
Total	**234,972**	**1,722,164**	**1,957,136**	**1,896,287**

The item reports assets not otherwise classified under the previous items.

The main items under this heading are:

- advance payments in respect of withholding tax on interest earned on postal passbook savings accounts: the balance at the end of December 2011 regards payments on account of the withholding tax levied on interest accrued on postal passbook savings accounts;
- trade receivables of the Terna Group.

LIABILITIES

SECTION 1 – DUE TO BANKS – ITEM 10

1.1 Due to banks: composition by type

(thousands of euros)

1.1 DUE TO BANKS: COMPOSITION BY TYPE

	31/12/2011	31/12/2010
1. Due to central banks	**7,836,132**	**417,435**
2. Due to banks	**13,584,688**	**9,976,961**
2.1 Current accounts and demand deposits		230,455
2.2 Fixed-term deposits	1,007,869	1,249,006
2.3 Loans	12,576,819	8,493,336
2.3.1 Repurchase agreements	8,183,254	4,456,825
2.3.2 Other	4,393,565	4,036,511
2.4 Liabilities in respect of commitments to repurchase own equity instruments		
2.6 Other payables		4,164
Total	**21,420,820**	**10,394,396**
Fair value	**21,420,820**	**10,394,396**

The item "Due to central banks" includes refinancing transactions and the payable to the Bank of Italy for unpaid direct debits settled in early 2012.

Fixed-term deposits refer to cash collateral under Credit Support Annexes securing the counterparty risk on derivatives (cash collateral) and the balance on postal passbook accounts and postal bonds held by banks.

Other loans regard loans from banks and amounts to be transferred to counterparties in a non-recourse assignment of receivables.

1.4 Due to banks: liabilities hedged specifically

Amounts due to banks hedged specifically amounted to €2,004,928 thousand.

SECTION 2 – DUE TO CUSTOMERS – ITEM 20

2.1 Due to customers: composition by type

(thousands of euros)

2.1 DUE TO CUSTOMERS: COMPOSITION BY TYPE

	31/12/2011	31/12/2010
1. Current accounts and demand deposits	458,553	10,898
2. Fixed-term deposits	217,782,623	206,775,538
3. Loans		
3.1 Repurchase agreements		
3.2 Other		
4. Liabilities in respect of commitments to repurchase own equity instruments		
5. Other payables	8,198,945	9,256,745
Total	**226,440,121**	**216,043,181**
Fair value	**226,440,121**	**216,043,181**

"Fixed-term deposits" mainly regard the balance at the end of 2011 of postal passbook accounts and postal bonds.
Other payables mainly regard amounts not yet disbursed at the end of the year on loans being repaid granted by CDP to public entities and public-law bodies.
The fair value reported above is equal to the carrying amount. In theory, for postal savings bonds it would be possible, using statistical models of redemptions, to apply valuation techniques that incorporate a credit risk premium in line with that on medium/long-term government securities.
This would produce an estimate at 31 December 2011 of the fair value of those liabilities that woul be significantly less than the carrying amount, with an analogous and opposite impact to that from the measurement of loans to customers and banks. However, taking account of the option for bondholders to redeem postal bonds on demand and the considerable uncertainty about redemptions in the market conditions experienced at the end of 2011, it was decided for prudential reasons that the best estimate of the fair value of postal savings bonds is their carrying amount.

2.3 Breakdown of item 20 "Due to customers": structured liabilities

Structured liabilities at 31 December 2011 amounted to €12,243 million and include indexed postal savings bonds and the *Premia* bonds, for which the embedded derivative has been separated from the host contract.

2.4 Due to customers: liabilities hedged specifically

(thousands of euros)

2.4 DUE TO CUSTOMERS: LIABILITIES HEDGED SPECIFICALLY

	31/12/2011	31/12/2010
1. Liabilities covered by specific fair value hedges:	**-**	**-**
a) interest rate risk		
b) exchange rate risk		
c) multiple risks		
2. Liabilities covered by specific cash flow hedges	**413,299**	**400,202**
a) interest rate risk	413,299	400,202
b) exchange rate risk		
c) other		
Total	**413,299**	**400,202**

Amounts due to customers covered by cash flow hedges refer to inflation-linked postal savings bonds.

SECTION 3 – SECURITIES ISSUED – ITEM 30

3.1 Securities issued: composition by type

(thousands of euros)

3.1 SECURITIES ISSUED: COMPOSITION BY TYPE

	31/12/2011				31/12/2010			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	12,886,745		11,879,998	491,303	10,434,893	5,240,486	4,323,215	744,492
1.1 structured								
1.2 other	12,886,745		11,879,998	491,303	10,434,893	5,240,486	4,323,215	744,492
2. Other securities								
2.1 structured								
2.2 other								
Total	**12,886,745**		**11,879,998**	**491,303**	**10,434,892**	**5,240,486**	**4,323,215**	**744,492**

For the banking group, the item includes covered bonds in the amount of €5,308 million and bonds issued under the Euro Medium Term Notes programme totalling €3,204 million.

For other Group companies, the item reports the value of bonds in the amount of €4,374 million.

3.3 Breakdown of item 30 "Securities issued": securities hedged specifically

(thousands of euros)

3.3 BREAKDOWN OF ITEM 30 "SECURITIES ISSUED": SECURITIES HEDGED SPECIFICALLY

	31/12/2011	31/12/2010
1. Securities covered by specific fair value hedges	**12,491,720**	**7,038,376**
a) interest rate risk	11,968,851	6,543,245
b) exchange rate risk		
c) multiple risks	522,869	495,131
2. Securities covered by specific cash flow hedges		
a) interest rate risk		
b) exchange rate risk		
c) other		
Total	**12,491,720**	**7,038,376**

SECTION 4 – FINANCIAL LIABILITIES HELD FOR TRADING – ITEM 40

4.1 Financial liabilities held for trading: composition by type

(thousands of euros)

4.1 FINANCIAL LIABILITIES HELD FOR TRADING: COMPOSITION BY TYPE

	31/12/2011					31/12/2010				
	NV	FV			FV *	NV	FV			FV *
		L1	L2	L3			L1	L2	L3	
A. On-balance-sheet liabilities										
1. Due to banks										
2. Due to customers										
3. Debt securities										
3.1 Bonds										
3.1.1 Structured					x					x
3.1.2 Other					x					x
3.2 Other securities										
3.2.1 Structured					x					x
3.2.2 Other					x					x
Total A										
B. Derivatives										
1. Financial derivatives			**64,046**	**434,309**				**190,910**	**749,124**	
1.1 Trading	x				x	x		163,494		x
1.2 Associated with fair value option	x				x	x				x
1.3 Other	x		64,046	434,309	x	x		27,416	749,124	x
2. Credit derivatives										
2.1 Trading	x				x	x				x
2.2 Associated with fair value option	x				x	x				x
2.3 Other	x				x	x				x
Total B			**64,046**	**434,309**				**190,910**	**749,124**	
Total (A+B)			**64,046**	**434,309**				**190,910**	**749,124**	

Key
FV = fair value
FV* = fair value calculated excluding changes in value due to changes in the issuer's creditworthiness since the issue date
NV = nominal or notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

The item includes the embedded option component of bonds indexed to baskets of shares that was separated from the host contract.

SECTION 6 – HEDGING DERIVATIVES – ITEM 60

6.1 Hedging derivatives: composition by type of hedge and level of inputs

(thousands of euros)

6.1 HEDGING DERIVATIVES: COMPOSITION BY TYPE OF HEDGE AND LEVEL OF INPUTS

	31/12/2011			NV 31/12/2011	31/12/2010			NV 31/12/2010
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives		**2.704.082**	**8.539**	**14.817.149**		**1.217.337**	**15.183**	**16.502.897**
1) Fair value		2.612.712		11.712.781		1.160.616		14.286.840
2) Cash flow		91.370	8.539	3.104.368		56.721	15.183	2.216.057
3) Investment in foreign operation								
B. Credit derivatives								
1) Fair value								
2) Cash flow								
Total		**2.704.082**	**8.539**	**14.817.149**		**1.217.337**	**15.183**	**16.502.897**

Key
NV= notional value
L1= Level 1
L2= Level 2
L3= Level 3

6.2 Hedging derivatives: composition by hedged portfolio and type of hedge

(thousands of euros)

6.2 HEDGING DERIVATIVES: COMPOSITION BY HEDGED PORTFOLIO AND TYPE OF HEDGE

	Fair value						Cash flow		Investment in foreign operation
	Specific					Generic	Specific	Generic	
	interest rate risk	exchange rate risk	credit risk	price risk	multiple risks				
1. Financial assets available for sale						x		x	x
2. Loans	2,612,434			x		x		x	x
3. Financial assets held to maturity	x			x		x		x	x
4. Portfolio	x	x	x	x	x		x		x
5. Other						x		x	
Total assets	**2,612,434**								
1. Financial liabilities	278			x		x	99,909	x	x
2. Portfolio	x	x	x	x	x		x		x
Total liabilities	**278**						**99,909**		
1. Forecast transactions	x	x	x	x	x	x		x	x
2. Portfolio of financial assets and liabilities	x	x	x	x	x		x		

SECTION 7 – VALUE ADJUSTMENTS OF LIABILITIES COVERED BY MACRO-HEDGES – ITEM 70

7.1 Value adjustments of hedged financial liabilities

(thousands of euros)

7.1 VALUE ADJUSTMENTS OF HEDGED FINANCIAL LIABILITIES

	31/12/2011	31/12/2010
1. Positive adjustments of financial liabilities	60,440	63,683
2. Negative adjustments of financial liabilities		
Total	**60,440**	**63,683**

7.2 Liabilities covered by macro-hedges against interest rate risk: composition

This item reports the net change in the value of the postal savings bonds portfolio hedged generically against interest rate risk. The hedging relationship was interrupted in 2009 in view of the closure of the derivative hedging instruments. The change in the fair value of the hedged bonds, determined up to the date of the validity of the hedging relationship, was subsequently accounted for on the basis of the amortised cost of the bonds.

SECTION 8 – TAX LIABILITIES – ITEM 80

For more information concerning this item, please see Section 14 of "Assets".

SECTION 10 – OTHER LIABILITIES – ITEM 100

10.1 Other liabilities: composition

(thousands of euros)

10.1 OTHER LIABILITIES: COMPOSITION

	Banking group	Other entities	31/12/2011	31/12/2010
1. Items being processed	4,445		4,445	4,110
2. Amounts due to employees	46	31,571	31,617	38,857
3. Charges for postal funding service	129,050		129,050	822,000
4. Tax payables	385,018	34	385,052	385,316
5. Trade payables		2,028,925	2,028,925	1,537,724
6. Due to social security institutions	87	21,923	22,010	22,472
7. Other	21,187	203,098	224,285	228,778
Total	**539,833**	**2,285,551**	**2,825,384**	**3,039,257**

For the banking group, the main items under this heading are:

- the payable to Poste Italiane S.p.A. of about €129 million, in respect of the management and placement of postal savings products;
- tax payables totalling about €385 million, mainly regarding the tax on interest paid on postal savings products;
- other items, which are mainly composed of payables due to suppliers and sundry amounts due to employees and adjustments to guarantees issued and commitments to disburse funds.

With regard to other Group companies, the item mainly regards trade payables.

SECTION 11 – STAFF SEVERANCE PAY – ITEM 110

11.1 Staff severance pay: change for the year

(thousands of euros)

11.1 STAFF SEVERANCE PAY: CHANGE FOR THE YEAR

	31/12/2011	31/12/2010
A. Opening balance	**68,605**	**72,205**
B. Increases	**14,982**	**14,594**
B.1 Provision for the year	12,599	11,984
B.2 Other increases	2,383	2,610
C. Decreases	**18,356**	**18,194**
C.1 Severance payments	17,158	17,188
C.2 Other decreases	1,198	1,006
D. Closing balance	**65,231**	**68,605**

Section 12 – Provisions – Item 120

12.1 Provisions: composition

(thousands of euros)

12.1 PROVISIONS: COMPOSITION

	31/12/2011	31/12/2010
1. Company pension plans		
2. Other provisions	**259,030**	**235,670**
2.1 legal disputes	18,797	18,203
2.2 staff costs	81,768	73,082
2.3 other	158,465	144,385
Total	**259,030**	**235,670**

12.2 Provisions: change for the year

(thousands of euros)

12.2 PROVISIONS: CHANGE FOR THE YEAR

	Total	
	Pensions	**Other provisions**
A. Opening balance		**235,670**
B. Increases		**92,122**
B.1 Provision for the year		83,222
B.2 Changes due to passage of time		2,102
B.3 Changes due to changes in discount rate		
B.4 Other increases		6,798
C. Decreases		**68,762**
C.1 Use during the year		68,001
C.2 Changes due to changes in discount rate		
C.3 Other decreases		761
D. Closing balance		**259,030**

12.4 Provisions – Other provisions

The composition of other provisions of the Group are reported below.

(thousands of euros)

12.4 PROVISIONS - OTHER PROVISIONS

	31/12/2011	31/12/2010
2. Other provisions	**259,030**	**235,670**
2.1 legal disputes	18,797	18,203
2.2 staff costs	81,768	61,893
early retirement	20,141	12,993
loyalty bonus	3,771	4,194
electricity discount	30,910	29,293
other	26,946	15,413
2.3 other	158,465	155,574

SECTION 15 – GROUP EQUITY – ITEMS 140, 170, 180, 190, 210 AND 220

15.1 "Share capital" and "Treasury shares": composition

The share capital of €3,500,000,000 is fully paid up and is composed of 245,000,000 ordinary shares and 105,000,000 preference shares with a par value of €10 each.

The par value of preference shares is included under "Share capital" together with the par value of ordinary shares, taking account of the intentions and positions expressed by the shareholders in this regard. Under the CDP articles of association, the preference shares will be automatically converted into ordinary shares as from 1 January 2013, without prejudice to the right of preference shareholders to withdraw.

The parent company does not hold treasury shares.

15.2 Share capital – Number of shares of the parent company: change for the year

15.2 SHARE CAPITAL - NUMBER OF SHARES OF THE PARENT COMPANY: CHANGE FOR THE YEAR

	Ordinary	Other
A. Shares at start of the year	**245,000,000**	**105,000,000**
- fully paid	245,000,000	105,000,000
- partly paid		
A.1 Treasury shares (-)		
A.2 Shares in circulation: opening balance	**245,000,000**	**105,000,000**
B. Increases		
B.1 New issues		
- for consideration:		
- business combinations		
- conversion of bonds		
- exercise of warrants		
- other		
- bonus issues:		
- to employees		
- to directors		
- other		
B.2 Sale of own shares		
B.3 Other changes		
C. Decreases		
C.1 Cancellation		
C.2 Purchase of own shares		
C.3 Disposal of companies		
C.4 Other changes		
D. Shares in circulation: closing balance	**245,000,000**	**105,000,000**
D.1 Treasury shares (+)		
D.2 Shares at end of the year	**245,000,000**	**105,000,000**
- fully paid	245,000,000	105,000,000
- partly paid		

15.4 Income reserves: additional information

(thousands of euros)

15.4 INCOME RESERVES: ADDITIONAL INFORMATION

	31/12/2011	31/12/2010
Income reserves	**9,559,258**	**7,967,184**
Legal reserve	524,972	387,846
Other	9,034,286	7,579,338

SECTION 16 – NON-CONTROLLING INTERESTS - ITEM 210

(thousands of euros)

16.1 EQUITY INSTRUMENTS: COMPOSITION AND CHANGE FOR THE YEAR

	31/12/2011	31/12/2010
Share capital		
a) ordinary shares	370.798	308.967
b) preference shares		
Share premium reserve	14.073	6.087
Reserves		
a) income	1.976.704	1.727.550
b) other	322.849	460.571
Valuation reserves	(37.628)	(13.600)
Equity instruments		
Treasury shares		
Net income (loss) for the year	177.367	406.648
Total non-controlling interests	2.824.163	2.887.391

OTHER INFORMATION

1. Guarantees issued and commitments

(thousands of euros)

1. GUARANTEES ISSUED AND COMMITMENTS

	31/12/2011	31/12/2010
1) Financial guarantees issued	224,275	194,573
a) Banks		7,599
b) Customers	224,275	186,974
2) Commercial guarantees issued		
a) Banks		
b) Customers		
3) Irrevocable commitments to disburse funds	13,630,974	12,847,369
a) Banks	124,171	5,468
i) certain use	124,171	5,468
ii) uncertain use		
b) Customers	13,506,803	12,841,901
i) certain use	13,506,803	12,841,206
ii) uncertain use		695
4) Commitments underlying credit derivatives: sales of protection		
5) Assets pledged as collateral for third-party debts		
6) Other commitments	1,986,433	1,698,014
Total	**15,841,682**	**14,739,956**

2. Assets pledged as collateral for own debts and commitments

(thousands of euros)

2. ASSETS PLEDGED AS COLLATERAL FOR OWN DEBTS AND COMMITMENTS

	31/12/2011	31/12/2010
1. Financial assets held for trading		
2. Financial assets at fair value		
3. Financial assets available for sale	2,391,219	1,841,000
4. Financial assets held to maturity	6,386,351	2,695,000
5. Loans to banks	5,138,958	
6. Loans to customers		20,923,979
7. Property, plant and equipment		

In past years CDP issued bonds (covered bond) secured by asset pledged as collateral (the segregated portfolio).

The covered bond programme was implemented on the basis of Article 5.18 of the transformation decree, pursuant to which CDP may pledge its property and rights as security for the rights of the holders of the securities it issues. The same decree also requires that a separate set of the accounting ledgers and records mandated by Articles 2214 *et seq.* of the Italian Civil Code be kept for the segregated portfolio.

When the programme to issue the securities was launched, a well-diversified portfolio of receivables was identified, consisting of loans with repayment charged to local authorities and regions. The list of pledged loans, filed with the Company Register of Rome, was updated with each new issue and whenever CDP altered its composition.

CDP's 2010 balance sheet sets out separately the amount of the loans granted and used as collateral for the issuance of covered bonds (reported under loans to customers) and the corresponding remaining amount to be disbursed (reported under amounts due to customers).

In November 2011, the collateral, which until that time consisted of the above-mentioned portfolio of receivables in respect of loans, was replaced with a tied deposit held in a segregated account that can be reinvested in eligible securities

(rated AAA) and, as a result, the portfolio of receivables was "desegregated" with the filing of the desegregation decision with the Company Registry of Rome.
Accordingly, the "of which" entries indicated above under the balance sheet aggregates "Loans to customers" and "Due from customers" are no longer reported at 31 December 2011 due to the desegregation of the portfolio of receivables. As a result, in the 2011 financial statements, the redefined segregated asset pool is reported under "of which" entries in the balance sheet aggregates "Due to banks" (for the liquidity held in tied deposit accounts and unlisted securities issued by "eligible" banks (rated AAA)) and financial assets available for sale (listed eligible securities).

PART C – INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

SECTION 1 – INTEREST – ITEMS 10 AND 20

1.1 Interest income and similar revenues: composition

(thousands of euros)

1.1 INTEREST INCOME AND SIMILAR REVENUES: COMPOSITION

	Debt securities	Loans	Other	31/12/2011	31/12/2010
1 Financial assets held for trading					
2 Financial assets at fair value					
3 Financial assets available for sale	69,819			**69,819**	**31,914**
4 Financial assets held to maturity	201,832			**201,832**	**38,869**
5 Loans to banks	3,275	265,104		**268,379**	**189,989**
6 Loans to customers	60,169	7,155,317		**7,215,486**	**6,164,679**
7 Hedging derivatives	x	x			
8 Other assets	x	x	8,806	**8,806**	**3,207**
Total	**335,095**	**7,420,421**	**8,806**	**7,764,322**	**6,428,658**

The item reports the remuneration of the activities of CDP with regard to:

- loans to banks and customers:
    - interest income on loans amounted to about €4,205 million;
    - interest income for CDP on current account no. 29814, equal to about €3,215 million;
- debt securities: interest income on debt securities amounted to about €335 million.

The item includes interest income accrued on impaired assets of about €1,679 thousand.

1.4 Interest expense and similar charges: composition

(thousands of euros)

1.4 INTEREST EXPENSE AND SIMILAR CHARGES: COMPOSITION

	Payables	Securities	Other	31/12/2011	31/12/2010
1 Due to central banks	22,834	x		**22,834**	**328**
2 Due to banks	137,247	x		**137,247**	**62,372**
3 Due to customers	4,695,756	x		**4,695,756**	**695,507**
4 Securities issued	x	409,806		**409,806**	**3,630,598**
5 Financial liabilities held for trading					**617**
6 Financial liabilities at fair value					
7 Other liabilities and funds	x	x	2,220	**2,220**	**1,927**
8 Hedging derivatives	x	x	282,879	**282,879**	**471,750**
Total	**4,855,837**	**409,806**	**285,099**	**5,550,742**	**4,863,099**

Interest expense on amounts due to customers mainly regards interest on on postal savings products, totalling about €4,551 million and amounts due in respect of interest on the portion of loans being repaid but not yet disbursed by CDP, equal to about €144 million.

The negative differences on hedges amounted to about €283 million.

1.5 Interest expense and similar charges: differences on hedging transactions

(thousands of euros)

1.5 INTEREST EXPENSE AND SIMILAR CHARGES: DIFFERENCES ON HEDGING TRANSACTIONS

	31/12/2011	31/12/2010
A. Positive differences on hedging transactions	204,849	143,506
B. Negatives differences on hedging transactions	487,728	615,256
C. Balance (A-B)	**(282,879)**	**(471,750)**

SECTION 2 – COMMISSIONS - ITEMS 40 AND 50

2.1 Commission income: composition

(thousands of euros)

2.1 COMMISSION INCOME: COMPOSITION

	31/12/2011	31/12/2010
a) guarantees issued	357	388
b) credit derivatives		
c) management, intermediation and advisory services:		
1. trading in financial instruments		
2. foreign exchange		
3. asset management	8,085	3,365
3.1. individual		
3.2. collective	8,085	3,365
4. securities custody and administration		
5. depository services		
6. securities placement		
7. order collection and transmission		
8. advisory services		
8.1. concerning investments		
8.2. concerning financial structure		
9. distribution of third-party services		
9.1 asset management		
9.1.1. individual		
9.1.2. collective		
9.2. insurance products		
9.3. other		
d) collection and payment services		
e) servicing activities for securitisations		
f) services for factoring transactions		
g) tax collection services		
h) management of multilateral trading systems		
i) holding and management of current accounts		
j) other services	15,006	10,467
Total	**23,448**	**14,220**

2.2 Commission expense: composition

Commission expense mainly regards the charge for the period, equal to about €1,504 million, of the remuneration paid to Poste Italiane S.p.A. for managing postal funding products.
The increase in the item over the previous year is attributable to the new fee agreement signed between CDP and Poste Italiane for the 2011-2013 period. More specifically, the new agreement modifies the fee structure for Poste Italiane's activities, no longer providing for a commission directly attributable to the issue of new postal bonds – and as such recognised in the initial value of the bond and amortised over the expected remaining life of the bonds – but rather a comprehensive fee for the activities involved in providing the service, which will be fully expensed in the year in which it accrues. The new fee structure is consistent with the developments in the service provided by Poste Italiane, which now emphasises the overall management of postal savings rather than merely providing placement services.

(thousands of euros)

2.2 COMMISSION EXPENSE: COMPOSITION

	31/12/2011	31/12/2010
a) guarantees received	37	
b) credit derivatives		
c) management and intermediation services:	1,504,050	722,213
1. trading in financial instruments		
2. foreign exchange		
3. asset management:		
3.1 own portfolio		
3.2 third-party portfolio		
4. securities custody and administration		
5. placement of financial instruments	1,504,050	722,213
6. off-premises distribution of securities, products and services		
d) collection and payment services	1,973	121
e) other services	101	1,527
Total	**1,506,161**	**723,861**

SECTION 3 – DIVIDENDS AND SIMILAR REVENUES – ITEM 70

3.1 Dividends and similar revenues: composition

(thousands of euros)

3.1 DIVIDENDS AND SIMILAR REVENUES: COMPOSITION

		31/12/2011		31/12/2010	
		dividends	income from units in collective investment undertakings	dividends	income from units in collective investment undertakings
A	Financial assets held for trading				
B	Financial assets available for sale	2,641	221	411,434	
C	Financial assets at fair value				
D	Equity investments		x	399,527	x
	Total	**2,641**	**221**	**810,961**	

SECTION 4 – NET GAIN (LOSS) ON TRADING ACTIVITIES – ITEM 80

4.1 Net gain (loss) on trading activities: composition

(thousands of euros)

4.1 NET GAIN (LOSS) ON TRADING ACTIVITIES: COMPOSITION

	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses (D)	Net income [(A+B) - (C+D)]
1. Financial assets held for trading					
1.1 Debt securities					
1.2 Equity securities					
1.3 Units in collective investment undertakings					
1.4 Loans					
1.5 Other					
2. Financial liabilities held for trading					
2.1 Debt securities					
2.2 Payables					
2.3 Other					
3. Other financial assets and liabilities: exchange rate differences	**1,179**	x		x	**1,179**
4. Derivatives	**383,550**	**8,574**	**432,254**	**8,807**	**(48,937)**
4.1 Financial derivatives	383,550	8,574	432,254	8,807	(48,937)
- on debt securities and interest rates	22,449	8,574	49,345	8,807	(27,129)
- on equity securities and equity indices	361,101		382,909		(21,808)
- on foreign currencies and gold	x	x	x	x	
- other					
4.2 Credit derivatives					
Total	**384,729**	**8,574**	**432,254**	**8,807**	**(47,758)**

SECTION 5 – NET GAIN (LOSS) ON HEDGING ACTIVITIES – ITEM 90

5.1 Net gain (loss) on hedging activities: composition

(thousands of euros)

5.1 NET GAIN (LOSS) ON HEDGING ACTIVITIES: COMPOSITION

	31/12/2011	31/12/2010
A. Income on:		
A.1 Fair value hedges	393,707	101,422
A.2 Hedged financial assets (fair value)	1,483,219	519,431
A.3 Hedged financial liabilities (fair value)	95,512	41,049
A.4 Cash flow hedges		
A.5 Assets and liabilities in foreign currencies	19,287	143,712
Total income on hedging activities (A)	**1,991,725**	**805,614**
B. Expense on:		
B.1 Fair value hedges	1,604,766	562,215
B.2 Hedged financial assets (fair value)		656
B.3 Hedged financial liabilities (fair value)	395,141	97,196
B.4 Cash flow hedges		
B.5 Assets and liabilities in foreign currencies	19,287	143,712
Total expense on hedging activities (B)	**2,019,194**	**803,779**
C. Net gain (loss) on hedging activities (A-B)	**(27,469)**	**1,835**

SECTION 6 – GAINS (LOSSES) ON DISPOSAL OR REPURCHASE – ITEM 100

6.1 Gains (losses) on disposal or repurchase: composition

(thousands of euros)

6.1 GAINS (LOSSES) ON DISPOSAL OR REPURCHASE: COMPOSITION

	31/12/2011			31/12/2010		
	Gains	Losses	Net gain (loss)	Gains	Losses	Net gain (loss)
Financial assets						
1 Loans to banks						
2 Loans to customers	8,907	(2,833)	6,074	71,508		71,508
3 Financial assets available for sale	346		346	129,666		129,666
3.1 Debt securities	346		346	1,021		1,021
3.2 Equity securities				128,645		128,645
3.3 Units in collective investment undertakings						
3.4 Loans						
4 Financial assets held to maturity	6		6			
Total assets	**9,259**	**(2,833)**	**6,426**	**201,174**		**201,174**
Financial liabilities						
1 Due to banks						
2 Due to customers						
3 Securities issued						
Total liabilities						

The balance mainly refers to penalties received on the early repayment of loans.

SECTION 8 – NET IMPAIRMENT ADJUSTMENTS – ITEM 130

The balance, totalling about €10.2 million, refers to the net balance between writedowns, both specific and general, and writebacks. Writebacks from interest concern writebacks connected with the passage of time, arising from the accrual of interest during the year based on the original effective interest rate used in calculating the writedown.

8.1 Net impairment adjustments of loans: composition

(thousands of euros)

8.1 NET IMPAIRMENT ADJUSTMENTS OF LOANS: COMPOSITION

	Writedowns			Writebacks				31/12/2011	31/12/2010
	Specific		Portfolio	Specific		Portfolio			
	Writeoffs	Other		A	B	A	B		
A. Loans to banks									
- Loans									
- Debt securities									
B. Loans to customers		(5,380)	(2,381)	174	21			(7,566)	(3,791)
- Loans		(5,380)	(2,365)	174	21			(7,550)	(3,791)
- Debt securities			(16)					(16)	
C. Total		**(5,380)**	**(2,381)**	**174**	**21**			**(7,566)**	**(3,791)**

Key
A = Interest
B = Other writebacks

8.4 Net impairment adjustments of other financial transactions: composition

(thousands of euros)

8.4 NET IMPAIRMENT ADJUSTMENTS OF OTHER FINANCIAL TRANSACTIONS: COMPOSITION

	Writedowns			Writebacks				31/12/2011	31/12/2010
	Specific		Portfolio	Specific		Portfolio			
	Writeoffs	Other		A	B	A	B		
A. Guarantees issued			(123)					(123)	
B. Credit derivatives									
C. Commitments to disburse funds		(967)	(1,533)					(2,500)	
D. Other transactions									
C. Total		**(967)**	**(1,656)**					**(2,623)**	

Key
A = Interest
B = Other writebacks

SECTION 11 – GENERAL AND ADMINISTRATIVE EXPENSES – ITEM 180

11.1 Staff costs: composition

(thousands of euros)

11.1 STAFF COSTS: COMPOSITION

	Banking group	Other entities	31/12/2011	31/12/2010
1) Employees	**50,886**	**211,826**	**262,712**	**257,095**
a) wages and salaries	36,662	131,379	168,041	164,151
b) social security contributions	471	58,662	59,133	59,968
c) severance pay	1		1	
d) pensions	9,139	47	9,186	8,111
e) allocation to staff severance pay provision	1,310	14,367	15,677	14,757
f) allocation to provision for pensions and similar liabilities				
- defined contribution				
- defined benefit				
g) payments to external pension funds	1,295	2	1,297	1,001
- defined contribution	1,295	2	1,297	1,001
- defined benefit				
h) costs in respect of agreements to make payments in own equity instruments				
i) other employee benefits	2,008	7,369	9,377	9,107
2) Other personnel in service	**319**	**6**	**325**	**139**
3) Board of Directors and Board of Auditors	**2,191**	**2,535**	**4,726**	**4,570**
4) Retired personnel				
Total	**53,396**	**214,367**	**267,763**	**261,804**

11.2 Average number of employees by category

11.2 AVERAGE NUMBER OF EMPLOYEES BY CATEGORY

	Banking group	Other entities	31/12/2011
Employees	**492**	**3,525**	**4,017**
a) Senior management	48	62	110
b) Middle management	183	506	689
- of which: grade 3 and 4	126	504	630
c) Other employees	261	2,957	3,218
Other personnel	**11**		**11**

11.4 Other employee benefits

(thousands of euros)

11.4 OTHER EMPLOYEE BENEFITS

	31/12/2011	31/12/2010
Lunch vouchers	755	526
Staff insurance	1,090	886
Interest subsidies on loans	319	34
Other benefits	7,213	7,661
Total	**9,377**	**9,107**

"Other benefits" mainly regards the benefits associated with the "electricity discount" of the Terna Group.

11.5 Other administrative expenses: composition

(thousands of euros)

11.5 OTHER ADMINISTRATIVE EXPENSES: COMPOSITION

	Banking group	Other entities	31/12/2011	31/12/2010
Professional and financial services	7,166	7,619	14,785	27,791
IT costs	10,782	24,319	35,101	29,967
General services	7,630	103,301	110,931	102,843
Advertising and marketing	2,127	6,993	9,120	9,991
Information resources and databases	1,419	1	1,420	1,224
Utilities, duties and other expenses	5,535	41,853	47,388	54,443
Corporate bodies	447	-	447	342
Other personnel costs	1,159	53	1,212	1,018
Totale	**36,265**	**184,139**	**220,404**	**227,618**

The following table reports the fees paid for statutory auditing and non-audit services.

(thousands of euros)

FEES FOR AUDITING AND NON-AUDIT SERVICES

	Service provider			
	KPMG S.p.A.	PricewaterhouseCoopers S.p.A.	Fees for the year	Client
Auditing and financial statements		291	291	CDP S.p.A.
Certification	20	48	68	CDP S.p.A.
Auditing and financial statements		6	6	CDP Investimenti SGR S.p.A.
Auditing and financial statements		19	19	Fondo Strategico Italiano S.p.A.
Auditing and financial statements	178	248	426	Terna Group
Certification	109	53	162	Terna Group
Total	**307**	**665**	**972**	

SECTION 12 – NET PROVISIONS – ITEM 190

12.1 Net provisions: composition

(thousands of euros)

12.1 NET PROVISIONS: COMPOSITION

	31/12/2011	31/12/2010
Review of existing provision for litigation with personnel and customers	2,799	3,214
Other provisions	6,231	3,242
Total	**9,030**	**6,456**

SECTION 13 – NET ADJUSTMENTS OF PROPERTY, PLANT AND EQUIPMENT – ITEM 200

13.1. Net adjustments of property, plant and equipment: composition

(thousands of euros)

13.1 NET ADJUSTMENTS OF PROPERTY, PLANT AND EQUIPMENT: BANKING GROUP

	Depreciation (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustments (a+b-c)
A. Property, plant and equipment	**(5,677)**			**(5,677)**
A.1 Owned	(5,677)			(5,677)
- Operating assets	(5,677)			(5,677)
- Investment property				
A.2 Acquired under finance leases				
- Operating assets				
- Investment property				
Total	**(5,677)**			**(5,677)**

(thousands of euros)

13.1.2 NET ADJUSTMENTS OF PROPERTY, PLANT AND EQUIPMENT: OTHER ENTITIES

	Depreciation (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustments (a+b-c)
A. Property, plant and equipment	**(388,367)**	**(2,115)**		**(390,482)**
A.1 Owned	(388,367)	(2,115)		(390,482)
- Operating assets	(388,367)	(2,115)		(390,482)
- Investment property				
A.2 Acquired under finance leases				
- Operating assets				
- Investment property				
Total	**(388,367)**	**(2,115)**		**(390,482)**

SECTION 14 – NET ADJUSTMENTS OF INTANGIBLE ASSETS – ITEM 210

14.1 Net adjustments of intangible assets: composition

(thousands of euros)

14.1.1 NET ADJUSTMENTS OF INTANGIBLE ASSETS: BANKING GROUP

	Amortisation (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustments (a+b-c)
A. Intangible assets	**(2,213)**			**(2,213)**
A.1 Owned	(2,213)			(2,213)
- Internally generated				
- Other	(2,213)			(2,213)
A.2 Acquired under finance leases				
Total	**(2,213)**			**(2,213)**

(thousands of euros)

14.1.2 NET ADJUSTMENTS OF INTANGIBLE ASSETS: OTHER ENTITIES

	Amortisation (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustments (a+b-c)
A. Intangible assets	**(50,822)**			**(50,822)**
A.1 Owned	(50,822)			(50,822)
- Internally generated	(19,340)			(19,340)
- Other	(31,482)			(31,482)
A.2 Acquired under finance leases				
Total	**(50,822)**			**(50,822)**

SECTION 15 – OTHER OPERATING COSTS AND INCOME – ITEM 220

15.1 Other operating costs: composition

(thousands of euros)

15.1 OTHER OPERATING COSTS: COMPOSITION

	Banking group	Other entities	31/12/2011	31/12/2010
Operating costs in respect of supply chain	1		1	2
Other	31	1,620	1,651	173
Total	**32**	**1,620**	**1,652**	**175**

15.2 Other operating income: composition

(thousands of euros)

15.2 OTHER OPERATING INCOME: COMPOSITION

	Banking group	Other entities	31/12/2011	31/12/2010
Income from adjustment of liability items	55		55	7
Income for corporate offices paid to employees	248		248	262
Sundry reimbursements	2,147		2,147	582
Reimbursement of expenses incurred for Min. Univ. and Research agreement	316		316	444
Other	512	1,631,183	1,631,695	1,582,736
Total	**3,278**	**1,631,183**	**1,634,461**	**1,584,031**

Other income mainly comprises National Transmission Grid usage fees accruing to Terna.

SECTION 16 – GAINS (LOSSES) ON EQUITY INVESTMENTS – ITEM 240

16.1 Gains (losses) on equity investments: composition

(thousands of euros)

16.1 GAINS (LOSSES) ON EQUITY INVESTMENTS: COMPOSITION

	31/12/2011	31/12/2010
1. Joint ventures		
A. Gains		**165,961**
1. Revaluations		5,831
2. Gains on disposals		49,592
3. Writebacks		
4. Other		110,538
B. Losses		**(669)**
1. Writedowns		(669)
2. Impairments		
3. Losses on disposals		
4. Other		
Net gain (loss)		**165,292**
2. Companies under significant influence		
A. Gains	**1,711,002**	**530,337**
1. Revaluations	1,695,090	120,617
2. Gains on disposals		347,835
3. Writebacks	15,912	
4. Other		61,885
B. Losses		
1. Writedowns		
2. Impairments		
3. Losses on disposals		
4. Other		
Net gain (loss)	**1,711,002**	**530,337**
Total	**1,711,002**	**695,629**

The balance is mainly composed of the share of the net income in respect of the interest in Eni S.p.A., equal to €1,679 million, measured using the equity method.

SECTION 19 – GAINS (LOSSES) ON DISPOSAL OF INVESTMENTS – ITEM 270

19.1 Gains (losses) on disposal of investments – Item 270

(thousands of euros)

19.1 GAINS (LOSSES) ON DISPOSAL OF INVESTMENTS: COMPOSITION

	31/12/2011	31/12/2010
A. Land and buildings	239	560
- Gains on disposal	239	560
- Losses on disposal		
B. Other assets	3,365	2,492
- Gains on disposal	4,180	2,958
- Losses on disposal	(815)	(466)
Net gain (loss)	**3,604**	**3,052**

SECTION 20 – INCOME TAX FOR THE PERIOD ON CONTINUING OPERATIONS – ITEM 290

20.1 Income tax for the period on continuing operations: composition

(thousands of euros)

20.1 INCOME TAX FOR THE PERIOD ON CONTINUING OPERATIONS: COMPOSITION

	31/12/2011	31/12/2010
1. Current taxes (-)	(804,658)	(693,770)
2. Change in current taxes from previous years (+/-)	1,774	6,469
3. Reduction of current taxes for the year (+)		
4. Change in deferred tax assets (+/-)	97,231	(14,447)
5. Change in deferred tax liabilities (+/-)	(118,033)	60,769
6. Taxes for the year (-) (-1+/-2+3+/-4+/-5)	(823,686)	(640,979)

SECTION 21 – INCOME (LOSS) AFTER TAX OF DISPOSAL GROUPS HELD FOR SALE – ITEM 310

(thousands of euros)

21.1 INCOME (LOSS) AFTER TAX ON DISPOSAL GROUPS HELD FOR SALE: COMPOSITION

	Total 31/12/2011	Total 31/12/2010
1. Gains	33.819	503.289
2. Losses		355.297
3. Result of valuation of disposal group (assets and associated liabilities)		
4. Gain (loss) on realisation	86.947	113
5. Tax and duties	(8.062)	(1.257)
Net income (loss)	**112.704**	**146.848**

(thousands of euros)

21.2 BREAKDOWN OF TAXES ON INCOME ON DISPOSAL GROUPS HELD FOR SALE

	Total 31/12/2011	Total 31/12/2010
1. Current taxes (-)		
2. Change in deferred tax assets (+/-)	136	943
3. Change in deferred tax liabilities (-/+)	(8,198)	(2,200)
4. Taxes for the year (-1 +/- 2 +/- 3)	(8,062)	(1,257)

Net income from disposal groups held for sale came to €112.7 million and regards non-recurring disposals of companies in the photovoltaic sector (€59.2 million in respect of the holding in Rete Rinnovabile Srl and €19.7 million for NRTS Srl), as well as the release of the hold-harmless guarantee issued in relation to the sale of Terna's Brazilian subsidiaries (€33.8 million). The figure for the previous year, amounting to €146.9 million, essentially included the net margin for 2010 on the photovoltaic plants sold with Rete Rinnovabile.

SECTION 22 – NET INCOME (LOSS) PERTAINING TO NON-CONTROLLING INTERESTS – ITEM 330

22.1 Breakdown of item 330 "Net income (loss) pertaining to non-controlling interests"

Net income pertaining to non-controlling interests amounts to €177,367 thousand.

PART D – CONSOLIDATED COMPREHENSIVE INCOME

(thousands of euros)

DETAILED BREAKDOWN OF CONSOLIDATED COMPREHENSIVE INCOME

		Gross amount	Income taxes	Net amount
10.	**Net income (loss) for the year**	**3,168,467**	**(823,686)**	**2,344,781**
	Other comprehensive income			
20.	Financial assets available for sale			
	a) fair value changes	(246,135)	82,080	(164,055)
	b) reversal to income statement			
	- impairment adjustments			
	- gain/loss on realisation			
	c) other changes			
30.	Property, plant and equipment			
40.	Intangible assets			
50.	Hedging of foreign investments			
	a) fair value changes			
	b) reversal to income statement			
	c) other changes			
60.	Cash flow hedges			
	a) fair value changes	(56,116)	24,286	(31,830)
	b) reversal to income statement			
	c) other changes			
70.	Exchange rate differences			
	a) change of value			
	b) reversal to income statement			
	c) other changes			
80.	Non-current assets held for sale			
	a) change of value			
	b) reversal to income statement			
	c) other changes			
90.	Actuarial gains (losses) on defined benefit plans			
100.	Valuation reserves of equity investments accounted for with equity method (pro rata)			
	a) fair value changes	360,640		360,640
	b) reversal to income statement			
	- impairment adjustments			
	- gain/loss on realisation			
	c) other changes			
110.	**Total other comprehensive income**	**58,389**	**106,366**	**164,755**
120.	**Comprehensive income (items 10+110)**	**3,226,856**	**(717,320)**	**2,509,536**
130.	Consolidated comprehensive income pertaining to non-controlling interests	272,548	(119,152)	153,397
140.	**Consolidated comprehensive income pertaining to shareholders of the parent company**	**2,954,308**	**(598,168)**	**2,356,139**

PART E – INFORMATION ON RISKS AND RELATED HEDGING POLICIES

Within the CDP organisational structure, the Risk Management unit is charged with governing and monitoring all of the forms of risk to which CDP is exposed in its operations, rendering transparent the CDP's overall risk profile and the capital requirements for each category of risk.
These risk categories are defined in the new Risk Policy approved by the Board of Directors in 2010 and comprise market risks (which includes equity risk, interest rate risk, inflation risk and exchange rate risk), liquidity risk, credit risk (which includes concentration risk and counterparty risk for transactions in derivatives), operational risks and reputational risk.
The Risk Committee is a collegial body with responsibility for guidance and control in risk management. It was established in 2010.
The Risk Management unit verifies compliance with the limits set by the Board of Directors and the operational limits established by the Chief Executive Officer, recommending correction actions to the Risk Committee that might be necessary to ensure compliance with the Risk Policy and the risk profile chosen by CDP, monitoring the use of economic capital with respect to capital requirements and participating in capital management activities.
The Risk Management unit is also responsible for providing the company with certified calculation models.

The guidelines governing CDP's risk management policies are summarised in the Risk Management Rules approved by the Board of Directors.
They envisage:

- the separation of roles and responsibilities in the assumption and control of risks;
- organisational independence of risk control from the operational management of risks;
- rigorous risk measurement and control systems.

SECTION 1 – THE RISKS OF THE BANKING GROUP

1.1 CREDIT RISK

QUALITATIVE DISCLOSURES

General aspects

Credit risk arises primarily in relation to lending activity – both under the Separate Account and the Ordinary Account – and on a secondary level in derivatives operations for hedging purposes on financial markets (in the form of counterparty risk).
The Separate Account, which easily has the largest stock of assets, is primarily exposed to public entities and public-law bodies.
Nevertheless, an increasing role is being played by exposures under the Separate Account to the main banking groups operating in Italy, through which CDP channels various types of financing, in particular loans to SMEs and for the reconstruction of the areas hit by the earthquake in Abruzzo.
Although currently limited, exposures under the Separate Account to private-sector parties involved in public interest projects promoted by public entities are expected to become substantial.
The Ordinary Account grants corporate and project financing for initiatives concerning the delivery of public services, drawing on funding not guaranteed by the state.

Credit risk management policies

Organisational aspects
The principles followed by CDP in its lending activities are set out in the Lending Rules, which also govern the lending process and the roles of the units involved.
The Credit department is responsible for reviewing loans and, among other things, for the assignment of ratings and estimating loss given default.
As part of pre-lending assessments, the Risk Management unit focuses on risk-adjusted pricing, monitoring risk-adjusted returns and identifying exposure concentrations. Risk Management also monitors overall developments in the risk level of the loan portfolio with a view to identifying any necessary corrective actions to optimise the risk/return profile.

Risk Management is responsible for recommending a rating and recovery rate policy – approved by the Chief Executive Officer – to the Risk Committee that meets the requirements set out in CDP's Risk Policy.

Finally, Risk Management and Anti-Money Laundering's responsibilities also include:

- the development and/or validation of risk-adjusted credit pricing models;
- the development and/or validation of models and methodologies for the assignment of ratings and recovery rates;
- the preparation of a "rating and recovery rate policy" – approved by the Chief Executive Office – that satisfies the requirements set out in CDP's Risk Policy.

Management, measurement and control systems

As part of its credit risk management and control policies for the Separate Account, CDP adopts a system for lending to regional and local governments, under which each loan is allocated to a uniform risk category, defining the level of risk associated with individual authorities appropriately with the aid of specific quantitative parameters for each type and size of authority.

The lending system makes it possible to identify cases in which a more extensive assessment of the borrower's creditworthiness is necessary, using qualitative and quantitative criteria.

For the Ordinary Account and lending for projects promoted by public entities, CDP uses a validated proprietary model to calculate portfolio credit risk. With the same system CDP also calculated the economic capital associated with the entire loan portfolio, with the sole exception of positions with pure state risk only.

The Risk Management unit regularly monitors the net current and contingent exposure to banks in respect of derivatives transactions, carried out for hedging purposes only, in order to avoid concentration risk. Risk Management also monitors the compliance with minimum rating requirement for counterparties and limits based on the maximum notional amounts of transactions and credit equivalents, by counterparty or groups of connected counterparties, established in the CDP's Risk Policy. The latter also provides for the monitoring of exposures to counterparties in treasury activities.

Credit risk mitigation techniques

CDP mitigates the credit risk in respect of lending operations using techniques commonly adopted in the banking industry.

CDP's credit exposures under the Separate Account are largely accounted for by specific-purpose loans secured by delegation of payment.

Financing under the Ordinary Account of non-public entities within the Separate Account may be secured by security interests in property or unsecured guarantees.
In addition to normal guarantee requirements, mainly in operations under the Ordinary Account and those for non-public entities under the Separate Account, other options include contractual clauses requiring borrowers to comply with financial covenants that make it possible to monitor credit risk more closely over the life of an operation.

As regards bank counterparties in transactions in hedging derivatives, in view of the ISDA contracts signed, netting arrangements are also used. All the contracts are based on the 2002 ISDA agreement.
Credit Support Annexes, which involve the periodic exchange of collateral, are also used to strengthen credit risk mitigation.
The arrangement is based on the standard format recommended by ISDA.
CDP intends to use Global Master Repurchase Agreements (GMRA) (ISMA 2000 version) for securities financing transactions.

Impaired financial assets
Impaired financial assets are measured and classified in accordance with supervisory regulations.
The main credit events monitored in analysing the financial soundness of counterparties and the consequent valuation of the exposure in the financial statements regard failure to make payments (or other contractual breaches), declarations of financial crisis by local authorities or the initiation of bankruptcy proceedings for other borrowers.
The measurement of impaired positions is based on an estimate of the loan recovery plan, discounted at the effective interest rate of the specific loan. In estimating the recovery plan and the consequent writedown, account is taken of any collateral or unsecured guarantees received. These include amounts granted but not yet disbursed on specific-purpose loans, which are disbursed on a state-of-completion basis.
Borrowers with substantial arrears are disqualified from accessing new CDP financing and any remaining amounts to be disbursed on problem loans are frozen.
The assessment is reviewed whenever new information is received on events that might modify the outlook for recovery. In order to ensure that such events are reflected promptly, the information on borrowers is monitored periodically and

developments in out-of-court arrangements and the various stages of court proceedings are tracked constantly.
Impaired assets are classified in order to identify – based on information about the counterparty's financial position, the age of the past-due amounts, the materiality thresholds indicated by supervisory regulations and any debt restructurings authorised by CDP – non-performing positions to be reported under bad debts, substandard positions, restructured exposures and persistent past-due/overlimit positions.
In the pre-litigation stage, impaired positions are monitored and managed by the Lending unit in coordination with the other organisational structures involved. Actions for the recovery of these exposures aims to maximize the financial return, making use of out-of-court arrangements, including settlements, where appropriate, in order to improve recovery times and minimise costs incurred.
The restoration of impaired exposures to performing status is subject to verification that the problem conditions or insolvency have been eliminated and to the binding opinion, where envisaged, of the credit monitoring unit.
Loans for which no evidence of individual impairment has been identified undergo collective impairment testing.
The method used for collective testing is based on the internal parameters used for pricing loans and calculating (for internal purposes only) CDP's capital adequacy with respect to the exposures it has assumed.
The estimate of the incurred loss for the portfolio is determined by applying a number of corrective parameters to the 1-year expected loss.
These corrective parameters are determined by considering the degree of concentration of the loan portfolio (concentration adjustments) and the expected time between the default event and the emergence of confirmation of default (loss confirmation period).

QUANTITATIVE DISCLOSURES

A. CREDIT QUALITY

A.1 IMPAIRED AND PERFORMING CREDIT EXPOSURES: STOCKS, WRITEDOWNS, CHANGES AND DISTRIBUTION BY SECTOR AND GEOGRAPHICAL AREA

(thousands of euros)

A.1.1 DISTRIBUTION OF FINANCIAL ASSETS BY PORTFOLIO AND CREDIT QUALITY (CARRYING AMOUNT)

	Banking group					Other entities		Total
	Bad debts	Substandard loans	Restructured positions	Past due positions	Other assets	Impaired	Other	
1. Financial assets held for trading					581,081			581,081
2. Financial assets available for sale					2,530,203			2,530,203
3. Financial assets held to maturity					9,289,691			9,289,691
4. Loans to banks					19,411,563		1,270,370	20,681,933
5. Loans to customers	6,070	26,736		13,626	219,811,519		177,581	220,035,532
6. Financial assets at fair value								
7. Financial assets being divested								
8. Hedging derivatives					359,794		571,519	931,313
Total at 31/12/2011	**6,070**	**26,736**	**-**	**13,626**	**251,983,851**	**-**	**2,019,470**	**254,049,753**
Total at 31/12/2010	**3,035**	**28,417**	**-**	**5,679**	**229,461,542**	**-**	**373,068**	**229,871,741**

(thousands of euros)

A.1.2 DISTRIBUTION OF FINANCIAL ASSETS BY PORTFOLIO AND CREDIT QUALITY (GROSS AND NET VALUES)

	Impaired assets			Performing			Total (net exposure)
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	
A. Banking group							
1. Financial assets held for trading				x	x	581,081	581,081
2. Financial assets available for sale				2,530,203		2,530,203	2,530,203
3. Financial assets held to maturity				9,289,691		9,289,691	9,289,691
4. Loans to banks				19,411,563		19,411,563	19,411,563
5. Loans to customers	117,611	(71,179)	46,432	219,813,900	(2,381)	219,811,519	219,857,951
6. Financial assets at fair value				x	x		
7. Financial assets being divested							
8. Hedging derivatives				x	x	359,794	359,794
Total A	**117,611**	**(71,179)**	**46,432**	**251,045,357**	**(2,381)**	**251,983,851**	**252,030,283**
B. Other consolidated entities							
1. Financial assets held for trading				x	x		
2. Financial assets available for sale							
3. Financial assets held to maturity							
4. Loans to banks				1,270,370		1,270,370	1,270,370
5. Loans to customers				177,581		177,581	177,581
6. Financial assets at fair value				x	x		
7. Financial assets being divested							
8. Hedging derivatives				x	x	571,519	571,519
Total B	**-**	**-**	**-**	**1,447,951**	**-**	**2,019,470**	**2,019,470**
Total at 31/12/2011	**117,611**	**(71,179)**	**46,432**	**252,493,308**	**(2,381)**	**254,003,321**	**254,049,753**
Total at 31/12/2010	**96,566**	**(59,435)**	**37,131**	**228,395,084**	**-**	**229,834,610**	**229,871,741**

(thousands of euros)

A.1.3 BANKING GROUP - ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO BANKS: GROSS AND NET VALUES

	Gross exposure	Specific writedowns	Portfolio writedowns	Net exposure
A. ON-BALANCE-SHEET EXPOSURES				
a) Bad debts			x	
b) Substandard loans			x	
c) Restructured positions			x	
d) Past due positions			x	
e) Other assets	19,411,563	x		19,411,563
TOTAL A	**19,411,563**	**-**	**-**	**19,411,563**
B. OFF-BALANCE-SHEET EXPOSURES				
a) Impaired			x	
b) Other	1,015,867	x		1,015,867
TOTAL B	**1,015,867**	**-**	**-**	**1,015,867**
TOTAL (A+B)	**20,427,430**	**-**	**-**	**20,427,430**

(thousands of euros)

A.1.6 BANKING GROUP - ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS: GROSS AND NET VALUES

	Gross exposure	Specific writedowns	Portfolio writedowns	Net exposure
A. ON-BALANCE-SHEET EXPOSURES				
a) Bad debts	44,490	(38,420)	x	6,070
b) Substandard loans	59,495	(32,759)	x	26,736
c) Restructured positions			x	
d) Past due positions	13,626		x	13,626
e) Other assets	232,313,745	x	(2,381)	232,311,364
TOTAL A	**232,431,356**	**(71,179)**	**(2,381)**	**232,357,796**
B. OFF-BALANCE-SHEET EXPOSURES				
a) Impaired	7,684	(967)	x	6,717
b) Other	13,775,195	x	(1,655)	13,773,540
TOTAL B	**13,782,879**	**(967)**	**(1,655)**	**13,780,257**
TOTAL (A+B)	**246,214,235**	**(72,146)**	**(4,036)**	**246,138,053**

(thousands of euros)

A.1.7 BANKING GROUP - ON-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS: CHANGES IN GROSS IMPAIRED POSITIONS

	Bad debts	Substandard loans	Restructured positions	Past due positions
A. Opening gross exposure	**37,294**	**53,593**		**5,679**
- of which: exposures assigned but not derecognised				
B. Increases	**7,679**	**12,068**		**14,546**
B.1 transfers from performing positions		2,722		14,361
B.2 transfers from other categories of impaired positions	5,000	2,746		
B.3 other increases	2,679	6,600		185
C. Decreases	**483**	**6,166**		**6,599**
C.1. to performing loans		509		2,846
C.2. writeoffs				
C.3. collections	483	657		1,007
C.4. assignments				
C.5. transfers to other categories of impaired positions		5,000		2,746
C.6. other decreases				
D. Closing gross exposure	**44,490**	**59,495**		**13,626**
- of which: exposures assigned but not derecognised				

(thousands of euros)

A.1.8 BANKING GROUP - ON-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS: CHANGES IN TOTAL ADJUSTMENTS

	Bad debts	Substandard loans	Restructured positions	Past due positions
A. Total opening adjustments	**33,564**	**25,176**		
- of which: exposures assigned but not derecognised				
B. Increases	**5,051**	**7,670**		
B.1 writedowns	2,711	2,669		
B.2 transfers from other categories of impaired positions	87			
B.3 other increases	2,253	5,001		
C. Decreases	**195**	**87**		
C.1 writebacks from valuations	195			
C.2 writebacks from collection				
C.3 writeoffs				
C.4 transfers to other categories of impaired positions		87		
C.5 other decreases				
D. Total closing adjustments	**38,420**	**32,759**		
- of which: exposures assigned but not derecognised				

A.2 Classification of credit exposures on the basis of external and internal ratings

(thousands of euros)

A.2.1 BANKING GROUP - DISTRIBUTION OF ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES BY EXTERNAL RATING GRADES

	External rating grades						Not rated	Total
	class 1	class 2	class 3	class 4	class 5	class 6		
A. On-balance-sheet exposures	**3,292,717**	**195,757,060**	**7,460,453**	**298,453**		**37,221**	**44,923,455**	**251,769,359**
B. Derivatives	**254,718**	**620,331**	**49,232**				**16,594**	**940,875**
B.1 Financial derivatives	254,718	620,331	49,232				16,594	**940,875**
B.2 Credit derivatives								**-**
C. Guarantees issued							**224,275**	**224,275**
D. Commitments to disburse funds	**38,603**	**9,050,410**	**285,396**	**10,195**			**4,246,370**	**13,630,974**
Total	**3,586,038**	**205,427,801**	**7,795,081**	**308,648**	**-**	**37,221**	**49,410,694**	**266,565,483**

The following table maps the rating grades and the agency ratings used.

Rating grades	ECAI		
	Moody's	Fitch	Standard & Poor's
Class 1	from Aaa to Aa3	from AAA to AA-	from AAA to AA-
Class 2	from A1 to A3	from A+ to A-	from A+ to A-
Class 3	from Baa1 to Baa3	from BBB+ to BBB-	from BBB+ to BBB-
Class 4	from Ba1 to Ba3	from BB+ to BB-	from BB+ to BB-
Class 5	from B1 to B3	from B+ to B-	from B+ to B-
Class 6	Caa1 and lower	CCC+ and lower	CCC+ and lower

A.3 Distribution of secured credit exposures by type of guarantee

(thousands of euros)

A.3.1 BANKING GROUP - SECURED CREDIT EXPOSURES TO BANKS

	Net exposure	Collateral (1)			Unsecured guarantees (2)									Total (1)+(2)
					Credit derivatives					Guarantees				
					CLN	Other derivatives								
		Land and buildings	Securities	Other assets		Governments and central banks	Other government agencies	Banks	Other	Governments and central banks	Other government agencies	Banks	Other	
1. Secured on-balance-sheet credit exposures:														
1.1 fully secured	9,841									9,841				9,841
- of which: impaired														
1.2 partially secured														
- of which: impaired														
2. Secured off-balance-sheet credit exposures:														
2.1 fully secured	900,993			891,697						9,296				900,993
- of which: impaired														
2.2 partially secured														
- of which: impaired														

(thousands of euros)

A.3.2 BANKING GROUP - SECURED CREDIT EXPOSURES TO CUSTOMERS

	Net exposure	Collateral (1)			Unsecured guarantees (2)									Total (1)+(2)
					Credit derivatives					Guarantees				
					CLN	Other derivatives								
		Land and buildings	Securities	Other assets		Governments and central banks	Other government agencies	Banks	Other	Governments and central banks	Other government agencies	Banks	Other	
1. Secured on-balance-sheet credit exposures:														
1.1 fully secured	3,128,322	116,101	152,687	240,251						928,931	217,978	16,418	1,456,049	3,128,415
- of which: impaired	*25,933*									*26,028*				*26,028*
1.2 partially secured	84,306,387			8,365,662							5,205	5,823		8,376,690
- of which: impaired	*6,145*			*471*										*471*
2. Secured off-balance-sheet credit exposures:														
2.1 fully secured	1,691,244	7,085	309,361	199,066						727,006	108,726		340,000	1,691,244
- of which: impaired	*6,673*									*6,673*				*6,673*
2.2 partially secured														
- of which: impaired														

B. DISTRIBUTION AND CONCENTRATION OF CREDIT EXPOSURES

B.1 BANKING GROUP – ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS BY SECTOR (CARRYING AMOUNT)

(thousands of euros)

B.1 BANKING GROUP - ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS BY SECTOR (CARRYING AMOUNT)

	Governments			Other government agencies			Financial companies			Insurance undertakings			Non-financial companies			Other		
	Net exposure	Specific writedowns	Portfolio writedowns	Net exposure	Specific writedowns	Portfolio writedowns	Net exposure	Specific writedowns	Portfolio writedowns	Net exposure	Specific writedowns	Portfolio writedowns	Net exposure	Specific writedowns	Portfolio writedowns	Net exposure	Specific writedowns	Portfolio writedowns
A. On-balance-sheet exposures																		
A.1 Bad debts			x	2,651	(4,686)	x		(1,870)	x			x	3,419	(31,864)	x			x
A.2 Substandard loans			x		(29,944)	x			x			x	26,736	(2,815)	x			x
A.3 Restructured positions			x			x			x			x			x			x
A.4 Past due positions			x	517		x			x			x	13,109		x			x
A.5 Other	172,195,807	x		51,189,217	x		462,417	x			x		8,430,786	x	(2,381)	33,137	x	
Total A	**172,195,807**	**-**	**-**	**51,192,385**	**(34,630)**	**-**	**462,417**	**(1,870)**	**-**	**-**	**-**	**-**	**8,474,050**	**(34,679)**	**(2,381)**	**33,137**	**-**	**-**
B. Off-balance-sheet exposures																		
B.1 Bad debts			x			x		(967)	x			x			x			x
B.2 Substandard loans			x			x			x			x	2,860		x			x
B.3 Other impaired assets			x			x			x			x	3,857		x			x
B.4 Other	5,863,973	x		4,045,542	x		63,720	x			x		3,798,161	x	(1,655)	2,144	x	
Total B	**5,863,973**	**-**	**-**	**4,045,542**	**-**	**-**	**63,720**	**(967)**	**-**	**-**	**-**	**-**	**3,804,878**	**-**	**(1,655)**	**2,144**	**-**	**-**
Total (A+B) at 31/12/2011	**178,059,780**	**-**	**-**	**55,237,927**	**(34,630)**	**-**	**526,137**	**(2,837)**	**-**	**-**	**-**	**-**	**12,278,928**	**(34,679)**	**(4,036)**	**35,281**	**-**	**-**
Total (A+B) at 31/12/2010	**164,298,978**	**-**	**-**	**54,436,108**	**(26,007)**	**-**	**663,171**	**(1,793)**	**-**	**-**	**-**	**-**	**10,897,177**	**(31,635)**	**-**	**57,764**	**-**	**-**

B.2 Banking group – On-balance-sheet and off-balance-sheet credit exposures to customers by geographical area (carrying amount)

(thousands of euros)

B.2 BANKING GROUP - ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS BY GEOGRAPHICAL AREA (CARRYING AMOUNT)

	Italy		Other European countries		Americas		Asia		Rest of world	
	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance-sheet exposures										
A.1 Bad debts	6,070	(38,420)								
A.2 Substandard loans	26,736	(32,759)								
A.3 Restructured positions										
A.4 Past due positions	13,626									
A.5 Other	232,104,233	(2,381)	207,131							
Total A	**232,150,665**	**(73,560)**	**207,131**							
B. Off-balance-sheet exposures										
B.1 Bad debts		(967)								
B.2 Substandard loans	2,860									
B.3 Other impaired assets	3,857									
B.4 Other	13,722,966	(1,655)	1,396		49,178					
Total B	**13,729,683**	**(2,622)**	**1,396**		**49,178**					
Total (A+B) at 31/12/2011	**245,880,348**	**(76,182)**	**208,527**		**49,178**					
Total (A+B) at 31/12/2010	**230,264,540**	**(59,435)**	**88,658**							

B.3 Banking group – On-balance-sheet and off-balance-sheet credit exposures to banks by geographical area (carrying amount)

(thousands of euros)

B.3 BANKING GROUP - ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO BANKS BY GEOGRAPHICAL AREA (CARRYING AMOUNT)

	Italy		Other European countries		Americas		Asia		Rest of world	
	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance-sheet exposures										
A.1 Bad debts										
A.2 Substandard loans										
A.3 Restructured positions										
A.4 Past due positions										
A.5 Other	12,408,227		7,003,336							
Total	**12,408,227**		**7,003,336**							
B. Off-balance-sheet exposures										
B.1 Bad debts										
B.2 Substandard loans										
B.3 Other impaired assets										
B.4 Other	182,843		833,024							
Total	**182,843**		**833,024**							
Total (A+B) at 31/12/2011	**12,591,070**		**7,836,360**							
Total (A+B) at 31/12/2010	**9,922,257**		**2,265,159**							

C. SECURITISATIONS AND ASSET DISPOSALS

C.1 SECURITISATIONS

QUALITATIVE DISCLOSURES

At the end of 2002, CDP, then a public agency, carried out a securitisation with the assignment without recourse of six portfolios of claims on customers in respect of loans to the following types of borrowers:

1. special corporations or consortiums operated by local authorities, consortiums of local authorities, and public or private limited companies operating public services (portfolio extinguished on 1 July 2009);
2. departments of the state, the regions, the autonomous provinces or local authorities;
3. A2A S.p.A.;
4. Acea Distribuzione S.p.A. (portfolio extinguished at the end of 2005);
5. RFI S.p.A.;
6. Poste Italiane S.p.A.

As regard the obligations of CDP, which are defined in the assignment contract, under which CDP has made certain representations and guarantees to CPG, taking on specified costs, expenses and liabilities associated with the portfolios, please note that the operation and the flows linked to all the securitised portfolios are proceeding regularly.

The loans underlying the transaction were fully derecognised, since CDP applied the provisions of paragraph 27 of IFRS 1, which requires first-time adopters to apply the derecognition rules for financial assets prospectively for transactions carried out as from 1 January 2004.

QUANTITATIVE DISCLOSURES

(thousands of euros)

C.1.1 BANKING GROUP - EXPOSURES IN RESPECT OF SECURITISATIONS BY QUALITY OF SECURITISED ASSETS

	On-balance-sheet exposures						Guarantees issued						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. With own underlying assets:	**14,726**	**14,726**																
a) Impaired																		
b) Other	14,726	14,726																
B. With third-party underlying assets:																		
a) Impaired																		
b) Other																		

(thousands of euros)

C.1.2 BANKING GROUP - EXPOSURES IN RESPECT OF MAIN OWN SECURITISATIONS BY TYPE OF SECURITISED ASSETS AND TYPE OF EXPOSURE

	On-balance-sheet exposures						Guarantees issued						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Carrying amount	Writedowns/writebacks	Carrying amount	Writedowns/writebacks	Carrying amount	Writedowns/writebacks	Net exposure	Writedowns/writebacks	Net exposure	Writedowns/writebacks	Net exposure	Writedowns/writebacks	Net exposure	Writedowns/writebacks	Net exposure	Writedowns/writebacks	Net exposure	Writedowns/writebacks
A. Fully derecognised	**14,726**																	
A.1 CPG - Società di cartolarizzazione a r.l. - Long-term loans	14,726																	
B. Partially derecognised																		
C. Not derecognised																		

(thousands of euros)

C.1.4 BANKING GROUP - EXPOSURES IN RESPECT OF SECURITISATIONS BY PORTFOLIO AND TYPE

	Financial assets held for trading	Financial assets at fair value	Financial assets available for sale	Financial assets held to maturity	Loans	31/12/2011	31/12/2010
1. On-balance-sheet exposures					**14,726**	**14,726**	**222,385**
- senior					14,726	14,726	222,385
- mezzanine							
- junior							
2. Off-balance-sheet exposures							
- senior							
- mezzanine							
- junior							

(thousands of euros)

C.1.7 BANKING GROUP - SERVICER ACTIVITIES - COLLECTIONS ON SECURITISED ASSETS AND REDEMPTION OF SECURITIES ISSUED BY VEHICLE

Servicer	Vehicle	Securitised assets (end-period figure)		Collections in the year		% of securities redeemed (end-period figure)					
						senior		mezzanine		junior	
		Impaired	Performing	Impaired	Performing	impaired assets	performing assets	impaired assets	performing assets	impaired assets	performing assets
CDP S.p.A.	CPG - Società di cartolarizzazione a r.l.		481,755		75,591						

C.2 ASSET DISPOSALS

C.2.1 Banking group - Financial assets assigned but not derecognised *(thousands of euros)*

	On-balance-sheet assets				Derivatives	Total 31/12/2011
	Debt securities	Equity securities	Units in collective investment undertakings	Loans		
Financial assets held for trading						
- Assigned financial assets fully recognised (carrying amount)						
- Assigned financial assets partially recognised (carrying amount)						
- Assigned financial assets partially recognised (total value)						
Financial assets at fair value						
- Assigned financial assets fully recognised (carrying amount)						
- Assigned financial assets partially recognised (carrying amount)						
- Assigned financial assets partially recognised (total value)						
Financial assets available for sale	**2.190.740**					**2.190.740**
- Assigned financial assets fully recognised (carrying amount)	2.190.740					2.190.740
- Assigned financial assets partially recognised (carrying amount)						
- Assigned financial assets partially recognised (total value)						
Financial assets held to maturity	**6.386.351**					**6.386.351**
- Assigned financial assets fully recognised (carrying amount)	6.386.351					6.386.351
- Assigned financial assets partially recognised (carrying amount)						
- Assigned financial assets partially recognised (total value)						
Loans to banks						
- Assigned financial assets fully recognised (carrying amount)						
- Assigned financial assets partially recognised (carrying amount)						
- Assigned financial assets partially recognised (total value)						
Loans to customers						
- Assigned financial assets fully recognised (carrying amount)						
- Assigned financial assets partially recognised (carrying amount)						
- Assigned financial assets partially recognised (total value)						
Total 31/12/2011	**8.577.091**	**-**	**-**	**-**	**-**	**8.577.091**

Financial assets assigned but not derecognised regard securities involved in repurchase agreements.

C.2.2 - Banking group- Financial liabilities in respect of financial assets assigned but not derecognised *(thousands of euros)*

	Due to customers		Due to banks		Securities issued		Total 31/12/2011
	In respect of assets fully recognised	In respect of assets partially recognised	In respect of assets fully recognised	In respect of assets partially recognised	In respect of assets fully recognised	In respect of assets partially recognised	
Financial assets held for trading							
Financial assets at fair value							
Financial assets available for sale			2.142.539				2.142.539
Financial assets held to maturity			6.040.715				6.040.715
Loans to banks							
Loans to customers							
Total 31/12/2011			**8.183.254**				**8.183.254**

Financial liabilities in respect of financial assets assigned but not derecognised regard securities under assets involved in repurchase agreements.

C.3 BANKING GROUP – COVERED BOND TRANSACTIONS

To fund its lending activities under the Separate Account, in 2004 CDP launched a programme for the issue of up to €20 billion in covered bonds secured by assets consisting of CDP loans to or guaranteed by Italian regional and local governments. The operation was conducted on the basis of Article 5.18 of Decree Law 269/03, pursuant to which CDP "may pledge its assets and legal relationships to satisfy the rights of the holders of securities it issues".
Since the start of the programme, four public issues have been carried out with a total overall value of €8 billion (at present, following the redemption of €1 billion in 2010, the nominal value of the securities issued comes to €5 billion) as well as a privately-placed yen-denominated issue equal to about €64 million.
Since 2007, issues under the programme have been suspended and under current conditions there appear to be no market opportunities that would counsel additional issues of covered bonds.
In October 2011, in accordance with the procedures provided for in the contracts governing the covered bond programme, the downgrade of CDP's rating triggered the obligation to exchange the collateral for liquidity to be held in a Segregation Collection Account at a contractually eligible bank (AAA rating), with the option of investing this liquidity in "eligible" securities (AAA rating).
Therefore, in early November, a total of €5,336 million was deposited, of which about €4,582 million as a segregated liquidity reserve to meet the obligations arising from initial CDP rating event and about €754 million held as a reserve for the closure of the covered bond programme.
On 26 October 2011, the Board of Directors approved the termination of the covered bond programme. On 16 November 2011, the CEO ordered that counterparties be sent the Notice of Desegregation, filing this decision with the Company Register on 17 November 2011. This completed the desegregation of the portfolio of loans in the segregated pool designated to secure the covered bond programme, which at the time of segregation amounted to about €13,430 million in receivables in respect of loans and around €745 million in the remaining amounts to be disbursed.
At the end of January 2012, the bond issue of 8 September 2006 in the nominal amount of €2 billion (series no. 4) was redeemed upon maturity out of the segregated funds. On 2 February 2012 CDP launched a repurchase offer for those bonds still in circulation:

- Issue (series no. 2) of 20 October 2005, nominal amount of €3 billion, maturing on 31 January 2013;
- Issue (series no. 5) of 15 March 2007, nominal amount of ¥10 billion (about €63.7 million), maturing on 31 January 2017.

Following receipt of acceptances of the repurchase offer, in March 2012, series no. 5 in yen was fully redeemed and a part of series no. 2 was redeemed, with the remaining portion, equal to €2.56 billion, to be redeemed upon its maturity on 31 January 2013.

1.2 BANKING GROUP – MARKET RISKS

1.2.1 INTEREST RATE AND PRICE RISK – SUPERVISORY TRADING BOOK

QUALITATIVE DISCLOSURES

A. General aspects

CDP did not undertake any transactions qualifying for allocation to the supervisory trading book.

1.2.2 INTEREST RATE AND PRICE RISK – BANKING BOOK

QUALITATIVE DISCLOSURES

A. General aspects, management and measurement of interest rate risk and price risk

As part of its activities, CDP is exposed to interest rate risk in all its forms: repricing, yield curve, basis and optionality. CDP also monitors inflation risk within the same conceptual and analytical framework as interest rate risk on the banking book.
These risks can affect the profits and economic value of CDP.

CDP faces a substantial level of interest rate risk due to the presence of large unhedged volumes of assets and liabilities predating its transformation into a joint-stock company and to the structure of assets and liabilities: a considerable portion of CDP's balance sheet consists of funding through ordinary fixed-rate bonds with an early redemption option, while lending is mainly fixed rate. Other types of postal bonds also include an early redemption option whose value is significantly affected by interest rates and inflation.

CDP's basic approach to measuring and managing interest rate risk is an "economic value perspective", which complements the "profitability perspective".

The economic value perspective corresponds to the long-term representation of the profitability perspective, as economic value is essentially equal to the discounted sequence of future margins.
From this perspective, CDP analyses its exposure and risk profile by assessing all balance sheet items that are sensitive to interest rates, quantifying their reaction to small changes (sensitivity analysis) and major shocks (stress testing) to the risk factors. The transition from exposure metrics (derived from the sensitivity analyses and stress testing) to risk metrics is carried out by assigning a probability to possible market scenarios. This gives a statistical distribution of the value of the balance sheet items and composite indicators representing the economic capital necessary for the risks involved.
This monitoring structure is translated into the calculation of value at risk (VaR), at a 99% confidence level and a time horizon of one day and ten days. CDP uses a historical simulation method to calculate VaR.
VaR summarises in a single figure the results of the simulation of many scenarios generated in accordance with the statistical characteristics of the risk factors. While aware of the limits of any composite metric based on historical scenarios, VaR also has two significant strengths:

- it captures the consequences of complex characteristics of the markets and products (volatility, correlation, optionality and asymmetry) in a single value;
- it makes it possible, by way of backtesting, to check the hypotheses underpinning the calculations and simulations.

CDP's Risk Policy sets specific limits to managed the exposure to interest rate and inflation risk. More specifically, limits have been established on the impact on the economic value of parallel movements (±100 basis points) in the yield curve and the inflation curve.

CDP also assesses the impact of interest rate risk on income for shorter horizons using internal planning and ALM systems, specifically quantifying the impact of parallel movements in the yield curve on net interest income.

CDP's ALM approach seeks to minimise the volume of hedging derivatives by exploiting "natural hedges" between fixed-rate assets and liabilities. Hedging therefore regards subsets of those items, depending on the sign of the net exposure, with a view to containing the overall risk exposure.
Operational responsibility for managing interest rate risk lies with the Finance unit.

The measurement and the monitoring of interest rate risk are performed by the Risk Management and Anti-Money Laundering area and are discussed within the Risk Committee. The Board of Directors approves risk management policies and the associated monitoring methods and received periodic reports on the results achieved.

Price (or equity) risk regards the possibility that the net economic value, profitability or the book equity of CDP could be adversely affected by variables associated with shares, in particular the market prices of such securities and related derivatives, or changes in the current and future profitability of the investment in such instruments[12]. For these purposes, investments in units of investment funds, including real estate funds, are treated like shares. As regards real estate risk, CDP provides risk management services on an outsourcing basis to CDPI SGR, the company that runs the Fondo Investimenti per l'Abitare.
In line with the net economic value approach, equity risk is quantified in terms of VaR with a one-year time horizon. VaR provides a proxy of the risk that liquid, listed securities – including those those not recognised at fair value – will not recover any impairment losses over time. It is calculated on the basis of hypotheses about the statistical distribution of the prices of shares, the related derivatives (where present) and the fair value of unlisted securities. Risk is quantified by assuming continuity in the business model of CDP, which expects to hold most of its stock investments for the long term.
An additional source of price risk lies in CDP's funding operations, namely the issue of indexed postal bonds and *Premia* bonds, whose yield is linked to developments in the Dow Jones EUROSTOXX 50 index. The Risk Management and Anti-Money Laundering area monitors the net exposure to such risk.
In the first part of 2011, CDP was also exposed to risks connected with the earn-out option (written call option recognised at fair value) embedded in the contract with Finmeccanica for the sale of ST Holding shares signed in 2009, partially hedged by derivatives with the opposite sign.

B. Fair value hedges

The strategies underlying the fair value hedging of CDP are aimed at reducing interest rate and inflation risk metrics and differ in part for the two Accounts.

[12] As regards the stake in the consolidated company FSI (Fondo Strategico Italiano), it should be pointed out that its Risk Management function acts in cooperation with CDP's Risk Management and Anti-Money Laundering area.

The Ordinary Account is normally hedged against interest rate risk at the origination stage.
On the liability side of the Ordinary Account, this involves specific hedges of floating-rate and/or structured issues, carried out using IRSs indexed to 6-month Euribor plus a spread. As regards assets, fixed-rate loans are generally hedged using amortising IRSs in which CDP pays fixed and receives floating. In this case, the hedge may regard a homogeneous aggregate of loans. The hedges are classified as micro fair value hedges.

The Separate Account adopts a different hedging approach, due to the very large volumes of liabilities incorporating the early redemption option. . As result of the sensitivity profile for these options, CDP's overall exposure to interest rate risk under the Separate Account undergoes significant fluctuations in relation to the level of interest rates. When the exposure reaches levels deemed excessive, it is necessary to activate the mechanisms available, such as entering into new derivative contracts, early termination of existing derivatives, and the purchase of fixed-rate government securities.

Issues of fixed-rate covered bonds in euros were systematically transformed into floating rates using IRSs at the origination stage.

As regard financial assets, at the start of 2006, following the renegotiation of fixed-rate loans charged to the state, CDP had a negative exposure to a rate increase. CDP responded with a programme of micro-hedges of the interest rate risk on portfolios of loans with uniform rate and maturity features.
The programme was implemented using amortising IRSs in which CDP pays fixed and receives 6-month Euribor plus a spread.

Subsequently, CDP continued to hedge part of its new fixed-rate loans, using one-to-one hedges.
Part of the hedges on fixed-rate assets were terminated in advance in 2010, following the renegotiation of fixed-rate loans. A number of further hedges on fixed-rate assets were terminated early in 2011 to contain the total exposure to the yield curve.

The price risk associated with issues of of indexed savings bonds and the Premia series is systematically hedged using options that match those embedded in the bonds. These transactions are not subject to hedge accounting: the embedded

options sold and the options purchased are both recognised at fair value and qualify as operational hedges.
The notional of the options purchased for each issue is calculated using estimates on the basis of the proprietary model of customer redemption behaviour.

C. Cash flow hedges

During 2010 CDP launched a hedging programme for postal bonds indexed to the consumer price index, a leading source of exposure to inflation that is only partially mitigated by the natural hedge against loans with the same type of indexing. The hedges, which are classified as cash flow hedges, are implemented using zero-coupon inflation swaps with the notional determined on a conservative basis, estimating the nominal amount that CDP expects to reach at maturity for each series of hedged bond using the proprietary model of customer redemption behaviour. In most of the transactions to hedge the inflation risk in respect of postal bonds, CDP retains the basis risk in respect of any differences between European and Italian inflation.

At 31 December 2011, in addition to these outstanding cash flow hedges in place, CDP had the existing cash flow hedge of a fixed-rate covered bond in yen, which was hedged with a cross currency swap to counter the uncertainty concerning cash flows due to possible exchange rate variations. The hedge converts the original exposure into a fixed rate in euros.[13]

QUANTITATIVE DISCLOSURES

1. Banking book: distribution of financial assets and liabilities by residual maturity (repricing date)

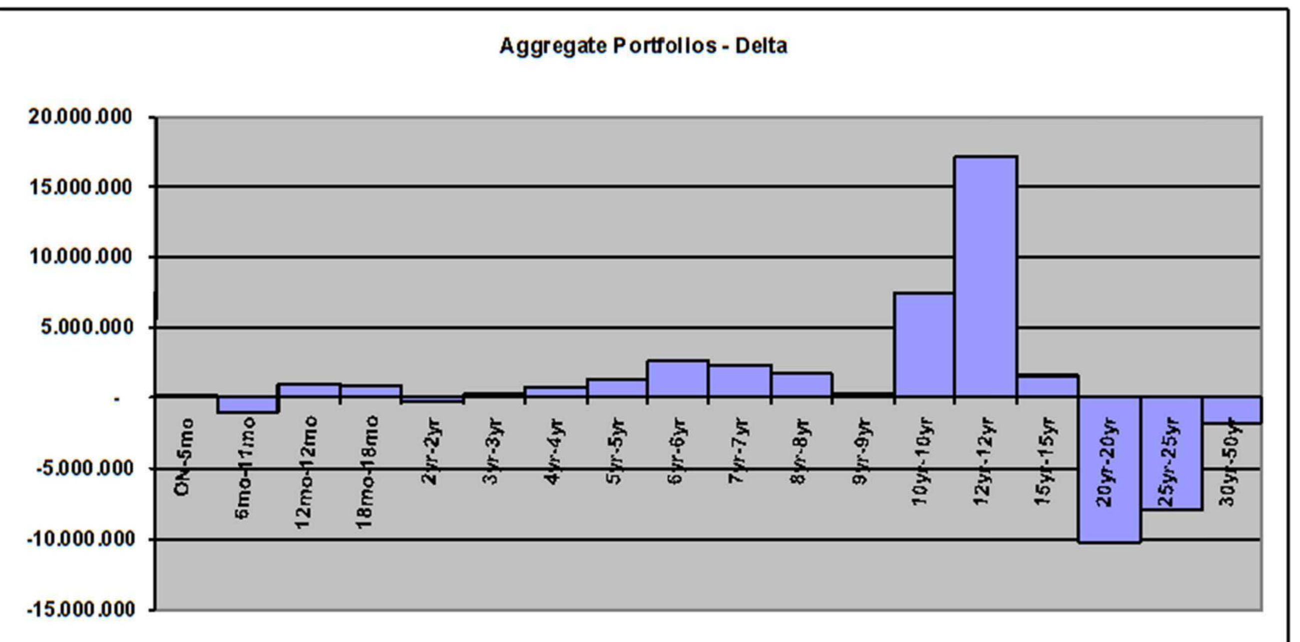
The following figure shows an analysis of interest rate risk sensitivity developed on the basis of internal models.

[13] In March 2012, this hedge was terminated early in connection with CDP's repurchase of the security.

Sensitivity to EURO zero-coupon rates by maturity

Market data at 30/12/2011

RiskFactors	Delta
ON-5mo	3,495
6mo-11mo	- 1,004,588
12mo-12mo	1,061,131
18mo-18mo	913,433
2yr-2yr	- 139,349
3yr-3yr	225,271
4yr-4yr	720,721
5yr-5yr	1,384,552
6yr-6yr	2,678,198
7yr-7yr	2,342,620
8yr-8yr	1,713,667
9yr-9yr	292,464
10yr-10yr	7,528,547
12yr-12yr	17,236,476
15yr-15yr	1,621,750
20yr-20yr	-10,266,774
25yr-25yr	- 8,005,000
30yr-50yr	- 1,805,692



1.2.3 EXCHANGE RATE RISK

QUALITATIVE DISCLOSURES

A. General aspects, management and measurement of exchange rate risk

Exchange rate risk is the risk that changes in exchange rates might have a negative impact on the net income or economic value of CDP.
Certain activities of CDP can generate exchange rate risk. CDP undertakes such activities only if covered by appropriate exchange rate hedges.
The activities of CDP that can engender such exposure are normally associated with the issue of bonds denominated in foreign currencies and equity investments the value of which may be exposed to changes in exchange rates.

B. Hedging exchange rate risk

The exchange rate risk in respect of foreign-currency issues (a covered bond issue and two bond issues under the EMTN programme) was hedged with cross currency swaps, which transform CDP’s cash flows into those equivalent to an issue in euros.

QUANTITATIVE DISCLOSURES

(thousands of euros)

1. DISTRIBUTION BY CURRENCY OF ASSETS, LIABILITIES AND DERIVATIVES

	Currency					
	US dollar	**Pound sterling**	**Yen**	**Canadian dollar**	**Swiss franc**	**Other**
A. Financial assets						
A.1 Debt securities						
A.2 Equity securities						
A.3 Loans to banks						
A.4 Loans to customers						
A.5 Other financial assets						
B. Other assets						
C. Financial liabilities	**290,046**		**232,823**			
C.1 Due to banks						
C.2 Due to customers						
C.3 Debt securities	290,046		232,823			
C.4 Other financial liabilities						
D. Other liabilities						
E. Financial derivatives:						
- Options						
+ long positions	290,046		232,823			
+ short positions						
- Other derivatives						
+ long positions						
+ short positions						
Total assets	**290,046**		**232,823**			
Total liabilities	**290,046**		**232,823**			
Difference (+/-)	**-**		**-**			

1.2.4 DERIVATIVES

A. FINANCIAL DERIVATIVES

A.2 Banking book: end-period and average notional values

(thousands of euros)

A.2.1 HEDGING

	31/12/2011		31/12/2010	
	Over the counter	**Central counterparties**	**Over the counter**	**Central counterparties**
1. Debt securities and interest rates	19,320,282		20,794,339	
a) Options				
b) Swaps	19,320,282		20,794,339	
c) Forwards				
d) Futures				
e) Other				
2. Equity securities and equity indices				
a) Options				
b) Swaps				
c) Forwards				
d) Futures				
e) Other				
3. Foreign currencies and gold	520,522		493,247	
a) Options				
b) Swaps				
c) Forwards				
d) Futures				
e) Other	520,522		493,247	
4. Commodities				
5. Other underlyings				
Total	**19,840,804**		**21,287,586**	
Average values	**20,564,195**		**23,056,236**	

(thousands of euros)

A.2.2 OTHER DERIVATIVES

	31/12/2011		31/12/2010	
	Over the counter	**Other**	**Over the counter**	**Other**
1. Debt securities and interest rates	899,080		2,619,413	
a) Options				
b) Swaps	899,080		2,619,413	
c) Forwards				
d) Futures				
e) Other				
2. Equity securities and equity indices	91,997,294		90,568,592	
a) Options	91,997,294		90,568,592	
b) Swaps				
c) Forwards				
d) Futures				
e) Other				
3. Foreign currencies and gold				
a) Options				
b) Swaps				
c) Forwards				
d) Futures				
e) Other				
4. Commodities				
5. Other underlyings				
Total	**92,896,374**		**93,188,005**	
Average values	**93,042,190**		**82,966,131**	

(thousands of euros)

A.3 FINANCIAL DERIVATIVES: GROSS POSITIVE FAIR VALUE - BREAKDOWN BY PRODUCT

	Positive fair value			
	Total 31/12/2011		Total 31/12/2010	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Supervisory trading book				
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
B. Banking book - hedging	359,794		366,750	
a) Options				
b) Interest rate swaps	261,159		289,932	
c) Cross currency swaps	98,635		76,818	
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
C. Banking book - other derivatives	581,081		856,438	
a) Options	543,806		841,622	
b) Interest rate swaps	37,275		14,816	
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
Total	**940,875**		**1,223,188**	

(thousands of euros)

A.4 FINANCIAL DERIVATIVES: GROSS NEGATIVE FAIR VALUE - BREAKDOWN BY PRODUCT

	Negative fair value			
	Total 31/12/2011		Total 31/12/2010	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Supervisory trading book				
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
B. Banking book - hedging	2,621,251		1,175,799	
a) Options				
b) Interest rate swaps	2,621,251		1,175,799	
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
C. Banking book - other derivatives	471,815		940,034	
a) Options	434,311		761,877	
b) Interest rate swaps	37,504		178,157	
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
Total	**3,093,066**		**2,115,833**	

(thousands of euros)

A.7 OVER-THE-COUNTER FINANCIAL DERIVATIVES - BANKING BOOK: NOTIONAL VALUES, GROSS POSITIVE AND NEGATIVE FAIR VALUES BY COUNTERPARTY - CONTRACTS NOT COVERED BY NETTING ARRANGEMENTS

	Governments and central banks	Other government agencies	Banks	Financial companies	Insurance undertakings	Non-financial companies	Other
1) Debt securities and interest rates							
- notional value							
- positive fair value							
- negative fair value							
- future exposure							
2) Equity securities and equity indices							
- notional value							41,034,695
- positive fair value							
- negative fair value							434,310
- future exposure							
3) Foreign currencies and gold							
- notional value							
- positive fair value							
- negative fair value							
- future exposure							
4) Other							
- notional value							
- positive fair value							
- negative fair value							
- future exposure							

(thousands of euros)

A.8 OVER-THE-COUNTER FINANCIAL DERIVATIVES - BANKING BOOK: NOTIONAL VALUES, GROSS POSITIVE AND NEGATIVE FAIR VALUES BY COUNTERPARTY - CONTRACTS COVERED BY NETTING ARRANGEMENTS

	Governments and central banks	Other government agencies	Banks	Financial companies	Insurance undertakings	Non-financial companies	Other
1) Debt securities and interest rates							
- notional value			18,682,771	1,536,590			
- positive fair value			249,256	49,178			
- negative fair value			2,654,864	3,892			
2) Equity securities and equity indices							
- notional value			50,962,600				
- positive fair value			543,806				
- negative fair value							
3) Foreign currencies and gold							
- notional value			520,522				
- positive fair value			98,635				
- negative fair value							
4) Other							
- notional value							
- positive fair value							
- negative fair value							

(thousands of euros)

A.9 RESIDUAL LIFE OF OVER-THE-COUNTER FINANCIAL DERIVATIVES: NOTIONAL VALUES

	To 1 year	From 1 to 5 years	More than 5 years	Total
A. Supervisory trading book				
A.1 Financial derivatives on debt securities and interest rates				
A.2 Financial derivatives on equity securities and equity indices				
A.3 Financial derivatives on exchange rates and gold				
A.4 Financial derivatives on other assets				
B. Banking book	**18,198,494**	**72,961,083**	**21,577,601**	**112,737,178**
B.1 Financial derivatives on debt securities and interest rates	2,850,000	4,306,998	13,062,363	20,219,361
B.2 Financial derivatives on equity securities and equity indices	15,348,494	68,233,363	8,415,438	91,997,295
B.3 Financial derivatives on exchange rates and gold		420,722	99,800	520,522
B.4 Financial derivatives on other assets				
Total at 31/12/2011	**18,198,494**	**72,961,083**	**21,577,601**	**112,737,178**
Total at 31/12/2010	**9,541,776**	**79,744,785**	**25,189,030**	**114,475,591**

C. FINANCIAL AND CREDIT DERIVATIVES

C.1 Over-the-counter financial and credit derivatives: net fair value and future exposure by counterparty

(thousands of euros)

C.1 OVER-THE-COUNTER FINANCIAL AND CREDIT DERIVATIVES: NET FAIR VALUE AND FUTURE EXPOSURE BY COUNTERPARTY

	Governments and central banks	Other government agencies	Banks	Financial companies	Insurance undertakings	Non-financial companies	Other
1) Bilateral financial derivatives agreements							
- positive fair value			891,697	49,178			
- negative fair value			2,654,864	3,892			
- future exposure			486,991	5,369			
- net counterparty risk			296,793	5,114			
2) Bilateral credit derivatives agreements							
- notional value							
- positive fair value							
- negative fair value							
- future exposure							
- net counterparty risk							
3) Cross product agreements							
- notional value							
- positive fair value							
- negative fair value							
- future exposure							
- net counterparty risk							

1.3 Banking group – Liquidity risk

Qualitative disclosures

General aspects, management and measurement of liquidity risk

CDP's exposure to liquidity risk in the form of asset liquidity risk is limited as it does not engage in trading.
For CDP, liquidity risk becomes significant mainly in the form of funding liquidity risk, in view of the dominant weight of demand deposits (passbook savings accounts) and bonds redeemable on demand (postal savings bonds) in the liabilities of the Separate Account.
In order to ensure that any scenario of uncontrolled redemptions remains remote, CDP benefits from the mitigating effect of the state guarantee on postal savings. In addition to the key function of that guarantee, the ability of CDP to ensure that such a scenario does in fact remain remote is also based on its capital strength, on the protection and promotion of the reputation of postal savings with the public, on safeguarding CDP's reputation in the market and on liquidity management. With regard to the latter, CDP adopts a series of specific measures to prevent the emergence of unexpected funding requirements and to be able to meet them if it should prove necessary.
To this end, a lower limit on the stock of liquid assets has been established, which is monitored by Risk Management and Anti-Money-Laundering area.
As regards the Ordinary Account, CDP raises funds through the market or the EIB, adopting approaches, opportunities and constraints more similar to those of ordinary banks.
CDP prevents the emergence of unexpected liquidity requirements by developing effective loan disbursement forecasting systems, setting structural limits on maturity transformation, monitoring the short-term liquidity position – carried out on a continuous basis by the Finance unit – and monitoring liquidity gaps at short, medium and long term, which is performed by Risk Management and Anti-Money-Laundering area.

Current management of treasury activities by Finance enables CDP to raise funds on the interbank market as well, mainly using deposits and repos, for both the Separate and Ordinary Accounts.
CDP can also take part in European Central Bank refinancing operations, as it holds a significant stock of eligible negotiable and non-negotiable assets.

QUANTITATIVE DISCLOSURES

(thousands of euros)

1. DISTRIBUTION OF FINANCIAL ASSETS AND LIABILITIES BY RESIDUAL MATURITY - CURRENCY: EUR

	on demand	more than 1 day to 7 days	more than 7 days to 15 days	more than 15 days to 1 month	more than 1 month to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	more than 5 years	Indefinite life
On-balance-sheet assets	**126,577,118**	**139,250**	**3,118,980**	**3,636,266**	**4,652,679**	**5,246,695**	**7,528,346**	**26,325,457**	**75,347,594**	**173,607**
A.1 Government securities		139,250		115,500	172,577	352,350	2,357,648	3,753,938	5,880,000	
A.2 Other debt securities			1,252,416	3,334,500	3,074	575,388	116,779	44,605	1,330,747	
A.3 Units in collective investment undertakings										173,607
A.4 Loans	126,577,118		1,866,564	186,266	4,477,028	4,318,957	5,053,919	22,526,914	68,136,847	
- banks	709,465		1,865,060		4,437,508	411,744	765,526	4,879,429	1,411,257	
- customers	125,867,653		1,504	186,266	39,520	3,907,213	4,288,393	17,647,485	66,725,590	
On-balance-sheet liabilities	**215,754,794**	**4,335,374**	**791,944**	**5,772,069**	**4,949,929**	**1,162,209**	**1,577,866**	**6,891,608**	**4,756,352**	**8,395,083**
B.1 Deposits and current accounts	215,754,794		454,670	6,358	29,148	46,218	101,804	1,002,382	2,006,018	
- banks	599,013		408,630							
- customers	215,155,781		46,040	6,358	29,148	46,218	101,804	1,002,382	2,006,018	
B.2 Debt securities			1,320	2,165,185	5,363	792,530	192,174	4,132,500	633,000	
B.3 Other liabilities		4,335,374	335,954	3,600,526	4,915,418	323,461	1,283,888	1,756,726	2,117,334	8,395,083
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal										
- long positions										
-short positions			1,205			2,736	1,652	707,670		
C.2 Financial derivatives without exchange of principal										
- long positions				60,968		149,857				
-short positions		303,472	1,179		651		569,013	1,454,659	3,891,845	
C.3 Deposits and loans to receive										
- long positions										
-short positions										
C.4 Irrevocabile commitments to disburse funds										
- long positions										13,633,474
-short positions	13,633,474									
C.5 Financial guarantees issued	226,321									

(thousands of euros)

1. DISTRIBUTION OF FINANCIAL ASSETS AND LIABILITIES BY RESIDUAL MATURITY - CURRENCY: OTHER

	on demand	more than 1 day to 7 days	more than 7 days to 15 days	more than 15 days to 1 month	more than 1 month to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	more than 5 years	Indefinite life
On-balance-sheet assets										
A.1 Government securities										
A.2 Other debt securities										
A.3 Units in collective investment undertakings										
A.4 Loans										
- banks										
- customers										
On-balance-sheet liabilities				**2,472**	**829**	**786**	**2,126**	**407,132**	**92,989**	
B.1 Deposits and current accounts										
- banks										
- customers										
B.2 Debt securities				2,472	829	786	2,126	407,132	92,989	
B.3 Other liabilities										
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal										
- long positions				2,472	829	786	2,126	407,132	92,989	
-short positions										
C.2 Financial derivatives without exchange of principal										
- long positions										
-short positions										
C.3 Deposits and loans to receive										
- long positions										
-short positions										
C.4 Irrevocabile commitments to disburse funds										
- long positions										
-short positions										
C.5 Financial guarantees issued										

1.4 BANKING GROUP – OPERATIONAL RISKS

QUALITATIVE DISCLOSURES

A. General aspects, management and measurement of operational risks

CDP has adopted the guidelines established by the Basel Committee for the banking industry and incorporated by the Bank of Italy in circular no. 263 of 27 December 2006 as the benchmark for managing operational risk.
Operational risk means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Such risk includes losses resulting from internal or external fraud, human error, employment relationships and workplace safety, business disruption, system unavailability, breach of contract, process management, damage to company assets and natural disasters.
Operational risk includes legal risk but not strategic or reputational risk.
Legal risk is the risk of losses resulting from violations of laws or regulations or self-governance rules (e.g. bylaws, codes of conduct, corporate governance rules), from liability in contract or tort or other disputes.

Taking best banking practices as a reference, in particular the supervisory regulations applicable to banks, CDP has initiated the formalisation and implementation of a methodological and organisational framework in terms of structures, processes, strategies and policies for managing operational risk related to the products/processes of CDP and CDPI SGR. The goal is to be able to manage and monitor operational risks, laying the groundwork for mitigation measures and for a more accurate quantification of the associated economic capital, now estimated using the Basic Indicator Approach[14].
The operational risk management system is a structured set of processes, functions and resources, which begins with the identification of the risk and continues with measurement, monitoring, reporting and control/mitigation actions.
The methodology involves the supplementation of information on operational losses classified according to specified loss event types (i.e. a model of loss

[14] The Basic Indicator Approach, borrowed from the regulations for the prudential supervision of banks, quantifies the capital requirement for operational risk by applying a regulatory coefficient of 15% to average gross income for the last three years.

events), loss effect types (i.e. a model of types of losses) and risk factors (i.e. a model for the classification of risk factors).
This information comprises:

- internal data on operational losses (loss data collection);
- data on potential losses (self-assessment, scenario analysis);
- factors representing the business environment and internal control systems;
- system loss data (external data).

During the fourth quarter of 2011, loss data collection began for operational losses incurred by the company and reported in the income statement. The process of collecting loss data to be implemented uses the "event guide" approach suggested by the Basel II Committee and supported by the Italian Banking Association (ABI) with the Italian Operational Loss Database (DIPO).
The primary loss data collection actions performed were:

- finding information sources and identifying a contact person for the operational risks regarding that source. Information source means the organisational unit that can provide information concerning the main features of each loss event recorded and its associated effects;
- determining the roles and responsibilities of the actors involved and the procedures for collecting and validating survey data;
- collecting significant data and related supporting documentation;
- filing the data collected in the operational loss database.

The survey comprised loss events entailing losses of €500 or more occurring after 1 January 2010.
In order to ensure efficient and effective monitoring of material operational loss data regarding legal disputes, the survey encompasses pending disputes regarding adverse events that occurred prior to 1 January 2010 but after 2003, when CDP was transformed into a joint-stock company.

The Bank of Italy, in its measure containing implementing measures concerning organisation, procedures and internal controls to prevent the use of financial intermediaries and other persons involved in financial activities for the purposes of money laundering and terrorist financing, pursuant to Article 7.2 of Legislative Decree 231 of 21 November 2007, established that: "containing the risk of money laundering is also important from the standpoint of prudential supervision, which requires intermediaries to manage all risks to which they are exposed with a suitable organisational structure and adequate capital resources. In classifying risks, money laundering is associated with legal and reputational

risks, although it may also involve losses on loans or financial instruments as a result of unwittingly financing criminal activities".

CDP's policies for managing risks associated with money laundering, in part in compliance with the above measure, are based on an effective organisational structure and internal controls. To that end, CDP formed the Anti-Money Laundering function during the year, which performs second-level controls in this area. CDP's Board of Directors also adopted rules governing the roles, duties and responsibilities involved in countering money laundering and terrorist financing.

The revision of the internal procedures that govern line control systems is expected to be completed by the end of the first quarter of 2012 and will incorporate the developments in the regulatory framework.

With regard to the anti-money laundering requirements for postal funding products, CDP has an agreement with Poste Italiane for the performance of customer due diligence and the reporting of suspicious transactions.

SECTION 3 – THE RISKS OF OTHER ENTITIES

QUALITATIVE DISCLOSURES

As a normal part of operations, the Terna Group is exposed to a variety of financial risks: market risk (exchange rate risk, interest rate risk and inflation risk), liquidity risk, and credit risk.
This section provides information regarding the Terna Group's exposure to all the above risks, along with a presentation of the objectives, policies and processes for managing those risks and the methods used to measure them, with further quantitative disclosures concerning the 2011 financial statements.
Terna's risk management policies seek to identify and analyse the risks the Group is exposed to, establishing appropriate limits and controls and monitoring risks and compliance with such limits. These policies and the related systems are reviewed on a regular basis in order to take account of any changes in market conditions or in the operations of the Group companies.
The exposure of the Terna Group to the aforementioned risks is substantially represented by the exposure of the parent. As a part of the financial risk management policies approved by the board of directors, Terna has established the responsibilities and operating procedures for financial risk management, specifically as concerns the instruments to be used and the precise operating limits in managing them.

Market risks

Market risk is the risk that the fair value or future cash flows of a financial instrument may fluctuate as a result of changes in financial market conditions. Market risks comprise three forms of risk: exchange rate risk, interest rate risk and inflation risk.
Risk management must be performed with the objective of maximising financial income and minimising the related risks by selecting counterparties and instruments compatible with the corporate risk management policy. Speculative activity is not envisaged in the corporate mission.
Terna Group intends to adopt a dynamic approach to financial risk management. This approach is characterised by risk aversion, aiming at minimising risk through continuous monitoring of financial markets in order to plan hedging transactions in favourable market conditions. The dynamic approach makes it possible to take action to improve existing hedges where changes in market

conditions or in the hedged item make the latter unsuitable or excessively expensive. The concept of hedging transaction is not restricted to those hedges that qualify for hedge accounting, but rather encompasses the objective of total or partial hedging of the income statement or balance sheet item from interest rate risk.

All derivative contracts have a notional amount and maturity date less than or equal to that of the underlying financial liability, so that any change in the fair value and/or estimated cash flows of the contracts is offset by a corresponding change in the fair value and/or estimated cash flows of the underlying position. The fair value of financial derivatives reflects the estimated amount that Terna S.p.A. would pay or receive in order to extinguish contracts at the closing date.

The fair value of instruments is determined in accordance with the fair value hierarchy envisaged under IFRS 7 (Level 2) by means of appropriate valuation techniques for each category of financial instrument, using market data as at the closing date (such as interest rates, exchange rates, volatility) and discounting projected cash flows on the basis of the market yield curve and inflation at the reporting date.

The financial assets and liabilities in respect of derivative instruments in place during the year can be classified as:

- cash flow hedge derivatives, essentially related to hedging the risk of changes in the cash flows associated with long-term floating-rate loans;
- fair value hedge derivatives, essentially related to hedging the exposure to changes in the fair value of a financial asset or liability associated with fluctuations in interest rates (fixed-rate bonds).

Interest rate risk

Interest rate risk is represented by the uncertainty associated with movements in interest rates that could have an impact on the fair value or future cash flows of financial instruments.

In conducting its operations, Terna is exposed to the risk of fluctuations in interest rates. Its main source of interest rate risk is associated with items of net financial debt and the related hedging positions in derivative instruments that generate financial expense. Terna's borrowing strategy focuses on long-term loans whose term reflects the useful life of company assets. It pursues an interest rate risk hedging policy that aims to reconcile this approach with the regulatory framework, which every four years establishes the cost of debt as part of the formula to set the return on the regulatory asset base (RAB).

Accordingly, the hedging instruments used, at various maturity dates, include both derivatives that transform fixed rates into floating rates and derivatives that transform floating rates into fixed rates.
In order to reduce the amount of financial debt exposed to the risk of fluctuations in interest rates and to optimise the temporal correlation between average cost of debt and regulatory rate used in the WACC formula, various types of plain vanilla derivatives are used, such as interest rate swaps.
Interest rate swaps are used in order to reduce the volume of debt exposed to fluctuations in interest rates and to reduce the volatility of borrowing costs. With an interest rate swap, Terna agrees with a counterparty to exchange, at specific intervals, the floating-rate cash flows on a specified notional amount against the fixed-rate (agreed between the parties) cash flows, or vice versa.

Sensitivity to interest rate risk

As regards the management of interest rate risk, Terna has, on the one hand, entered into fixed-to-floating interest rate swaps (FVH) to hedge the fair value of the fixed-rate bonds and, on the other, floating-to-fixed interest rate swaps (CFH) to hedge the expected cash flows in respect of all other floating-rate debt.

Since the hedging relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedge, as verified initially and periodically over its life, is high (between 80% and 125%), the company has elected to use hedge accounting to ensure the perfect temporal matching of the hedge and the hedged item. The aim of hedge accounting is to recognised the effects of the hedges and the hedged items in profit or loss at the same time. Accordingly, for FVH derivatives, any changes in the fair value of the hedged item attributable to the risk being hedged must be recognised in profit or loss, thereby offsetting the changes in the fair value of the derivative recognised in profit or loss. For CFH derivatives, the changes in the fair value of the derivative must be recognised in equity (recognising any ineffective portion of the hedge directly in profit or loss) and then reversed through profit or loss in the same period in which the cash flows of the hedged instrument materialise. The characteristics of the CFH derivatives mirror those of the hedged underlying, so the related cash flows will materialise at the same maturities as the interest on the debt, with no impact of the changes in fair value on profit or loss.

Inflation risk

As regards inflation rate risk, the rates established by the regulator to remunerate Terna S.p.A.'s activities are determined so as to allow coverage of the sector's recognised costs. Such cost components are updated on an annual basis to take account of the impact of inflation. In 2007, the company used an inflation-linked bond issue to obtained an effective hedge of profit for the year: any decrease in expected revenues due to a decrease in the inflation rate would be offset by lower financial expense.

Exchange rate risk

Generally Terna hedges exchange rate risk through the forward sale or purchase of currencies (forward contracts) or the use of options. Currency options give Terna the right or the obligation to buy or sell predetermined amounts of a currency at a specific exchange rate at the end of a specific period of time. Normally, both forward contracts and options have maturities of no more than 12 months.
Such contracts have a notional amount and maturity date less than or equal to that of the underlying financial liability, or the expected cash flows, so that any change in the fair value and/or estimated cash flows deriving from an appreciation or depreciation of the euro against other currencies is fully offset by a corresponding change in the fair value and/or estimated cash flows of the underlying position.
At 31 December 2011 (as at 31 December 2010), no financial instruments exposed to exchange rate risk were present.

Liquidity risk

The liquidity risk is the risk Terna might encounter difficulty in discharging its obligations in respect of its financial liabilities and operational cycle. Liquidity risk management seeks to ensure adequate coverage of financial needs by obtaining adequate lines of credit and appropriate management of any surplus liquidity. At 31 December 2011 Terna had €500 million in medium-term credit lines and €703.8 million in short-term credit lines.

Credit risk

Credit risk is the risk a customer or one of the counterparties to a transaction in financial instruments could cause a financial loss by failing to discharge an

obligation. It is mainly generated by trade receivables and the financial investments of the company.
The credit risk originated by open positions on transactions in financial derivatives is considered to be marginal since the counterparties, in compliance with financial risk management policies, are leading international credit institutions with high ratings and such transactions are diversified in compliance with specific concentration limits.
Terna provides its services to counterparties considered solvent by the market, who therefore have a high credit standing, and does not have highly concentrated credit risk.
Credit risk management is guided by the provisions of Resolution no. 111/06 of the Authority for Electricity and Gas (AEEG), which, at Article 49, introduced instruments for the limitation of risks related to the insolvency of dispatching customers, both on a preventive basis and in the event of actual insolvency. In particular, the resolution establishes three instruments to safeguard the electricity market: a guarantee system (bank guarantees provided by individual dispatching customers, based on their revenues), the option of terminating dispatching contracts (in the event of insolvency or failure to replace enforced guarantees) and, finally, the possibility of recovering uncollected debts, after having taken all other possible collection actions, through a specific fee defined by the Authority.

Default risk and debt covenants

This risk is associated with the possibility that the loan contracts or bond rules to which the company is party may contain provisions authorising counterparties to call in such loans immediately upon the occurrence of certain events, thereby generating liquidity risk. For more information on the contractual provisions of outstanding loans at 31 December 2011, please see the section "Loans and financial liabilities" in the notes to the financial statements of Terna S.p.A.

QUANTITATIVE DISCLOSURES

Financial instruments subscribed by Terna

(millions of euros)

	Carrying amount 31/12/2011	Carrying amount 31/12/2010	Change
Fixed-rate financial instruments			
- assets			
- liabilities	4,415	2,775	1,640
Floating-rate financial instruments			
- assets	1,787	350	1,437
- liabilities	2,495	2,552	(58)
Total	**5,123**	**4,977**	**146**

Sensitivity to interest rate risk

The following table reports the amounts recognised in profit or loss and equity in respect of positions sensitive to changes in interest rates, the theoretical value of the positions following a positive or negative shift in the yield curve and the differential impact recognisable in profit or loss and equity of such changes. A hypothetical 10% variation in interest rates with respect to market interest rates at the reporting date has been assumed.

(millions of euros)

	Profit or loss			Equity		
	current rates +10%	rates at 31/12/2011	current rates -10%	current rates +10%	rates at 31/12/2011	current rates -10%
31/12/2011						
Positions sensitive to interest rate variations (FVH, bonds, CFH)	1.0	(0.2)	(1.4)	(100.0)	(111.4)	(122.9)
Hypothetical change	*1.2*		*1.2*	*11.4*		*(11.5)*
31/12/2010						
Positions sensitive to interest rate variations (FVH, bonds, CFH)	2.9	2.2	1.7	(44.5)	(47.1)	(49.9)
Hypothetical change	*0.7*	*-*	*(0.5)*	*2.6*	*-*	*(2.8)*

Credit risk

Terna's credit exposure is as follows:

(millions of euros)

	Carrying amount 31/12/2011	Carrying amount 31/12/2010	Change
FVH derivatives	522	200	322
Certificates of deposit	150		150
Cash and cash equivalents	1,115	150	965
Trade receivables	1,684	1,496	188
Total	**3,471**	**1,846**	**1,625**

The total value of the exposure to credit rate risk at 31 December 2011 is represented by the carrying amount of financial assets (current and non current), trade receivables and cash and cash equivalents.

The following tables provide qualitative information on customer receivables that are not past due and have no impairment:

Geographical distribution

(millions of euros)

	Carrying amount 31/12/2011	Carrying amount 31/12/2010
Italy	1,654	1,483
Euro-area countries	27	9
Other countries	3	4
Total	**1,684**	**1,496**

Customer type

(millions of euros)

	Carrying amount 31/12/2011	Carrying amount 31/12/2010
Distributors (*)	243	244
Electricity Equalisation Fund (**)	131	72
Input dispatching contractors	229	310
Withdrawal dispatching contractors (non distributors)	1,000	766
Virtual import contractors and virtual import service (interconnectors and shippers)	13	35
Receivables from unregulated activities	67	69
Total	**1,684**	**1,496**

(*) Includes receivable accrued in respect of TERNA RETE ITALIA grid transmission fees
(**) Of which €116.2 million from volume effect on grid transmission fees

The following table breaks down customer receivables by expiry class, reporting any potential impairment:

(millions of euros)

	31/12/2011		31/12/2010	
	Impairment	**Gross**	**Impairment**	**Gross**
Not yet past due		1,560		1,431
0-30 days past due		50		39
31-120 days past due		38		4
More than 120 days past due	(24)	60	(24)	46
Total	**(24)**	**1,708**	**(24)**	**1,519**

Changes in the provision for doubtful trade accounts in the course of the year were as follows:

(millions of euros)

	31/12/2011	31/12/2010
Balance at 1 January	(24)	(27)
Reversal of provision		3
Impairment for the year		
Balance	**(24)**	**(24)**

The value of guarantees received from eligible electricity market customers is illustrated below:

(millions of euros)

	31/12/2011	31/12/2010
Input dispatching activity	255	220
Withdrawal dispatching activity	763	831
Grid transmission fees - distributors	175	174
Virtual imports	280	338
Balance	**1,473**	**1,563**

PART F – CONSOLIDATED CAPITAL

SECTION 1 – CONSOLIDATED CAPITAL

QUALITATIVE DISCLOSURES

Pending the issuance of specific measures in this area by the Bank of Italy, the parent company is subject to “informational” supervision only.

Accordingly, in 2011, in agreement with the Bank of Italy, CDP Group did not calculate supervisory capital or the related supervisory capital requirements.

PART G - BUSINESS COMBINATIONS

SECTION 1 – OPERATIONS CARRIED OUT DURING THE YEAR

No business combinations were carried out in 2011.

PART H – TRANSACTIONS WITH RELATED PARTIES

1. Information on the compensation of key management personnel – parent company

(thousands of euros)

REMUNERATION OF BOARD OF DIRECTORS AND BOARD OF AUDITORS

	31/12/2011
a) Board of Directors	1,550
b) Board of Auditors	121
Total	**1,671**

(thousands of euros)

REMUNERATION OF OTHER KEY MANAGEMENT PERSONNEL

	31/12/2011
(a) short-term benefits	5,186
(b) post-employment benefits	317
(c) other long-term benefits	
(d) severance benefits	
(e) share-based payments	
Total	**5,503**

(thousands of euros)

REMUNERATION PAID TO BOARD OF DIRECTORS AND BOARD OF AUDITORS

Name	Position	Period in office	End of term (*)	Compensation and bonuses
Directors				
Franco Bassanini	Chairman	01/01/11-31/12/11	2012	280
Giovanni Gorno Tempini	Chief Executive Officer	01/01/11-31/12/11	2012	952
Massimo Varazzani	Chief Executive Officer	01/01/10-28/04/10	2009	140
Cristian Chizzoli	Director	01/01/11-31/12/11	2012	35
Cristiana Coppola	Director	01/01/11-31/12/11	2012	35
Piero Gastaldo	Director	01/01/11-31/12/11	2012	(***)
Ettore Gotti Tedeschi	Director	01/01/11-31/12/11	2012	35
Vittorio Grilli	Director (3)	01/01/11-29/11/11	2012	(**)
Nunzio Guglielmino	Director	01/01/11-31/12/11	2012	35
Mario Nuzzo	Director	01/01/11-31/12/11	2012	35
Supplementary members for administration of Separate Account (Article 5.8, Decree Law 269/03)				
Giovanni De Simone	Director (1)	01/01/11-31/12/11	2012	35
Maria Cannata	Director (2)	01/01/11-31/12/11	2012	(**)
Giuseppe Pericu	Director	01/01/11-31/12/11	2012	35
Romano Colozzi	Director	01/01/11-31/12/11	2012	35
Guido Podestà	Director	01/01/11-31/12/11	2012	35
Board of Auditors				
Angelo Provasoli	Chairman	01/01/11-31/12/11	2012	27
Paolo Fumagalli	Auditor	01/01/11-31/12/11	2012	20
Biagio Mazzotta	Auditor	01/01/11-31/12/11	2012	(**)
Gianfranco Romanelli	Auditor	01/01/11-31/12/11	2012	20
Giuseppe Vincenzo Suppa	Auditor	01/01/11-31/12/11	2012	(**)

(*) Date of Shareholders' Meeting called to approve financial statements for the year
(**) The remuneration is paid to the Ministry for the Economy and Finance
(***) The remuneration is paid to Compagnia di San Paolo
(1) Delegate of State Accountant General
(2) Delegate of Director General of the Treasury
(3) Resigned following appointment as Deputy Minister of the Ministry for the Economy and Finance

2. Information on transactions with related parties – Banking group

Certain transactions between CDP and related parties, notably those with the Ministry for the Economy and Finance and Poste Italiane S.p.A., arise as a result of legislative provisions. In any event, CDP did not carry out any atypical or unusual transactions with related parties whose size could have an impact on the assets and liabilities or performance of the company. All transactions with related parties were carried out on an arm's length basis and form part of CDP's ordinary operations.

At the end of 2011 CDP had the following transactions with the parent, subsidiaries and associates.

Transactions with the Ministry for the Economy and Finance

The main transactions conducted with the Ministry for the Economy and Finance regarded the liquidity held on the treasury account and lending transactions.

Specifically, CDP's liquidity is deposited on the interest-bearing account no. 29814 at the State Treasury and earns interest, as envisaged by Article 6.1 of the decree of the Minister for the Economy and Finance of 5 December 2003, at a floating 6-month rate equal to the simple arithmetic mean betweenthe gross yield on 6-month Treasury bills and the monthly level of the Rendistato index.

As regards receivables in respect of loans, it should be noted that more than 35% of CDP's portfolio is repaid by the state.

CDP also manages loans and postal savings products owned by the MEF, for which it receives a fee established in a specific contract.

Outstanding transactions and the related financial effects at year-end were as follows:

(thousands of euros)

Transactions with Ministry for the Economy and Finance	**31/12/2011**
Financial assets available for sale	2,323,752
Financial assets held to maturity	9,289,253
Loans to customers	160,499,901
of which liquidity held with Treasury	*123,817,580*
Other assets	20,904
Due to customers	3,169,506
Other liabilities	81
Interest income and similar revenues	5,034,825
Interest expense and similar charges	(45,899)
Commission income	3,017
Commitments in respect of loans to disburse	5,863,973

Transactions with associates

Transactions with Eni S.p.A.

On 22 December 2011, an equity interest of 89% in Trans Austria Gasleitung GmbH ("TAG") was acquired from Eni International B.V., a member of the Eni Group.

Loans to customers include a loan from CDP under the Revolving Fund to support enterprises and investment in research.

(thousands of euros)

Transactions with Eni S.p.A.	**31/12/2011**
Loans to customers	763
Acquired equity investment in TAG	533,408
Interest income and similar revenues	5
Commitments in respect of loans to disburse	479

Transactions with Europrogetti & Finanza S.p.A. in liquidazione

During the year CDP signed a commitment to grant financing of about €1 million, portando l'impegno massimo a €2.8 million, of which about €1.9 million had been disbursed at the end of 2011. The exposures to Europrogetti & Finanza S.p.A. in liquidazione have been fully written down.

The impact of that transaction on the CDP's financial statements is summarised below:

(thousands of euros)

Transactions with Europrogetti & Finanza S.p.A. in liquidazione	**31/12/2011**		
	Gross exposure	**Writedowns**	**Net exposure**
Loans to customers	1,870	(1,870)	-
Commitments in respect of loans to disburse	967	(967)	-

Income statement

Writedowns for impairment of financial assets	(1,044)

Transactions with Trans Austria Gasleitung GmbH ("TAG")

At the end of 2011, CDP succeeded the previous creditor in respect of a shareholder loan to TAG.

The impact of that transaction on the CDP's financial statements is summarised below:

(thousands of euros)

Transactions with Trans Austria Gasleitung GmbH ("TAG")	**31/12/2011**
Loans to customers	177,409
Interest income and similar revenues	172
Commitments in respect of loans to disburse	123,391

Transactions with other related parties

Transactions with Poste Italiane S.p.A.

Transactions with Poste Italiane S.p.A. include the placement and management service for postal savings products and loans granted by CDP.

The service provided by Poste Italiane is remunerated with an annual commission set in a specific agreement between the parties.

Outstanding transactions and the related financial effects at year-end were as follows:

(thousands of euros)

Transactions with Poste Italiane S.p.A.	31/12/2011
Loans to customers	967,605
Other liabilities	129,050
Interest income and similar revenues	19,904
Commission expense	(1,504,050)

3. Information on transactions with related parties – Other entities

Transactions with related parties carried out by the Terna Group during the year included transactions with the associated company Cesi S.p.A. and the pension funds for employees (Fondenel e Fopen), as well as transactions with companies belonging to:

- the GSE Group;
- the Enel Group;
- the Eni Group;
- the Ferrovie dello Stato Group;

and with Anas S.p.A.

Transactions with related parties during 2011 essentially comprise transactions carried out in the course of ordinary operations, settled on an arm's length basis. The following table describes the nature of transactions between the Terna Group and related parties and, in a subsequent table, the revenues and costs posted during the year and the respective receivables and payables outstanding at 31 December 2011:

Related party	Assets	Liabilities
Cesi S.p.A.	*non-energy related items* Lease of laboratories and other similar structures for specific use	*non-energy related items* Technical consultancy, studies and research, projects and experimentation
GSE Group	*energy-related items* MIS component, energy sale, rights of withdrawal, rights of use of transport capacity for interconnection, dispatching fees *non-energy related items* Specialist services, leases, IT services	*energy-related items* Purchase of energy, rights of use of the transport capacity for interconnection, fees for lost output
Enel Group	*energy-related items* Remuneration of National Transmission Grid and metering aggregation, energy sales, rights of withdrawal, rights of use of transport capacity for interconnection, dispatching fees *non-energy related items* Leases and rents, line maintenance, works to move/vary lines	*energy-related items* Metering aggregation, energy purchases, rights of use of transport capacity for interconnection, EUSE remuneration *non-energy related items* Restitution of electricity discount, personnel management, facility services, supply of MV power to new stations, specialised services for connection to Terna control and protection systems
Eni Group	*energy-related items* Energy sales, rights for use of transport capacity for interconnection, dispatching fees *non-energy related items* Line maintenance	*energy-related items* Energy purchase, cover of congestion costs, interruptibility service
Ferrovie Group	*energy-related items* Dispatching fees, energy sale *non-energy related items* Line moving	*energy-related items* National Transmission Grid remuneration *non-energy related items* Right of way fees
Anas S.p.A.	*non-energy related items* Line moving	*non-energy related items* Right of way fees
Fondenel and Fopen		*non-energy related items* Social security contributions payable by Terna Group

(thousands of euros)

	Income statement					
	Revenues			Costs		
	Grid transmission fee and other energy items	**Pass-through energy items**	**Non energy-related items**	**Grid transmission fee and other energy items**	**Pass-through energy items**	**Non energy-related items**
Associates:						
Cesi S.p.A.			83			932
Total associates	**-**	**-**	**83**	**-**	**-**	**932**
Other related parties:						
GSE Group	13,888	509,908	222		199,049	4
Enel Group	617,805	306,737	1,372	2,644	302,748	1,018
Eni Group	1,981	129,375	170		57,881	63
Ferrovie Group	773	17,567	54	3,381	1,723	3
Anas S.p.A.						
Total other related parties	**634,446**	**963,586**	**1,818**	**6,025**	**561,401**	**1,088**
Pension funds:						
Fondenel						195
Fopen						916
Total pension funds	**-**	**-**	**-**	**-**	**-**	**1,110**
Total	**634,446**	**963,586**	**1,900**	**6,025**	**561,401**	**3,131**

(thousands of euros)

	Balance sheet			Guarantees
	Property, plant and equipment	**Receivables and other assets**	**Payables and other liabilities**	
	Capitalised costs			
Associates:				
Cesi S.p.A.	4,200	91	2,502	800
Total associates	**4,200**	**91**	**2,502**	**800**
Other related parties:				
GSE Group		45	109	
Enel Group	1,573	119,623	26,698	372,498
Eni Group		571	2,445	10,236
Ferrovie Group		77	746	21,992
Anas S.p.A.		533	420	
Total other related parties	**1,573**	**120,849**	**30,418**	**404,725**
Pension funds:				
Fondenel				
Fopen			1,402	
Total pension funds	**-**	**-**	**1,402**	**-**
Total	**5,773**	**120,940**	**34,322**	**405,525**

PART I – SHARE-BASED PAYMENTS

A. QUALITATIVE DISCLOSURES

Terna S.p.A. stock option plans

On 21 December 2005, acting on a proposal of the Remuneration Committee, the board of directors of Terna S.p.A. resolved to adopt a 2006 stock option plan for Terna managers holding the most important roles in terms of achieving the Company's strategic targets.
This plan provided Terna – in line with international best practice and that of the leading publicly listed Italian companies – with a management incentive and loyalty tool that imbues key employees with a sense of belonging to the corporate team, while ensuring they are constantly focused on creating value, with a view to melding the interests of shareholders and management.

B. QUANTITATIVE DISCLOSURES

The 2006 stock option plan entailed the granting, on 21 December 2005, of 9,992,000 options with a strike price of €2.072 to 17 managers of the company.
The board of directors verified that the conditions for exercise were met when it approved the financial statements at 31 December 2006.
Options in circulation at the start of 2011, totalling €5,596,300, were exercised.

1. CHANGE FOR THE YEAR

	Banking group			Other entities			Total 31/12/2011			Total 31/12/2010		
	Number of options	Average prices	Average expiry	Number of options	Average prices	Average expiry	Number of options	Average prices	Average expiry	Number of options	Average prices	Average expiry
A. Opening balance				**5,596,300**			**5,596,300**			**9,083,200**		
B. Increases			x			x			x			x
B.1 New issues												
B.2 Other changes			x			x			x			x
C. Decreases			x			x			x			x
C.1 Cancelled			x			x			x			x
C.2 Exercised			x	5,596,300		x	5,596,300		x	3,486,900		x
C.3 Lapsed			x			x			x			x
C.4 Other changes			x			x			x			x
D. Closing balance										**5,596,300**		
E. Options vested at year-end			x			x			x	**5,596,300**		x

The average weighted price of the shares at the exercise date was equal to:

- €3.318 (*) at 21 February 2011;
- €3.292 (*) at 22 February 2011;
- €3.282 (*) at 23 February 2011;
- €3.298 (*) at 24 February 2011;
- €3.323 (*) at 25 February 2011;
- €3.338 (*) at 28 February 2011;
- €3.382 (*) at 27 April 2011.

The fair value at the grant date was determined using the Cox-Rubinstein method, which considers the price of Terna shares at the grant date, the volatility of the shares, the yield curve at the grant date consistent with the duration of the plan. The pricing parameters applied are the following:

- closing price (underlying or spot price) of the shares at the grant date (source: Bloomberg) of €2.058;
- strike price of €2.072;
- yield curve for the calculation of the discount factor at the grant date (source: Reuters);
- historic volatility of the shares recorded at the grant date (source: Bloomberg) of 14.860%.

PART L – OPERATING SEGMENTS

Operating segment disclosures provide specific reporting of the contributions of financial operations (CDP, CDPI SGR and FSI) and non-financial operations (Terna Group and CDP GAS).

In view of the different nature of the business of CDP, CDPI SGR and FSI, on the one hand, and the Terna Group and CDP GAS, on the other, as well as the limited significance of reclassifying the financial statements of some of them on the basis of the formats used for banks, management's assessment of the performance of the CDP Group is not based on a unified view but rather on an assessment of the contribution of the individual components.

Accordingly, the reclassified balance sheet and income statement at 31 December 2011 have been constructed on the basis of the respective separate financial statements (for CDP, CDPI SGR, FSI and CDP GAS) or consolidated financial statements (Terna Group), reporting the effects of consolidation by CDP under eliminations and adjustments.

Balance sheet at 31 December 2011

(thousands of euros)

	Financial operations	Non-financial operations	Eliminations/ Adjustments	Total CDP Group
Cash and cash equivalents	129,223,591	1,265,014	(601,048)	129,887,558
Loans to customers and banks	98,590,999	177,409	(677,409)	98,090,999
Debt securities	17,194,297	-	-	17,194,297
Equity investments and shares	19,825,728	600,840	(1,467,055)	18,959,512
Assets held for trading and hedging derivatives	940,875	571,519	-	1,512,394
Property, plant and equipment and intangible assets	204,354	9,089,096	2,248,993	11,542,443
Accrued income, prepaid expenses and other non-interest-bearing assets	7,363,301	5,684	(3,771)	7,365,214
Other assets	853,875	1,737,924	(1,058)	2,590,741
Total assets	**274,197,019**	**13,447,486**	**(501,348)**	**287,143,158**
Funding	254,213,822	6,455,547	(1,278,457)	259,390,912
- of which: postal funding	*218,408,319*	-	-	*218,408,319*
- of which: funding from banks	*18,679,507*	*1,994,490*	-	*20,673,997*
- of which: funding from customers	*9,057,428*	*677,409*	*(1,278,457)*	*8,456,380*
- of which: funding from bonds	*8,068,569*	*3,783,647*	-	*11,852,217*
Liabilities held for trading and hedging derivatives	3,153,506	117,910	-	3,271,416
Accrued expenses, deferred income and other non-interest-bearing liabilities	756,832	603,750	(3,808)	1,356,774
Other liabilities	541,314	2,284,738	(703)	2,825,349
Provisions for contingencies, taxes and staff severance pay	456,778	701,778	791,215	1,949,771
Equity	15,074,767	3,283,763	(9,595)	18,348,935
Total liabilities and equity	**274,197,019**	**13,447,486**	**(501,348)**	**287,143,158**

Income statement at 31 December 2011

(thousands of euros)

	Financial operations	Non-financial operations	Eliminations/ Adjustments	Total CDP Group
Net interest income	**2,332,188**	**(123,804)**	**5,196**	**2,213,580**
Dividends	1,229,135	-	(1,226,272)	2,862
Net commission income	(1,480,984)	(1,774)	46	(1,482,713)
Other net costs and revenues	(38,638)	1,536	(31,698)	(68,801)
Gross income	**2,041,699**	**(124,042)**	**(1,252,729)**	**664,928**
Net writedowns	(10,189)	-	-	(10,189)
Overheads	(99,216)	(793,258)	(44,630)	(937,104)
of which: administrative expenses	*(91,325)*	*(397,055)*	*470*	*(487,910)*
Operating income	**1,943,644**	**1,108,466**	**(1,252,729)**	**1,799,382**
Profit on equity investments	(13,861)	7,371	1,717,492	1,711,002
Net income (loss)	**1,615,062**	**439,980**	**289,738**	**2,344,781**
Net income (loss) for the year pertaining to non-controlling interests				177,367
Net income (loss) for the year pertaining to shareholders of the parent company				**2,167,414**