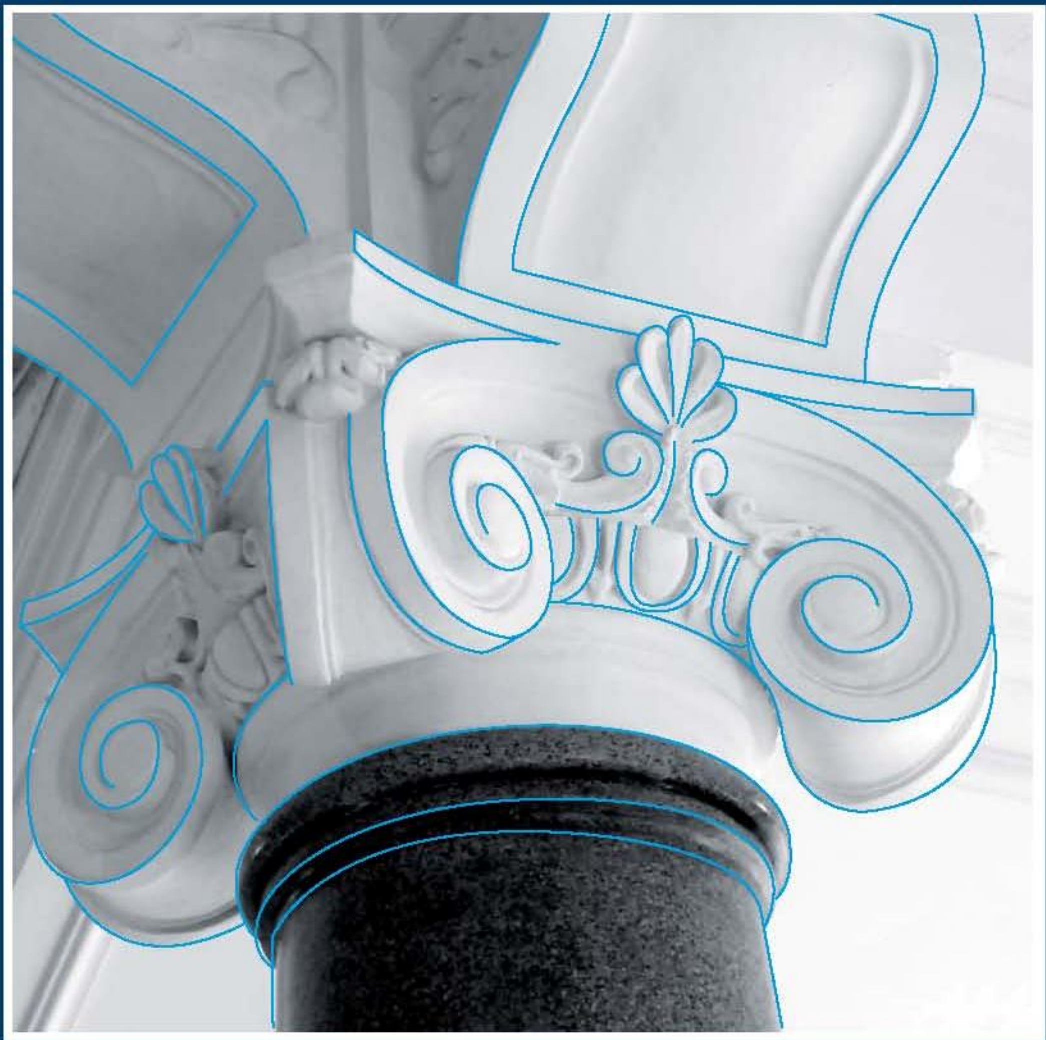
Cassa depositi e prestiti



CDP Group
Consolidated Report and Financial Statements

at 31 december 2010

Cassa depositi e prestiti

(Translation from the Italian original)

2010 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

Share capital €3,500,000,000.00 fully paid up

Tax code 80199230584 – VAT registration no. 07756511007

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REPORT

ON

GROUP OPERATIONS

(YEAR ENDED 31 DECEMBER 2010)

CONTENTS OF THE REPORT ON GROUP OPERATIONS

1. PRESENTATION OF THE GROUP

1.1 INTRODUCTION

The report on operations and other documentation contained here have been prepared as the result of the determination that CDP S.p.A. exercises de facto control over Terna S.p.A. and exercises statutory control over CDP Investimenti Società di Gestione del Risparmio S.p.A. ("CDPI SGR").

These circumstances require Cassa depositi e prestiti S.p.A. ("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 and CDPI SGR on a line-by-line basis, even though they use different formats for their own financial statements that are more appropriate for representing their specific operations. In particular, Terna uses the formats called for under the applicable accounting standards for non-financial companies.

In order to harmonise the data for consolidation purposes, Terna and CDPI SGR 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 S.p.A.

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, while formally correct, reflects the consolidation in a single document of data on assets, liabilities and performance of companies, as in the case of Terna and CDP, whose activities are completely different. Therefore, the reader should refer to the relevant individual separate financial statements for more information.

1.2 The CDP Group

At 31 December 2010, the CDP Group is composed of the parent company CDP S.p.A., CDPI SGR S.p.A., Terna S.p.A. and its subsidiaries and associates.

PARENT COMPANY

Name	Registered office	Investor	% holding
Cassa Depositi e Prestiti S.p.A.	Rome		

CONSOLIDATED COMPANIES

Name	Registered office	Investor	% holding	Method of consolidation
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.	29.99%	line-by-line
SunTergrid S.p.A.	Rome	Terna S.p.A.	100.00%	line-by-line
TELAT S.r.l.	Rome	Terna S.p.A.	100.00%	line-by-line
Rete Rinnovabile S.r.l. (RTR)	Rome	SunTergrid S.p.A.	100.00%	line-by-line
Rete Solare S.r.l. (RTS)	Rome	SunTergrid S.p.A.	100.00%	line-by-line
Valmontone Energia S.r.l.	Rome	Rete Rinnovabile S.r.l.	98.50%	line-by-line
Elmed Etudes S.àr.l.	Tunis	Terna S.p.A.	50.00%	equity
Cesi S.p.A.	Milan	Terna S.p.A.	39.91%	equity
Coreso S.A.	Brussels	Terna S.p.A.	22.49%	equity
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

Compared with 31 December 2009, the scope of consolidation has changed as follows:

- the transfer to the MEF, on 23 December 2010, of the equity investments held by CDP in Poste Italiane S.p.A. and STMicroelectronics Holding N.V., as part of a broader share exchange;
- the establishment, on 18 May 2010, by SunTergrid S.p.A. (a Terna subsidiary), of Rete Solare S.r.l., with share capital of €10,000;
- the acquisition by Terna, on 26 November 2010, of 22.485% of Coreso S.A., a Belgian services company based in Brussels;
- the acquisition by Terna, on 20 December 2010, of an additional 9% of Cesi S.p.A.;
- the acquisition by Rete Rinnovabile S.r.l., on 25 October 2010, of an interest of 98.5% in Valmontone Energia S.r.l.

1.2.1 Cassa depositi e prestiti S.p.A.

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

1.2.2 CDPI 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".

CDPI SGR held no equity investments at 31 December 2010.

1.2.3 Terna Group

On 15 September 2005 CDP acquired 29.99% of Terna S.p.A.
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.

1.3 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.

1.4 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.

The Rules of the FIA allow it to invest exclusively in real estate assets, such as real estate, rights in real property, shares or units in collective investment undertakings or similar collective real estate investment vehicles, listed real estate investment companies and other real estate investment companies, using two approaches:

a. primary investment category: minority stakes, with a limit of up to 40% of the share capital/assets of the collective investment undertaking/real estate investment vehicle;
b. direct investment: up to 10% of the assets of Fondo Investimenti per l'Abitare, beyond the 40% ceiling, can be used to invest in real estate and rights in real property, shares or units in collective investment undertakings or other real estate vehicles.

According to the Fund's Planning Document, the FIA will invest solely in local funds operated by other asset management companies or in vehicle companies, while no direct investments in real estate or rights in real property will be made.

In 2010, CDPI participated in the open tender organised by the Ministry for Infrastructure and Transportation (MIT) to select asset management companies to manage the Italian closed-end real estate investment funds to be formed in accordance with Article 11 of the National Housing Plan, pursuant to the Prime Minister's Order of 16 July 2009. On 8 September 2010, CDPI SGR was provisionally selected as the tender winner. Following the final award, the MIT will subscribe units in the Fund in the amount of €140 million.

At 31 December 2010, the shareholders of CDPI SGR were as follows:

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

1.5 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), with more than 98% of national infrastructure.

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 29.86%.

According to the periodic census conducted by the company, of the total Terna share capital, 67% is held by Italian investors and 33% by foreign institutional investors, mainly from Europe and the United States.

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 second-largest transmission system operator in Europe after France and seventh in the world in terms of strategic assets. The Terna Group operates in the electricity transmission sector in Italy, provides consulting services abroad to other grid operators and evaluates development opportunities in other countries, compatibly with its own activities and with a focus on the quality of the services offered and financial efficiency.

Terna is also a member of the Union for the Co-ordination of Transmission of Electricity (UCTE), one of the most important associations in this sector in the world, which coordinates electricity transmission in continental Europe. The members of the UCTE include 36 grid operators from 23 European countries, who come together with the objective of guaranteeing the security of the interconnected electricity systems.

The companies of the Terna Group

At 31 December 2010 the Terna Group included the following fully consolidated companies:

- SunTergrid S.p.A. (formerly inTERNAtional S.p.A.) and TELAT S.r.l., directly controlled by Terna S.p.A. with a stake of 100%;
- Rete Rinnovabile S.r.l. (RTR S.r.l.) and Rete Solare S.r.l. (RTS S.r.l), Italian companies indirectly controlled through SunTergrid S.p.A., with a stake of 100%;
- Valmontone Energia S.r.l., an Italian company controlled indirectly through Rete Rinnovabile S.r.l., with a stake of 98.5%.

The Group's scope of consolidation also includes the associated company Cesi S.p.A. (in which Terna has a 39.91% holding), the joint venture Elmed Etudes S.àr.l. (50%), and Coreso S.A. (22.49%), all accounted for using the equity method.

In addition:

- on 5 August 2010, the Terna Group, acting through the subsidiary TELAT S.r.l., acquired the entire share capital of Rete di Trasmissione Brescia S.r.l. (formerly Reti Trasmissione Energia Elettrica ASM S.r.l. - Retrasm) from A2A S.p.A. During the year, the company was merged into the subsidiary TELAT;
- on 22 July 2010, the Terna Group, acting through Rete Rinnovabile S.r.l. (RTR), acquired the entire share capital of Reno Solar S.r.l. from Tre S.p.A. Tozzi Renewable Energy. During the year, the company was merged into the subsidiary.

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).

SUNTERGRID S.p.A.

In order to make most effective use of its resources and maximize returns on its assets, Terna designated its subsidiary inTERNAtional S.p.A. (renamed SunTergrid S.p.A.) to build and manage photovoltaic systems on sites where no installations exist, adjacent to transformation stations leased by the Terna S.p.A. The company's purpose includes the construction and maintenance of transmission networks, as well as of power generation plants – including renewable energy – for self-consumption or sale, both in Italy and abroad.

RETE RINNOVABILE S.r.l.

SunTergrid transferred to its subsidiary RTR the business unit consisting of existing plants for generating power from renewable resources, as well as those currently under construction, and all activities and contractual relationships pertaining to the design, construction, management, development and maintenance of these plants.

RETE SOLARE S.r.l.

The company operates in the design, construction, management, development and maintenance of networks and other related infrastructures, plants and equipment for the transmission and dispatching of electricity and other segments of the energy or similar or related sectors, as well as of power generation plants – including renewable energy – for self-consumption or sale.

TELAT S.r.l.

The company's corporate purpose involves the design, construction, management, development, operation and maintenance of high-voltage power lines.

CESI S.p.A.

Cesi S.p.A. builds and manages labs and systems for testing, inspection and research regarding electrical technology in general, as well as technical and scientific progress in that field.

ELMED ETUDES S.àr.l.

The Tunisian limited company Elmed Etudes S.àr.l. is a joint venture between Terna S.p.A. and Société Tunisienne de l'Electricité et du Gaz (STEG). The company is involved in the study and preliminary consulting concerning the preparation of documents for the Tunisian government's call for tenders for the construction and management of the power generation hub in Tunisia for the Italy-Tunisia interconnection project.

CORESO S.A.

Coreso S.A. is the first technical centre owned by a number of transmission system operators, offering joint technical coordination services to the TSOs, for the improvement and upgrading of the safety and coordination of the Central and Western European electrical system. It produces daily forecasts and real-time analysis of electricity flows in the region, identifying possible problems and promptly notifying the TSOs involved.

1.6 STRUCTURE OF CDP

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

1.7 STRUCTURE OF CDPI SGR

At 31 December 2010 CDPI SGR had 14 employees:[1] three senior managers, seven junior managers and four 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.

1.8 STRUCTURE OF THE TERNA GROUP

No changes were made to the Terna Group's internal corporate structure in 2010. However, ICT resources were strengthened in the Corporate Security

[1] Of which two employees of CDP S.p.A. seconded to CDPI SGR S.p.A.: a senior manager on a half-time basis and a junior manger on a full-time basis.

department with the transfer of the “Management Information Technology and Personal Services” unit and the “Telecommunications” unit to that area.

At 31 December 2010, the parent company Terna had 3,468 employees (3,447 at 31 December 2009. Also at that date, TELAT, SunTergrid, RTR, RTS and Valmontone Energia had no employees. Data for the parent company for both periods are reported net of terminations taking effect from 31 December.

2. THE MARKET

2.1 THE MACROECONOMIC SITUATION

The pace of the global economic recovery was virtually stable throughout 2010 (real GDP expanded by 5%), supported by rising private consumption, especially in emerging countries, and partially by the stimulus measures that continued to be applied during the year.[2] Nevertheless, the revival appears to be moving at two speeds, with emerging economies growing at a more than double the rate of advanced economies (7% and 3%, respectively). In 2010, the United States saw its economy expand by 2.8%, the euro area by 1.8% and Japan by 4.3%, while the emerging countries posted even greater gains (China +10.3%, India +9.7%, Brazil +7.5%).

The IMF recently drew attention to the rising prices of raw materials, which increased considerably in 2010. More specifically, the price of oil reflected the upward pressure of world demand and the recent political and social upheaval in a number of oil-producing countries in North Africa and the Middle East, a situation expected to persist in 2011, fostering adverse shocks on the supply side. Another threat comes from the rise in food prices due to extraordinary seasonal and climatic factors, in addition to growing demand.

In this environment, while inflation has been relatively moderate over the short term due to uncertainty concerning the global economic recovery and the monetary policies of the major central banks, which remain accommodating, it could accelerate in response to the prices of oil and other raw materials and a more robust expansion of the world economy.

The deterioration in the public finances of all the advanced economies adds another element of weakness to the global picture, with persistent deficits that are significantly worsening the levels of debt of the major countries, which have already been severely burdened by special measures connected with bail-out and economic stimulus plans. Furthermore, there continues to be concern about the labour market due to the low level of capacity use, which has inhibited investment in durable goods.

[2] See *World Economic Outlook Update,* IMF, 25 January 2011.

As to Italy, GDP grew by 1.3% in 2010,[3] although this was below the European average. The growth in the Italian economy was spurred by a robust resurgence in exports, curbed, however, by weak domestic demand and limited growth in industrial production.

Despite the recovery, the labour market has remained stagnant, with employment continuing the decline that began in 2009 (which was particularly steep in the industrial sector), although a few positive signals are beginning to emerge, such as a reduction in recourse to extraordinary Wage Supplementation and that under waivers.

In this context, inflation is showing signs of resurgence, although it remains under control overall, reaching just 1.9% in 2010, broadly in line with the rest of the euro area.

In the banking sector, while there was a slight reduction in funding at end-2010 due to lower deposits by residents, the volume of lending to the private sector rose, driven by a higher demand from enterprises in response to the recovery in economic activity. However, as emphasised by several sources (the Bank Lending Survey and ISAE), the lending terms are still quite restrictive, especially for SMEs and the manufacturing sector. Finally, the ratio of new bad debts to loans, equal to 2%, remains high, although it is in line with the 2009 figure.

2.2 THE FINANCIAL MARKET AND RATES

Conditions in the international financial markets are continuing to show signs of improvement, despite the considerable strains in the markets for government securities in Europe. The euro-area official rates have remained stable (1% for the policy rate, 1.75% the rate on the marginal lending facility and 0.25% the overnight deposit facility rate) in view of the inflationary signals, not yet a cause for concern, observed by the European Central Bank. In the United States, the main interest rates have remained in line with those registered over the preceding months (a discount rate of 0.75% and a federal funds rate target of between 0% and 0.25%), confirming the accommodating stance of the Federal Reserve. The yields on government securities in all the major advanced economies rose steadily over the last few months of 2010, having factored in market expectations about the positive outlook for economic growth and

[3] See *Pil e indebitamento AP*, ISTAT, March 2011.

developments in inflation. Extreme tensions were experienced in European sovereign debt markets in response to the crises in several countries (Ireland, Greece, Portugal and Spain), with spreads against the rates on German Bunds reaching their highest levels since to introduction of the single currency.

As to Italy, despite the high volatility in the securities markets, spreads have remained under control and have not compromised auction outcomes. After rising in the first few months of 2010, CDS quotes (which reflect credit risk as perceived by investors) were essentially stable (on average 217 basis points) over the rest of the year. The increase in the overall risk for the euro area, the deterioration in the fiscal and financial position of many Member States (confirmed by the decline in the credit ratings issued by many rating agencies) and the heightened speculation in the securities issued by "peripheral countries" spurred the reform of governance in Europe, which in the coming years could bolster the euro area's credibility, with the creation of new intervention mechanisms such as the European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM).

Growing instability in North Africa and the Middle East would seem to have fostered a strengthening in the US dollar against the other major currencies, in particular the euro and the yen. The euro has also been weighed down by uncertainties surrounding sovereign debt levels: at the end of 2010, the US dollar had appreciated by about 7% compared with its value at the start of the year.

The stock markets continue to experience a recovery marked by substantial volatility. Especially in the United States, the main indices have returned to their pre-crisis levels, buoyed by strong corporate earnings, generating large gains for investors. In Europe, the rebound was more contained, since investors are still concerned about the uncertainty of the recovery and, above all, the stability of the financial markets.

In Italy, the general stock market index did not rise as much as other European indices, although it accelerated sharply in the first few months of 2011.

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 2010, please see the separate report and financial statements.

2.3.2 CDPI SGR reference market and activities

CDPI SGR operates in the residential building sector, and in particular the private social housing sector (PSH). PSH projects are aimed at people in disadvantaged social classes, on a medium-low income (as defined in Decree Law 112/2008), comprising low-income families, socially or financially disadvantaged young couples or elderly persons, students living away from home and immigrants with resident permits. This involves meeting housing needs using new financing models, involving players that manage housing policies employing innovative criteria and methods.

In Italy, the factors that influence the demand for traditional residential accommodation have undergone structural changes, with a sharp rise in "housing distress". The evolution of social dynamics have expanded the category of "typical" social housing users, such as young couples and single-income households, to comprise other social segments with different needs, such as students living away from home, immigrants, commuters, people on temporary employment contracts, the elderly and people with special housing needs. Most resident households in the country, about 80%, live in non-rental property (mainly owned property but also property on gratuitous loan for use), while only 20% live in rented premises. Of this segment (about 4.8 million households), 70% rent from other individuals, while the remaining 30% lease housing from legal entities. Compared with other European countries, Italy's housing market is characterised by widespread ownership or gratuitous loans for use of primary residences and, consequently, has a small share of households in rented property. At the same time, Italy has a small stock of social housing, with an especially small presence of institutional investors in the long-term rental market, to the disadvantage of non-home owners, especially those with lower incomes. The proportion of accommodation for social rental in countries such as France, the United Kingdom, the Netherlands and Germany is a multiple of that available in Italy.

However, all the European countries are seeing greater involvement of private-sector actors in the long-term rental market, and the recent changes introduced with the Integrated Fund System (IFS) appear consistent with international trends. The IFS, to which FIA belongs, is an innovative instrument that offers a differentiated response to a need that does not necessarily require public grants but can instead be handled through financial sustainable initiatives, albeit with moderate objectives for returns. Although this instrument cannot respond to the demand in the public residential building sector, it can help ease the pressure on this segment of supply and, by involving private investors, foster the creation of a "deeper" rental market that is more attractive to institutional investors. It would therefore be appropriate to expand the current supply of accommodation with more accessible rents and greater guarantees, as well as introducing more efficient building management practices.

In addition, the housing conditions of families, especially new households and single-parent families, remain heavily affected by low incomes owing to the following main factors: (i) in 2008 expenditure on housing was one of the largest items on the household budget. Including both homeowners and renters, nearly 2.4 million households (9.7%) are under serious economic stress, spending more than 40% of their disposable income on housing; (ii) the average household income of households in rented accommodation has not matched developments in rents, increasing spending on accommodation as a proportion of disposable income, forcing nearly 26% of renter households into substantial economic distress in 2008. This distress is confirmed by the data on rental terminations, the main cause of which in the last decade is now "arrears" (72% in 2009), whereas previously it was the expiry of leases.

<u>The activities of CDPI SGR</u>

The year 2010 was the year in which CDPI SGR started its core activities. During the year it received authorisation to begin providing collective asset management services and approval by the Bank of Italy of the operational Rules of the FIA, which was followed by the commencement of operations.

During 2010 the company undertook the direct marketing of units in the FIA without having recourse to placement agents. More specifically, CDPI SGR:

- identified and classified the parties who had expressed an interest in the investment opportunity presented by the units of the FIA in compliance with the Intermediaries Regulation (Consob Regulation no. 16190);

- prepared and filed the documentation on the FIA containing all the pre-contractual disclosures required under applicable regulations and the company's set of internal procedures;
- carried out, on 16 July 2010, the first partial closing of subscriptions, reaching the minimum asset target of the Fund (€1 billion) and starting the operation of the Fund itself;
- was selected, on 8 September 2010, as the provisional winner of the tender organised by the MIT for the allocation of €140 million for the subscription of Italian closed-end real estate investment funds to be established pursuant to Article 11 of the so-called Housing Plan under the Prime Minister's Order of 16 July 2009;
- carried out, on 24 September 2010, the second partial closing of subscriptions, raising a further €670 million, bringing the total amount of subscriptions to €1.67 billion;
- received, in the fourth quarter of 2010, three additional subscription applications for a total of €60 million. Those applications will be accepted at the next partial closing during 2011.

As regards the identification and assessment of potential investment opportunities, in 2010 the company received 16 expressions of interest in initiating evaluations from 12 asset management companies and 4 other parties. Among these, a total of 5 initial evaluations were begun during the year, selecting the best defined and financially sound initiatives. Two expressions of interest did not meet, on the basis of the information presented, the investment criteria of the FIA. For another initiative, the applicant did not respond to the requests for additional information from CDPI. The remaining initiatives are being monitored constantly with the aim of fostering significant progress.

In 2010, three investment projects were submitted to the Board of Directors: (i) a proposal to subscribe the Polaris Parma Social House Fund for a maximum of €25 million, which led to the subscription on 30 November 2010 of 410 Class B units for a total of €20.5 million, equal to 40% of the fund's assets; (ii) a proposal to subscribe Fondo Abitare Sociale 1 in the amount of €30 million and a non-binding preliminary commitment to increase its assets up to a maximum of €58 million (in addition to the €30 million mentioned previously) to be used within the subsequent 3 years, subject to completion of the evaluations of the individual real estate projects that the fund will be investing in and following specific resolutions of the Steering Committee of the FIA and the Board of Directors of asset management company; (iii) a proposal for a non-binding preliminary commitment to subscribe units of the Real Quercia Housing Sociale Fund, sponsored and operated by Est Capital SGR, for a maximum of €30 million, again in compliance of the 40% ceiling, subject to the performance of technical-legal due diligence for the future projects and approval by the competent governance bodies of the asset management company and the Fund, with the resources being earmarked until 30 March 2012.

As regards the promotion of the Fund, the company developed and initiated a programme to explain the operation of the Integrated Fund System envisaged in the Housing Plan and of the FIA, with a view to presenting and encouraging the opportunities that it can generate for the various operators and agencies active in the private social housing sector. During the year, the programme was implemented through the following main initiatives:

- publications and initiatives publicising the sector;
- conferences, institutional meetings at the local level as well as workshops with the actors involved in private social housing and the related sector associations;
- participation in specialised sector fairs.

2.3.3 Terna reference market and activities

ELECTRICITY DEMAND IN ITALY

In 2010, the demand for electricity amounted to 326,165 GWh, up 5,897 GWh or 1.8% on 2009. In order to compare of the results for 2010 with the prior year, a number of factors must be considered. First of all, calendar differences: 2010 had one more business day than 2009 (255 vs. 254). Secondly, weather conditions were different: 2010 had a total of four summer months that were cooler than 2009 and winter months that were at the same temperature levels as 2009, apart from February, which was warmer. Therefore, adjusting for both number of days and temperature, the change in electricity demand came to +2.0%.

ELECTRICITY GENERATION

According to initial estimates, in 2010 net domestic power generation increased by 1.9% year on year. Breaking down the figures for generation by source, net of ancillary services, there was an increase in thermal power generation for the year of 1.1% from 2009. In 2010 hydroelectric output rose by 0.6% compared with 2009, net of consumption for ancillary services and other renewable sources. For the latter, the net output of wind and photovoltaic generation once again rose substantially compared with the previous year, posting a 39.3% overall rise compared with 2009, spurred by growth of 29.1% in wind power and with 136.5% in photovoltaic energy. Geothermal generation was virtually unchanged (+0.3% on 2009).

DISPATCHING AND SALES

Electricity business

During the year, 86.5% of the demand for electricity on the network was met by domestic power generation (86.0% in 2009), for a total of 282,221 GWh, net of consumption by ancillary services and pumping, for an increase of 2.5% over 2009. The remaining portion of demand (13.5%) was covered by net imports, for a total of 43,944 GWh, compared with 44,959 GWh for the previous year (-2.3%). Export trade was calculated as the difference between energy received from suppliers and that sold to foreign customers. Electricity imported from abroad amounted to 45,761 GWh, a decline of 2.8% as compared with the 47,070 GWh of 2009. Exports, on the other hand, went from 2,111 GWh in 2009 to 1,817 GWh in 2010, a drop of 13.9%.

Coverage of demand

The high margins available at the peak recorded in 2010 are attributable to maintenance forecasting and coordination by Terna, as well as to the start-up of a number of new generating plants.

Provisioning of dispatching resources

On 31 December 2009, the Ancillary Services Market reform came into force. This new reform innovates the process and procedures for presenting bids by operators. The most important new feature is linked to the dynamics of producer bids. In the past, operators could present 6 bids throughout the day (a purchase offer and a sales offer for each of the three time-bands into which the day was divided). These would apply both during the programming stage of the Ancillary Services Market and during the real time phase. Two new features have been included in the new Ancillary Services Market:

- a bid structure that is differentiated by hour, power steps (up to 3 steps in purchasing and 3 steps in selling with explicit offers for switching off and the production plant minimum) and type of service (use of secondary reserve, provisioning and use of other dispatching services);
- an infra-day balancing market structured into 5 sessions, in four of which operators can update their offers.

Following the introduction of the new Ancillary Services Market mechanism, during the scheduling phase, which is held on the day prior to that of the actual flow, Terna bought and sold energy amounting respectively to about 7.0 TWh and 14.8 TWh (12.5 TWh and 14.8 TWh respectively in 2009), with a net outlay of €823 million (€1,385 million in 2009, down 41%). Volumes bought and sold in the real-time balancing stage came respectively to 7.0 TWh (7.8 TWh in 2009, -10%) and 8.1 TWh (10.5 TWh in 2009, -22%), corresponding to a net expense of €440 million (€429 million in 2009, +3%).

After the real-time phase, Terna verifies the proper execution of commercial obligations by the market participants, both in terms of generation and demand. To that end, the measurements at each point of input and withdrawal are taken, with the help of the distribution firms, and the differences from the schedules are calculated. These differences (imbalances) are measured using algorithms established by the regulatory framework. The net charge resulting from the measurement of these imbalances and of the buy and sell transactions executed by Terna on the Ancillary Services Market is billed on a pro-rata basis to each consumer with the uplift fee. As established in Authority for Electricity and Gas (AEEG) Resolutions 111/06 and 314/06, commencing from January 2007 this fee is determined by Terna during the first month of each quarter, based on the forecast charges and withdrawals for the quarter concerned. This calculation includes the differences between estimate and actual for the previous quarter, as well as the balance deriving from the settlement of the transport capacity usage fee (CCT), the hedges against volatility in the transport capacity usage fee (CCC), the interconnection transport capacity fee (DCT) and the virtual import service.

<u>Interruptibility service</u>

With Resolution ARG/elt 201/09 of 30 December 2009, in accordance with Articles 30.18, and 32.8 and 9, the AEEG defined the procedures for provisioning by Terna for 2010 of resources that can be instantaneously interrupted:

1. available following release of interruptible power by the parties financing interconnectors and by assignees of the instantaneous withdrawal reduction service for the major islands (Legislative Decree 3 of 25 January 2010 ratified with amendments with Law 41 of 22 March 2010);
2. subject to temporary releases for quantities in line with the average annual forecast amounts and not, therefore, associated with a termination of contract;
3. available in response to potential requirements on the part of Terna for an increase of overall interruptible resources to guarantee the safety of the system.

By virtue of this resolution, in March 2010, Terna assigned 552 MW of instantly interruptible power, with validity from 1 March 2010 to 31 December 2010, against a total supply of 1,077 MW. The residual quantity, exclusively relating to the shares envisaged as the forecast average annual amount of monthly temporary releases, was not subsequently assigned.

In addition, during the subsequent assignment procedures, the following were allocated:

- 18 MW for instantaneous interruptible service in May 2010, for the period 1 October 2010 – 31 December 2010;
- 48 MW for instantaneous interruptible service in September 2010, for the period 1 October 2010 - 31 December 2010.

Instantaneous reduction service in withdrawals on the major islands

Decree Law 3 of 25 January 2010, ratified with amendments by Law 41 of 22 March 2010, instituted the instantaneous reduction service in withdrawals of electricity in order to guarantee the security of supplies of electricity to the major islands for the three-year period 2010-2012. This service, which is only supplied to Sicily and Sardinia, aims to guarantee the ability to reduce electricity demand on those islands, with total availability, reliability and continuity. With Resolution ARG/elt 15/10 (subsequently amended with Resolution ARG/elt 75/10), the AEEG defined the technical/commercial procedures for assigning and managing this service. In February 2010, Terna defined the procedures for the assignment of 500 MW for Sicily and 500 MW for Sardinia for the period 1 March 2010 – 31 December 2012 and applications were received only from Sardinia, for a total of 296 MW, from 4 parties.

Resolution ARG/elt 15/10 also provides for the quarterly reassignment of any residual quantities and, therefore, in May, August and November, a further total of 79 MW were assigned to Sardinia and 24 MW to Sicily, with effect as from 31 December 2012.

Interconnectors and shippers

Two selection procedures were organised during December 2009 in implementation of Law 99/2009 and Resolution ARG/elt 179/09, under which Terna selects the parties willing to finance the infrastructure for international interconnection in the form of interconnectors and, commencing on 1 January 2010, makes it possible to obtain the economic benefit deriving from the import of energy from abroad via assignment of the virtual import service (shipping): the first procedure involved the selection of parties to finance the interconnectors and the second involved selection of the shippers. The interconnector procedure ended on 15 December 2009, with the assignment of 2,000 MW across the various borders:

- 500 MW France – 35 parties selected;

- 700 MW Switzerland – 24 parties selected;
- 500 MW Slovenia – 11 parties selected;
- 300 MW Austria – 4 parties selected.

The shipper procedure ended on 28 December 2009. This was carried out pursuant to Resolution 179/09, in which the AEEG defined the transitional arrangements and related fees for the performance of any contracts for the sourcing of electricity abroad to be supplied to the withdrawal points of final consumers selected pursuant to Article 32.6, of Law 99/2009. These arrangements envisage the introduction of a virtual import service carried out by one or more shippers selected each year at auctions held by Terna. The shippers agree to make available on the Italian market, to parties with interconnectors, a quantity of energy corresponding to that made available abroad to the shippers by the selected parties and, in any case, not more than that corresponding to the transport capacity covered by the planning and design contract signed with Terna by the selected parties concerned.

Subsequently, Decree Law 3 of 25 January 2010, ratified with amendments with Law 41 of 22 March 2010 provided for an increase of up to 500 MW in the capacity to be assigned as an interconnector. Terna set the new interconnection capacity at 500 MW for a connection project with Austria. In April 2010, Terna commenced the procedures for assigning these blocks of financing, giving priority – as established in the above decree – to those parties who enter into binding commitments to make available incremental resources, by 31 March 2011, for the instantaneous reduction of their drawings from the grid. Consequent to the publication of Resolution ARG/elt 65/10 as amended, this procedure was concluded in January 2011, as a consequence of the assignment of the interruptibility service for 2011-2013.

<u>Service quality, unsupplied energy and other service issues</u>

Service quality in 2010 recorded decidedly positive figures for Regulated Energy Not Supplied (RENS) and the Number of Supply Failures per User (NSFU), falling below the averages seen in recent years: RENS amounted to 1,005 MWh, compared with a quality target of 1,241 MWh; the NSFU value was 0.179, compared with a quality target of 0.214.

In 2010, a major incident occurred on the 150 kV grid in the area of Naples. The forest fires had a limited effect on the availability of the transmission system. This situation meant that the amount of energy not supplied was low, albeit slightly above the target.

Critical issues generated by causes not attributable to Terna included storms, strong winds and significant snowfalls in and around Turin, Naples and Palermo, which led to a higher-than expected NSFU, although performance at the national level exceeded the target.

No gas and water availability-related critical issues were recorded.

Although in line with the positive service quality generally, the larger islands continued to face their particular challenges connected with the structure of the transmission system.

In conclusion, the four key indexes of service quality and performance for Terna's NTG systems, all positive and as calculated in accordance with AEEG Resolution 250/04 and Terna's Grid Code, are summarised below:

- AIT (Average Interruption Time attributable to Terna) = 0.99 min./period; Annual national target = 1.00 min./year;
- SAIFI + MAIFI (System and Momentary Average Interruption Frequency Indexes per user directly connected to the Terna NTG, attributable to Terna) = 0.15; Annual national target = 0.22;
- ENS (Energy Not Supplied attributable to Terna) = 613 MWh; Annual national target = 550 MWh;
- ASA (Average System Availability of Terna network elements) = 99.225%; Annual national target = 99.05%.

NATIONAL TRANSMISSION GRID

The number of plants belonging to the Terna Group at 31 December 2010 and 31 December 2009 is shown in the following table:

	Terna Group		
	31/12/2010	**31/12/2009**	**Change**
No. of stations	431	383	48
No. of transformers	634	620	14
MVA	125,571	121,501	4,070
No. of bays	4,825	4,537	288
Lines - km	57,638	56,691	947
No. of 3-phase power lines	3,981	3,891	90
km	63,578	62,503	1,075

Stations

Developments in stations included the activation of 29 facilities:

- 3 new transformation stations: Castegnero, Maida and Bisaccia;
- 13 new switching stations: Turano, San Severo, Ittiri, Sambuca, Cattolica Eraclea, Castelnuovo, Castel di Lucio, Cianfurro, Scampitella, Licodia Eubea e Villafrati, San Bellino and Fenis;
- 12 132 kV stations acquired from SET Distribuzione.

In addition, as regards TELAT, additional changes were attributable to the assets associated with the merger with Rete Trasmissione Brescia.

Transformers

As regards the transformers pertaining to Terna, an additional 12 units went into operation compared with 31 December 2009, corresponding to a 3,750 MVA increase in transformation capacity. Specifically, there were 6 new 380/207/207 kV single-phase machines introduced at the Latina and Fiumesanto transformation stations, operations began on link 2 of the SA.PE.I. connection, and 6 new 380/150 kV machines were added at the stations of Maida, Bisaccia 380, Brindisi Pignicelle and Santa Sofia.

As regards TELAT, the changes in transformers are attributable to the assets contributed by Rete Trasmissione Brescia as a result of the merger.

Power lines

In relation to the power lines of Terna, three-phase lines increased by a total of 1,147 km compared with 31 December 2009, while other lines increased by 986 km. More specifically, link 2 of the underwater 500 kV connection of SA.PE.I. between the stations of Latina and Fiumesanto entered service for a total of 458.8 km and 15 lines were acquired from SET Distribuzione for a total of 171.7 km (of which: 4 at 132 kV, equal to 32.8 km and 11 at 60 kV, equal to 138.9 km). As of 31 December 2010, the three-phase and other lines owned by the parent company also included those (32 lines for a total of 381 km) of a number of plants that underwent urgent development and upgrading works in the operational areas of Milan, Padua, Florence and Naples, transferred from the subsidiary TELAT in March. As regards the power lines of TELAT, the total extent of three-phase and other lines at 31 December 2010 reflected the combined effect of the following factors:

- 32 lines for a total of 381.0 km involved in the sale to Terna;
- 25 lines for a total of 287.9 km acquired with the merger of Rete Trasmissione Brescia;
- 2 lines acquired from Enel Distribuzione for a total of 72.8 km;
- 8 new lines activated for a total of 41.2 km: Baronissi - Mercatello 150 kV (6.3 km), Aversa - Aversa RFI 150 kV (2.2 km), Gricignano - Aversa RFI 150 kV (6.5 km), Torre Nord - Torre Sud 60 kV (3.7 km), Mulini - Quattroventi 150 kV (4.8 km), Siracusa Nord - Siracusa Est 150 kV (6.6 km), Monselice - Este Nuova 132 kV (9.9 km), and Fano Z.I. - Profilglass 132 kV (1.2 km).

Development plan

On 29 January 2010, in compliance with the Ministerial Decree of 20 April 2005, the 2010 Development Plan was sent to the competent authorities for approval.

The Plan had been approved by the Terna Board of Directors on 16 December 2009, having already been favourably received by the Users' Consultative Committee[4] (which approved the new development initiatives included in the Plan on 31 October and the Plan in its entirety on 25 November 2009). 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 2009 Development Plan.[5]

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[4] 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.

[5] On 23 December 2009, the Ministry for Economic Development approved the 2009 Development Plan, publishing its final decision in the *Gazzetta Ufficiale* no. 15 of 20 January 2010.

The 2010 Development Plan follows the structure of the previous year's version and is divided into two sections: 2010 Development Plan – Section I, which sets out the reference framework and the new development requirements that emerged during 2009 (pursuant to Legislative Decree 152/2006, this section is subject to a Strategic Environmental Assessment, which commenced on 2 October 2009); 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. Specifically, the Plan emphasises the development of the European transmission network. In fact, the European Commission has identified a need for coordinated planning in the development of a European network in order to ensure that transmission capacity keeps pace with demand and that national electricity markets are integrated.

The 2010 Development Plan envisages investment of about €3.14 billion in the period 2010-2014 (an increase on the previous Development Plan) and €3.77 billion in the following 5 years; implementation of the Development Plan will add about 4,800 km of new lines to the NTG and 140 new stations with new transformation capacity of about 32,500 MVA.

SEA procedure for the 2010 Development Plan

On 2 October 2009, the preliminary stage of the Strategic Environmental Assessment procedure for the 2010 Development Plan (scoping) was initiated, pursuant to the Consolidated Environmental Act (Legislative Decree 4/2008), following publication of the 2010 Preliminary Report (PR) "on potential significant environmental impacts of Plan implementation". The PR is intended to define the scope and level of detail of information to be included in the 2010 Environmental Report (ER). This preliminary stage will be completed once an opinion (and any observations) is received from the Ministry for the Environment - EIA-SEA Technical Commission, which gathers and collates the comments submitted during the consultation phase, including comments issued by the Ministry for Cultural Heritage.

Status of authorisation applications

In 2009, pursuant to Law 239/2004, 29 authorisation application procedures were initiated regarding the development projects envisaged in the NTG Development Plan. During 2009, 15 decrees received authorisation pursuant to Law 239/2004 regarding Development Plan works.

Work performed

In 2010, the most important work involved activities to reduce network congestion, to connect new generating plants (especially those fuelled by renewable resources), and to increase the reliability of the grid with ever greater attention to environmental and safety issues.

The following is a summary of the projects performed in 2010:

- the 500 kV d.c. "Sardinia - Continent" (SAPEI) submarine cable: work was completed in 2008 on underwater cabling of the first segment (a total of 425 km). In 2009, civil engineering works were completed along with the construction of the buildings to hold the high-tech electrical equipment. Work was completed by the end of 2010 on the underwater cabling of the second link (a total of 425 km);
- 380 kV stations to connect renewable-resource plants: in 2009, work began on 380 kV stations to help reduce congestion and to connect new renewable-resource plants in the areas of Turano, Maida, Bisaccia, S. Severo, Deliceto, Troia and Brindisi South. During the first four months, work was completed at the stations of Turano and S. Severo; during the second four months, the first stage of the Brindisi South station was activated; during the last four months of 2010, works were completed at the stations of Maida and Bisaccia;
- 380 kV rationalisation in the province of Lodi: work began with the construction of two new 380 kV power stations in the municipalities of Chignolo Po and Maleo; work also began on a new 380 kV double three-phase power line connection along the "La Casella - Caorso" line;
- new 380 kV "Sorgente - Rizziconi" underwater connection: work on the civil works for the stations of Scilla (Calabria) and Sorgente (Sicily) began and is at an advanced stage; work has begun and the site is being organised for the station of Villafranca (Sicily). Preparation of materials for the three 380 kV stations described above is at an advanced stage. For Scilla in particular, electro-mechanical and electrical assembly has begun at the 380 kV power station of Rizziconi, where works are under way to expand and install the 2 bays necessary for building the new long-distance line. Final design is still in progress, in preparation for executing the manufacture and laying of the 380 kV double three-phase underwater and overland cable; in the second half of 2010, sites were opened for the preliminary works prior to developing the Favazzina tunnel and the sites for the 380 kV power lines (overhead part) on the Calabria side. Studies have been performed using a real-time simulator of the protection systems used on the grid;
- 380 kV "Ittiri - Codrongianos" line: at end 2010, the construction of the new 380 kV power line and the new Ittiri electrical station has been completed;

- 132 kV Val d'Ossola rationalisation: the works, which had begun in 2008, were completed during the last quarter of 2010. The development of the new line has allowed for the demolition of around 90 km of old power lines. Painted tubular pylons have been installed along this line to reduce environmental impact;
- 380 kV "Caselllina - Tavernuzze - S. Barbara" long-distance line: during the last quarter of 2010, the works envisaged for the 380 kV were completed. More specifically, the following parts have been completed:
  - the new 380 kV section of the Casellina station, as were the new 380 kV "Casellina - Poggio a Caiano" and "Casellina - Calenzano" connections;
  - the new 380 kV "Tavarnuzze - Casellina" connection, including the assembly of a number of Foster pylons;
  - the new 380 kV connection at S. Barbara - Tavarnuzze with the first three-phase line of cables entering the station of Tavarnuzze (about 5 km);
- replacement of conductors along the "Piossasco - Venaus - Villarodin" line: the first 2 stages of activity have been concluded for the replacement of conductors on the line.

3. CONSOLIDATED FINANCIAL POSITION AND PERFORMANCE

The financial position and performance of the CDP Group at 31 December 2010 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 made only a limited contribution to the overall results of the CDP Group since it 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 and CDPI SGR) and non-financial operations (Terna Group). 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)

	31/12/2010			31/12/2009	% change
ASSETS	**CDP Group**	***of which financial operations***	***of which non-financial operations***	**CDP Group**	
Cash and cash equivalents	128,050	127,894	156	118,732	7.8%
Loans to customers and banks	91,954	91,954	-	85,178	8.0%
Debt securities	5,464	5,464	-	842	n/s
Equity investments and shares	17,344	18,652	24	17,599	-1.5%
Assets held for trading and hedging derivatives	1,440	1,223	216	1,343	7.2%
Property, plant and equipment and intangible assets	10,774	205	8,275	9,998	7.8%
Accrued income, prepaid expenses and other non-interest-bearing assets	2,963	2,965	1	2,451	20.9%
Other assets	2,947	829	2,119	1,904	54.8%
Total assets	**260,937**	**249,187**	**10,791**	**238,047**	**9.6%**

At 31 December 2010 the total assets of the CDP Group came to about €261 billion, up about 10% on 31 December 2009.

This increase was due mainly to the significant rise in cash and cash equivalents, attributable entirely to the parent company, CDP, which almost reached €128 billion (+8% on 2009), thanks to positive net funding for CDP from postal savings products in 2010 as well as new interbank treasury funding. Short-term deposits of the Terna Group contributed a residual amount to this aggregate (about €156 million).

The stock of loans to customers and banks, again attributable to the parent company, showed dynamic growth from the end of 2009, reaching nearly €92 billion (+8%), due to the substantial volume of new business, in particular lending under the economic support programmes recently introduced by CDP as well as a number of large loans granted to public entities, disbursement of which was immediate.

Debt securities amounted to more than €5 billion at 31 December 2010, significantly higher than the figure at the end of 2009. The increase is attributable to government securities subscribed during the period by the parent company, mainly to invest liquidity.

Equity investments and shares fell slightly (-1.5%) from the end of 2009, going to just over €17 billion at 31 December 2010. As regards the balance attributable to the parent company (nearly €19 billion), the change between 2009 and 2010 (+€381 million) is main due to the change in the composition of its stock portfolio following the share exchange with the MEF and, to a lesser extent, to new draws on investment funds in the portfolio. By contrast, the Terna Group reported an increase of €9 million as a result of the combined impact of the acquisition of stakes in Cesi S.p.A. and Coreso S.A., only slightly offset by the writedown of the investment in Elmed Etudes S.àr.l., which was recognised as a result of the change in the political situation in Tunisia during the year, making recovery of the investment difficult.

Assets held for trading and hedging derivatives went from about €1.3 billion to more than €1.4 billion (up about 7% from 2009), a change attributable mainly to the Terna Group (+€74 million), with the parent company contributing to a lesser extent (+€23 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 reflected the increase in the fair value of derivatives hedging liabilities, along with a corresponding decrease in the fair value of the funding being hedged. However, this performance was also affected by the decline 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, too, this positive change is also due to the increase in the fair value of derivatives subscribed to hedge bonds issued as a result of the decline in market interest rates reported for the period. Also in this case, the increase is balanced by the higher fair value of bonds recognised among financial liabilities.

Property, plant and equipment and intangible assets totalled nearly €11 billion, up about 8% over the end of 2009, pertaining almost entirely to non-financial operations. The Terna Group reports a figure of more than €8 billion (about €7 billion at the end of 2009), of which nearly €8 billion relates to property, plant and equipment and €500 million to intangible assets. The change on 2009 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 2010 amounted to more than €1 billion (almost entirely relating to property, plant and equipment), up more than 28% over 2009. The total for the parent company came to €205 million, of which €204 million relating to property, plant and equipment and the remainder to intangible assets. The total declined because investments made in 2010 were less than depreciation and amortisation recognised on existing assets during the period.

Accrued income, prepaid expenses and other non-interest-bearing assets rose by more than €500 million over 2009, from €2,451 million to €2,963 million, almost entirely attributable to the parent company. This change was attributable to the combined effect of a decline in CDP's receivable for interest accrued on the balances of the treasury account and an increase in the fair value of the loans hedged for financial risk using derivative instruments (which increased compared with 2009), which, as discussed below, is matched by a increase in the negative fair value of the related hedge derivatives.

Finally, other assets amounted to nearly €3 billion, up 55% over 2009. For CDP this item reports a stock of around €830 million and includes current and deferred tax assets, advances paid for withholding tax on postal passbook accounts and other assets. For the Terna Group, the aggregate amounted to more than €2 billion and includes Terna S.p.A.'s trade receivables in addition to tax assets. Specifically, trade receivables rose due to higher receivables for pass-through items relating to dispatching and, to a smaller extent, to the increase in receivables for grid transmission fees (CTR) related to remuneration owed Terna and other owners for the use of the National Transmission Grid by electricity distributors and generators (mainly due to rate adjustments), as well as the increase in other receivables due from customers in its diversified lines of business.

Reclassified consolidated balance sheet

(millions of euros)

	31/12/2010			31/12/2009	% change
	CDP Group	*of which financial operations*	*of which non-financial operations*	CDP Group	
LIABILITIES AND EQUITY					
Funding	235,914	230,832	5,082	214,809	9.8%
- of which: postal funding	*207,324*	*207,324*	*-*	*190,785*	*8.7%*
- of which: funding from banks	*9,674*	*7,122*	*2,552*	*4,107*	*135.5%*
- of which: funding from customers	*9,121*	*9,121*	*-*	*9,191*	*-0.8%*
- of which: funding from bonds	*9,795*	*7,265*	*2,530*	*10,726*	*-8.7%*
Liabilities held for trading and hedging derivatives	2,236	2,180	57	1,768	26.5%
Accrued expenses, deferred income and other non-interest-bearing liabilities	959	730	229	928	3.4%
Other liabilities	3,179	1,230	1,952	2,975	6.9%
Provisions for contingencies, taxes and staff severance pay	1,849	487	710	1,909	-3.2%
Equity	16,800	13,729	2,761	15,658	7.3%
Total liabilities and equity	**260,937**	**249,187**	**10,791**	**238,047**	**9.6%**

Total funding at 31 December 2010 came to nearly €236 billion (+10% over the end of 2009).

Within this aggregate, postal funding, attributable to the parent company, continued to grow (up about 9% over the end of 2009), thanks to the positive flow of net funding for CDP for the period.

Funding from banks increased substantially, going from €4 billion at 31 December 2009 to nearly €10 billion at 31 December 2010. This mainly reflects the increase in CDP's stock data (up about €5 billion), attributable mainly to interbank funding and, to a lesser extent, new draws on EIB lines of credit. Added to this is the net change of about €900 million for the Terna Group, resulting from new funding during the period through EIB loans, the use of revolving lines of credit and new short-term funding, which more than offset repayments of maturing instalments in respect of past operations.

Funding from customers remained stable at about €9 billion, entirely pertaining to the parent company CDP. It regards the portion of specific-purpose loans in repayment as at 31 December 2010 and not yet disbursed

Funding from bonds decreased by about €900 million (-9%), attributable almost entirely to the parent company as a result of the combined effect of redemptions of covered bonds (€1 billion), only partially offset by net funding from bonds issued under the EMTN programme (+€52 million). The Terna Group's contribution to bonds issued remained stable with respect to the end of 2009.

Liabilities held for trading and hedging derivatives posted an increase of nearly €500 million from the end of 2009, rising from €1,768 million to €2,236 million, pertaining almost entirely to the parent company. 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 improvement in the fair value of the option component to be unbundled from the indexed bonds and *Premia* bonds was only partially offset by the decrease in the fair value of derivatives hedging loans, as already noted in relation to the corresponding change in non-interest-bearing assets.

Accrued expenses, deferred income and other non-interest-bearing liabilities rose slightly from the €928 million posted at 31 December 2009, reaching €959 million (+3%). CDP contributed €730 million to this figure, representing a decrease of €41 million from the end of 2009 as a result of the decline in the fair value of the funding being hedged and certain liabilities to customers to be settled, only partially offset by the increase in exchange rate gains on bond issues. The Terna Group's contribution rose by about €70 million, due to the increase in the value of hedged funding.

Other liabilities came to €3,179 million (+7% from 2009), of which about €2 billion attributable to the Terna Group and the remainder to financial operations. The parent company posted a decrease of €25 million as the result of the decrease in the liability with Poste Italiane S.p.A. relating to the remuneration for placement and administrative services for postal savings products for 2010. For the Terna Group, the item includes trade payables generated by its specific business activities.

Provisions for contingencies, taxes and staff severance pay came to €1,849 million. The item mainly regards provisions for current and deferred tax liabilities for the period. The balance is broadly in line with that at the end of 2009, when it amounted to €1,909 million.

Equity at the end of 2010 amounted to nearly €17 billion, up 7% from the end of 2009. The increase is mainly attributable to the net income generated by the various Group companies, partially offset by the decline in the reserves for financial assets available for sale (pertaining to the parent company), which reflect the fair value measurement of equity investments (referring to Enel and Eni in 2009 and just Eni in 2010). Around €14 billion of the total equity is attributable to the parent company and about €3 billion to minority interests.

Equity

(millions of euros)

	31/12/2010	**31/12/2009**
Equity of the parent company	13,913	12,931
Minority interests	2,887	2,727
Total equity	**16,800**	**15,658**

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 and CDPI SGR) and non-financial operations (Terna Group). 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)

	31/12/2010			31/12/2009	% change
	CDP Group	*of which financial operations*	*of which non-financial operations*	CDP Group	
Net interest income	**1,566**	**1,659**	**(94)**	**1,878**	**-16.7%**
Dividends	811	1,135	-	809	0.2%
Net commission income	(710)	(707)	(3)	(912)	-22.2%
Other net revenues	210	213	(4)	79	166.1%
Gross income	**1,877**	**2,300**	**(100)**	**1,854**	**1.2%**
Net writedowns	(4)	(4)	-	(1)	211.1%
Overheads	(904)	(88)	(771)	(802)	12.7%
of which: administrative expenses	*(489)*	*(79)*	*(410)*	*(435)*	*12.4%*
Operating income	**2,967**	**2,219**	**1,071**	**2,790**	**6.3%**
Net income	**2,751**	**2,743**	**614**	**2,500**	**10.0%**
Net income (loss) for the year pertaining to minority interests	407			474	-14.3%
Net income (loss) for the year pertaining to shareholders of the parent company	**2,344**			**2,026**	**15.7%**

Group net income for 2010 amounted to €2,751 million (€2,344 million of which attributable to the parent company). Net income rose by 10% on 2009, thanks to the positive performance of the parent company, which even considering the difficult macroeconomic environment and the negative impact of the decline in margins resulting from the low levels to which interest rates fell, benefited from the gain on the share exchange carried out with MEF in December 2010. The improvement for the parent company was only partially offset by the decline in net income posted by the Terna Group compared with 2009.

Net interest income, in particular, came to €1,566 million, a decline of 17% from 2009, due mainly to the narrowing of the margin between lending and funding registered by the parent company (-€335 million). As a result of the decline in market interest rates, lending rates fell more rapidly and substantially than the cost of funding, given the all-time lows reached by the rates on postal savings. This contraction was only partially offset by the reduction in the net financial expense of the Terna Group (a positive impact of €22 million).

Gross income amounted to €1,877 million, slightly up on the €1,854 million recognised in 2009. The contribution of the Terna Group is limited, given the nature of its business, meaning that the change is virtually entirely attributable to the parent company, as a result of the following developments. The contraction in net interest income was more than offset by a decline in commission expense (-22%), especially the fees paid to Poste Italiane S.p.A. in respect of the placement and administrative services for postal savings products. Another positive factor was the contribution of net other revenues, which more than doubled compared with 2009, including the gain on the share exchange with the MEF, mainly for the Enel holding, early loan repayment penalties, the assignment of loans and the improvement in the performance of hedging activities. These positive effects were only partially offset by the deterioration in the net result on trading, which in 2009 had benefited from net changes in the fair value of a number of hedges of postal bonds that were closed between the end of 2009 and the start of 2010.

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 13% over 2009 to €904 million, of which €88 million pertaining to financial operations and €771 million to non-financial operations. Specifically, the increase in the Terna Group figures results from higher administrative expenses due to the effect of the release of the energy discount provision and greater costs for infrastructure construction and maintenance, partly associated with the extension of the NTG, as well as higher depreciation due to the entry into service of new plants. As regards the parent company, the increase in staff costs was essentially due to the rise in the size of the average workforce as well as greater charges for promotional initiatives and legal, professional and financial services, mainly to support new business initiatives or to restructure internal processes and organisation.

Operating income amounted to €2,967 million, of which over €2 billion from financial operations and more than €1 billion from non-financial operations. 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 €210 million in 2010 compared with 2009 due to higher revenues, largely as a result of the effects of AEEG Resolution 203/09 (revising rates for 2010), the incentive on the remuneration of investments in strategic transmission infrastructure and higher transmission fees (CTR) received under the defence plan. The figure also includes the contribution of TELAT, which was not included within the scope of consolidation in the first three months of 2009, including the revenues from the plants of the merged company Rete di Trasmissione Brescia. For the parent company, in addition to the factors noted above, the performance includes the gain on the share exchange with the MEF in respect of Poste Italiane and STMicroelectronics Holding (about €948 million).

Consolidated net income for 2010 amounted to €2,751 million, up 10% on 2009 (€2,500 million). The contribution of financial operations came to €2,743 million, an increase of more than €1 billion compared with 2009, mainly due to the gain achieved on the share exchange with the MEF. Non-financial operations posted net income of €614 million, down about €150 million on 2009, partly owing to the decrease in the positive contribution in 2010 of operating assets held for sale; excluding this effect, performance would have improved by more than 30% (an increase of about €110 million).

In addition to the contributions of financial and non-financial operations, consolidated net income for the period reflects the impact of negative consolidation adjustments. In particular, the share exchange between the parent company and the MEF gave rise to a smaller gain at the consolidated level than at the level of the separate financial statements, owing to the greater value for the investments in Poste Italiane and STMicroelectronics Holding. N.V.

The following schedule shows the reclassified consolidated income statement excluding the positive impact of non-recurring items in 2009 and 2010, net of which net income would have amounted to €1,909 million, down 3% on 2009. More specifically, for the parent company, the results have been adjusted to exclude the impact in 2010 of the gain on the share exchange with the MEF (about €1,076 million) and in 2009 of the discharge of the tax liability on tax-suspended reserves and the measurement of a number of derivatives that no longer qualified for hedge accounting, which net of tax effects had a positive impact of €179 million. As regards the Terna Group, the pro forma income statement does not include the positive contribution of operating assets held for sale, which in 2009 regarded the sale of the Brazilian subsidiaries and in 2010, under the terms of the preliminary sale agreement for the subsidiary RTR S.r.l., regarded the estimated margin accrued on photovoltaic plants in service and under construction at 31 December 2010.

Reclassified income statement - pro forma excluding non-recurring items

(millions of euros)

	31/12/2010			31/12/2009	% change
	CDP Group	***of which financial operations***	***of which non-financial operations***	**CDP Group**	
Net interest income	**1,566**	**1,659**	**(94)**	**1,893**	**-17.3%**
Dividends	811	1,135	-	809	0.2%
Net commission income	(710)	(707)	(3)	(912)	-22.2%
Other net revenues	81	85	(4)	(34)	n/s
Gross income	**1,748**	**2,172**	**(100)**	**1,756**	**-0.5%**
Net writedowns	(4)	(4)	-	(1)	211.1%
Overheads	(904)	(88)	(771)	(802)	12.7%
of which: administrative expenses	*(489)*	*(79)*	*(410)*	*(435)*	*12.4%*
Operating income	**2,839**	**2,091**	**1,071**	**2,692**	**5.4%**
Net income (loss) for the year	**1,909**	**1,667**	**467**	**1,966**	**-2.9%**
Net income (loss) for the year pertaining to minority int	304			226	-36.0%
Net income (loss) for the year pertaining to shareholders of the parent company	**1,605**			**1,492**	**7.6%**

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

(millions of euros)

2010 FINANCIAL YEAR	Net income	Capital and reserves	Total
PARENT COMPANY FINANCIAL STATEMENTS	**2,743**	**10,984**	**13,726**
Balance from financial statements of fully consolidated companies	614	2,149	2,763
Consolidation adjustments:	(1,013)	(1,564)	(2,577)
- carrying amount of fully consolidated equity investments	*0*	*(1,317)*	*(1,317)*
- goodwill	*0*	*296*	*296*
- revaluation of property, plant and equipment and intangibles	*0*	*2,340*	*2,340*
- elimination of revaluation of divested intangible assets	*0*	*(62)*	*(62)*
- depreciation/amortisation of revaluation of non-current assets	*(45)*	*(234)*	*(279)*
- dividends from fully consolidated companies	*(120)*	*120*	*0*
- valuation of equity investments accounted for with equity method	*(118)*	*612*	*494*
- adjustment - result of disposal of equity investments accounted for with equity method	*(341)*	*(169)*	*(510)*
- elimination of intercompany transactions	*0*	*(0)*	*(0)*
- deferred tax assets and liabilities	*17*	*(669)*	*(651)*
- minority interests	*(407)*	*(2,481)*	*(2,887)*
CONSOLIDATED FINANCIAL STATEMENTS	**2,344**	**11,569**	**13,913**

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

In view of the start-up status of the company, the financial risks are modest and are limited to the small exposure of CDPI SGR in respect of its investment of liquid assets, as the entire liquidity of the company is deposited on a bank current account earning money market rates.

The company's exposure to operational risks is also small. Since the start of operations CDPI SGR has deployed a comprehensive system of internal controls, implementing an internal audit function and compliance function and managing the start-up of a risk management function (completed in the first half of 2010), establishing the rules for the function as well as mapping the risks connected with the "Fondo Investimenti per l'Abitare".

As regards the compliance function, during the year the company completed its plans, already set out during the authorisation process, to internalise the function, which had previously been performed by an external law firm.

On 30 November 2010 the company also established its Supervisory Body pursuant to and for the purposes of Legislative Decree 231/2001, which will remain in office until the approval of the financial statements at 31 December 2011. The Supervisory Body has two members: one external to the company, who acts as chairman, and the head of internal audit.

In 2010, CDPI SGR also completed preparation, begun in 2009, of its corporate procedures manual to give the company an integrated procedural framework governing all processes related to providing investment management services and the company's operations.

The company has also drafted a Security Policy Document pursuant to Legislative Decree 196/2003, which has been updated as of 31 March 2011.

4.1.3 Monitoring risk in the Terna Group

Terna has always paid careful attention to the prevention of risks of all natures that could jeopardise or limit the company's results. This section aims to provide a clearer, more complete representation of these, summarising the risks and uncertainties to which the company is exposed, which are in fact already known to investors and shareholders, considering their discussion in the financial statements and prospectuses published in the past.

REGULATORY RISK

About 96% of the Terna Group's consolidated revenues come from annual fees paid for the services regulated by the Authority for Electricity and Gas (AEEG) in Italy. Within the scope of such regulations, there are variables that could have an impact on the performance of the group.

Volume effect

Terna's and TELAT's revenues from the management, operation and development of the National Transmission Grid and from the management of ancillary services are governed by rates that are established by the AEEG. Such unit rates are applied to the total volume of electricity transmitted over the NTG. Those volumes depend on factors that are beyond the Group's control. Given the current exceptional economic climate and the consequent decline in power consumption, and to protect transmission revenues from unusually high levels of variability, the AEEG has, with Resolution ARG/elt 188/08, established a guarantee mechanism for the level of revenues, limiting the impact of annual variations in electricity transmitted to a range of +/-0.5%. Resolution ARG/elt 204/09 also confirmed the use of this mechanism for the DIS component. Starting in 2009, Terna elected to adopted the mechanism, which will remain in effect for the entire current regulatory period (until the end of 2011). During 2011 Terna and the AEEG will discuss rules for the new regulatory period (2012-2015). At that time, Terna will propose rules to the AEEG that, taking account of the experience of the past three years, ensure rate revenues in line with recognised costs.

Bonuses and penalties

At present, various bonus and penalty mechanisms exist for the quality of transmission services and ancillary services.

More specifically, as regards the incentive mechanism linked to the reduction of quantities provisioned for services to the Ancillary Services Market, Resolution ARG/elt 213/09 introduced a bonus/penalty system for the 2010-2012 period. With the measure, the AEEG sought to continue encouraging Terna to increase the efficiency of its provisioning of the resources required to ensure the secure operation of the system, using a long-term incentive scheme. The mechanism provides for a unit incentive of €11/MWh for 2010, set to decrease in the subsequent years (€7 and €3.5/MWh respectively). In view of the three-year duration of the incentives mechanism, the €160 million in incentive payments earned in 2010 for achieving targets have been recognised by Terna in the amount of €77 million, equal to the measurement of the fair value of the payments considering the risks involved, which are mainly linked to trends in the electrical market and the regulatory framework.

RISKS CONNECTED WITH DOMESTIC LEGISLATION

Environmental protection laws

The Group's activities are governed by Italian and European laws relating to electromagnetic fields. The Group could incur additional costs in order to comply with these regulations through the implementation of preventive or remedial measures. Currently, the government is working on the implementing regulations, with the involvement of operators including Terna, provided for in applicable legislation.

Labour law

More stringent occupational health and safety laws could have an adverse effect on the Group's financial position and performance. No new regulations that could have a significant impact on results are currently expected to be issued.

Laws on the single electricity market

The transposition in Italian law of Directive 2009/72/EC on the internal market in electricity, which the government is currently working on with the preparation of the related implementing decree, envisages the adoption of measures of interest concerning the separation of generation and import, transmission, distribution and sale of electricity.

OPERATIONAL RISKS: RISKS CONNECTED WITH NTG MALFUNCTION

The Terna Group conducts operations that are exposed to the risk of unexpected service interruptions caused by events that are beyond Terna's control, such as accidents, breakdowns or malfunctioning involving control systems, deteriorating plant performance, natural disasters, terrorist attack, and other such extraordinary events. Restoration of elements of the NTG owned by the Terna Group and any damage claims for losses to third parties as a result of such events could, in principle, give rise to costs if the Group is found liable. Specific insurance policies are in place to mitigate the risks in respect of operating activities.

FINANCIAL RISKS

In the conduct of its operations, the Terna Group is exposed to various financial risks: market risk (namely interest rate risk and inflation risk), liquidity risk and credit risk. As a part of the financial risk management policies approved by the Board of Directors, the Terna Group 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. 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 related systems are reviewed on a regular basis in order to reflect any changes in market conditions and the Group's activities.

RISKS CONNECTED WITH FINANCING NEEDS

Even in current market conditions, the Terna Group expects to preserve a sufficient capacity to generate financial resources from operating activities. However, the plan for future investments should lead to an increase in debt. Although the Terna Group has continued to enjoy the support of its banking partners in financing its debt, it may become necessary to take on additional financing, which, in less favourable market conditions, could cause an increase in financial expense.

LITIGATION

The main unrecognised commitments and contingencies of Terna and TELAT at 31 December 2010 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 parent and the subsidiary TELAT 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 the parent company. 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 parent company has been involved in a number of cases appealing AEEG, 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 AEEG 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 AEEG are sometimes the subject of challenges. In appropriate circumstances, the economic costs of such challenges may be recognised by the AEEG.

5. OUTLOOK FOR 2011

5.1 THE OUTLOOK FOR THE CDP GROUP

5.1.1 The outlook for CDP

For more information on the outlook for CDP for 2011, please see the separate report and financial statements.

5.1.2 The outlook for CDPI SGR

The 2011 financial year will be characterised by a major effort on the part of the company in evaluating potential investment opportunities. In this regard, the company has decided to seek the assistance of the Fondazione Housing Sociale ("FHS") for the entire five-year investment period of the FIA (2011-2015) as part of the development of private social housing projects.

In addition to analysing potential investments, 2011 will seen the company's investment team involved in structuring and implementing the monitoring process for the investments carried out. The monitoring stage, the scope of which is limited to the discretionary areas provided for in the secondary legislation for investors in a real estate investment fund, will involve the implementation – to be governed in the operating rules of the target fund – of controls that the management company of the local fund subscribed by the FIA or the target investment vehicle will have to adopt in order to ensure the sound management of their core business. The main focus will be applied to the real estate development phase and the real estate and social management of the initiative.

During the year, the dissemination of the operational procedures of the Integrated Fund System and the FIA will continue, as will scouting for local investment opportunities for the Fund. The latter activities will include the organisation of promotional initiatives and thematic workshops.

As regards the fundraising process, in 2011 the company plans to complete the subscription of the FIA, trusting that it will reach €2 billion in total assets for the Fund.
The coming months will also see the definitive award of contracts in the MIT tender to select an asset management company to operating Italian closed-end real estate funds to be established pursuant to Article 11 of the national residential building plan enacted with the Prime Minister's Order of 16 July 2009.

When the final award is made, the MIT will subscribe Class B units of the FIA in the amount of €140 million.

In 2011 the company it also expects to complete the acceptance of subscription applications from the private pension funds belonging to the ADEPP and to carry out a partial closing for those investors. As of the date of preparation of the financial statements for 2010, the company had received subscription applications from four pension funds totalling €85 million.

The company's Board of Directors also voted to expand the range of services offered, including real estate consulting activities. In this advisory role, it will support local authorities in identifying the most appropriate approaches for leveraging their real estate holdings. Such real estate consulting activities are nevertheless conducted entirely independently of the investment process of the FIA and any other funds operated by the company in order to prevent any possible conflicts in the duties assigned to the investment unit.

5.1.3 The outlook for the Terna Group

The focus of 2011 will be on implementing the 2011-2015 business plan adopted by the company's Board of Directors. Investments under the Development Plan will be targeted at increasing interconnections with abroad, reducing grid congestion and at removing constraints caused by an increase in electricity generated from renewable resources. The company's objectives are increasingly oriented towards achieving operating efficiencies, ensuring the highest possible standards of transmission service, and ensuring increasingly efficient and secure management of energy flows in the electrical system.

In 2011, Terna will continue its normal dialogue with the AEEG, seeking to ensure the continuity and stability of the principles underlying the determination of rates in the 4th regulatory period from 2012 to 2015.

As regards unregulated activities, in 2011 the company will also be involved in developing a second tranche of photovoltaic projects aimed at further leveraging the Group's assets.

Rome, 20 April 2011

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 S.p.A., 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 “Corporate Governance 2010”, prepared and published by Terna S.p.A.

REPORT OF THE BOARD OF AUDITORS

Shareholders,

The consolidated financial statements at 31 December 2010, 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, KPMG, pursuant to applicable law (please see the opinion issued by them), we affirm that:

- the consolidated financial statements at 31 December 2010 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, KPMG, that would require reporting to the control bodies.

Rome, 20 April 2011

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

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(Translation from the Italian original which remains the definitive version)

Report of the auditors in accordance with articles 14 and 16 of Legislative decree no. 39 of 27 January 2010 and article 165-bis of Legislative decree no. 58 of 24 February 1998

To the shareholders of
Cassa Depositi e Prestiti S.p.A.

1 We have audited the consolidated financial statements of the Cassa Depositi e Prestiti Group as at and for the year ended 31 December 2010, comprising the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and notes thereto. The parent's directors are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Our responsibility is to express an opinion on these financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and are, as a whole, reliable. 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 directors. We believe that our audit provides a reasonable basis for our opinion.

The consolidated financial statements present the prior year corresponding figures for comparative purposes. As disclosed in the notes, the parent's directors restated some of the corresponding figures included in the prior year consolidated financial statements. We audited such financial statements and issued our report thereon on 12 April 2010. We have examined the methods used to restate the prior year corresponding figures and related disclosures for the purposes of expressing an opinion on the consolidated financial statements at 31 December 2010.

3 In our opinion, the consolidated financial statements of the Cassa Depositi e Prestiti Group as at and for the year ended 31 December 2010 comply with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Therefore, they are clearly stated and give a true and fair view of the financial position of the Cassa Depositi e Prestiti Group as at 31 December 2010, the results of its operations and its cash flows for the year then ended.

Cassa Depositi e Prestiti Group
Report of the auditors
31 December 2010

4 The directors of Cassa Depositi e Prestiti S.p.A. are responsible for the preparation of a report on operations in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations and its specific section on corporate governance and ownership structure, to the extent of the information required by article 123-bis.2.b of Legislative decree no. 58/98 with the financial statements to which they refer, as required by the law. For this purpose, we have performed the procedures required by the Italian Standard on Auditing 001 issued by the Italian Accounting Profession and recommended by Consob. In our opinion, the report on operations and the information required by article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the specific section of such report are consistent with the consolidated financial statements of the Cassa Depositi e Prestiti Group as at and for the year ended 31 December 2010.

Rome, 28 April 2011

KPMG S.p.A.

(signed on the original)

Riccardo De Angelis
Director of Audit

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 2010.

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 2010 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 2010 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 the parent company's information technology procedures, 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, 28 April 2011

Chief Executive Officer	Manager responsible for the preparation of the financial reports
/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 2010)

FORM AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2010

The consolidated financial statements at 31 December 2010 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 G – Business combinations

PART H – Transactions with related parties

PART I – Share-based payments

PART L – Operating segments

CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2010

(thousands of euros)

CONSOLIDATED BALANCE SHEET

	Assets	**31/12/2010**	**31/12/2009**
10.	Cash and cash equivalents	123,751,325	114,688,820
20.	Financial assets held for trading	856,438	868,511
40.	Financial assets available for sale	2,288,808	13,991,359
50.	Financial assets held to maturity	2,947,380	205,285
60.	Loans to banks	9,180,623	6,477,344
70.	Loans to customers	90,327,955	85,623,841
	of which securing covered bonds	*14,052,249*	*15,293,458*
80.	Hedging derivatives	583,088	474,334
100.	Equity investments	17,273,669	3,815,099
120.	Property, plant and equipment	10,000,820	9,237,344
130.	Intangible assets	772,130	761,129
	of which:		
	- goodwill	*486,723*	*487,240*
140.	Tax assets	482,696	636,155
	a) current	444,394	610,107
	b) deferred	38,302	26,048
150.	Non-current assets and disposal groups held for sale	575,793	57
160.	Other assets	1,896,287	1,267,405
	Total assets	**260,937,012**	**238,046,683**

(thousands of euros)

CONSOLIDATED BALANCE SHEET

	Liabilities and equity	31/12/2010	31/12/2009
10.	Due to banks	9,800,916	4,334,224
20.	Due to customers	106,988,550	100,459,936
	of which amounts to be disbursed on loans securing covered bonds	*871,850*	*1,099,699*
30.	Securities issued	120,083,003	110,942,749
	of which covered bonds	*5,378,892*	*6,382,222*
40.	Financial liabilities held for trading	940,034	782,977
60.	Hedging derivatives	1,232,520	918,402
70.	Adjustment of financial liabilities hedged generically (+/-)	63,683	66,478
80.	Tax liabilities	1,535,692	1,624,940
	a) current	476,003	461,546
	b) deferred	1,059,689	1,163,394
90.	Liabilities associated with assets held for sale	148,737	-
100.	Other liabilities	3,039,257	2,975,249
110.	Staff severance pay	68,605	72,205
120.	Provisions	235,670	211,905
	b) other provisions	235,670	211,905
140.	Valuation reserves	103,386	2,118,026
170.	Reserves	7,962,939	5,286,156
180.	Share premium reserve	2,601	539
190.	Share capital	3,500,000	3,500,000
210.	Minority interests (+/-)	2,887,391	2,726,875
220.	Net income (loss) for the year	2,344,028	2,026,022
	Total liabilities and equity	**260,937,012**	**238,046,683**

(thousands of euros)

CONSOLIDATED INCOME STATEMENT

		31/12/2010	31/12/2009
10.	Interest income and similar revenues	6,428,658	7,584,758
20.	Interest expense and similar charges	(4,863,099)	(5,706,358)
30.	**Net interest income**	**1,565,559**	**1,878,400**
40.	Commission income	14,220	6,596
50.	Commission expense	(723,861)	(918,976)
60.	**Net commission income**	**(709,641)**	**(912,380)**
70.	Dividends and similar revenues	810,961	809,337
80.	Net gain (loss) on trading activities	6,683	92,489
90.	Net gain (loss) on hedging activities	1,835	(28,294)
100.	Gains (losses) on disposal or repurchase of:	201,174	14,605
	a) loans	71,508	13,653
	b) financial assets available for sale	129,666	952
120.	**Gross income**	**1,876,571**	**1,854,157**
130.	Net impairment adjustments of:	(3,791)	(1,218)
	a) loans	(3,791)	(1,218)
140.	**Financial income (expense), net**	**1,872,780**	**1,852,939**
180.	Administrative expenses	(489,422)	(435,418)
	a) staff costs	(262,593)	(233,658)
	b) other administrative expenses	(226,829)	(201,760)
190.	Net provisions	(6,456)	(5,766)
200.	Net adjustments of property, plant and equipment	(366,982)	(323,752)
210.	Net adjustments of intangible assets	(47,650)	(42,905)
220.	Other operating income (costs)	1,583,856	1,372,555
230.	**Operating costs**	**673,346**	**564,714**
240.	Gains (losses) on equity investments	695,629	272,443
270.	Gains (losses) on disposal of investments	3,052	208
280.	**Income (loss) before tax from continuing operations**	**3,244,807**	**2,690,304**
290.	Income tax for the period on continuing operations	(640,979)	(544,618)
300.	**Income (loss) after tax on continuing operations**	**2,603,828**	**2,145,686**
310.	Income (loss) after tax on disposal groups held for sale	146,848	354,666
320.	**Net income (loss) for the year**	**2,750,676**	**2,500,352**
330.	Net income (loss) for the year pertaining to minority interests	406,648	474,330
340.	**Net income (loss) for the year pertaining to shareholders of the parent company**	**2,344,028**	**2,026,022**

(thousands of euros)

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

		31/12/2010	31/12/2009
10.	**Net income (loss) for the year**	**2,750,676**	**2,500,352**
	Other comprehensive income net of taxes		
20.	Financial assets available for sale	(879,310)	973,581
60.	Cash flow hedges	34,966	(11,314)
70.	Exchange rate differences	-	(2,723)
110.	**Total other comprehensive income net of taxes**	**(844,344)**	**959,544**
120.	**Comprehensive income (items 10+110)**	**1,906,332**	**3,459,896**
130.	Consolidated comprehensive income pertaining to minority interests	436,011	468,195
140.	**Consolidated comprehensive income pertaining to shareholders of the parent company**	**1,470,321**	**2,991,701**

(thousands of euros)

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

				Allocation of net income for previous year		Changes for the period									
							Equity transactions								
	Balance at 31/12/2009	Changes in opening balance	Balance at 1/1/10	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	Equity at 31/12/2010 - Group	Equity at 31/12/2010 - Minority interests
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 - Minority interests	2,726,875		2,726,875	-	(266,617)	(13,940)	5,365					(303)	436,011		**2,887,391**

(thousands of euros)

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

	Balance at 31/12/2008	Changes in opening balance	Balance at 1/1/09	Allocation of net income for previous year: Reserves	Allocation of net income for previous year: Dividends and other allocations	Changes for the period: Changes in reserves	Equity transactions: Issue of new shares	Equity transactions: Purchase of own shares	Equity transactions: Special dividend distribution	Equity transactions: Changes in equity instruments	Equity transactions: Derivatives on own shares	Equity transactions: Stock options	Comprehensive income for 2009	Equity at 31/12/2009 - Group	Equity at 31/12/2009 - Minority interests
Share capital:															
a) ordinary shares	2,450,000		2,450,000											**2,450,000**	**308,200**
b) preference shares	1,050,000		1,050,000											**1,050,000**	
Share premium reserve	852		852			(313)								**539**	**1,259**
Reserves:															
a) income	3,801,252		3,801,252	1,168,584		313								**4,970,149**	**1,517,038**
b) other	176,207		176,207			139,800								**316,007**	**468,922**
Valuation reserves	1,152,347		1,152,347										965,679	**2,118,026**	**(42,874)**
Equity instruments															
Treasury shares															
Net income (loss) for the year	1,413,584		1,413,584	(1,168,584)	(245,000)								2,026,022	**2,026,022**	**474,330**
Equity - Group	10,044,242		10,044,242	-	(245,000)	139,800							2,991,701	**12,930,743**	
Equity - Minority interests	2,581,323		2,581,323	-	(214,944)	(107,699)							468,195		**2,726,875**

(thousands of euros)

CONSOLIDATED CASH FLOW STATEMENT (INDIRECT METHOD)

	31/12/2010	31/12/2009
A. OPERATING ACTIVITIES		
1. Operations	**3,148,445**	**2,846,804**
- net income for the year (+/-)	2,750,676	2,500,352
- gains (losses) on financial assets held for trading and on financial assets/liabilities at fair value (-/+)	(6,683)	(117,638)
- gains (losses) on hedging activities (-/+)	(1,835)	27,162
- net impairment adjustments (+/-)	3,791	1,218
- net value adjustments to property, plant and equipment and intangible assets (+/-)	414,632	362,891
- net provisions and other costs/revenues (+/-)	30,453	104,355
- unpaid taxes and duties (+)	406,140	371,641
- writedowns/writebacks of equity investments (+/-)	(295,645)	(269,493)
- other adjustments (+/-)	(153,084)	(133,684)
2. Cash generated by/used in financial assets	**(3,587,599)**	**(5,665,933)**
- financial assets held for trading	(143,845)	(263,405)
- financial assets available for sale	4,219,764	(3,187,346)
- loans to banks: on demand	350,000	284,766
- loans to banks: other	(3,467,434)	(1,018,508)
- loans to customers	(4,047,334)	(1,680,358)
- other assets	(498,750)	198,918
3. Cash generated by/used in financial liabilities	**20,922,534**	**13,968,324**
- due to banks: other	5,458,648	1,447,638
- due to customers	6,528,617	8,178,843
- securities issued	9,174,969	5,286,717
- financial liabilities held for trading	325,269	314,123
- other liabilities	(564,969)	(1,258,997)
Cash generated by/used in operating activities	**20,483,380**	**11,149,195**
B. INVESTING ACTIVITIES		
1. Cash generated by	**3,900,533**	**98,310**
- sale of equity investments	3,695,057	28,479
- dividends from equity investments	203,624	60,533
- sale of property plant and equipment	1,852	9,298
- sale of intangible assets	-	-
2. Cash used in	**(15,165,076)**	**(1,194,130)**
- purchase of equity investments	(10,714,654)	(182,318)
- purchase of financial assets held to maturity	(2,716,440)	-
- purchase of property, plant and equipment	(1,674,688)	(862,511)
- purchase of intangible assets	(59,294)	(149,301)
- purchase of business units	-	-
Cash generated by/used in investing activities	**(11,264,543)**	**(1,095,820)**
C. FINANCING ACTIVITIES		
- issue/purchase of capital instruments	7,657	2,000
- dividend distribution and other allocations	(580,557)	(459,944)
Cash generated by/used in financing activities	**(572,900)**	**(457,944)**
CASH GENERATED/USED DURING THE YEAR	**8,645,937**	**9,595,431**

RECONCILIATION

Cash and cash equivalents at beginning of year	115,134,613	105,539,182
Total cash generated/used during the year	8,645,937	9,595,431
Cash and cash equivalents at end of year	123,780,550	115,134,613

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2010)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 2006 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 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 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 2010 and 2009 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 (loans to local authorities) 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 concerns the flows related to the portfolio of loans that constitute the collateral of the related bond issue.
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 CDP Group consolidated financial statements have been audited by KPMG S.p.A. in execution of the shareholder resolution of April 2007, which engaged this firm to audit the financial statements and accounts for the period 2007-2010.

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 as of 31 December 2010 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.

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.

1. 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.	29.93%	29.93%
2. SunTergrid S.p.A.	Rome	1	Terna S.p.A.	100.00%	100.00%
3. TELAT S.r.l.	Rome	1	Terna S.p.A.	100.00%	100.00%
4. Rete Solare S.r.l	Rome	1	Terna S.p.A.	100.00%	100.00%
5. CDP Investimenti SGR S.p.A.	Rome	1	CDP S.p.A.	70.00%	70.00%
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 2010, 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 20 April 2011, 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

The CDP Group has adopted the following international accounting standards and interpretations for the first time as from 1 January 2010.

IFRS 3 – Business combinations (revised in 2007)

As from 1 January 2010, the Group recognises corporate acquisitions in compliance with the updated version of IFRS 3 “Business combinations”, which was endorsed on 3 June 2009 by the European Commission with Regulation (EC) no. 495/2009. The change in this standard was applied prospectively and did not have significant effects on earnings.

On 3 June 2009, the updated version of IAS 27, “Consolidated and separate financial statements” was also endorsed by the European Commission with Regulation (EC) no. 494/2009. The new standard is not applicable to past operations but only to any business combinations undertaken after the date the standard took effect. The change in the accounting standard was applied to all minority interests prospectively, without any significant effects on earnings.

IFRIC 12 – Service concession arrangements

On 1 January 2010, IFRIC 12 – Service concession arrangements took effect. The interpretation has been applied in these consolidated financial statements solely in relation to the assets related to the performance of the dispatching concession activities of the Terna Group.

For more details on the application of the standard and its impact on the figures presented for comparative purposes, please see the section "Restatement of 2009 financial statements".

IFRIC 18 – Transfers of assets from customers

Endorsed with Regulation (EC) 1164/2009, this interpretation provides clarification and guidance on accounting for items of property, plant and equipment received from customers, or cash received from customers for the acquisition or construction of items of property, plant and equipment in order to connect them. In particular, the interpretation provides for the following accounting treatment in the financial statements of entities that receive property, plant and equipment, or cash for their construction, from customers in order to connect them to a network and/or to guarantee their ongoing access to a supply of goods or services (e.g. electricity, gas, water etc.):

- the asset received is recognised at fair value pursuant to the provisions of IAS 16 regarding the exchange of dissimilar assets, with the consequent recognition of revenue if an ongoing service is provided;
- specific accounting rules apply if the customer gives the entity an amount of cash sufficient to purchase the item of property, plant and equipment.

This standard has modified the accounting treatment of NTG connections in the financial statements of the Terna Group without having a significant effect on the consolidated financial position or results of operations.

OTHER INFORMATION

The consolidated financial statements are subject to approval of the Board of Directors of CDP and will be published by the deadline and using the procedures established under the regulations applicable to CDP.

RESTATEMENT OF 2009 FINANCIAL STATEMENTS

Following a review of the classification of the financial statement accounts of the subsidiaries in the schedules envisaged for banks, a number of reclassifications were made to the balance sheet as at 31 December 2009. More specifically, among assets the reclassification involved item "80. Hedging derivatives" (+€19,561 thousand), while among liabilities the changes affected item "60. Hedging derivatives" (-€11,715 thousand) and "100. Other liabilities" (+€31,276 thousand).

IFRIC 12 - Service concession arrangements came into force on 1 January 2010. IFRIC 12 specifies the accounting treatment of service concession arrangements, not expressly governed by any specific accounting standard, in order to ensure the consistency and comparability of the financial statements of companies that hold concessions for the delivery of public services.

More specifically, the interpretation sets out rules for accounting for the infrastructure used to provide the services under concession, for the costs associated with developing and maintaining such infrastructure, and for the revenue generated by the overall provision of the services.

As envisaged in IFRIC 12, the Group has adopted the interpretation on a retrospective basis from 1 November 2005, when the TSO line of business was acquired by the Terna Group from GRTN, and the provision of dispatching services commenced under concession.

The retrospective application of IFRIC 12 has had no effect on Group equity at 31 December 2009.

Following the approach described above, the investments carried out during the first half of 2009 have therefore been reclassified, following which construction costs and revenues are reported separately.

In conclusion, the application of IFRIC 12 to the comparative figures provided involved the reclassification of property, plant and equipment to intangible assets in the amount of €85.4 million at 31 December 2009.

The following table reports the restated consolidated balance sheet at 31 December 2009.

RESTATEMENT 2009 FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

(thousands of euros)

	Assets	31/12/2009 Restated	31/12/2009	Change
10.	Cash and cash equivalents	114,688,820	114,688,820	
20.	Financial assets held for trading	868,511	868,511	
40.	Financial assets available for sale	13,991,359	13,991,359	
50.	Financial assets held to maturity	205,285	205,285	
60.	Loans to banks	6,477,344	6,477,344	
70.	Loans to customers	85,623,841	85,623,841	
	of which securing covered bonds	*15,293,458*	*15,293,458*	
80.	Hedging derivatives	474,334	454,773	19,561
100.	Equity investments	3,815,099	3,815,099	
120.	Property, plant and equipment	9,237,344	9,322,708	(85,364)
130.	Intangible assets	761,129	675,765	85,364
	of which:			
	- goodwill	*487,240*	*487,240*	
140.	Tax assets	636,155	636,155	
	a) current	610,107	610,107	
	b) deferred	26,048	26,048	
150.	Non-current assets and disposal groups held for sale	57	57	
160.	Other assets	1,267,405	1,267,405	
	Total assets	**238,046,683**	**238,027,122**	**19,561**

(thousands of euros)

	Liabilities and equity	31/12/2009 Restated	31/12/2009	Change
10.	Due to banks	4,334,224	4,334,224	
20.	Due to customers	100,459,936	100,459,936	
	of which amounts to be disbursed on loans securing covered bonds	*1,099,699*	*1,099,699*	
30.	Securities issued	110,942,749	110,942,749	
	of which covered bonds	*6,382,222*	*6,382,222*	
40.	Financial liabilities held for trading	782,977	782,977	
60.	Hedging derivatives	918,402	930,117	(11,715)
70.	Adjustment of financial liabilities hedged generically (+/-)	66,478	66,478	
80.	Tax liabilities	1,624,940	1,624,940	
	a) current	*461,546*	*461,546*	
	b) deferred	*1,163,394*	*1,163,394*	
100.	Other liabilities	2,975,249	2,943,973	31,276
110.	Staff severance pay	*72,205*	72,205	
120.	Provisions	211,905	211,905	
	b) other provisions	211,905	211,905	
140.	Valuation reserves	2,118,026	2,118,026	
170.	Reserves	5,286,156	5,286,156	
180.	Share premium reserve	539	539	
190.	Share capital	3,500,000	3,500,000	
210.	Minority interests (+/-)	2,726,875	2,726,875	
220.	Net income (loss) for the year	2,026,022	2,026,022	
	Total liabilities and equity	**238,046,683**	**238,027,122**	**19,561**

CONSOLIDATED INCOME STATEMENT

(thousands of euros)

		31/12/2009 Restated	31/12/2009	Change
10.	Interest income and similar revenues	7,584,758	7,585,755	(997)
20.	Interest expense and similar charges	(5,706,358)	(5,707,523)	1,165
30.	**Net interest income**	**1,878,400**	**1,878,232**	**168**
40.	Commission income	6,596	6,596	
50.	Commission expense	(918,976)	(918,976)	
60.	**Net commission income**	**(912,380)**	**(912,380)**	
70.	Dividends and similar revenues	809,337	809,337	
80.	Net gain (loss) on trading activities	92,489	89,116	3,373
90.	Net gain (loss) on hedging activities	(28,294)	(25,072)	(3,222)
100.	Gains (losses) on disposal or repurchase of:	14,605	14,605	
	a) loans	13,653	13,653	
	b) financial assets available for sale	952	952	
120.	**Gross income**	**1,854,157**	**1,853,838**	**319**
130.	Net impairment adjustments of:	(1,218)	(1,218)	
	a) loans	(1,218)	(1,218)	
140.	**Financial income (expense), net**	**1,852,939**	**1,852,620**	**319**
180	Administrative expenses	(435,418)	(409,335)	(26,083)
	a) staff costs	(233,658)	(229,436)	(4,222)
	b) other administrative expenses	(201,760)	(179,899)	(21,861)
190.	Net provisions	(5,766)	(2,366)	(3,400)
200.	Net adjustments of property, plant and equipment	(323,752)	(332,153)	8,401
210.	Net adjustments of intangible assets	(42,905)	(34,504)	(8,401)
220.	Other operating income (costs)	1,372,555	1,343,380	29,175
230.	**Operating costs**	**564,714**	**565,022**	**(308)**
240.	Gains (losses) on equity investments	272,443	272,443	
270.	Gains (losses) on disposal of investments	208	208	
280.	**Income (loss) before tax from continuing operations**	**2,690,304**	**2,690,293**	**11**
290.	Income tax for the period on continuing operations	(544,618)	(544,618)	
300.	**Income (loss) after tax on continuing operations**	**2,145,686**	**2,145,675**	**11**
310.	Income (loss) after tax on disposal groups held for sale	354,666	354,677	(11)
320.	**Net income (loss) for the year**	**2,500,352**	**2,500,352**	
330.	Net income (loss) for the year pertaining to minority interests	474,330	474,330	
340.	**Net income (loss) for the year pertaining to shareholders of the parent company**	**2,026,022**	**2,026,022**	

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 regardless of other valuation considerations. Whether the decrease in fair value is "significant" or "prolonged" is assessed separately using appropriate thresholds.
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 amortised cost 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. In view of the lack of time series of loss data on loans for the CDP Group, as well as the creditworthiness of its leading borrowers, no general writedowns of the portfolio are recorded.

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 to customers” include unlisted financial assets in respect of customers (loans, debt securities, operating receivables, etc.) that are allocated to the “loans” portfolio. 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 (i.e. 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%.
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, including costs and revenues that are directly attributable to the transaction. They are subsequently accounted for using the equity method.
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. Impairment losses on investments listed on active markets, unless there are additional, specifically justified reasons, are recognised when the impairment is deemed to be significant, which for investments in listed companies is when the market price is more than 20% lower than the carrying amount for nine months out of the year.

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 and other intangibles governed by IAS 38. They include assets held under finance leases.
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) CDP can control the future economic benefits generated by the asset;
(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.

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

CASH AND CASH EQUIVALENTS (ITEM 10 OF ASSETS)

Liquid assets are recognised at fair value.

Liquidity is composed of cash on hand at the company and the balances on the current accounts held with the Central State Treasury.

The balance is increased for accrued interest that has not yet been settled on these current accounts. Interest accrues semi-annually at a floating rate determined (pursuant to the decree of the Minister for the Economy and Finance of 5 December 2003) on the basis of the gross yield on 6-month Treasury bills and the monthly level of the Rendistato index.

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 the provision for 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.

SHARE EXCHANGE

In December 2010, in implementation of the decree of the Ministry for the Economy and Finance of 30 November 2010, the share exchange between the parent company and the MEF was completed.

With the transaction, as discussed in the report on operations, CDP received from the MEF a total of 655,891,140 shares of Eni S.p.A. and in exchange transferred the shares that it held in Enel S.p.A., Poste Italiane S.p.A. and STMicroelectronics Holding N.V.

Before the exchange, CDP had already held 400,288,338 Eni S.p.A. shares, which were classified as "Financial assets available for sale" and carried at fair value with changes posted in an equity reserve (the "valuation reserve").

Following the exchange, CDP's holding in Eni rose from 9.9% to 26.37% of share capital and, consequently, as the conditions for the exercise of a significant influence pursuant to paragraph 6 of IAS 28 were met, the holding was reclassified to "Equity investments" and measured using the equity method.

At the time of the reclassification, the earlier holding was revalued to its market value, following which the valuation reserve, net of taxes, amounted to €1,141 million.

The reserve was then reclassified from revaluation reserves to income reserves.
In the income statement, the share exchange generated a total gain of €695.3 million, of which €128.7 million from the transfer of Enel, which were classified under "gains (losses) on disposals" and €566.6 million from the transfer of STH and Poste Italiane (classified under "gains on equity investments"). Of the latter amount, €397.4 million came from the difference between the fair value as specified in the exchange instrument and the carrying amount of the investments (measured using the equity method) and €169.2 million from the reversal to income of the existing valuation reserves.

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 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.

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

	31/12/2010			31/12/2009		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading		855,230	1,208		868,511	
2. Financial assets at fair value						
3. Financial assets available for sale	2,211,559	7,270	69,979	13,932,295	8,500	50,564
4. Hedging derivatives		582,518	570		473,757	577
Total	**2,211,559**	**1,445,018**	**71,757**	**13,932,295**	**1,331,207**	**51,141**
1. Financial liabilities held for trading		190,910	749,124		9,135	773,842
2. Financial liabilities at fair value						
3. Hedging derivatives		1,217,337	15,183		918,402	
Total		**1,408,247**	**764,307**		**927,537**	**773,842**

(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			**50,564**	**577**
2. Increases	**1,208**		**22,670**	
2.1 Purchases			20,444	
2.2 Profits taken to:	1,208		2,226	
2.2.1 Income statement				
- of which: capital gains	*1,208*		*2,226*	
2.2.2 Equity	x	x		
2.3 Transfers from other levels				
2.4 Other increases				
3. Decreases			**3,255**	**7**
3.1 Sales			2,371	
3.2 Repayments				
3.3 Losses taken to:			884	7
3.3.1 Income statement				
- of which: capital losses			*884*	*7*
3.3.2 Equity	x	x		
3.4 Transfers to other levels				
3.5 Other decreases				
4. Closing balance	**1,208**		**69,979**	**570**

(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	**773,842**		**-**
2. Increases	**137,347**		**15,183**
2.1 Purchases	137,347		
2.2 Losses taken to:			15,183
2.2.1 Income statement			
- of which: capital losses			*15,183*
2.2.2 Equity	x	x	
2.3 Transfers from other levels			
2.4 Other increases			
3. Decreases	**162,065**		**-**
3.1 Sales			
3.2 Repayments			
3.3 Profits taken to:	162,065		
3.3.1 Income statement			
- of which: capital gains	*162,065*		
3.3.2 Equity	x	x	
3.4 Transfers to other levels			
3.5 Other decreases			
4. Closing balance	**749,124**		**15,183**

PART B – INFORMATION ON THE BALANCE SHEET

ASSETS

SECTION 1 – CASH AND CASH EQUIVALENTS – ITEM 10

1.1 Cash and cash equivalents: composition

The following table summarises liquidity at 31 December 2010, including interest accrued and not yet credited on amounts deposited in interest-bearing accounts.

(thousands of euros)

1.1 CASH AND CASH EQUIVALENTS: COMPOSITION

	31/12/2010	31/12/2009
a) Cash	118	88
b) Free deposits with central banks	123,751,207	114,688,732
Total	**123,751,325**	**114,688,820**

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

	31/12/2010			31/12/2009		
	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		855,230	1,208		868,511	
1.1 trading		855,230	1,208		868,511	
1.2 associated with fair value option						
1.3 other						
2. Credit derivatives						
2.1 trading						
2.2 associated with fair value option						
2.3 other						
Total B		**855,230**	**1,208**		**868,511**	
Total (A+B)		**855,230**	**1,208**		**868,511**	

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

	31/12/2010	31/12/2009
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	853,060	853,708
- fair value	853,060	853,708
b) Customers	3,378	14,803
- fair value	3,378	14,803
Total B	**856,438**	**868,511**
Total (A+B)	**856,438**	**868,511**

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

	31/12/2010			31/12/2009		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	2,211,559	7,270		199,116	8,500	
1.1 Structured securities						
1.2 Other debt securities	2,211,559	7,270		199,116	8,500	
2. Equity securities			10,310	13,733,179		9,763
2.1 At fair value				13,733,179		
2.2 At cost			10,310			9,763
3. Units in collective investment undertakings			59,669			40,801
4. Loans						
Total	**2,211,559**	**7,270**	**69,979**	**13,932,295**	**8,500**	**50,564**

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

	31/12/2010	31/12/2009
1. Debt securities	**2,218,829**	**207,616**
a) Governments and central banks	2,011,444	
b) Other government agencies	7,270	8,500
c) Banks		
d) Other	200,115	199,116
2. Equity securities	**10,310**	**13,742,942**
a) Banks	2,066	2,066
b) Other issuers	8,244	13,740,876
- insurance undertakings		
- financial companies	7,729	7,697
- non-financial companies	515	13,733,179
- other		
3. Units in collective investment undertakings	**59,669**	**40,801**
4. Loans		
a) Governments and central banks		
b) Other government agencies		
c) Banks		
d) Other		
Total	**2,288,808**	**13,991,359**

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	**207,616**	**13,742,942**	**40,801**		**13,991,359**
B. Increases	**2,225,241**	**1,015**	**20,773**		**2,247,029**
B1. Purchases	2,218,609	1,015	19,430		2,239,054
B2. Fair value gains			1,343		1,343
B3. Writebacks					
- recognised through income statement		x			
- recognised through equity					
B4. Transfers from other portfolios					
B5. Other changes	6,632				6,631
C. Decreases	**214,028**	**13,733,647**	**1,905**		**13,949,580**
C1. Sales	141,371	6,443,946			6,585,317
C2. Repayments	1,264		1,905		3,168
C3. Fair value losses	71,393	755,634			827,027
C4. Writedowns for impairment					
- recognised through income statement					
- recognised through equity					
C5. Transfers to other portfolios		6,534,067			6,534,067
C6. Other changes					
D. Closing balance	**2,218,829**	**10,310**	**59,669**		**2,288,808**

The significant decrease in the item is attributable to the share exchange between CDP and the MEF at the end of 2010. With the transaction, sanctioned with the decree of the Ministry for the Economy and Finance of 30 November 2010, the MEF transferred to CDP a total of 655,891,140 Eni S.p.A. shares (equal to 16.38% of share capital) and the corresponding transfer from CDP to the MEF of its investments in Enel S.p.A. (classified under assets available for sale), Poste Italiane S.p.A. and STMicroelectronics Holding N.V.

Following the transaction, and considering the 400,288,338 Eni shares already held, the total shareholding of CDP in Eni S.p.A. amounted to 26.37% of share capital. As a result, the holding was reclassified to equity investments.

In addition, net investments in debt securities during the year amounted to more than €2 billion.

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

	31/12/2010				31/12/2009			
	CA	FV			CA	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	**2,947,380**	**2,810,334**			**205,285**	**215,133**		
- structured								
- other	2,947,380	2,810,334			205,285	215,133		
2. Loans								
Total	**2,947,380**	**2,810,334**			**205,285**	**215,133**		

Key
FV = fair value
CA = carrying amount

The item includes fixed-rate Treasury bonds, with a nominal value of €1,777.5 million, and inflation-linked Treasury bonds with a nominal value of €1,117.5 million, the latter acquired in response to the increasing exposure of the balance sheet 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

	31/12/2010	31/12/2009
1. Debt securities	**2,947,380**	**205,285**
a) Governments and central banks	2,947,380	205,285
b) Other government agencies		
c) Banks		
d) Other		
2. Loans		
a) Governments and central banks		
b) Other government agencies		
c) Banks		
d) Other		
Total	**2,947,380**	**205,285**
Total (fair value)	**2,810,334**	**215,133**

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	**205,285**		**205,285**
B. Increases	**2,742,095**		**2,742,095**
B1. Purchases	2,716,440		2,716,440
B2. Writebacks			
B3. Transfers from other portfolios			
B4. Other changes	25,655		25,655
C. Decreases	**-**		**-**
C1. Sales			
C2. Repayments			
C3. Writedowns			
C4. Transfers to other portfolios			
C5. Other changes			
D. Closing balance	**2,947,380**		**2,947,380**

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

	31/12/2010	31/12/2009
A. Claims on central banks	**4,059,117**	**3,703,220**
1. Fixed-term deposits		
2. Reserve requirement	4,059,117	3,703,220
3. Repurchase agreements		
4. Other		
B. Loans to banks	**5,121,506**	**2,774,124**
1. Current accounts and free deposits	248,350	794,179
2. Fixed-term deposits	1,203,858	907,947
3. Other financing	3,669,298	921,886
3.1 repurchase agreements		
3.2 finance leasing		
3.3 other	3,669,298	921,886
4. Debt securities		150,112
4.1 structured		
4.2 other debt securities		150,112
Total (carrying amount)	**9,180,623**	**6,477,344**
Total (fair value)	**8,993,807**	**6,479,346**

Loans to banks are primarily composed of the balance on the management account for the reserve requirement of about €4,059 million, loans amounting to about €3,669 million, deposits in respect of Credit Support Annexes (cash collateral) at banks to hedge the counterparty credit risk on derivatives of about €1,204 million and current account balances totalling €98 million.

For other companies, the item is composed of liquidity held on bank accounts and debt securities.

6.2 Loans to banks: assets hedged specifically

(thousands of euros)

6.2 LOANS TO BANKS: ASSETS HEDGED SPECIFICALLY

	31/12/2010	31/12/2009
1. Loans with specific fair value hedges:	**149,076**	**107,853**
a) interest rate risk	149,076	107,853
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	**149,076**	**107,853**

SECTION 7 – LOANS TO CUSTOMERS – ITEM 70

7.1 Loans to customers: composition by type

Loans to customers regard lending operations under the Separate Account and Ordinary Account of CDP and include bonds issued by public entities and public-law bodies that were subscribed as part of financing transactions with customers. The following table provides a breakdown of the positions by technical form.

(thousands of euros)

7.1 LOANS TO CUSTOMERS: COMPOSITION BY TYPE

	31/12/2010		31/12/2009	
	Performing	Impaired	Performing	Impaired
1. Current accounts	107		84	
2. Repurchase agreements				
3. Loans	88,808,086	37,131	84,171,757	46,402
4. Credit cards, personal loans and loans repaid by automatic deductions from wages				
5. Finance leasing				
6. Factoring				
7. Other	110,122		86,936	
8. Debt securities	1,372,509		1,318,662	
8.1 structured				
8.2 other debt securities	1,372,509		1,318,662	
Total (carrying amount)	**90,290,824**	**37,131**	**85,577,439**	**46,402**
Total (fair value)	**88,442,623**	**37,131**	**88,120,934**	**46,402**

Net impaired exposures in respect of loans came to €37.1 million. On the basis of the quality of the borrowers, the guarantees securing the loans and the regular payment of instalments, as well as the experience of the CDP in this area, it was not considered necessary to carry out a collective writedown of the loan portfolio.

“Other” includes net funding, equal to €109 million, from postal savings products that has not yet been deposited on the CDP’s treasury account and receivables of CDPI SGR, equal to €694 thousand, due from Fondo Investimenti per l’Abitare in respect of commissions accrued but not yet received.

7.2 Loans to customers: composition by debtor/issuer

(thousands of euros)

7.2 LOANS TO CUSTOMERS: COMPOSITION BY DEBTOR/ISSUER

	31/12/2010		31/12/2009	
	Performing	Impaired	Performing	Impaired
1. Debt securities:	**1,372,509**	**-**	**1,318,662**	
a) Governments	398,025		274,312	
b) Other government agencies	604,565		609,151	
c) Other issuers	369,919		435,199	
- non-financial companies	50,144		49,358	
- financial companies	319,775		385,841	
- insurance undertakings				
- other				
2. Loans to:	**88,918,315**	**37,131**	**84,258,777**	**46,402**
a) Governments	33,977,719	-	33,231,368	
b) Other government agencies	48,100,949	4,430	44,278,780	5,466
c) Other	6,839,647	32,701	6,748,629	40,936
- non-financial companies	6,759,969	32,053	6,701,434	18,783
- financial companies	40,169			21,829
- insurance undertakings				
- other	39,509	648	47,195	324
Total	**90,290,824**	**37,131**	**85,577,439**	**46,402**

7.3 Loans to customers: assets hedged specifically

(thousands of euros)

7.3 LOANS TO CUSTOMERS: ASSETS HEDGED SPECIFICALLY

	31/12/2010	31/12/2009
1. Loans with specific fair value hedges:	**14,037,764**	**16,808,271**
a) interest rate risk	14,037,764	16,808,271
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	**14,037,764**	**16,808,271**

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

	31/12/2010			NV 31/12/2010	31/12/2009			NV 31/12/2009
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives:		**582,518**	**570**	**9,114,747**		**473,757**	**577**	**10,148,103**
1) Fair value		552,684	570	9,022,708		461,831	577	10,073,005
2) Cash flow		29,834		92,039		11,926		75,098
3) Investment in foreign operation								
B. Credit derivatives								
1) Fair value								
2) Cash flow								
Total		**582,518**	**570**	**9,114,747**		**473,757**	**577**	**10,148,103**

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	506,270			x	46,984	x	29,834	x	x
2. Portfolio	x	x	x	x	x		x		x
Total liabilities	**506,270**				**46,984**		**29,834**		
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. Cesi S.p.A.	Milan	Significant influence	Terna S.p.A.	39.91%	39.91%
2. Elmed Etudes S.àr.l.	Tunis	Joint control	Terna S.p.A.	50.00%	50.00%
3. Coreso S.A.	Brussels	Significant influence	Terna S.p.A.	22.49%	22.49%
4. Eni S.p.A.	Rome	Significant influence	CDP S.p.A.	26.37%	26.37%
5. Galaxy S.àr.l. SICAR	Luxembourg	Significant influence	CDP S.p.A.	40.00%	40.00%
6. Europrogetti & Finanza S.p.A. in liquidazione	Rome	Significant influence	CDP S.p.A.	31.80%	31.80%

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	Book value	Fair value
A. Companies accounted for with equity method						
A.1 under joint control						
1. Elmed Etudes S.àr.l.	1,440	150	(120)	1,285	-	x
A.2 under significant influence						
1. Cesi S.p.A.	117,846	76,371	10,859	58,821	23,285	x
2. Coreso S.A.	2,711	3,453	111	1,278	287	x
3. Eni S.p.A. (1)	117,529,000	90,295,000	5,317,000	50,051,000	17,240,440	17,257,973
4. Galaxy S.àr.l. (2)	93,133	37,347	(34,967)	67,702	9,657	x
5. Europrogetti & Finanza S.p.A. in liquidazione (1)	6,863	783	(462)	(5,637)	-	x

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

10.3 Equity investments: change for the year

(thousands of euros)

10.3 EQUITY INVESTMENTS: CHANGE FOR THE YEAR

	31/12/2010	31/12/2009
A. Opening balance	**3,815,099**	**3,314,814**
B. Increases	**17,486,184**	**602,995**
B.1 Purchases	10,714,654	180,918
B.2 Writebacks		
B.3 Revaluations	126,448	406,043
B.4 Other increases	6,645,082	16,034
C. Decreases	**4,027,614**	**102,710**
C.1 Sales	3,695,057	28,479
C.2 Writedowns	669	13,698
C.3 Other decreases	331,888	60,533
D. Closing balance	**17,273,669**	**3,815,099**
E. Total revaluations		
F. Total writedowns	**15,912**	**1,032,573**

The increase is associated with the share exchange between the MEF and CDP. The sub-item B.1 "Purchases" reports the new Eni S.p.A. shares acquired in the exchange, while sub-item B.4 "Other increases" reflects the reclassification to equity investments of the Eni S.p.A. shares held prior to the operation, which had been classified in the AFS portfolio. The sub-item C.1 "Sales" reports the disposal of the holdings in Poste Italiane S.p.A. and STMicroelectronics Holding N.V. as part of the share exchange with the MEF.

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. At 31 December 2010, a total of some €25.6 million had been paid in.

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	31/12/2010	31/12/2009
A. Operating assets				
1.1 owned	**199,813**	**9,801,007**	**10,000,820**	**9,237,344**
a) land	117,406	81,714	199,120	170,497
b) buildings	67,388	671,787	739,175	626,247
c) movables	3,082	6,271	9,353	8,494
d) electrical plant	1,864	18,795	20,659	21,848
e) other	10,073	9,022,440	9,032,513	8,410,258
1.2 acquired under finance leases				
a) land				
b) buildings				
c) movables				
d) electrical plant				
e) other				
Total A	**199,813**	**9,801,007**	**10,000,820**	**9,237,344**
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)	**199,813**	**9,801,007**	**10,000,820**	**9,237,344**

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**	**82,994**	**11,901**	**17,879**	**26,402**	**256,582**
A.1 Total net writedowns	-	(13,120)	(8,584)	(14,736)	(16,224)	(52,664)
A.2 Opening net balance	**117,406**	**69,874**	**3,317**	**3,143**	**10,178**	**203,918**
B. Increases	**-**	**469**	**489**	**183**	**1,508**	**2,649**
B.1 Purchases		469	14	183	1,508	2,174
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			475			475
C. Decreases		**2,955**	**724**	**1,462**	**1,613**	**6,754**
C.1 Sales						
C.2 Depreciation		2,480	724	1,462	1,613	6,279
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		475				475
D. Closing net balance	**117,406**	**67,388**	**3,082**	**1,864**	**10,073**	**199,813**
D.1 Total net writedowns	-	(15,600)	(9,308)	(16,198)	(17,837)	(58,943)
D.2 Closing gross balance	**117,406**	**82,994**	**11,901**	**17,879**	**26,402**	**256,582**
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	**53,091**	**816,524**	**7,206**	**33,687**	**12,795,719**	**13,706,227**
A.1 Total net writedowns	-	(260,151)	(2,029)	(14,982)	(4,395,639)	(4,672,801)
A.2 Opening net balance	**53,091**	**556,373**	**5,177**	**18,705**	**8,400,080**	**9,033,426**
B. Increases	**28,634**	**136,195**	**1,499**	**5,345**	**1,665,676**	**1,837,349**
B.1 Purchases	3,586	1,753	1,499		1,665,676	1,672,514
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	25,048	134,442		5,345		164,835
C. Decreases	**11**	**20,781**	**405**	**5,255**	**1,043,316**	**1,069,768**
C.1 Sales	11	9			1,832	1,852
C.2 Depreciation		20,373	405	5,255	334,440	360,473
C.3 Writedowns for impairment recognised in					230	230
a) equity						
b) income statement					230	230
C.4 Fair value losses recognised in						
a) equity						
b) income statement						
C.5 Negative exchange rate differences						
C.6 Transfers to					5,700	5,700
a) investment property						
b) assets held for sale					5,700	5,700
C.7 Other changes		399			701,114	701,513
D. Closing net balance	**81,714**	**671,787**	**6,271**	**18,795**	**9,022,440**	**9,801,007**
D.1 Total net writedowns	-	(280,524)	(2,434)	(20,237)	(4,730,079)	(5,033,274)
D.2 Closing gross balance	**81,714**	**952,311**	**8,705**	**39,032**	**13,752,519**	**14,834,281**
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		31/12/2010		31/12/2009	
	Definite life	Indefinite life	Definite life	Indefinite life	Definite life	Indefinite life	Definite life	Indefinite life
A.1 Goodwill	x		x	**486,723**	x	**486,723**	x	**487,240**
A.1.1 pertaining to Group	x		x	486,723	x	486,723	x	487,240
A.1.2 minority interests	x		x		x		x	
A.2 Other intangible assets	**4,974**		**280,433**		**285,407**		**273,889**	
A.2.1 Assets carried at cost	4,974		280,433		285,407		273,889	
a) internally-generated intangible assets			32,729		32,729		29,282	
b) other assets	4,974		247,704		252,678		244,607	
A.2.2 Assets carried at fair value								
a) internally-generated intangible assets								
b) other assets								
Total	**4,974**	**-**	**280,433**	**486,723**	**285,407**	**486,723**	**273,889**	**487,240**

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				**14,419**		**14,419**
A.1 Total net writedowns				(7,847)		(7,847)
A.2 Opening net balance				**6,572**		**6,572**
B. Increases				**934**		**934**
B.1 Purchases				934		934
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				**2,532**		**2,532**
C.1 Sales						
C.2 Writedowns				2,532		**2,532**
- Amortisation	x			2,532		2,532
- 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				**4,974**		**4,974**
D.1 Total net writedowns				(10,379)		(10,379)
E. Closing gross balance				**15,353**		**15,353**
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	**487,240**	**85,970**		**372,285**		**1,057,281**
A.1 Total net writedowns		(56,688)		(134,250)		(302,724)
A.2 Opening net balance	**487,240**	**29,282**		**238,035**		**754,557**
B. Increases	**-**	**18,501**		**57,500**		**76,001**
B.1 Purchases		860		57,500		58,360
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		17,641				17,641
C. Decreases	**517**	**15,054**		**47,831**		**63,402**
C.1 Sales						
C.2 Writedowns		15,032		30,086		45,118
- Amortisation	x	15,032		30,086		45,118
- 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	517	22		17,745		18,284
D. Closing net balance	**486,723**	**32,729**		**247,704**		**767,156**
D.1 Total net writedowns	-	(71,720)		(164,336)		(347,842)
E. Closing gross balance	**486,723**	**104,449**		**523,826**		**1,114,998**
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	31/12/2010	31/12/2009
Provisions for liabilities and contingencies	2,252		2,252	2,467
Depreciation and amortisation	3,626		3,626	3,616
Financial instruments	3,555		3,555	13,167
Assets available for sale	25,439		25,439	1,649
Payables	3,099		3,099	4,360
Securities holding			-	646
Other	200	131	331	143
Total	**38,171**	**131**	**38,302**	**26,048**

14.2 Deferred tax liabilities: composition

(thousands of euros)

14.2 DEFERRED TAX LIABILITIES: COMPOSITION

	Banking group	Other entities	31/12/2010	31/12/2009
Equity investments	77,297		77,297	138,568
Property, plant and equipment	638,956	382,099	1,021,055	1,014,465
Securities holding			-	75
Other financial instruments	928		928	573
Offsetting with deferred tax assets		(55,302)	(55,302)	-
Other	12,249	3,462	15,711	9,713
Total	**729,430**	**330,259**	**1,059,689**	**1,163,394**

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)

	31/12/2010	31/12/2009
Opening balance	**23,753**	**211,513**
2. Increases	**2,329**	**2,180**
2.1 Deferred tax assets recognised during the year	2,329	2,180
a) in respect of previous periods		
b) due to change in accounting policies		
c) writebacks	2,298	2,180
d) other	31	
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases	**16,776**	**189,940**
3.1 Deferred tax assets derecognised during the year	16,776	54,369
a) reversals	16,776	54,369
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		135,571
Closing balance	**9,306**	**23,753**

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)

	31/12/2010	31/12/2009
1. Opening balance	**1,051,055**	**1,303,218**
2. Increases	**12,658**	**104,909**
2.1 Deferred tax liabilities recognised during the year	-	28
a) in respect of previous periods		
b) due to change in accounting policies		
c) other		28
2.2 New taxes or increases in tax rates	2,698	
2.3 Other increases	9,960	13,096
2.4 Business combinations		91,785
3. Decreases	**73,427**	**357,072**
3.1 Deferred tax liabilities derecognised during the year	71,000	346,900
a) reversals	71,000	43,531
b) due to change in accounting policies		
c) other		303,369
3.2 Reduction in tax rates		
3.3 Other decreases	2,427	3,981
3.4 Business combinations		6,191
4. Closing balance	**990,286**	**1,051,055**

14.5 Changes in deferred tax assets (recognised in equity)

(thousands of euros)

14.5 CHANGES IN DEFERRED TAX ASSETS (RECOGNISED IN EQUITY)

	31/12/2010	31/12/2009
1. Opening balance	**2,295**	**7,857**
2. Increases	**27,698**	**9,950**
2.1 Deferred tax assets recognised during the year	27,698	1,461
a) in respect of previous periods		
b) due to change in accounting policies		
c) other	27,564	1,461
2.2 New taxes or increases in tax rates	134	
2.3 Other increases		8,489
3. Decreases	**997**	**15,512**
3.1 Deferred tax assets derecognised during the year	997	15,512
a) reversals	997	15,512
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	**28,996**	**2,295**

14.6 Changes in deferred tax liabilities (recognised in equity)

(thousands of euros)

14.6 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNISED IN EQUITY)

	31/12/2010	31/12/2009
1. Opening balance	**112,339**	**72,154**
2. Increases	**11,846**	**44,801**
2.1 Deferred tax liabilities recognised during the year	11,846	44,801
a) in respect of previous periods		
b) due to change in accounting policies		
c) other	275	44,801
2.2 New taxes or increases in tax rates	1,832	
2.3 Other increases	9,739	
3. Decreases	**54,782**	**4,616**
3.1 Deferred tax liabilities derecognised during the year	54,782	4,616
a) reversals	54,782	
b) due to change in accounting policies		
c) other		4,616
3.2 Reduction in tax rates		
3.3 Other decreases		
4. Closing balance	**69,403**	**112,339**

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

	31/12/2010	31/12/2009
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		57
B.8 Property, plant and equipment		
B.9 Intangible assets	1,409	
B.10 Other assets	568,163	
Total B	**575,793**	**57**
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	31/12/2010	31/12/2009
1. Receivables from Min. Univ. and Research	10,019		10,019	329
2. Receivables from MEF	6,983		6,983	7,098
3. Receivables from MIT	130		130	118
4. Receivables from equity investments	2		2	-
5. Payments on account for withholding tax on interest on postal passbook savings accounts	347,430		347,430	60,732
6. Trade receivables		1,495,402	1,495,402	1,169,090
7. Advances to personnel		6,086	6,086	6,033
8. Other	2,969	27,266	30,235	24,005
Total	**367,533**	**1,528,754**	**1,896,287**	**1,267,405**

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 31 December 2010 represents the excess paid to the tax authorities as an advance compared with withholdings made in 2010 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

	31/12/2010	31/12/2009
1. Due to central banks	**417,435**	**24,128**
2. Due to banks	**9,383,481**	**4,310,096**
2.1 Current accounts and demand deposits	236,347	425,852
2.2 Fixed-term deposits	649,634	625,165
2.3 Loans	8,493,336	3,242,299
2.3.1 Repurchase agreements	4,456,825	188,660
2.3.2 Other	4,036,511	3,053,639
2.4 Liabilities in respect of commitments to repurchase own equity instruments		
2.5 Other payables	4,164	16,780
Total	**9,800,916**	**4,334,224**
Fair value	**9,800,916**	**4,334,224**

The item "Due to central banks" includes refinancing transactions with the Bank of Italy in the amount of €400 million and the payable to the Bank of Italy for unpaid direct debits equal to €17 million settled in early 2011.

Fixed-term deposits refer to cash collateral under Credit Support Annexes securing the counterparty risk on derivatives (cash collateral).

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

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

	31/12/2010	31/12/2009
1. Current accounts and demand deposits	97,661,375	91,108,472
2. Fixed-term deposits	70,430	
3. Loans		
3.1 Repurchase agreements		
3.2 Other		
4. Liabilities in respect of commitments to repurchase own equity instruments		
5. Other payables	9,256,745	9,351,464
Total	**106,988,550**	**100,459,936**
Fair value	**106,988,550**	**100,459,936**

"Current accounts and demand deposits" regard the balance at the end of 2010 of postal passbooks.

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.

SECTION 3 – SECURITIES ISSUED – ITEM 30

3.1 Securities issued: composition by type

(thousands of euros)

3.1 SECURITIES ISSUED: COMPOSITION BY TYPE

	31/12/2010				31/12/2009			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	10,434,893	5,240,486	4,323,215	744,492	11,277,539	8,977,127	1,676,155	611,247
1.1 structured								
1.2 other	10,434,893	5,240,486	4,323,215	744,492	11,277,539	8,977,127	1,676,155	611,247
2. Other securities	109,648,110			116,037,979	99,665,210			103,679,661
2.1 structured	12,160,002			12,805,684	10,037,547			17,750,863
2.2 other	97,488,108			103,232,295	89,627,663			85,928,798
Total	**120,083,003**	**5,240,486**	**4,323,215**	**116,782,471**	**110,942,749**	**8,977,127**	**1,676,155**	**104,290,908**

For the banking group, the item includes covered bonds in the amount of €5,379 million, bonds issued under the Euro Medium Term Notes programme totalling €2,305 million and postal savings bonds of €109,648 million. During the year, €1 billion in covered bonds were redeemed following maturity, while €552 million in new bonds were issued under the EMTN programme.

Other structured securities include indexed postal savings bonds and the *Premia* bonds, for which the embedded derivative has been separated from the host contract.

For other Group companies, the item reports the value of bonds.

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

	31/12/2010	31/12/2009
1. Securities covered by specific fair value hedges	**7,038,376**	**10,600,385**
a) interest rate risk	6,543,245	10,264,087
b) exchange rate risk		
c) multiple risks	495,131	336,298
2. Securities covered by specific cash flow hedges		
a) interest rate risk		
b) exchange rate risk		
c) other		
Total	**7,038,376**	**10,600,385**

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

	31/12/2010					31/12/2009				
	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			**190,910**	**749,124**				**9,135**	**773,842**	
1.1 Trading	x		163,494		x	x				x
1.2 Associated with fair value option	x				x	x				x
1.3 Other	x		27,416	749,124	x	x		9,135	773,842	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			**190,910**	**749,124**				**9,135**	**773,842**	
Total (A+B)			**190,910**	**749,124**				**9,135**	**773,842**	

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

	31/12/2010			NV 31/12/2010	31/12/2009			NV 31/12/2009
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives		**1,217,337**	**15,183**	**16,502,897**		**918,402**		**18,781,270**
1) Fair value		1,160,616		14,286,840		918,402		18,781,270
2) Cash flow		56,721	15,183	2,216,057				
3) Investment in foreign operation								
B. Credit derivatives								
1) Fair value								
2) Cash flow								
Total		**1,217,337**	**15,183**	**16,502,897**		**918,402**		**18,781,270**

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	1,158,977			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	**1,158,977**								
1. Financial liabilities	1,640			x		x	71,903	x	x
2. Portfolio	x	x	x	x	x		x		x
Total liabilities	**1,640**						**71,903**		
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

	31/12/2010	31/12/2009
1. Positive adjustments of financial liabilities		
2. Negative adjustments of financial liabilities	63,683	66,478
Total	**63,683**	**66,478**

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	31/12/2010	31/12/2009
1. Items being processed	4,110		4,110	4,445
2. Amounts due to employees		38,857	38,857	36,327
3. Charges for postal funding service	822,000		822,000	918,044
4. Tax payables	385,268	48	385,316	317,212
5. Trade payables		1,537,724	1,537,724	1,481,962
6. Due to social security institutions		22,472	22,472	23,569
7. Other	17,750	211,028	228,778	193,690
Total	**1,229,128**	**1,810,129**	**3,039,257**	**2,975,249**

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

- the payable to Poste Italiane S.p.A. of about €822 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 trade payables and sundry amounts due to employees.

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

	31/12/2010	31/12/2009
A. Opening balance	**72,205**	**75,045**
B. Increases	**14,594**	**15,180**
B.1 Provision for the year	11,984	11,994
B.2 Other increases	2,610	3,186
C. Decreases	**18,194**	**18,020**
C.1 Severance payments	17,188	17,205
C.2 Other decreases	1,006	815
D. Closing balance	**68,605**	**72,205**

SECTION 12 – PROVISIONS – ITEM 120

12.1 Provisions: composition

(thousands of euros)

12.1 PROVISIONS: COMPOSITION

	31/12/2010	31/12/2009
1. Company pension plans		
2. Other provisions	**235,670**	**211,905**
2.1 legal disputes	18,203	17,639
2.2 staff costs	73,082	72,704
2.3 other	144,385	121,562
Total	**235,670**	**211,905**

12.2 Provisions: change for the year

(thousands of euros)

12.2 PROVISIONS: CHANGE FOR THE YEAR

	Total	
	Pensions	**Other provisions**
A. Opening balance		**211,905**
B. Increases		**62,759**
B.1 Provision for the year		60,305
B.2 Changes due to passage of time		2,454
B.3 Changes due to changes in discount rate		
C. Decreases		**38,994**
C.1 Use during the year		38,250
C.2 Changes due to changes in discount rate		
C.3 Other decreases		744
D. Closing balance		**235,670**

12.4 Provisions – Other provisions

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

(thousands of euros)

12.4 PROVISIONS - OTHER

	31/12/2010	31/12/2009
2. Other provisions	**235,670**	**211,905**
2.1 legal disputes	18,203	17,639
2.2 staff costs	61,893	61,280
early retirement	12,993	12,170
loyalty bonus	4,194	4,902
electricity discount	29,293	26,727
other	15,413	17,481
2.3 other	155,574	132,986

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 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

	31/12/2010	31/12/2009
Income reserves	**7,962,939**	**5,286,156**
Legal reserve	387,846	301,615
Other	7,575,093	4,984,541

OTHER INFORMATION

1. Guarantees issued and commitments

(thousands of euros)

1. GUARANTEES ISSUED AND COMMITMENTS

	31/12/2010	31/12/2009
1) Financial guarantees issued	194,573	135,307
a) Banks	7,599	
b) Customers	186,974	135,307
2) Commercial guarantees issued		
a) Banks		
b) Customers		
3) Irrevocable commitments to disburse funds	12,847,369	13,938,926
a) Banks	5,468	
i) certain use	5,468	
ii) uncertain use		
b) Customers	12,841,901	13,938,926
i) certain use	12,841,206	13,938,926
ii) uncertain use	695	
4) Commitments underlying credit derivatives: sales of protection		
5) Assets pledged as collateral for third-party debts		
6) Other commitments	1,698,014	316,821
Total	**14,739,956**	**14,391,054**

2. Assets pledged as collateral for own debts and commitments

(thousands of euros)

2. ASSETS PLEDGED AS COLLATERAL FOR OWN DEBTS AND COMMITMENTS

	31/12/2010	31/12/2009
1. Financial assets held for trading		
2. Financial assets at fair value		
3. Financial assets available for sale	1,841,000	
4. Financial assets held to maturity	2,695,000	131,000
5. Loans to banks		
6. Loans to customers	20,923,979	15,424,458
7. Property, plant and equipment		

In past years CDP issued bonds secured by a diversified portfolio of receivables in respect of loans with repayment charged to local authorities and regional governments (covered bonds). The list of pledged loans (the segregated portfolio) is deposited with the Rome Company Register and is updated with each new issue and whenever CDP modifies its composition.

CDP's balance sheet reports separately the amount of loans pledged as collateral for the issuance of covered bonds (included among loans to customers) and the corresponding residual amount to be disbursed (included among amounts due to customers).

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.

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	31/12/2010	31/12/2009
1 Financial assets held for trading					
2 Financial assets at fair value					
3 Financial assets available for sale	31,914			**31,914**	**4,943**
4 Financial assets held to maturity	38,869			**38,869**	**4,266**
5 Loans to banks		136,907	53,082	**189,989**	**83,493**
6 Loans to customers	66,530	3,761,213		**3,827,743**	**3,972,487**
7 Hedging derivatives	x	x			
8 Other assets	x	x	2,340,143	**2,340,143**	**3,519,569**
Total	**137,313**	**3,898,120**	**2,393,225**	**6,428,658**	**7,584,758**

The item reports the remuneration accrued on:

- loans to banks and customers: interest income on loans by CDP amounted to about €3,898 million;

- debt securities: interest income on debt securities amounted to about €137 million;

- current accounts: this is primarily composed of interest income on current account no. 29814, reported under “Other assets”, equal to about €2,337 million.

1.4 Interest expense and similar charges: composition

(thousands of euros)

1.4 INTEREST EXPENSE AND SIMILAR CHARGES: COMPOSITION

	Payables	Securities	Other	31/12/2010	31/12/2009
1 Due to central banks	328	x		**328**	
2 Due to banks	62,372	x		**62,372**	**61,967**
3 Due to customers	695,507	x		**695,507**	**1,581,569**
4 Securities issued	x	3,630,598		**3,630,598**	**3,709,356**
5 Financial liabilities held for trading			617	**617**	**640**
6 Financial liabilities at fair value					
7 Other liabilities and funds	x	x	1,927	**1,927**	**1,051**
8 Hedging derivatives	x	x	471,750	**471,750**	**351,775**
Total	**758,207**	**3,630,598**	**474,294**	**4,863,099**	**5,706,358**

Interest expense on amounts due to customers mainly regards interest on passbook savings accounts, totalling about €588 million and amounts due in respect of interest on the portion of loans being repaid but not yet disbursed by CDP, equal to about €107 million.

Interest on debt securities mainly regarded bond issues by the parent company for about €246 million and postal savings bonds for about €3,304 million.

The negative differences on hedges amounted to about €472 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

	31/12/2010	31/12/2009
A. Positive differences on hedging transactions	143,506	100,740
B. Negatives differences on hedging transactions	615,256	452,515
C. Balance (A-B)	**(471,750)**	**(351,775)**

SECTION 2 – COMMISSIONS - ITEMS 40 AND 50

2.1 Commission income: composition

(thousands of euros)

2.1 COMMISSION INCOME: COMPOSITION

	31/12/2010	31/12/2009
a) guarantees issued	388	324
b) credit derivatives		
c) management, intermediation and advisory services:		
1. trading in financial instruments		
2. foreign exchange		
3. asset management	3,365	
3.1. individual		
3.2. collective	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	10,467	6,272
Total	**14,220**	**6,596**

2.2 Commission expense: composition

Commission expense mainly regards the charge for the period, equal to about €722 million, of the remuneration paid to Poste Italiane S.p.A. for managing postal funding products.

(thousands of euros)

2.2 COMMISSION EXPENSE: COMPOSITION

	31/12/2010	31/12/2009
a) guarantees received		
b) credit derivatives		
c) management and intermediation services:	722,213	917,237
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	722,213	917,237
6. off-premises distribution of securities, products and services		
d) collection and payment services	121	1,589
e) other services	1,527	150
Total	**723,861**	**918,976**

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

		31/12/2010		31/12/2009	
		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	411,434		808,550	
C	Financial assets at fair value				
D	Equity investments	399,527	x	787	x
	Total	**810,961**		**809,337**	

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		x	**5,611**	x	**(5,611)**
4. Derivatives	**185,211**		**159,535**	**13,382**	**12,294**
4.1 Financial derivatives	185,211	-	159,535	13,382	12,294
- on debt securities and interest rates	23,147			13,382	9,765
- on equity securities and equity indices	162,064		159,535		2,529
- on foreign currencies and gold	x	x	x	x	
- other					
4.2 Credit derivatives					
Total	**185,211**	**-**	**159,535**	**13,382**	**6,683**

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

	31/12/2010	31/12/2009
A. Income on:		
A.1 Fair value hedges	101,422	461,599
A.2 Hedged financial assets (fair value)	519,431	8,171
A.3 Hedged financial liabilities (fair value)	41,049	
A.4 Cash flow hedges		
A.5 Assets and liabilities in foreign currencies	143,712	7,095
Total income on hedging activities (A)	**805,614**	**476,865**
B. Expense on:		
B.1 Fair value hedges	562,215	9,344
B.2 Hedged financial assets (fair value)	656	302,559
B.3 Hedged financial liabilities (fair value)	97,196	186,161
B.4 Cash flow hedges		
B.5 Assets and liabilities in foreign currencies	143,712	7,095
Total expense on hedging activities (B)	**803,779**	**505,159**
C. Net gain (loss) on hedging activities (A-B)	**1,835**	**(28,294)**

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

	31/12/2010			31/12/2009		
	Gains	Losses	Net gain (loss)	Gains	Losses	Net gain (loss)
Financial assets						
1 Loans to banks						
2 Loans to customers	71,508		71,508	13,653		13,653
3 Financial assets available for sale	129,666		129,666	952		952
3.1 Debt securities	1,021		1,021	952		952
3.2 Equity securities	128,645		128,645			
3.3 Units in collective investment undertakings						
3.4 Loans						
4 Financial assets held to maturity						
Total assets	**201,174**		**201,174**	**14,605**		**14,605**
Financial liabilities						
1 Due to banks						
2 Due to customers						
3 Securities issued						
Total liabilities						

The increase is largely attributable to the share exchange between CDP and the MEF discussed earlier. More specifically, the item includes the gain of about €129 million on the transfer to the MEF of the Enel S.p.A. shares.

SECTION 8 – NET IMPAIRMENT ADJUSTMENTS – ITEM 130

8.1 Net impairment adjustments of loans: composition

(thousands of euros)

8.1 NET IMPAIRMENT ADJUSTMENTS OF LOANS: COMPOSITION

	Writedowns			Writebacks				31/12/2010	31/12/2009
	Specific		Portfolio	Specific		Portfolio			
	Writeoffs	Other		A	B	A	B		
A. Loans to banks									
- Loans									
- Debt securities									
B. Loans to customers		(4,193)		402				(3,791)	(1,218)
- Loans		(4,193)		402				(3,791)	(1,218)
- Debt securities									
C. Total		**(4,193)**		**402**				**(3,791)**	**(1,218)**

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	31/12/2010	31/12/2009
1) Employees	43,871	214,013	257,884	229,220
a) wages and salaries	31,368	132,783	164,151	161,713
b) social security contributions	115	59,853	59,968	59,359
c) severance pay				
d) pensions	8,111		8,111	7,927
e) allocation to staff severance pay provision	1,022	13,735	14,757	14,855
f) allocation to provision for pensions and similar liabilities				
- defined contribution				
- defined benefit				
g) payments to external pension funds	995	6	1,001	796
- defined contribution	995	6	1,001	796
- defined benefit				
h) costs in respect of agreements to make payments in own equity instruments				
i) other employee benefits	2,260	7,636	9,896	(15,430)
2) Other personnel in service	3	136	139	630
3) Board of Directors and Board of Auditors	2,392	2,178	4,570	3,808
4) Retired personnel				
Total	**46,266**	**216,327**	**262,593**	**233,658**

11.2 Average number of employees by category

11.2 AVERAGE NUMBER OF EMPLOYEES BY CATEGORY

	Banking group	Other entities	31/12/2010
Employees	**415**	**3,492**	**3,907**
a) Senior management	36	65	101
b) Middle management	149	498	647
- of which: grade 3 and 4	109	495	604
c) Other employees	230	2,929	3,159
Other personnel	**8**	**1**	**9**

11.4 Other employee benefits

(thousands of euros)

11.4 OTHER EMPLOYEE BENEFITS

	31/12/2010	31/12/2009
Lunch vouchers	526	500
Staff insurance	886	750
Interest subsidies on loans	34	22
Other benefits	8,450	(16,702)
Total	**9,896**	**(15,430)**

"Other benefits" mainly regards training costs, meals and travel expenses for personnel on business trips and the benefits associated with the "electricity discount" of the Terna Group. In 2009, the item reflected the release of the provision for electricity discounts following the agreement signed with Enel Servizio Elettrico as a result of the redetermination of the retired personnel eligible for the benefit.

11.5 Other administrative expenses: composition

(thousands of euros)

11.5 OTHER ADMINISTRATIVE EXPENSES: COMPOSITION

	Banking group	Other entities	31/12/2010	31/12/2009
IT costs (licences, maintenance and consulting)	7,270	21,320	28,590	20,983
Property expenses	3,381	8,496	11,877	12,287
Leased land and buildings	718	6,927	7,645	9,384
Owned land and buildings	2,663	1,569	4,232	2,903
- maintenance of owned land and buildings	1,488	1,569	3,057	1,656
- operating expenses	1,175		1,175	1,247
Utilities	1,477	15,250	16,727	15,118
General expenses	8,634	115,858	124,492	112,756
- consumables and other	1,834	28,405	30,239	13,496
- services	6,800	87,453	94,253	99,260
Entertainment and marketing	1,212	7,826	9,038	8,502
Professional and insurance expenses	6,861	20,648	27,509	23,543
Professional and service costs for personnel	386	45	431	1,438
Corporate bodies other than BoD	342		342	251
Indirect taxes and duties	1,203	6,620	7,823	6,882
Total	**30,766**	**196,063**	**226,829**	**201,760**

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

(thousands of euros)

FEES FOR AUDITING AND NON-AUDIT SERVICES

	Service provider	Client	Fees for the year
Auditing and financial statements	KPMG S.p.A.	CDP S.p.A.	256
Certification	KPMG S.p.A.	CDP S.p.A.	55
Auditing and financial statements	KPMG S.p.A.	Terna Group	673
Certification	KPMG S.p.A.	Terna Group	169
Auditing and financial statements	PricewaterhouseCoopers S.p.A.	CDP Investimenti SGR S.p.A.	5
		Total	**1,158**

SECTION 12 – NET PROVISIONS – ITEM 190

12.1 Net provisions: composition

(thousands of euros)

12.1 NET PROVISIONS: COMPOSITION

	31/12/2010	31/12/2009
Review of existing provision for litigation with personnel and customers	3,214	2,145
Other provisions	3,242	3,621
Total	**6,456**	**5,766**

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	**(6,279)**			**(6,279)**
A.1 Owned	(6,279)			(6,279)
- Operating assets	(6,279)			(6,279)
- Investment property				
A.2 Acquired under finance leases				
- Operating assets				
- Investment property				
Total	**(6,279)**			**(6,279)**

(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	**(360,473)**	**(230)**		**(360,703)**
A.1 Owned	(360,473)	(230)		(360,703)
- Operating assets	(360,473)	(230)		(360,703)
- Investment property				
A.2 Acquired under finance leases				
- Operating assets				
- Investment property				
Total	**(360,473)**	**(230)**		**(360,703)**

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	**(2,532)**			**(2,532)**
A.1 Owned	(2,532)			(2,532)
- Internally generated				
- Other	(2,532)			(2,532)
A.2 Acquired under finance leases				
Total	**(2,532)**			**(2,532)**

(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	**(45,118)**			**(45,118)**
A.1 Owned	(45,118)			(45,118)
- Internally generated	(15,032)			(15,032)
- Other	(30,086)			(30,086)
A.2 Acquired under finance leases				
Total	**(45,118)**			**(45,118)**

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	31/12/2010	31/12/2009
Operating costs in respect of supply chain	2		2	110
Other		173	173	14,087
Total	**2**	**173**	**175**	**14,197**

15.2 Other operating income: composition

(thousands of euros)

15.2 OTHER OPERATING INCOME: COMPOSITION

	Banking group	Other entities	31/12/2010	31/12/2009
Income from adjustment of liability items	7		7	98
Income for corporate offices paid to employees	262		262	183
Sundry reimbursements	582		582	338
Reimbursement of expenses incurred for Min. Univ. and Research agreement	444		444	300
Other	1,063	1,581,673	1,582,736	1,385,833
Total	**2,358**	**1,581,673**	**1,584,031**	**1,386,752**

Other income mainly comprises National Transmission Grid usage fees accruing to other Group companies.

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

	31/12/2010	31/12/2009
1. Joint ventures		
A. Gains	**165,961**	**48,467**
1. Revaluations	5,831	48,467
2. Gains on disposals	49,592	
3. Writebacks		
4. Other	110,538	
B. Losses	**(669)**	**5,856**
1. Writedowns	(669)	(42)
2. Impairments		
3. Losses on disposals		
4. Other		5,898
Net gain (loss)	**165,292**	**54,323**
2. Companies under significant influence		
A. Gains	**530,337**	**231,818**
1. Revaluations	120,617	220,823
2. Gains on disposals	347,835	
3. Writebacks		
4. Other	61,885	10,995
B. Losses		**(13,698)**
1. Writedowns		
2. Impairments		(13,698)
3. Losses on disposals		
4. Other		
Net gain (loss)	**530,337**	**218,120**
Total	**695,629**	**272,443**

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

		31/12/2010	31/12/2009
A.	Land and buildings	560	2,053
	- Gains on disposal	560	2,096
	- Losses on disposal		(43)
B.	Other assets	2,492	(1,845)
	- Gains on disposal	2,958	2,671
	- Losses on disposal	(466)	(4,516)
	Net gain (loss)	**3,052**	**208**

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

	31/12/2010	31/12/2009
1. Current taxes (-)	(693,770)	(798,152)
2. Change in current taxes from previous years (+/-)	6,469	(2,934)
3. Reduction of current taxes for the year (+)		
4. Change in deferred tax assets (+/-)	(14,447)	(52,189)
5. Change in deferred tax liabilities (+/-)	60,769	308,657
6. Taxes for the year (-) (-1+/-2+3+/-4+/-5)	(640,979)	(544,618)

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 31/12/2010	Total 31/12/2009
1. Gains	503,289	
2. Losses	355,297	
3. Result of valuation of disposal group (assets and associated liabilities)		
4. Gain (loss) on realisation	113	325,567
5. Tax and duties	(1,257)	29,099
Net income (loss)	**146,848**	**354,666**

(thousands of euros)

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

	Total 31/12/2010	Total 31/12/2009
1. Current taxes (-)		
2. Change in deferred tax assets (+/-)	943	
3. Change in deferred tax liabilities (-/+)	(2,200)	29,100
4. Taxes for the year (-1 +/- 2 +/- 3)	(1,257)	29,100

SECTION 22 – NET INCOME (LOSS) PERTAINING TO MINORITY INTERESTS – ITEM 330

22.1 Breakdown of item 330 “Net income (loss) pertaining to minority interests”

Net income pertaining to minority interests amounts to €406,648 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**	**3,391,655**	**(640,979)**	**2,750,676**
	Other comprehensive income			
20.	Financial assets available for sale			
	a) fair value changes	(955,351)	76,041	(879,310)
	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	41,370	(6,404)	34,966
	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			
	b) reversal to income statement			
	- impairment adjustments			
	- gain/loss on realisation			
	c) other changes			
110.	**Total other comprehensive income**	**(913,981)**	**69,637**	**(844,344)**
120.	**Comprehensive income (items 10+110)**	**2,477,674**	**(571,342)**	**1,906,332**
130.	Consolidated comprehensive income pertaining to minority interests	610,293	(174,282)	436,011
140.	**Consolidated comprehensive income pertaining to shareholders of the parent company**	**1,867,381**	**(397,060)**	**1,470,321**

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'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.

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.

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.

Impaired financial assets

CDP's approach to credit assessment is essentially based on analytical analyses of counterparties in financial difficulty that are behind on their loan repayments.
The decision to adopt such an approach is justified by the absence of time series on bad debts, owing to the type of customer (public entities) in CDP's traditional lending activity.
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.
The identification of impaired positions is carried out on the basis of supervisory instructions using prudent materiality thresholds.

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.

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					856,438			856,438
2. Financial assets available for sale					2,218,829			2,218,829
3. Financial assets held to maturity					2,947,380			2,947,380
4. Loans to banks					9,030,114		150,509	9,180,623
5. Loans to customers	3,035	28,417		5,679	90,290,824			90,327,955
6. Financial assets at fair value								
7. Financial assets being divested							6,221	6,221
8. Hedging derivatives					366,750		216,338	583,088
Total at 31/12/2010	**3,035**	**28,417**	**-**	**5,679**	**105,710,335**	**-**	**373,068**	**106,120,534**
Total at 31/12/2009	**25,538**	**9,709**	**-**	**11,155**	**93,166,750**	**-**	**643,836**	**93,837,426**

(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	856,438	856,438
2. Financial assets available for sale				2,218,829		2,218,829	2,218,829
3. Financial assets held to maturity				2,947,380		2,947,380	2,947,380
4. Loans to banks				9,030,114		9,030,114	9,030,114
5. Loans to customers	96,566	(59,435)	37,131	90,290,824		90,290,824	90,327,955
6. Financial assets at fair value				x	x		
7. Financial assets being divested							
8. Hedging derivatives				x	x	366,750	366,750
Total A	**96,566**	**(59,435)**	**37,131**	**104,487,147**	**-**	**105,710,335**	**105,747,466**
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				150,509		150,509	150,509
5. Loans to customers							
6. Financial assets at fair value				x	x		
7. Financial assets being divested				6,221		6,221	6,221
8. Hedging derivatives				x	x	216,338	216,338
Total B	**-**	**-**	**-**	**156,730**	**-**	**373,068**	**373,068**
Total at 31/12/2010	**96,566**	**(59,435)**	**37,131**	**104,643,877**	**-**	**106,083,403**	**106,120,534**
Total at 31/12/2009	**167,533**	**(121,130)**	**46,402**	**92,467,741**	**-**	**93,791,024**	**93,837,426**

(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	9,030,114	x		9,030,114
TOTAL A	**9,030,114**	**-**	**-**	**9,030,114**
B. OFF-BALANCE-SHEET EXPOSURES				
a) Impaired			x	
b) Other	3,157,302	x		3,157,302
TOTAL B	**3,157,302**	**-**	**-**	**3,157,302**
TOTAL (A+B)	**12,187,416**	**-**	**-**	**12,187,416**

(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	37,294	(33,564)	x	3,730
b) Substandard loans	53,593	(25,176)	x	28,417
c) Restructured positions			x	-
d) Past due positions	5,679		x	5,679
e) Other assets	95,457,033	x		95,457,033
TOTAL A	**95,553,599**	**(58,740)**	**-**	**95,494,859**
B. OFF-BALANCE-SHEET EXPOSURES				
a) Impaired	6,336	(695)	x	5,641
b) Other	11,101,491	x		11,101,491
TOTAL B	**11,107,827**	**(695)**	**-**	**11,107,132**
TOTAL (A+B)	**106,661,426**	**(59,435)**	**-**	**106,601,991**

(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	**121,392**	**34,985**		**11,155**
- of which: exposures assigned but not derecognised				
B. Increases	**3,609**	**22,168**		**5,284**
B.1 transfers from performing positions	1,098	15,563		5,284
B.2 transfers from other categories of impaired positions	2,438	6,331		
B.3 other increases	73	274		
C. Decreases	**(87,707)**	**(3,560)**		**(10,760)**
C.1. to performing loans				(3,967)
C.2. writeoffs				
C.3. collections	(392)	(1,122)		(91)
C.4. assignments	(87,315)			
C.5. transfers to other categories of impaired positions		(2,438)		(6,331)
C.6. other decreases				(371)
D. Closing gross exposure	**37,294**	**53,593**		**5,679**
- 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	**95,855**	**25,276**		
- of which: exposures assigned but not derecognised				
B. Increases	**3,498**			
B.1 writedowns	3,498			
B.2 transfers from other categories of impaired positions				
B.3 other increases				
C. Decreases	**(65,789)**	**(100)**		
C.1 writebacks from valuations	(220)	(100)		
C.2 writebacks from collection	(65,569)			
C.3 writeoffs				
C.4 transfers to other categories of impaired positions				
C.5 other decreases				
D. Total closing adjustments	**33,564**	**25,176**		
- 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	**46,967,758**	**13,322,085**	**4,816,862**	**244**		**30,755**	**39,387,269**	**104,524,973**
B. Derivatives	**699,870**	**445,999**	**76,885**				**434**	**1,223,188**
B.1 Financial derivatives	699,870	445,999	76,885				434	1,223,188
B.2 Credit derivatives								-
C. Guarantees issued							**194,573**	**194,573**
D. Commitments to disburse funds	**2,959,514**	**5,146,369**	**375,344**	**7,572**		**11,148**	**4,346,725**	**12,846,672**
Total	**50,627,142**	**18,914,453**	**5,269,091**	**7,816**	**-**	**41,903**	**43,929,001**	**118,789,406**

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				
						Other derivatives								
		Land and buildings	Securities	Other assets	CLN	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	8,411									8,411				8,411
- of which: impaired														
1.2 partially secured														
- of which: impaired														
2. Secured off-balance-sheet credit exposures:														
2.1 fully secured	1,148,393			1,142,925						5,468				1,148,393
- 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				
						Other derivatives								
		Land and buildings	Securities	Other assets	CLN	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	2,875,220	154,825	63,437	205,394						855,424	326,495	73,756	1,195,889	2,875,220
- of which: impaired	*16,407*									*16,407*				*16,407*
1.2 partially secured	80,001,367			9,086,234										9,086,234
- of which: impaired	*6,070*			*453*										*453*
2. Secured off-balance-sheet credit exposures:														
2.1 fully secured	1,287,624	52,873	151,620	92,730						989,776			625	1,287,624
- of which: impaired	*5,641*									*5,641*				*5,641*
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	3,390	(946)	x		(1,098)	x			x	340	(31,520)	x			x
A.2 Substandard loans			x		(25,061)	x			x			x	28,051	(115)	x	366		x
A.3 Restructured positions			x			x			x			x			x			x
A.4 Past due positions			x	1,040		x			x			x	4,356		x	283		x
A.5 Other	39,334,567	x		48,712,783	x		561,059	x			x		6,809,810	x		38,814	x	
Total A	**39,334,567**	**-**	**-**	**48,717,213**	**(26,007)**	**-**	**561,059**	**(1,098)**	**-**	**-**	**-**	**-**	**6,842,557**	**(31,635)**	**-**	**39,463**	**-**	**-**
B. Off-balance-sheet exposures																		
B.1 Bad debts			x			x		(695)	x			x			x			x
B.2 Substandard loans			x			x			x			x	2,322		x	5		x
B.3 Other impaired assets			x			x			x			x	3,314		x			x
B.4 Other	1,213,204	x		5,718,895	x		102,112	x			x		4,048,984	x		18,296	x	
Total B	**1,213,204**	**-**	**-**	**5,718,895**	**-**	**-**	**102,112**	**(695)**	**-**	**-**	**-**	**-**	**4,054,620**	**-**	**-**	**18,301**	**-**	**-**
Total (A+B) at 31/12/2010	**40,547,771**	**-**	**-**	**54,436,108**	**(26,007)**	**-**	**663,171**	**(1,793)**	**-**	**-**	**-**	**-**	**10,897,177**	**(31,635)**	**-**	**57,764**	**-**	**-**
Total (A+B) at 31/12/2009	**35,613,634**	**-**	**-**	**51,744,165**	**(26,148)**	**-**	**729,699**	**(65,486)**	**-**	**-**	**-**	**-**	**10,517,519**	**(29,496)**	**-**	**74,219**	**-**	**-**

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	3,730	(33,564)								
A.2 Substandard loans	28,417	(25,176)								
A.3 Restructured positions										
A.4 Past due positions	5,679									
A.5 Other	95,450,033		7,000							
Total A	**95,487,859**	**(58,740)**	**7,000**	-	-	-	-	-	-	-
B. Off-balance-sheet exposures										
B.1 Bad debts		(695)								
B.2 Substandard loans	2,327									
B.3 Other impaired assets	3,314									
B.4 Other	11,019,833		81,658							
Total B	**11,025,474**	**(695)**	**81,658**	-	-	-	-	-	-	-
Total (A+B) at 31/12/2010	**106,513,333**	**(59,435)**	**88,658**	-	-	-	-	-	-	-
Total (A+B) at 31/12/2009	**98,525,512**	**(55,644)**	**78,761**	**(65,486)**	**74,964**	-	-	-	-	-

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	7,826,225		1,203,889							
Total	**7,826,225**	**-**	**1,203,889**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Off-balance-sheet exposures										
B.1 Bad debts										
B.2 Substandard loans										
B.3 Other impaired assets										
B.4 Other	2,096,032		1,061,270							
Total	**2,096,032**	**-**	**1,061,270**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) at 31/12/2010	**9,922,257**	**-**	**2,265,159**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) at 31/12/2009	**6,752,690**	**-**	**1,855,459**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

C. SECURITISATIONS AND ASSET DISPOSALS

C.1 SECURITISATIONS

QUALITATIVE DISCLOSURES

At the end of 2002, CDP 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.

As regards securitizations conducted by third parties, the CDP holds a bond issued by the INPS - S.C.C.I. S.p.A. securitisation vehicle.

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:						**22,270**												
a) Impaired																		
b) Other						22,270												
B. With third-party underlying assets:	**200,115**	**200,115**																
a) Impaired																		
b) Other	200,115	200,115																

(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	
	Book value	Writedowns/writebacks	Book value	Writedowns/writebacks	Book value	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					**22,270**													
A.1 CPG - Società di cartolarizzazione a r.l.					22,270													
- Long-term loans																		
B. Partially derecognised																		
B.1 name of securitisation 1																		
- type of asset																		
B.2 name of securitisation 2																		
- type of asset																		
B.3 name of securitisation ..																		
- type of asset																		
C. Not derecognised																		
C.1 name of securitisation 1																		
- type of asset																		
C.2 name of securitisation 2																		
- type of asset																		
C.3 name of securitisation ..																		
- type of asset																		

(thousands of euros)

C.1.3 BANKING GROUP - EXPOSURES IN RESPECT OF MAIN THIRD-PARTY 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	
	Book value	Writedowns/writebacks	Book value	Writedowns/writebacks	Book value	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.1 - S.C.C.I - Social security receivables	200,115																	

(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	31/12/2010	31/12/2009
1. On-balance-sheet exposures			**200,115**		**22,270**	**222,385**	**229,004**
- senior			200,115			200,115	199,116
- mezzanine							
- junior					22,270	22,270	29,888
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.		246,918		102,031						

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".

This instrument limited the exposure to market and refinancing risks, ensuring a closer matching of assets and liabilities (thanks to the relatively long-term maturities of the fixed-rate securities issued), with a consequent reduction of the cost of related hedging transactions. It also gave CDP access to a broad, diversified pool of investors not to be found among traditional subscribers of postal savings products. This form of funding does not benefit from a state guarantee, but its cost is still lower than the cost of any unsecured bonds the company might issue.

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 €2 billion in 2009 and €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.

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, evaluating 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 assesses the impact of interest rate risk on income for shorter horizons using a proprietary dynamic ALM (DALM) system. The system enables the company to simulate, under various market scenarios, the impact of corrective hedging on the exposure to risk and on net interest income within the long-term horizon of the business plan, given the pricing strategies adopted for its products.

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 unit 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. 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 recognised at value in use – 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, 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.

Risk Management also monitors the risk that the performance of CDP might be adversely affected by net fair value differences between the options on stock indices embedded in liabilities and options acquired for hedging purposes.

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.

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 area, 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 regards financial liabilities, in 2005, with a negative exposure to a reduction in interest rates, CDP undertook a programme of hedging interest rate risk (qualified as macro fair value hedges) on a portfolio of ordinary postal savings bonds using roller-coaster IRSs in which CDP received fixed and paid 12-month Euribor plus a spread. At the end of 2009 CDP terminated those hedges early as part of its strategy for managing the overall exposure.

Issues of fixed-rate covered bonds in euros were systematically transformed into floating rates using IRSs at the origination stage. In 2010, part of these hedges reached expiry.

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.
Following the renegotiation of fixed-rate loans at the end of 2010, part of the hedges on fixed-rate assets were terminated in advance, with a positive impact in terms of ALM, given CDP's exposure profile in respect of the buckets involved.

The price risk associated with issues 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 for blue-collar and office worker households, 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 2010, CDP had these outstanding cash flow hedges in place, in addition to 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.

QUANTITATIVE DISCLOSURES

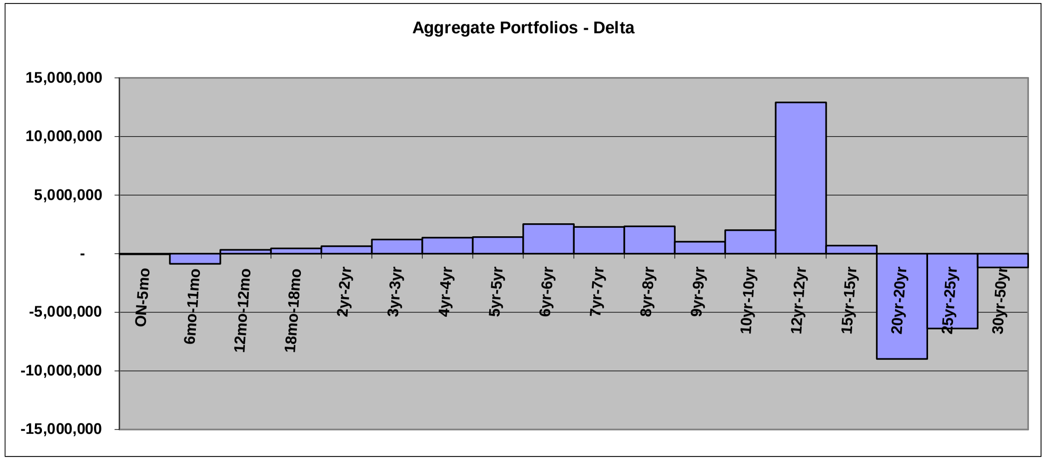
1. Banking book: distribution of financial assets and liabilities by residual maturity (repricing date)

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

Sensitivity to euro zero-coupon rates by maturity

Market data at 31 December 2010

RiskFactors	Delta
ON-5mo	- 44,216
6mo-11mo	- 869,640
12mo-12mo	332,993
18mo-18mo	443,118
2yr-2yr	634,182
3yr-3yr	1,210,704
4yr-4yr	1,372,788
5yr-5yr	1,414,469
6yr-6yr	2,534,390
7yr-7yr	2,277,366
8yr-8yr	2,336,080
9yr-9yr	1,022,006
10yr-10yr	1,998,368
12yr-12yr	12,907,956
15yr-15yr	697,157
20yr-20yr	- 8,980,565
25yr-25yr	- 6,390,309
30yr-50yr	- 1,178,762



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.
In 2010 CDP accrued a temporary exposure in dollars associated with the deferred payment of a part of the dividends of STMicroelectronics Holding N.V.

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	**280,523**		**214,866**			
C.1 Due to banks						
C.2 Due to customers						
C.3 Debt securities	280,523		214,866			
C.4 Other financial liabilities						
D. Other liabilities						
E. Financial derivatives:						
- Options						
+ long positions	280,523		214,866			
+ short positions						
- Other derivatives						
+ long positions						
+ short positions						
Total assets	**280,523**		**214,866**			
Total liabilities	**280,523**		**214,866**			
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

	31/12/2010		31/12/2009	
	Over the counter	Other	Over the counter	Other
1. Debt securities and interest rates	20,794,339		24,390,885	
a) Options				
b) Swaps	20,794,339		24,390,885	
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	493,247		434,000	
a) Options				
b) Swaps				
c) Forwards				
d) Futures				
e) Other	493,247		434,000	
4. Commodities				
5. Other underlyings				
Total	**21,287,586**		**24,824,885**	
Average values	**23,056,236**		**29,460,714**	

(thousands of euros)

A.2.2 OTHER DERIVATIVES

	31/12/2010		31/12/2009	
	Over the counter	Other	Over the counter	Other
1. Debt securities and interest rates	2,619,413		1,320,434	
a) Options				
b) Swaps	2,619,413		1,320,434	
c) Forwards				
d) Futures				
e) Other				
2. Equity securities and equity indices	90,568,592		71,423,822	
a) Options	90,568,592		71,423,822	
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	**93,188,005**		**72,744,256**	
Average values	**82,966,131**		**56,985,801**	

(thousands of euros)

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

	Positive fair value			
	Total 31/12/2010		Total 31/12/2009	
	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	366,750		331,603	
a) Options				
b) Interest rate swaps	289,932		310,685	
c) Cross currency swaps	76,818		20,918	
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
C. Banking book - other derivatives	856,438		868,511	
a) Options	841,622		851,685	
b) Interest rate swaps	14,816		16,826	
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
Total	**1,223,188**		**1,200,114**	

(thousands of euros)

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

	Negative fair vlue			
	Total 31/12/2010		Total 31/12/2009	
	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	1,175,799		825,663	
a) Options				
b) Interest rate swaps	1,175,799		825,385	
c) Cross currency swaps			278	
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
C. Banking book - other derivatives	940,034		784,205	
a) Options	761,877		784,205	
b) Interest rate swaps	178,157			
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
Total	**2,115,833**		**1,609,868**	

(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							42,856,992
- positive fair value							
- negative fair value							761,876
- 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			19,950,205	3,463,547			
- positive fair value			200,615	104,132			
- negative fair value			1,201,597	152,359			
2) Equity securities and equity indices							
- notional value			47,323,600	388,000			
- positive fair value			823,902	17,720			
- negative fair value							
3) Foreign currencies and gold							
- notional value			493,247				
- positive fair value			76,818				
- 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	**9,541,776**	**79,744,785**	**25,189,030**	**114,475,591**
B.1 Financial derivatives on debt securities and interest rates	626,279	8,978,301	13,809,172	23,413,752
B.2 Financial derivatives on equity securities and equity indices	8,915,497	70,365,276	11,287,819	90,568,592
B.3 Financial derivatives on exchange rates and gold		401,208	92,039	493,247
B.4 Financial derivatives on other assets				
Total 31/12/2010	**9,541,776**	**79,744,785**	**25,189,030**	**114,475,591**
Total 31/12/2009	**6,135,709**	**55,649,681**	**24,541,703**	**86,327,093**

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			1,101,336	121,852			
- negative fair value			1,201,597	152,360			
- future exposure			522,549	34,160			
- net counterparty risk			496,032	66,948			
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.

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, 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.

Current management of treasury activities by Finance enables CDP to raise funds on the interbank market as well, using deposits and repos, for both the Separate and Ordinary Accounts.
The CDP Risk Policy approved in 2010 sets separate global liquidity limits for the two Accounts.

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	**132,436**		**531**	**219,366**	**65,446**	**3,860,118**	**4,659,437**	**19,363,199**	**67,586,248**	**59,567**
A.1 Government securities					37,175	180,679	410,724	1,493,993	2,791,971	
A.2 Other debt securities			531	205,311	3,039	49,790	105,254	270,393	1,081,237	
A.3 Units in collective investment undertakings										59,567
A.4 Loans	132,436			14,055	25,232	3,629,649	4,143,459	17,598,813	63,713,040	
- banks						214,353	342,796	3,741,158	2,206,410	
- customers	132,436			14,055	25,232	3,415,296	3,800,663	13,857,655	61,506,629	
On-balance-sheet liabilities	**216,969,186**	**712,111**	**896,295**	**3,201,928**	**694,698**	**356,944**	**328,305**	**7,120,163**	**1,471,142**	
B.1 Deposits and current accounts	107,102,153	712,111	895,279	2,882,533	587,688	339,378	317,332	178,962	1,122,603	
- banks	184,033	712,111	895,279	2,812,103	587,688	339,378	317,332	178,962	1,122,603	
- customers	106,918,120			70,430						
B.2 Debt securities			1,016	319,395	107,010	17,566	10,973	6,941,202	348,539	
B.3 Other liabilities	109,867,033									
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal										
- long positions										
-short positions				3,590		2,195	1,476	415,695		
C.2 Financial derivatives without exchange of principal										
- long positions	841,622			134,973	1,146	22,520	38,072			
-short positions	761,876		831			254,816	419,962			
C.3 Deposits and loans to receive										
- long positions										
-short positions										
C.4 Irrevocabile commitments to disburse funds										
- long positions									14,610,899	
-short positions	14,610,899									
C.5 Financial guarantees issued										

(thousands of euros)

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

	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				**2,270**			**556**			
B.1 Deposits and current accounts										
- banks										
- customers										
B.2 Debt securities				2,270			556	211,689		
B.3 Other liabilities										
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal										
- long positions				2,270			556	211,689		
-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										

(thousands of euros)

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

	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					**635**	**432**	**859**	**281,769**		
B.1 Deposits and current accounts										
- banks										
- customers										
B.2 Debt securities					635	432	859	281,769		
B.3 Other liabilities										
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal										
- long positions					635	432	859	281,769		
-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 launched a project for the assessment and mitigation of the operational risks associated with its activities, in which Risk Management is responsible for the analysis, design and implementation of the methodological and organisational framework.
Risk Management is also responsible for developing a plan to map the risks faced by the various units, with a view to identifying the areas potentially most exposed to the risk of material operational losses.

In both its derivatives transactions and traditional funding and lending business CDP is exposed to model risk, i.e. the possibility that the model used to quantify the market risks associated with the execution of transactions is inappropriate. This risk has a number of sources:

- input data (market, identification information, position), which could be inaccurate;
- estimation of the parameters underlying historical data;
- model choice;
- implementation in source code.

CDP has adopted a number of solutions to reduce the impact of model risk:

- periodic integrity checks with the departments/divisions providing the data;
- redundant providers and control algorithms for market data;
- use of alternative models for benchmarking and testing purposes;
- extensive testing of new models;
- detailed documentation of processes, models and codes.

In 2007 and 2008, CDP reviewed internal procedures as part of the “Manager responsible for preparing corporate financial reports” project. The most significant sources of risk, mitigation and control measures and related documentation were all identified.

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 2010 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 S.p.A. adopts 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 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 and interest rate collars.
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.
Interest rate collars are used to lower the impact of the volatility of interest rates on the cost of the debt. They are considered appropriate in times of uncertainty about future developments in interest rates.

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 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 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 2010 (as at 31 December 2009), 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 2010 Terna had €1,000 million in medium-term credit lines and €736 million in short-term credit lines. Such amount is sufficient to refinance the debt falling due (€59.7 million).

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 AEEG.

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 2010, 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 31/12/2010	Carrying amount 31/12/2009	Change
Fixed-rate financial instruments			
- assets	-	-	-
- liabilities	2,775	2,726	49
Floating-rate financial instruments			
- assets	350	623	(273)
- liabilities	2,552	1,655	897
Total	**4,977**	**3,758**	**1,219**

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 31/12/2010	current rates -10%	current rates +10%	rates at 31/12/2010	current rates -10%
31/12/2010						
Positions sensitive to interest rate variations (FVH, bonds, CFH)	3	2	2	(45)	(47)	(50)
Hypothetical change	*1*	-	*(1)*	*3*	-	*(3)*
31/12/2009						
Positions sensitive to interest rate variations (FVH, bonds, CFH)	2	1	1	(77)	(83)	(88)
Hypothetical change	*0*	-	*(0)*	*6*	-	*(6)*

Credit risk

Terna's credit exposure is as follows:

(millions of euros)

	Carrying amount 31/12/2010	Carrying amount 31/12/2009	Change
FVH derivatives	200	123	77
Cash and cash equivalents	150	0	150
Trade receivables	1,496	1,177	319
Total	**1,846**	**1,300**	**546**

The total value of the exposure to credit rate risk at 31 December 2010 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 31/12/2010	Carrying amount 31/12/2009
Italy	1,483	1,166
Euro-area countries	9	10
Other countries	4	1
Total	**1,496**	**1,177**

Customer type

(millions of euros)

	Carrying amount 31/12/2010	**Carrying amount 31/12/2009**
Distributors (*)	244	209
Electricity Equalisation Fund (**)	72	89
Input dispatching contractors	310	381
Withdrawal dispatching contractors (non distributors)	766	455
Virtual import contractors and virtual import service (interconnectors and shippers)	35	-
Receivables from unregulated activities	69	43
Total	**1,496**	**1,177**

(*) Includes receivable accrued in respect of TELAT grid transmission fees
(**) Of which €45.1 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)

	31/12/2010		**31/12/2009**	
	Impairment	**Gross**	**Impairment**	**Gross**
Not yet past due	-	1,431	(2)	1,134
0-30 days past due	-	39	-	19
31-120 days past due	-	4	(1)	16
More than 120 days past due	(24)	46	(24)	36
Total	**(24)**	**1,519**	**(27)**	**1,204**

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

(millions of euros)

	31/12/2010	31/12/2009
Balance at 1 January	(26)	(12)
Reversal of provision	3	-
Impairment for the year	-	(15)
Balance	**(23)**	**(27)**

The value of guarantees received from eligible electricity market customers is illustrated below:

(millions of euros)

	31/12/2010	31/12/2009
Input dispatching activity	220	251
Withdrawal dispatching activity	831	851
Grid transmission fees - distributors	174	172
Virtual imports	338	-
Balance	**1,563**	**1,275**

PART G - BUSINESS COMBINATIONS

SECTION 1 – OPERATIONS CARRIED OUT DURING THE YEAR

1.1 BUSINESS COMBINATIONS

The following business combinations were carried out by the Terna Group during the year:

(millions of euros)

1.1 BUSINESS COMBINATIONS

	Transaction date	(1)	(2)	(3)	(4)
1. Retrasm (Rete Trasmissione Brescia)(*)	05/08/2010	28	100%	5	1
2. Reno Solar (**)	22/07/2010	9	100%	-	-
3. Valmontone Energia (***)	25/10/2010	0	99%	-	-

Key
(1) = Cost of operation
(2) = Percentage holding acquired with voting rights in shareholders' meeting
(3) = Total Group revenues
(4) = Net income (loss) pertaining to the Group

(*) The company was merged into TELAT on 22 September 2010, with accounting and tax effects as from the acquisition date. Accordingly, the values reported in columns (3) and (4) are reported up to the acquisition date.

(**) The company was merged into RTR S.r.l. on 23 December 2010, with effect as from 28 December 2010. The accounting and tax effects are retroactive to January 2010 (the date the company was formed).

(***) The company was acquired by RTR; it did not generated revenues in 2010.

Acquisition of Reti Trasmissione Energia Elettrica S.r.l. (Retrasm)

On 5 August 2010, in accordance with the purchase contract signed on 22 December 2009 and following approval by the antitrust authorities, Terna S.p.A. and TELAT S.r.l. finalised the purchase of the entire share capital of Reti Trasmissione Energia Elettrica ASM S.r.l. ("Retrasm") from A2A S.p.A. The completion of the acquisition occurred after the transfer to Retrasm – by way of the partial demerger of A2A Reti Elettriche S.p.A. (A2A Reti Elettriche), a wholly owned subsidiary of A2A – of the high-voltage lines (classified as distribution lines) owned by A2A Reti Elettriche S.p.A. The assets transferred included 108 kilometres of power lines and the bays related to these lines, included as part of the NTG with the Decree of the Minister for Economic Development on 26 April 2010.

The price paid at closing for the entire share capital of Retrasm amounted to €28 million.

Retrasm, renamed "Rete Trasmissione Brescia S.r.l.", owned a portion of the NTG totalling approximately 288 kilometres of lines and the related bays and a 220/130 kV electrical station.

On 10 November 2010 the merger of Rete di Trasmissione Brescia S.r.l. into TELAT S.r.l. took effect, as approved on 22 September 2010 by the company's board of directors. The accounting and tax effects of the transaction are retroactive to the date of the acquisition of the merged company, namely 5 August 2010.

The following table reports the amount recognised at the acquisition date, corresponding to the assets and liabilities of the company measured at their fair value at that date, as well as their IFRS-compliant carrying amounts immediately prior to the business combination.

The difference, equal to €6 million, between the price paid for Retrasm, equal to about €28 million, and the fair value of the assets and liabilities acquired and assumed, equal to about €34 million, has been recognised as income from a bargain purchase under other revenues and income for the Group.

(thousands of euros)

	IFRS carrying amounts before the business combination	Fair value
Non-current assets	***34,568***	***43,357***
Property, plant and equipment	34,561	43,350
Deferred tax assets	4	4
Other non-current assets	3	3
Current assets	***3,385***	***3,385***
Trade receivables	2,649	2,649
Other current assets	736	736
TOTAL ASSETS	**37,953**	**46,742**
Non-current liabilities	***3,841***	***6,601***
Long-term loans	3,656	3,656
Employee benefits	55	55
Deferred tax liabilities	-	2,760
Non-current financial liabilities	130	130
Current liabilities	***6,085***	***6,085***
Short-term borrowing	3,215	3,215
Current portion of long-term loans	1,001	1,001
Trade payables	1,524	1,524
Tax liabilities	270	270
Other current liabilities	75	75
TOTAL LIABILITIES	**9,926**	**12,686**
Net identifiable assets and liabilities	**28,027**	**34,056**
Gain from acquisition on favourable terms		(6,044)
Price	**28,012**	**28,012**

The revenues of Rete di Trasmissione Brescia up until the date of acquisition, measured on the basis of the IFRSs, amounted to €4.7 million, while at the same date the company posted net income of €0.8 million.

The measurement of the fair values of the acquired assets and liabilities resulted in the following amounts being recognised:

- property, plant and equipment in the amount of €8.8 million;
- deferred tax liabilities in the amount of €2.8 million.

Compensation for the acquisition operation was, on the other hand, defined in a manner which is substantially equal to the net carrying amount of the acquired equity.

Acquisition of Reno Solar

On 22 July 2010, as part of the Solar Energy Project, Terna S.p.A. finalised the purchase – through Rete Rinnovabile S.r.l. (RTR), a subsidiary of Terna S.p.A. through SunTergrid S.p.A. – of the entire share capital of Reno Solar S.r.l. ("Reno Solar") from Tre S.p.A. Tozzi Renewable Energy.

The amount paid for the company was € 8.8 million.

Reno Solar is the owner of the project for the construction and operation of a solar energy plant with a capacity of approximately 35 MWp and the associated infrastructure for connection to the NTG in the Town of Alfonsine (RA).

On 23 December 2010, the instrument of merger of Reno Solar S.r.l. into RTR S.r.l. was signed, with effect from 28 December 2010. The merger did not result in any change in the share capital of the surviving company nor any share exchange ratio or any cash adjustment payment. The accounting and tax effects of the merger of Reno Solar are effective retroactively to January 2010 (i.e. the date the company was founded).

The following table reports the amount recognised at the acquisition date, corresponding to the assets and liabilities of the company measured at their fair value at that date, as well as their IFRS-compliant carrying amounts immediately prior to the business combination.

The difference, equal to €1.3 million, between the price paid for Reno Solar, equal to €8.8 million, and the fair value of the assets and liabilities acquired and assumed, equal to about €7.5 million, has been recognised as goodwill.

(thousands of euros)

	IFRS carrying amounts before the business combination	Fair value
Non-current assets	***4,718***	***8,731***
Property, plant and equipment	4,718	8,731
Current assets	19	19
Other current assets	19	19
TOTAL ASSETS	**4,737**	**8,750**
Non-current liabilities		***1,260***
Deferred tax liabilities		1,260
TOTAL LIABILITIES		**1,260**
Net identifiable assets and liabilities	**4,737**	**7,490**
Goodwill from acquisition		1,260
Price	**8,750**	**8,750**

The measurement of the fair values of the acquired assets and liabilities resulted in the following amounts being recognised:

- property, plant and equipment in the amount of €4.0 million;
- deferred tax liabilities in the amount of €1.3 million.

Acquisition of Valmontone Energia

On 25 October 2010, RTR completed the acquisition of the shares representing 98.5% of the share capital of Valmontone Energia S.r.l. from Troiani & Ciarrocchi S.r.l. and C.I.EL. S.p.A.

The sellers, as the temporary business grouping that won the tender for the building lease to realise solar power plants on land owned by the Town of Valmontone, founded the company Valmontone Energia S.r.l. on 1 October as set out in the related concession agreement. The corporate purpose of the company is to design, build and operate a solar power network.

Valmontone Energia S.r.l. is the owner of the project for the construction and operation of a solar energy plant of approximately 7 MWp and the related infrastructure for connection to the medium-voltage grid in the Town of Valmontone (RM).

The price paid was equal to €0.3 million, corresponding to 98.5% of the previously paid-in shares (25% of share capital), and €0.8 million directly to the company for payment still due for the share capital subscribed by RTR.

On 8 November 2010, the shareholders Troiani & Ciarrocchi S.r.l. and C.I.EL S.p.A. also completed the outstanding capital payments (equal to 1.5% of share capital). Troiani & Ciarocchi and C.I.EL. granted RTR the irrevocable right to purchase the entire residual interest held by them in the company's capital, which can be exercised after commissioning and testing of the solar power plants.

(thousands of euros)

	IFRS carrying amounts before the business combination	Fair value
Non-current assets	***5***	***5***
Intangible assets	5	5
Current assets	***1,136***	***1,136***
Cash and cash equivalents	284	284
Other current assets	852	852
TOTAL ASSETS	**1,141**	**1,141**
Current liabilities	***6***	***6***
Other current liabilities	6	6
TOTAL LIABILITIES	**6**	**6**
Net identifiable assets and liabilities	**1,135**	**1,135**
Minority interests	17	17
Price	**1,118**	**1,118**

In the period between its establishment and 31 December 2010 the company did not recognise any revenues. Its contribution to the consolidated figures at 31 December 2010 is therefore nil.

PART H – TRANSACTIONS WITH RELATED PARTIES

1. Information on the compensation of key management personnel – Banking group

(thousands of euros)

REMUNERATION OF BOARD OF DIRECTORS AND BOARD OF AUDITORS

	31/12/2010
a) Board of Directors	2,275
b) Board of Auditors	116
Total	**2,391**

Compensation of directors includes the termination indemnity paid to the previous Chief Executive Officer since he was not reappointed.

(thousands of euros)

REMUNERATION OF OTHER KEY MANAGEMENT PERSONNEL

	31/12/2010
(a) short-term benefits	3,416
(b) post-employment benefits	200
(c) other long-term benefits	-
(d) severance benefits	33
(e) share-based payments	-
Total	**3,648**

(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	01/01/10-30/06/10	2012	314
Giovanni Gorno Tempini	Chief Executive Officer	28/04/10-31/12/10	2012	519
Massimo Varazzani	Chief Executive Officer	01/01/10-28/04/10	2009	1,353
Cristian Chizzoli	Director	28/04/10-31/12/10	2012	24
Cristiana Coppola	Director	28/04/10-31/12/10	2012	24
Piero Gastaldo	Director	28/04/10-31/12/10	2012	(***)
Ettore Gotti Tedeschi	Director	01/01/10-31/12/10	2012	35
Vittorio Grilli	Director	01/01/10-31/12/10	2012	(**)
Nunzio Guglielmino	Director	01/01/10-31/12/10	2012	35
Mario Nuzzo	Director	28/04/10-31/12/10	2012	24
Francesco Giovannucci	Director	01/01/10-28/04/10	2009	11
Fiorenzo Tasso	Director	01/01/10-28/04/10	2009	11
Luisa Torchia	Director	01/01/10-28/04/10	2009	11
Gianfranco Viesti	Director	01/01/10-28/04/10	2009	11
Supplementary members for administration of Separate Account (Article 5.8, Decree Law 269/03)				
Giovanni De Simone	Director (1)	28/04/10-31/12/10	2012	24
Edoardo Grisolia	Director (1)	01/01/10-28/04/10	2009	(**)
Maria Cannata	Director (2)	01/01/10-31/12/10	2012	(**)
Giuseppe Pericu	Director	05/05/10-31/12/10	2012	23
	Director	01/01/10-28/04/10	2009	11
Romano Colozzi	Director	03/06/10-31/12/10	2012	20
Guido Podestà	Director	05/05/10-31/12/10	2012	23
Isaia Sales	Director	01/01/10-28/04/10	2009	11
Francesco Scalia	Director	01/01/10-28/04/10	2009	11
Board of Auditors				
Angelo Provasoli	Chairman	28/04/10-31/12/10	2012	18
Alberto Sabatini	Chairman	01/01/10-28/04/10	2009	9
Paolo Fumagalli	Auditor	28/04/10-31/12/10	2012	13
Biagio Mazzotta	Auditor	01/01/10-31/12/10	2012	(**)
Gianfranco Romanelli	Auditor	28/04/10-31/12/10	2012	13
Giuseppe Vincenzo Suppa	Auditor	28/04/10-31/12/10	2012	(**)
Antonio Angelo Arru	Auditor	01/01/10-28/04/10	2009	7
Mario Basili	Auditor	01/01/10-28/04/10	2009	7
Francesco Bilotti	Auditor	31/03/10-28/04/10	2009	2
Fabio Alberto Roversi Monaco	Auditor	01/01/10-25/03/10	2009	5

(*) 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

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 2010 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	31/12/2010
Cash and cash equivalents	123,751,207
Financial assets available for sale	2,011,443
Financial assets held to maturity	2,947,380
Loans to customers	34,375,744
Other assets	17,132
Due to customers	3,281,262
Other liabilities	58
Interest income and similar revenues	3,949,150
Interest expense and similar charges	(36,442)
Commission income	3,012
Commitments in respect of loans to disburse	1,213,204

Transactions with associates

Transactions with Eni S.p.A.

The only transaction outstanding with Eni regards a loan from CDP under the Revolving Fund to support enterprises and investment in research.

The impact of that transaction on the CDP's financial statements is summarised below:

(thousands of euros)

Eni S.p.A.	31/12/2010
Loans to customers	840
Interest income and similar revenues	3

Transactions with Europrogetti & Finanza S.p.A. in liquidazione

During the year CDP signed a commitment to grant financing of up to about €1.8 million, of which about €1.1 million had been disbursed as at the end of 2010. 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)

Europrogetti & Finanza S.p.A. in liquidazione	**31/12/2010**
Loans to customers	-
Impairment adjustments on financial assets	(1,793)
Commitments in respect of loans to disburse	695

Transactions with Poste Italiane S.p.A.

Transactions with Poste Italiane S.p.A. include the placement and management service for postal savings products, loans granted by CDP and current account transactions.

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.	**31/12/2010**
Loans to customers	622,202
Other liabilities	822,000
Interest income and similar revenues	26,430
Commission expense	(1,557,000)
of which: subject to amortisation	(834,787)

3. Information on transactions with related parties – Other entities

Transactions with related parties carried out by the Terna Group during the year comprise:

- for continuing operations: transactions with the associate Cesi S.p.A., with the employee pension funds (Fondenel and Fopen) and with companies belonging to the GSE Group, the Enel Group, the Eni Group, the Ferrovie dello Stato Group and Anas S.p.A.;
- for assets held for sale: transactions connected with photovoltaic business with Cesi S.p.A., GSE S.p.A. and the companies of the Enel Group.

Transactions with related parties during 2010 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 2010:

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* Remuneration of the grid and MIS component, energy sale, rights of withdrawal, rights of use of transport capacity for interconnection *non-energy related items* Specialist services (remote console), leases, IT services	*energy-related items* Purchase of energy, rights of use of the transport capacity for interconnection
Enel Group	*energy-related items* Remuneration of National Transmission Grid and metering aggregation, energy sales, rights of withdrawal, coverage of transmission costs, rights of use of transport capacity for interconnection *non-energy related items* Leases and rents, line maintenance, housing of optical fibre on own lines, contributions for line operations	*energy-related items* Metering aggregation, energy purchases, rights of use of transport capacity for interconnection, coverage of congestion costs, congestion fees *non-energy related items* Restitution of electricity discount, facility services, supply of MV power to new stations, specialised services for connection to Terna control and protection systems, technical services and plant reorganisation
Eni Group	*energy-related items* Rights of withdrawal, energy sales, rights for use of transport capacity for interconnection, cover of transmission costs, remuneration of grid *non-energy related items* Line operations and maintenance	*energy-related items* Energy purchase, cover of congestion costs, National Transmission Grid remuneration
Ferrovie Group	*energy-related items* National Transmission Grid remuneration *non-energy related items* Line moving, connection fees	*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, connection fees	
Fondenel and Fopen		*non-energy related items* Social security contributions payable by Terna Group
Assets held for sale		
Cesi S.p.A.		*non-energy related items* Specialised support services for installation of photovoltaic plants
GSE Group	*non-energy related items* Dedicated withdrawal of power from photovoltaic plants, incentive mechanism for photovoltaic generation	
Enel Group		*non-energy related items* Connecting of photovoltaic plants to MV grid, line operations

(millions 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
Continuing operations						
Associates:						
Cesi S.p.A.			0			3
Total associates			**0**			**3**
Other related parties:						
GSE Group	15	1,079	2		475	
Enel Group	1,149	752	5	6	1,236	7
Eni Group	2	197	1		145	0
Ferrovie Group	1	34	0	7	3	0
Anas S.p.A.						
Total other related parties	**1,167**	**2,062**	**8**	**13**	**1,859**	**7**
Pension funds:						
Fondenel						0
Fopen						2
Total pension funds						**2**
Total continuing operations	**1,167**	**2,062**	**8**	**13**	**1,859**	**12**
Assets held for sale						
Associates:						
Cesi S.p.A.						
Total associates						
Other related parties:						
GSE Group						
Enel Group						
Total other related parties						
Total assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**

(millions of euros)

	Balance sheet			Guarantees
	Property, plant and equipment Capitalised costs	Receivables and other assets	Payables and other liabilities	
Associates:				
Cesi S.p.A.	19		5	4
Total associates	**19**		**5**	**4**
Other related parties:				
GSE Group		16	2	
Enel Group	20	135	43	435
Eni Group		2	11	30
Ferrovie Group		1	1	22
Anas S.p.A.		1	1	
Total other related parties	**20**	**155**	**58**	**487**
Pension funds:				
Fondenel				
Fopen			1	
Total pension funds			**1**	
Total continuing operations	**39**	**155**	**64**	**491**
Assets held for sale				
Associates:				
Cesi S.p.A.	**1**			
Total associates	**1**			
Other related parties:				
GSE Group		**1**		
Enel Group	0		0	
Total other related parties	**0**	**1**	**0**	
Total assets held for sale	**1**	**1**	**0**	**-**

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 Group managers holding the most important roles in terms of achieving the Group's strategic targets.
This plan is aimed at giving the Terna Group – in line with international best practice and that of the leading publicly listed Italian companies – 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.

The features of the 2006 stock option plan are outlined below.

Rules governing the 2006 stock option plan (approved on 21 December 2005)

The plan provides for the distribution of a maximum of 10,000,000 options to about 20 Terna managers holding the most important positions in terms of achieving the company's strategic targets, including the CEO, as a senior manager of the company.

Under the approved rules governing the stock option plan:

1. the strike price of each share shall be the arithmetic mean of the reference price of Terna ordinary shares observed on the electronic stock exchange operated by Borsa Italiana S.p.A. in the period between the date of the offer and the same day of the previous calendar month;
2. the exercise of the options and, consequently, the right to subscribe newly-issued Terna ordinary shares depends on achieving two performance parameters. In particular:

   (a) Terna EBITDA for the grant year (2006) must be greater than that established in the budget approved by the board of directors;

(b) the 2006 performance of each beneficiary must be positively assessed by the CEO, with a provision for a 50% reduction in the options that the individual beneficiary can exercise should this second condition not be met;

3. if the exercise conditions are met, individual beneficiaries can exercise their options by 31 March 2010 up to the following maximum quantities:

   - up to 30% of vested options, beginning from the date specified in the notice announcing that the exercise conditions have been met;
   - up to 60% of vested options, beginning from the first day of the first calendar year subsequent to that in which the notice announcing that the exercise conditions have been met is issued;
   - up to 100% of vested options, beginning from the first day of the second calendar year subsequent to the year in which the notice announcing that the exercise conditions have been met is issued.

On 22 April 2009, the extraordinary shareholders' meeting voted to extend the time limit for exercising the options under the stock option plan by three years until 31 March 2013, and to amend Article 5 of the bylaws.

Options can be exercised only on a stock exchange trading day during the last 10 days of each month. However, options cannot in any case be exercised in the following days:

- in the period between the third-to-last trading day and the last trading day before the ex-dividend date;
- in the period between the date scheduled for the approval of the financial statements by the board of directors and the same day of the previous month;
- in the period between the date scheduled for the approval of the half-year report by the board of directors and the same day of the previous month.

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.
At 31 December 2010 the options granted under the plan were as follows:

1. CHANGE FOR THE YEAR

	Banking group			Other entities			Total 31/12/2010			Total 31/12/2009		
	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				**9,083,200**			**9,083,200**			**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	3,486,900		x	3,486,900		x			x
C.3 Lapsed			x			x			x			x
C.4 Other changes			x			x			x			x
D. Closing balance				**5,596,300**			**5,596,300**			**9,083,200**		
E. Options vested at year-end			x	**5,596,300**		x	**5,596,300**		x	**9,083,200**		x

The average weighted price of the shares at the exercise date was equal to (source: Bloomberg):

- €3.226 at 22 March 2010;
- €3.226 at 23 March 2010;
- €3.218 at 24 March 2010;
- €3.224 at 29 March 2010;
- €3.216 at 31 March 2010;
- €3.048 at 30 April 2010;
- €3.062 at 31 May 2010;
- €3.061 at 21 June 2010;
- €3.292 at 29 October 2010.

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 and CDPI SGR) and non-financial operations (Terna Group).

In view of the different nature of the business of CDP and CDPI SGR, on the one hand, and the Terna Group, on the other, as well as the limited significance of reclassifying the Terna Group financial statements 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 vision of the Group but rather on an assessment of the contribution of the individual components.

Accordingly, the reclassified balance sheet and income statement at 31 December 2010 have been constructed on the basis of the respective separate financial statements (for CDP and CDPI SGR) or consolidated financial statements (Terna Group), reporting the effects of consolidation by CDP under eliminations and adjustments.

Balance sheet

Balance sheet at 31 December 2010

(thousands of euros)

	Financial operations	Non-financial operations	Eliminations / Adjustments	Total CDP Group
Cash and cash equivalents	127,893,985	156,335	-	128,050,320
Loans to customers and banks	91,954,155	-	-	91,954,155
Debt securities	5,464,408	-	-	5,464,408
Equity investments and shares	18,652,027	24,087	(1,332,466)	17,343,649
Assets held for trading and hedging derivatives	1,223,188	216,338	-	1,439,526
Property, plant and equipment and intangible assets	204,787	8,274,653	2,294,919	10,774,359
Accrued income, prepaid expenses and other non-interest-bearing assets	2,965,360	509	(2,420)	2,963,449
Other assets	829,024	2,118,763	(640)	2,947,147
Total assets	**249,186,934**	**10,790,685**	**959,393**	**260,937,011**
Funding	230,831,795	5,081,824	-	235,913,620
- of which: postal funding	*207,323,634*	-	-	*207,323,634*
- of which: funding from banks	*7,122,033*	*2,552,056*	-	*9,674,088*
- of which: funding from customers	*9,121,280*	-	-	*9,121,280*
- of which: funding from bonds	*7,264,849*	*2,529,769*	-	*9,794,618*
Liabilities held for trading and hedging derivatives	2,179,515	56,721	-	2,236,236
Accrued expenses, deferred income and other non-interest-bearing liabilities	729,678	229,173	-	958,850
Other liabilities	1,229,733	1,952,171	(2,660)	3,179,244
Provisions for contingencies, taxes and staff severance pay	487,486	710,027	651,206	1,848,718
Equity	13,728,727	2,760,769	310,847	16,800,343
Total liabilities and equity	**249,186,934**	**10,790,685**	**959,393**	**260,937,011**

Income statement

Income statement at 31 December 2010

(thousands of euros)

	Financial operations	Non-financial operations	Eliminations / Adjustments	Total CDP Group
Net interest income	**1,659,369**	**(93,810)**	**-**	**1,565,559**
Dividends	1,134,585	-	(323,624)	810,961
Net commission income	**(706,860)**	**(2,831)**	**50**	**(709,641)**
Other net revenues	213,304	(3,612)	0	209,693
Gross income	**2,300,398**	**(100,252)**	**(323,574)**	**1,876,572**
Net writedowns	(3,791)	-	-	(3,791)
Overheads	(88,016)	(770,811)	(44,955)	(903,781)
of which: administrative expenses	*(79,204)*	*(410,090)*	*145*	*(489,149)*
Operating income	**2,219,448**	**1,071,341**	**(323,574)**	**2,967,214**
Net income (loss)	**2,743,061**	**613,554**	**(605,939)**	**2,750,676**
Net income (loss) for the year pertaining to minority interests				**406,648**
Net income (loss) for the year pertaining to shareholders of the parent company				**2,344,029**