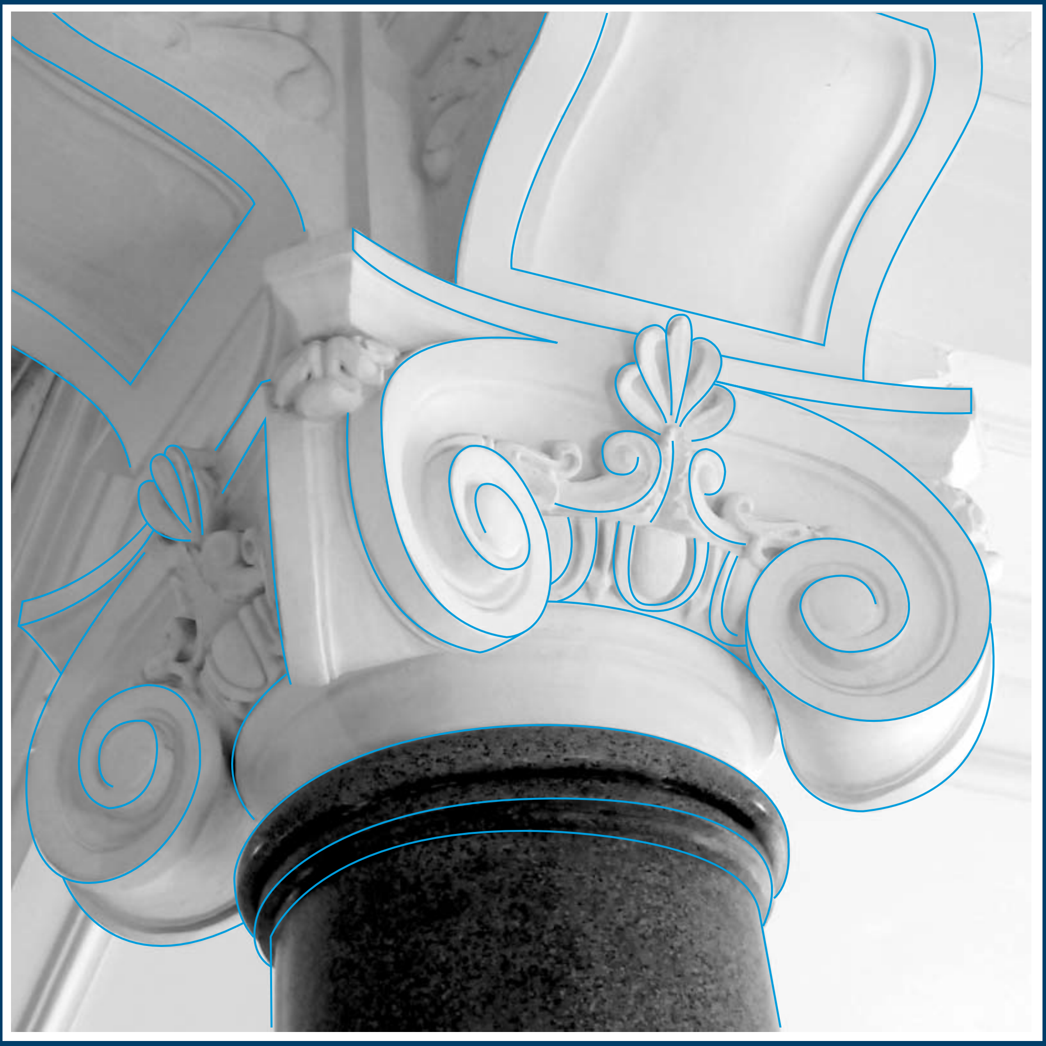
Cassa depositi e prestiti



CDP GROUP
Consolidated Interim Financial Report
at 30 June 2011

Cassa depositi e prestiti

(Translation from the Italian original)

Consolidated interim financial report at 30 June 2011

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

CONTENTS

INTERIM REPORT
ON
GROUP OPERATIONS

CONTENTS OF THE INTERIM 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 de iure 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 30 June 2011, the CDP Group is composed of the parent company CDP S.p.A., CDPI SGR S.p.A., Terna S.p.A. and their respective subsidiaries and associates.

PARENT COMPANY

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

CONSOLIDATED COMPANIES

	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.	29.85%	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
Terna Crna Gora	Podgorica	Terna S.p.A.	100.00%	line-by-line
Rete Solare S.r.l. (RTS)	Rome	SunTergrid S.p.A.	100.00%	line-by-line
Nuova Rete Solare S.r.l.	Rome	SunTergrid S.p.A.	100.00%	line-by-line
Reno Solar 2 S.r.l.	Rome	Nuova Rete Solare S.r.l.	100.00%	line-by-line
Lira PV S.r.l.	Rome	Nuova Rete Solare S.r.l.	100.00%	line-by-line
Solar Margherita S.r.l.	Rome	Nuova Rete Solare S.r.l.	100.00%	line-by-line
Eni S.p.A.	Rome	CDP S.p.A.	26.37%	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
Elmed Etudes S.àr.l.	Tunisi	Terna S.p.A.	50.00%	equity
Cesi S.p.A.	Milan	Terna S.p.A.	41.41%	equity
Coreso S.A.	Brussels	Terna S.p.A.	22.49%	equity
CGES	Podgorica	Terna S.p.A.	22.09%	equity

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

- the formation on 8 March 2011 of "Nuova Rete Solare S.r.l." ("NRTS S.r.l.") by the subsidiary SunTergrid S.p.A., with share capital of €10,000;
- the completion on 31 March 2011 of the transfer to RTR Acquisition S.r.l. (wholly owned indirectly by Terra Firma Investment GP 3 Limited) of 100% of Rete Rinnovabile S.r.l. ("RTR S.r.l.");
- the acquisition on 18 May 2011 by NRTS S.r.l. of 100% of Reno Solar 2 S.r.l. from TRE S.p.A. – Tozzi Renewable Energy, with share capital of €10,000;
- the completion on 1 June 2011 by NRTS S.r.l. of the acquisition from SunPower Malta Limited, a company subject to the management and coordination of SunPower Corporation, of 100% of Lira PV S.r.l., with share capital of €10,000;
- the acquisition by NRTS S.r.l. on 7 June 2011, from Margherita S.r.l., of 100% of Solar Margherita S.r.l., with share capital of €6,504,000;

- the formation by Terna S.p.A. on 22 June 2011 of Terna Crna Gora d.o.o., a Montenegro-registered limited liability company with initial share capital of €2 million. The company is charged with carrying out the activities associated with the authorisation, construction and operation of the transmission infrastructure of the Italy-Montenegro electricity interconnection in the territory of Montenegro;
- the acquisition by Terna S.p.A. of an additional 1.5% of Cesi S.p.A.;
- the acquisition by Terna S.p.A. of 22.089% of CrnoGorski Elektroprenosni Sistem AD ("CGES"), following execution of the final agreement for a strategic partnership with the government of Montenegro, as the majority shareholder, and the Montenegro transmission system (CGES), for the construction of a new Italy-Montenegro interconnection and the strategic Terna-CGES partnership.

In addition, the equity investment in Eni S.p.A. already held by CDP at 31 December 2010 was consolidated, for the first time in the first half of 2011, using the equity method. In 2010, the carrying amount of the holding had been recognised at cost, in view of the fact that the acquisition of a significant influence over Eni by CDP occurred at the end of 2010 following the completion of the share exchange with the MEF.

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". At 30 June 2011, the fund, now at its third closing, is subscribed in the amount of €1,768 million by leading Italian institutional investors, such as the country's leading banks and insurance companies and privatised pension funds, as well as CDP.

CDPI SGR held no equity investments at 30 June 2011.

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:

- 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;
- 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 9 June 2011, CDPI SGR was definitively selected as the tender winner. Accordingly, in the coming months, following signing of the subscription agreement and its registration, a further partial closing will be held for the MIT in the amount of €140 million.

At 30 June 2011, 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).

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

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

Since June 2004 the company has been listed on the Italian Stock Exchange.

As of the date of the preparation of these financial statements, Cassa depositi e prestiti S.p.A. held a plurality of the share capital, with 29.85%.

According to the periodic census conducted by the company, of the total Terna share capital, at 30 June 2011, about 67% is held by Italian investors and 33% by foreign institutional investors, which expanded by more than 50% following the IPO.

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

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

The companies of the Terna Group

At 30 June 2011 the Terna Group included the following fully consolidated companies:

- SunTergrid S.p.A. (formerly inTERNAtional S.p.A.), TELAT S.r.l. and Terna CG, directly controlled by Terna S.p.A. with a stake of 100%;
- Rete Solare S.r.l. (RTR S.r.l.) and Nuova Rete Solare S.r.l. (NRTS S.r.l), Italian companies indirectly controlled through SunTergrid S.p.A., with a stake of 100%;
- Reno Solar 2 S.r.l., Lira PV S.r.l. and Solar Margherita S.r.l., Italian companies controlled indirectly through Nuova Rete Solare S.r.l., with a stake of 100%.

The Terna Group's scope of consolidation also includes the associated company Cesi S.p.A. (in which Terna has a 41.41% holding), the joint venture Elmed Etudes S.àr.l. (50%), Coreso S.A. (22.49%) and CrnoGorski Elektroprenosni Sistem AD – CGES (22.09%), all accounted for using the equity method.

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

1.6 STRUCTURE AND PERSONNEL OF CDP

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

1.7 STRUCTURE AND PERSONNEL OF CDPI SGR

At 30 June 2011 CDPI SGR had 17 employees:[1] three senior managers, ten junior managers and four office personnel.
At its meeting of 7 June 2011, the Board of Directors of the company approved the compliance model of CDP Investimenti SGR S.p.A. pursuant to Legislative Decree 231/01, of which the Code of Ethics adopted by the parent company, CDP.

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

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

1.8 STRUCTURE AND PERSONNEL OF THE TERNA GROUP

No changes were made to the Terna Group's corporate structure in the first half of 2011.

At 30 June 2011, the parent company, Terna, had 3,527 employees 3,468 at 31 December 2010. Also at that date the subsidiaries had no employees. Data for the parent company for both periods are reported net of terminations taking effect from 30 June 2011 and 31 December 2010.

[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 manager on a full-time basis.

2. THE MARKET

2.1 THE MACROECONOMIC SITUATION

The recovery in the global economy, which grew at a rapid pace in 2010 (with real GDP expanding by 5%), showed signs of slowing in the first quarter of 2011 (4.3%) due, in particular, to the effects of the earthquake in Japan and the consequent loss in industrial production and consumer confidence, as well as the partial interruption in the supply chain, which had generated major synergies between Japan and the rest of the world.

The U.S. economy grew at an even slower pace in the first part of the year (2.5%), being held back by rising prices for commodities, especially oil. According to recent IMF forecasts,[2] the emerging economies will continue to drive the world economy (with growth rates of 6.6% in 2011 and 6.4% in 2012), while the more advanced economies are expected to post slower growth (2.2% in 2011 and 2.6% in 2012). Within the euro area, which grew by 1.8% in 2010, the economy posted a relatively modest expansion (2% in the first half of 2011), with the pace of growth varying considerably from one country to another.

Inflation has begun rising again at the global level, reaching around 4% in the first quarter of 2011, compared with 3.1% at the end of 2010, due to increases in raw materials prices and demand-side pressures in the consumption of food products and energy in both the emerging and, to a lesser extent, the advanced economies.

Although conditions in the financial markets improved in 2010, they showed signs of increasing volatility in the first half of this year. The tensions buffeting the government securities of the peripheral countries of the euro area, Greece in particular, appear to have adversely affected market expectations. Further sources of instability include the continuing weakness of real estate markets in the more advanced economies and the emergence of a number of critical issues concerning the sustainability of the public debt of the United States.

In this environment, Italy posted GDP growth of 1.3% in 2010, with forecasts for 2011 pointing to a slightly slower pace before a modest acceleration in 2012, remaining below the European average, equal to 2% in 2011 and 1.7% in 2012.[3]

[2] See IMF, *World Economic Outlook Update*, 17 June 2011.

[3] See Bank of Italy, *Economic Bulletin*, no. 64 of April 2011.

The Italian economy has been burdened by both the slow pace of growth in household consumption and a decline in gross fixed investment. In addition, foreign demand, which had driven the admittedly slow recovery in 2010, appears to have flagged, with exports decelerating in the latter part of the year and imports continuing to grow at a rapid pace. Inflation remains subdued, although in the early months of 2011 it began rising again, driven by the prices of energy and food products. Consumer prices are forecast to increase by 2.4% in 2011 and 2% in 2012, is in line with projections for the euro area as a whole.

Growth in industry was not as strong as in the other leading European countries. Nonetheless, the first few months of 2011 saw a recovery in the sector, including the competitiveness of Italian companies (measured in terms of relative producer prices), helped by the depreciation of the euro in real effective terms. Construction saw investment slow due to the climate of uncertainty in the real estate market, although overall activity posted weak growth, which continued into the first few months of 2011.

The labour market gave its first positive signals after the contraction caused by the deepening economic crisis, with the market being driven by private-sector services, while industry declined. The employment outlook for firms is improving, while recourse to the Wage Supplementation Fund also fell in the first quarter of 2011, although problems continue and the employment gap compared with the situation prior to the crisis remains wide.

In the banking industry, lending to the private sector, and to firms in particular, expanded, driven mainly by growing demand associated with the recovery in economic activity. As shown by the Bank Lending Survey, access to credit appears to have improved on the whole in 2011, although conditions remain relatively stringent for SMEs. Overall, the segment has been affected by the considerable caution in lending displayed by all banks due to stagnant funding and expectations for only limited increases in margins.

2.2 THE FINANCIAL MARKET AND RATES

In the euro area, acting in response to the recovery in activity and the consequent increase in prices, in early 2011 the ECB decided to raise its rate on main refinancing operations by 50 basis points to 1.50%. While monetary policy remains relatively accommodating, the ECB announced that it was in “strong vigilance mode” with regard to price developments. At the same time, 3 and 6-month Euribor rose gradually, reaching 1.57% and 1.8%, respectively, by mid-

2011, with both rates posting increases of about half a percentage point since the start of the year.

In the United States, monetary policy remains expansionary, with the main reference rates holding firm at the levels of recent months, and the federal funds rate target is expected to remain at its current levels (of between 0% and 0.25%) for some time.

The yields on government securities in all of the main advanced economies have risen significantly in 2011, having factored in market expectations about the positive outlook for economic growth.

On the foreign exchange market, the euro has strengthened against all of the major currencies since the beginning of the year, and its relative strength against the dollar has continued following a period of recovery for the dollar due mainly to tensions surrounding the sovereign debt of the peripheral European countries. Nevertheless, although it has helped shore up the credibility of the monetary system, the strengthening of the euro has had a negative impact on exports, especially for these peripheral countries, whose productive specializations are highly sensitive to price competition.

Equity markets experienced a period of recovery coupled with high volatility, although in Europe, and Italy in particular, the increases were limited. The Italian general market index rose in the early months of 2011, although the gain was reversed over the course of the rest of the first half in the face of growing fears of an international debt crisis, the tensions engendered by the “Arab Spring” and the uncertainty about the effects of the earthquake in Japan on the global recovery.

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 the first half of 2011, please see the separate report and financial statements.

2.3.2 CDPI SGR reference market and activities

CDPI SGR operates in the residential housing 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 the decade from 1998 to 2008, house prices rose sharply in all of the main European countries and in much of the rest of the world as well, driven in part by the expansion of credit in the real estate sector and policies designed to subsidise home ownership. In Italy, as in the rest of Europe, access to housing became more difficult, especially for families that did not own property.

These developments, together with a deterioration in economic conditions for the middle class, have increased the attention paid at the European level to the issue of social housing, which in broad terms regards public and private initiatives intended to foster access to housing. International social housing systems are undergoing a transformation that, in general, is seeing the greater involvement of the private sector and more detailed identification of the target and the needs of beneficiaries. The latter aspect does not necessarily mean a reduction in the scope of attention – which would be inconsistent with the spread of difficulties in accessing the market to new segments of the population – but rather reflects the growing awareness that diverse needs require equally diverse instruments. We can identify two alternative approaches to social housing in Europe:

1. the "*universal approach*", under which the right to housing is guaranteed by the state and social housing works to ease market conditions;
2. the "*targeted approach*", under which the state acts to compensate for market gaps or failures.

In Italy, many households live in owned property or property on gratuitous loan for use. The total number of households living in rented premises (4.7 million) is close the number of households renting social housing in the United Kingdom (5.1 million) and France (4.3 million). The perception of the difficulty of accessing the Italian housing market is also due to the fact that there are fewer than 1.5 million units of social housing in the country, against a background of growing difficulties for households with intermediate income levels.

The legislation that underlies Italy's national residential housing plan introduced a first line of intervention with the start-up of the Integrated Fund System (IFS), i.e. a comprehensive system of real estate investment funds to finance private social housing, with a view to expanding the supply of social housing and related services using innovative approaches and substantial private-sector resources. The system has the following objectives:

- contributing to the reduction of "housing distress" for those households, referred to in Article 11 of Decree Law 112/2008 and defined as socially vulnerable, who have difficulty in affording housing in the free rental market but at the same time whose income is too high to be eligible for fully subsidised public housing;
- ensuring financial sustainability, moving away from financing in the form of grants to adopt an innovative and transparent financial and corporate model that is subject to periodic supervision;
- integrating social housing initiatives with governance of the territory and housing policy, partly in order to stimulate local planning and local co-financing of at least 60% of the value of the projects;
- building high-quality, environmentally sound housing in order to contain operating and building costs and obtain an adequate return on capital invested at long term.

THE ACTIVITIES OF CDPI SGR

In the first half of 2011, CDPI achieved significant results in the company's three main areas of operations:

- investment of FIA resources;
- subscription of the Fund units;
- promotion of the private social housing sector and territorial relations.

As regards the identification and assessment of potential investment opportunities, in the first half of 2011 the company received 7 expressions of interest in initiating evaluations. These new expressions of interest join those received in 2010, bringing the total to 23 expressions of interest. Of these, 4 are still being assessed and 6 were judged not eligible for continuation of the investment analysis. For the remaining 13 initiatives a formal evaluation process was begun. The outcomes of these evaluations were as follows:

- 2 definitive resolutions to subscribe the funds;
- 7 non-binding preliminary resolutions to subscribe;
- 3 evaluations still under way;
- 1 evaluation lapsed.

During the period, the board of directors also approved 6 appropriations in respect of non-binding commitments to subscribe units of the target funds, for a total of €204 million.

The company's investment team also monitored – in accordance with internal procedures – the start-up phase of the Polaris Parma Social House Fund, which at 30 June 2011 remains the only fund subscribed by the FIA. In the second half of the year, it is also expected that the FIA will subscribe units in Fondo Abitare Sociale 1, for which an investment decision was made in December 2010.

As regards the FIA's fundraising activities, a third partial closing for subscriptions was held on 30 June 2011, with the participation of a number of the leading private pension funds belonging to the ADEPP (*Associazione degli Enti di Previdenza Privati*), for a total of €98 million, bringing the assets subscribed of the FIA as of the date of this report to €1,768 million. An additional subscription round for the privatised pension funds to which the company has been marketing the Fund units is planned by the end of the year with the goal of reaching the target of €2 billion in assets for the FIA.

In addition, on 9 June the company was definitively awarded the contracts in the tender held by the Ministry for Infrastructure and Transport (MIT) 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. In the coming months, an additional partial closing will be held for the MIT in the amount of €140 million. It will subscribe Class B units of the FIA, which enjoy the same rights as Class A units, with the exception of (i) the power to appoint the Chairman of the Steering Committee, (ii) a mechanism for "freezing" its holding the Fund, which can be exercised in the event of the replacement of the company by the competent bodies of the Fund or the failure of the company to perform the obligations undertaken in the subscription contract and (iii) receipt of specific reporting concerning the management activities performed by CDPI in accordance with the terms of the tender.

As regards the promotion of the private social housing sector and territorial relations, 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.

With regard to identifying new investment opportunities for the FIA, in the first half of 2011 an advisory relationship was established with the *Fondazione Housing Sociale* (FHS). This strategic accord is intended to facilitate the scouting and development of private social housing projects at the local level, through to the submission of an expression of interest to CDPI.

Finally, on 7 June 2011 the board of directors of the company approved the suspension of its advisory activities for local authorities to assist them in leveraging their real estate holdings. The activity was never actually started by the company and the decision to suspend operations was taken in the light of the provisions of the CDP Business Plan to expand its own support activities for public entities in the real estate sector. This will also allow the company to focus on its investment operations.

2.3.3 Terna reference market and activities

ELECTRICITY DEMAND IN ITALY

According to provisional data, the demand for electricity during the first half of 2011 amounted to 165,404 GWh, up by 1.6% with respect to the same period in 2010. In order to compare the results for the first half of 2011 with the same period of the prior year, a number of factors must be considered. Calendar effects can in this case be considered negligible, as the first half of the year had the same number of working days (125) in 2010 and 2011. Conversely, slightly different weather conditions were seen: the first three months of 2011 had the same average temperature as in the corresponding period of 2010, while the second three months of the period were slightly warmer. The overall effect of temperature in the first half of 2011 was – on average – to reduce demand for electricity. Therefore, adjusting solely for temperature effects, electricity demand was up 1.8%.

ELECTRICITY GENERATION

According to initial estimates, in the first half of 2011 net domestic power generation increased by 1% on the year-earlier period. Breaking down the figures for generation by main source, net of ancillary services, there was an increase in thermal power generation for the period of 2% from the first half of 2010.

Hydroelectric generation was significantly lower in the first half of 2011, compared with the same period of 2010, with a fall of 10.7% net of ancillary services.

Net generation from renewables, namely wind, solar and geothermal energy, rose strongly compared with 2010, increasing by 27.8% overall.

DISPATCHING AND SALES

Electricity business

In the first half of 2011, monthly peak values were lower than those of the same period of the previous year in all months. The reduction is due to the penetration of generation from renewable resources (photovoltaic) on distribution grids. The impact of renewable energy production on peak capacity is currently being assessed for the whole six months.

At present, during the first half of 2011, peak daily demand occurred on 25 January 2011 at 7 p.m., when demand reached 52,010 MW. The peak for the same period of 2010 was recorded on 26 January at 6 p.m. with 52,164 MW. The highest peak in the six months therefore was down 0.3% compared with the corresponding period of 2010.

Coverage of demand

Thanks to the maintenance forecasting and coordination procedures adopted by Terna, demand for electricity was covered with adequate reserve margins during the first half of 2011.

As concerns foreign trade, during the first six months of this year, the average hourly price differential between the Italian electricity market and those of France and Germany was about 17% lower than in the same period of 2010 (€15/MWh compared with €18/MWh). This price trend caused the net balance of electricity imports to fall by about 2.6 TWh as compared with the same period of 2010.

Provisioning of dispatching resources

Terna operated in the dispatching services market during the scheduling phase, which takes place on the day prior to that of the actual flow, buying about 2.4 TWh of energy and selling 2.3 TWh, with a net outlay of €369 million. Volumes bought and sold in the real-time balancing phase came to 1.9 TWh and 5.9 TWh, respectively, with a net charge of €30 million.

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.

NATIONAL TRANSMISSION GRID

The number of plants belonging to the Terna Group at 30 June 2011 and 31 December 2010 is shown in the following table:

	Terna Group		
	30/06/2011	**31/12/2010**	**Change**
No. of stations	445	431	14
No. of transformers	630	634	-4
MVA	124,547	125,571	-1,024
No. of bays	4,834	4,825	9
Lines - km	57,567	57,638	-71
No. of 3-phase power lines	4,000	3,981	19
km	63,521	63,578	-57

Stations

The main developments in stations include the activation of 14 facilities:

- 4 new 380 kV stations: Le Rose (FI), Aprilia (LT), Deliceto (FG) and Troia (FG);
- 3 new 220 kV stations: Salvemini (TO), Gerbido (TO) and Torino Nord (TO);
- 7 new 132-150 kV stations: Canaro (RO), Sant'Alberto (FI), San Vittore (FR), San Martino in Pensilis (CB), Marianopoli (CL), Cammarata (AG) and Serramanna (VS).

Transformers

With regard to transformers:

- 2 existing 220/132 kV plants (for a total of 267 MVA) were supplemented with new plants (for a total of 410 MVA) at the Bussolengo San Salvar and Castelbello stations;
- 2 existing 380/220 kV plants (for a total of 800 MVA) at the Poggio a Caiano station were disconnected;
- 2 existing 220/132 kV plants and 1 220/60 kV plant (for a total of 410 MVA) at the Este and Tavarnuzze were retired.

Power lines

As regards power lines, the main changes consisted in the activation of the new lines Gerbido-Salvemini 220 kV, Salvemini-Turin West 220 kV and Canaro-Canaro C.le 132 kV (for the parent, Terna), Siniscola 2-Buzzi Unicem 150 kV and CP Imperia-Imperia RFI 132 kV (for the subsidiary, TELAT), for a total of around 8.2 km.

In addition, TELAT also registered variations as a result of the restructuring of the 60 kV grid to the south of Naples (still under way), which during the period produced a reduction of around 21 km in lines in operation.

The figures for the power lines of Terna and TELAT reflect the intragroup transfer from TELAT to Terna during the period of 25 lines totalling 280 km.

Development plan

On 28 January 2011, in compliance with the Ministerial Decree of 20 April 2005, the 2011 Development Plan was sent to the competent authorities for approval.

The Plan had been approved by the Terna Board of Directors on 16 December 2010, having already been favourably received by the Users' Consultative Committee[4] (which approved the new development initiatives included in the Plan on 4 November and the Plan in its entirety on 15 December 2010).

The latest version of the Development Plan takes account of the instructions that the Ministry for Economic Development attached to its Final Approval of the 2010 Development Plan.[5]

The 2011 Development Plan follows the structure of the previous year's version and is divided into two sections: 2011 Development Plan – Section I, which sets

[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 15 March 2011, the Ministry for Economic Development approved the 2010 Development Plan pursuant to Legislative Decree 152 of 3 April 2006 as amended, publishing its final decision in the *Gazzetta Ufficiale* no. 62 of 16 March 2011.

out the new development requirements that emerged during 2010 (pursuant to Legislative Decree 152/2006, this section is subject to a Strategic Environmental Assessment, which commenced on 18 October 2010); and Progress of Prior Plans – Section II, which describes the progress made on the work envisaged in the Development Plans approved previously that has been confirmed in the current Plan.

In particular, the first section contains a specific part devoted to grid development to encourage production from renewable sources (in accordance with the National Action Plan) and the expansion of the European grid.

The European Development Plan (2010 edition) was prepared as part of the ENTSO-E11[6] project, in which Terna is directly involved in the following Regional Forums: Continental Central South (for which Terna is coordinator and member) and Continental South East (member only).

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

<u>SEA procedure for the 2010 Development Plan</u>

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

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

<u>Work performed in the period</u>

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

The following major works are currently in progress:

- new 380 kV "SORGENTE-RIZZICONI" underwater connection: the work sites have been opened and the civil works involved for the stations of

[6] ENTSO-E (European Network of Grid Operators for the Transmission of Electricity) is the body for strengthening cooperation between grid operators at the EU level.

Scilla (Calabria) and Sorgente (Sicily) are at an advanced stage; site work has begun and the site is being organised for the station of Villafranca (Sicily). The works relating to the three 380 kV stations specified above are at an advanced stage. For Scilla in particular, electro-mechanical and electrical assembly has begun, while at the 380 kV power station of Rizziconi expansion works are under way. Final detailed engineering is still in progress, in preparation for the laying of the 380 kV double three-phase underwater and overland cable; the sites 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 have been opened;

- 380 kV stations to connect renewable-resource plants: from 2009 to 2010, work began on 380 kV stations to help reduce congestion and to connect new renewable-resource plants in the areas of Turano, Maida, Bisaccia, S. Severo, Deliceto, Troia, Brindisi Sud, Castellaneta, Tuscania and Rotello. In 2010, works were completed at the stations of Maida and Bisaccia. During the first four months of 2011, works were completed at the stations of Deliceto and Troia; during the second four-month period, the second stage of the Brindisi Sud station should be activated;
- 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; work at the stations is scheduled to be completed by December 2011, while line works are expected to be completed within the first quarter of 2012.
- 380 kV “Caselllina-Tavernuzze-S. Barbara” power line: works relating to the laying of 380 kV cables are currently being completed. During the second four-month period of 2011, works relating to the first set of three-phase cables were completed; during the third four-month period, works relating to the second stage should be concluded;
- Val D’Ossola Sud – Borgomanero cables: micro-tunnelling work for the cables is currently under way.

3. CONSOLIDATED FINANCIAL POSITION AND PERFORMANCE

The financial position and performance of the CDP Group at 30 June 2011 is presented below. In order to facilitate the 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)

ASSETS	30/06/2011 CDP Group	*of which financial operations*	*of which non-financial operations*	31/12/2010 CDP Group	% change
Cash and cash equivalents and interbank deposits	130,416	129,387	1,029	128,050	1.8%
Loans to customers and banks	95,325	95,825	-	91,955	3.7%
Debt securities	5,967	5,967	0	5,464	9.2%
Equity investments and shares	17,351	18,683	63	17,344	0.0%
Assets held for trading and hedging derivatives	1,287	1,024	264	1,440	-10.6%
Property, plant and equipment and intangible assets	11,094	202	8,620	10,774	3.0%
Accrued income, prepaid expenses and other non-interest-bearing assets	2,842	2,843	2	2,963	-4.1%
Other assets	2,213	570	1,643	2,947	-24.9%
Total assets	**266,495**	**254,502**	**11,621**	**260,937**	**2.1%**

At 30 June 2011 the total assets of the CDP Group came to more than €266 billion, up about 2% on 31 December 2010.

The rise was mainly attributable to the increase in loans to customers and banks (pertaining to the parent company, CDP), which posted dynamic growth from the end of 2010, reaching nearly €95 billion (+4%). This came thanks to the substantial volume of new business in the period, in particular lending to businesses and under the economic support programmes, as well as the start of repayment on loans granted in previous years (loans to public entities).

The stock of cash and cash equivalents, attributable entirely to the parent company, CDP, rose to more than €130 billion (+2% on the end of 2010), due to positive net funding from postal savings products in the period. Short-term deposits of the Terna Group contributed a residual amount to this aggregate (more than €1 billion, well up on the €156 million reported at the end of 2010).

Debt securities amounted to €6 billion at 30 June 2011, up 9% on the figure at the end of 2010. The increase is mainly attributable to purchases of inflation-linked bonds during the period by the parent company, with a view to operationally hedging the inflation-indexing component of inflation-linked postal savings bonds.

Equity investments and shares were broadly in line with their level at the end of 2010, at over €17 billion. As regards the balance attributable to the parent company (nearly €19 billion), the slight change (+€31 million) was due to draws on investment funds and other investment vehicles subscribed by CDP. By contrast, the Terna Group reported an increase of €38 million as a result of increases associated with equity investments accounted for using the equity method, mainly the acquisition of the stake in CGES in the amount of about €35 million.

Assets held for trading and hedging derivatives went from more than €1.4 billion to about €1.3 billion (down about 11%), a change attributable mainly to the combined effect of the decrease in the balance attributable to the parent company (€199 million) and an increase in that pertaining to the Terna Group (€47 million). This aggregate reports the fair value (if positive) of derivative instruments used for hedging, which includes operational hedges that are not recognised as such for accounting purposes. Specifically, the results for the parent company CDP at 30 June 2011 reflected the decrease in the fair value of derivatives hedging liabilities, with a corresponding decrease in the fair value of the funding being hedged. In addition, this performance benefited marginally from the increase in the fair value of options acquired to hedge the option component of equity-linked bonds (indexed bonds and *Premia* bonds). For the Terna Group, the positive change was due to the increase in the fair value of derivatives subscribed to hedge bonds issued and the loan obtained from the European Investment Bank.

Property, plant and equipment and intangible assets totalled more than €11 billion, up 3% over the end of 2010, pertaining almost entirely to non-financial operations. The Terna Group reports a figure of nearly €9 billion (about €8 billion at the end of 2010), of which more than €8 billion relates to property, plant and equipment and €500 million to intangible assets. The increase with respect to the end of 2010 is attributable to ordinary changes during the period in respect of capital expenditure, disposals and depreciation and amortisation. The total capital expenditure by the Terna Group in the first half of 2011 amounted to more than €500 million (almost entirely relating to property, plant and equipment), up slightly on the same period of 2010. The total for the parent company came to €202 million, of which €198 million relating to property, plant and equipment and the remainder to intangible assets. The decline (about €3 million) was attributable to the fact that investments carried out in the period were less than depreciation and amortisation recognised on existing assets.

Accrued income, prepaid expenses and other non-interest-bearing assets fell by about €120 million compared with the end of 2010, going from €2,963 million to €2,842 million, almost entirely attributable to the parent company. The change was attributable to the combined effect of an increase in CDP's receivable for interest accrued on the balances of the treasury account and a decrease in the fair value of the loans hedged for financial risk using derivative instruments, which, as discussed below, is matched by a decrease in the negative fair value of the related hedge derivatives.

Finally, other assets amounted to more than €2 billion, down 25% from the end of 2010. For CDP this item amounted to around €570 million, a decrease of 31% from the end of 2010. The decline is attributable to a fall in the balance of current and deferred tax assets. The item also comprises advances paid for withholding tax on postal passbook accounts and other assets. For the Terna Group, the aggregate amounted to €1.6 billion, down €475 million on 31 December 2010. It includes Terna S.p.A.'s tax assets and trade receivables. More specifically, trade receivables declined due to lower receivables for pass-through items relating to dispatching and receivables due from customers in its diversified lines of business. This was only partially offset by the increase in receivables for grid transmission fees (CTR) related to remuneration owed to Terna and other owners for the use of the National Transmission Grid by electricity distributors and generators (mainly due to rate adjustments).

Reclassified consolidated balance sheet

(millions of euros)

	30/06/2011			31/12/2010	% change
	CDP Group	*of which financial operations*	*of which non-financial operations*	CDP Group	
LIABILITIES AND EQUITY					
Funding	242,938	237,464	5,974	235,914	3.0%
- of which: postal funding	*211,971*	*211,971*	*-*	*207,324*	*2.2%*
- of which: funding from banks	*9,412*	*7,713*	*1,699*	*9,674*	*-2.7%*
- of which: funding from customers	*9,716*	*9,716*	*500*	*9,121*	*6.5%*
- of which: funding from bonds	*11,839*	*8,064*	*3,775*	*9,795*	*20.9%*
Liabilities held for trading and hedging derivatives	1,668	1,629	40	2,236	-25.4%
Accrued expenses, deferred income and other non-interest-bearing liabilities	666	380	288	959	-30.6%
Other liabilities	2,791	1,056	1,735	3,179	-12.2%
Provisions for contingencies, taxes and staff severance pay	1,635	232	748	1,849	-11.6%
Equity	16,797	13,741	2,836	16,800	0.0%
Total liabilities and equity	**266,495**	**254,502**	**11,621**	**260,937**	**2.1%**

Total funding at 30 June 2011 came to nearly €243 billion (+3% over the end of 2010).

Within this aggregate, postal funding attributable to the parent company continued to grow (up about 2% over the end of 2010), thanks to the positive flow of net funding for CDP for the period.

Funding from banks decreased, going from €9.7 billion at 31 December 2010 to just over €9.4 billion at 30 June 2011. This reflected the combined impact of the increase in CDP's bank funding (up about €600 million), attributable mainly to new draws on EIB lines of credit, partially offset by a decline in interbank funding. Adding to this was the net negative change of about €850 million for the Terna Group, primarily due to the repayment of the Revolving Credit Facility in the amount of €750 million and, to a lesser extent, repayments of maturing instalments in respect of past operations.

Funding from customers rose 7% to €9.7 billion, entirely pertaining to the parent company, CDP. It regards the portion of specific-purpose loans in repayment as at 30 June 2011 and not yet disbursed. The item includes the €500 million loan from the parent company to Terna S.p.A., although this is eliminated as it is an intercompany item.

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

Liabilities held for trading and hedging derivatives posted a decrease of nearly €600 million from the end of 2010, falling from €2,236 million to €1,668 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 change in the balance was attributable to the decrease in the fair value of the option component unbundled from the indexed bonds and *Premia* bonds and 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 fell by more than 30% compared with the end of 2010, going from €959 million to €666 million. CDP contributed €380 million to this figure, representing a decrease of €350 million from the end of 2010 as a result of the decline in the fair value of the funding being hedged, lower accrued expenses on bond funding and lower liabilities to customers to be settled. The Terna Group's contribution rose by about €60 million, mainly due to higher accrued expenses on bonds and bank loans and, to a lesser extent, to the rise in the valuation of hedged funding.

Other liabilities came to €2,791 million (-12% from 2010), of which €1.7 billion attributable to the Terna Group and the remainder to financial operations. The parent company posted a decrease of €175 million as the result of the decrease in certain liability items connected with postal savings. For the Terna Group, the item includes trade payables generated by its specific business activities, which declined by more than €200 million.

Provisions for contingencies, taxes and staff severance pay came to €1,635 million. The item mainly regards provisions for current and deferred tax liabilities for the period. The balance declined compared with the end of 2010, when it amounted to €1,849 million, largely due to the effect of the payment of taxes for the previous year.

Equity at the end of the period amounted to nearly €17 billion, essentially in line with the end of 2010. This was attributable to the net income generated by the various Group companies, offset by dividends paid to shareholders out of income for 2010. Around €14 billion of total equity is attributable to the parent company and about €3 billion to non-controlling interests.

Equity

(millions of euros)

	30/06/2011	**31/12/2010**
Equity of the parent company	13,872	13,913
Non-controlling interests	2,925	2,887
Total equity	**16,797**	**16,800**

3.2 RECLASSIFIED 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)

	30/06/2011			30/06/2010	% change
	CDP Group	of which financial operations	of which non-financial operations	CDP Group	
Net interest income	**1,002**	**1,064**	**(62)**	**722**	**38.9%**
Dividends	3	609	-	448	-99.4%
Net commission income	(762)	(761)	(1)	(335)	127.3%
Other net revenues	(8)	(12)	4	25	n/s
Net writedowns	(1)	(1)	-	0.1	n/s
Overheads	(443)	(42)	(379)	(426)	4.0%
of which: administrative expenses	*(224)*	*(38)*	*(186)*	*(226)*	*-1.2%*
Operating income	**805**	**861**	**550**	**1,391**	**-42.1%**
Gains on equity investments	1,127	-	3	128	n/s
Net income	**1,536**	**717**	**329**	**1,021**	**50.4%**
Net income (loss) for the period pertaining to non-controlling interests	213			153	39.5%
Net income (loss) for the period pertaining to shareholders of the parent company	**1,323**			**869**	**52.3%**

Group net income for the first half of 2011 amounted to €1,536 million (€1,323 million of which attributable to the parent company), up 50% on the year-earlier period. The result is the net outcome of a decline in the profit of the parent company, an increase in that posted by the Terna Group and the effect of the change in the scope of consolidation compared with the first half of 2010. A major factor was the net income generated by the investment in Eni S.p.A., previously accounted for at fair value in equity.

In addition, CDP's results are not comparable with those posted in the first half of the previous year. This is attributable to the fact that pending negotiation of the new agreement with Poste Italiane, fees accrued were calculated on the basis of the terms of the preliminary agreements between the parties, which change the basis of payment for Poste's services, with the consequent recognition in the income statement of the entire fee in the year in which it accrues. These new arrangements mean that costs that under the previous system had been amortized over a number of years are now expensed entirely.

Net interest income, in particular, came to €1,002 million, a rise of nearly 40% or €280 million from the first half of 2010, due mainly to the increase of about 20 basis points in the margin between lending and funding registered by the parent company. This was only minimally offset by the increase in the net financial expense of the Terna Group (€15 million).

The rise in net interest income was more than offset by other factors, nearly all attributable to the parent company. In addition to the aforementioned increase in commission expense on postal savings, these include the negative contribution of other net revenues, which had benefited from a number of penalties on the early repayment of loans in the first half of 2010, as well as a slight worsening of the performance of trading and hedging activities. Moreover, the decline in dividends received (from €448 million in the first half of 2010 to €3 million in the same period of this year) was essentially due to the change in the elimination of dividends received from Eni S.p.A. as a result of the change in the scope of consolidation of the CDP Group compared with the first half 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 4% over the same period of 2010 to €443 million, of which €42 million pertaining to financial operations and €379 million to non-financial operations. Specifically, the increase in the Terna Group figures (€13 million) mainly results from higher depreciation due to the entry into service of new plants, while there was a decline in operating costs (mainly IT related declined and connected with power outages) and an increase in staff costs owing to the rise in the average workforce and greater charges in respect of incentive schemes. As regards the parent company, the rise in overheads amounted to €2 million, due an increase in staff costs as a result of the rise in the size of the average workforce and greater administrative expenses associated with the outsourcing of CDP’s technology infrastructure, which was completed at the end of 2010, and the start of new technology projects approved under the 2011-2013 Business Plan, which were only partially offset by lower costs incurred for professional services. The latter were significant in the first half of 2010 due to work to restructure internal processes and revise procedures for managing CDP's technology infrastructure.

Operating income amounted to €805 million, down 42% on the first half of 2010. The figure for the Terna Group is composed of operating income representing revenues from the core businesses of Terna and its subsidiaries. There was an increase of €34 million in the first half of 2011 compared with the year-earlier period due to higher revenues, largely as a result of the effects of AEEG Resolution 228/10 (revising rates for 2011) and, to a lesser extent, higher fees for transmission (CTR) under the defence plan and the incentive on the remuneration of investments in strategic transmission infrastructure. The figure also comprises the contribution of TELAT, including the revenues from the plants of the merged company Rete di Trasmissione Brescia, which was acquired in August 2010 and therefore was not part of the scope of consolidation for the first half of last year. For the parent company, the result is attributable to the factors discussed earlier.

Net income for the period amounted to €1,536 million, up 50% on the first half of 2010 (€1,021 million). The contribution of financial operations came to €717 million, a decrease of €275 million compared with the year-earlier period. Non-financial operations posted net income of €329 million, up about €96 million on the same period of 2010 (41%), partly owing to the €93 million realised on companies disposed of during the period. In addition, consolidated net income also reflected the positive impact of about €580 million from the use of the equity method in accounting for the investment in Eni S.p.A.

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)

FIRST HALF 2011	Net income	Capital and reserves	Total
PARENT COMPANY FINANCIAL STATEMENTS	**715**	**13,022**	**13,738**
Balance from financial statements of fully consolidated companies	331	2,509	2,839
Consolidation adjustments:	278	(2,983)	(2,705)
- 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)*
- amortisation of revaluation of non-current assets	*(23)*	*(279)*	*(302)*
- dividends from fully consolidated companies	*(78)*	*78*	*0*
- valuation of equity investments accounted for with equity method	*596*	*(674)*	*(78)*
- elimination of intercompany transactions	*0*	*(0)*	*(0)*
- deferred tax assets and liabilities	*(5)*	*(651)*	*(656)*
- non-controlling interests	*(213)*	*(2,712)*	*(2,925)*
CONSOLIDATED FINANCIAL STATEMENTS	**1,323**	**12,548**	**13,872**

4. RISK MANAGEMENT

4.1 MONITORING RISK IN THE CDP GROUP

4.1.1 Monitoring risk in CDP

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

4.1.2 Monitoring risk in CDPI SGR

The financial risks to which the company is exposed are those associated with the investment of liquidity and those connected with the operation of the Fund.

As regards the former, the company only holds liquidity connected with its operations, which is deposited on a current account.

As regards the latter, in view of the fact that the FIA issues calls on subscribers to pay in funds, the company manages subscriber default risk for the FIA. At the moment, more than half of the assets of the Fund have been subscribed by the controlling shareholder of the company, while the other subscribers are financial institutions or pension funds with high standing. The credit risk in respect of subscribers is managed on the basis of specific provisions of the Rules that safeguard the company and the Fund in the event of default (for example, they establish penalties for subscribers who fail to make payments when called up).

With regard to operational risks, in 2010 the company completed its project to strengthen and expand its organisational structure, establishing a system of internal controls consisting of the Internal Audit function, the Risk Management function and the Compliance function. The first two of these three control functions are performed on an outsourcing basis by CDP.

In the first half of 2011, Risk Management focused on mapping operational risks in company processes. The creation of this risk map was prompted by the need to identify the origin of potential losses due to operational risks, tracing the events and other factors that could generate such losses. The aim is to identify the activities in individual company procedures affected by such losses. The company risk profile that can be drawn from the map enables the company to assess the advisability of implementing targeted monitoring, control, prevention and mitigation actions for such risks, with the assignment of roles and responsibilities to the company units involved.

As noted earlier, on 7 June 2011 the company's board of directors approved the compliance model pursuant to Legislative Decree 231/01, composed of the Code of Ethics, a General Part and six Special Parts.

In view of the organisational structure of the company, special attention has been paid to the risks associated with outsourcing/cosourcing. The main control over the actions of service providers working on an outsourcing/cosourcing basis is performed by internal company units that dialogue directly and continuously with those providers (the Administration, Planning and Control unit), tapping the resources of the parent company where appropriate in accordance with the framework agreement for the outsourcing of services.

4.1.3 Monitoring risk in the Terna Group

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

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. The Terna Group's exposure to such risks is essentially represented by the exposure of Terna S.p.A.

<u>LIQUIDITY RISK</u>

At 30 June 2011 Terna had €500 million in unused medium-term credit lines and €774.9 million in unused short-term credit lines. The company also holds certificates of deposit in the amount of €750 million and cash and cash equivalents of €279 million. Such amount is sufficient to refinance the long-term 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.

Credit risk management is also 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 default. In particular, the resolution establishes three instruments to safeguard the electricity market: a guarantee system (bank guarantees provided by individual dispatching customers, based on their revenues), the option of terminating dispatching contracts (in the event of insolvency or failure to replace enforced guarantees) and, finally, the possibility of recovering uncollected debts, after having taken all other possible collection actions, through a specific fee defined by the AEEG.

The overall exposure to credit risk at 30 June 2011 is represented by the carrying amount of financial assets (current and non-current) and trade receivables. As regards financial assets, Terna provides its services to counterparties considered solvent by the market, who therefore have a high credit standing.

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.

Certain long-term loans obtained by Terna S.p.A. contain covenants that are typical of international practice. The principal covenants relate to:

- the Company's bonds, comprising two issues of €600 million and €800 million in 2004, and three issues under the €4 billion bond issue programme, one of €500 million in 2007, one, in the form of a private placement, of €600 million in 2009, and one of €1,250 million in March 2011;

- bank debt, consisting of a revolving line of credit of €500 million, a "Club Deal" syndicated loan of €650 million, and a loan from the parent company, CDP, of €500 million that draws on EIB funds;
- loans to the company from the European Investment Bank (EIB) totalling €1,298 million.

LITIGATION

The main unrecognised commitments and contingencies of Terna and TELAT at 30 June 2011 are discussed below. The other subsidiaries had no unrecognised commitments and contingencies at that date.

Environmental and urban planning litigation

Environmental litigation originates from the installation and operation of electrical plants and primarily involves the harm that could be caused by exposure to the electrical and magnetic fields generated by power lines. Terna S.p.A. 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, Terna S.p.A. 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 THE FULL YEAR

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 second half of the year will be characterised by the continuation of fundraising activities. Following the amendments made to Ministerial Decree 228/99 with Decree 197 of the Ministry for the Economy and Finance of 5 October 2010, the first subscription period of the closed-end funds was extended from 18 to 24 months as from the publication of the prospectus or from the approval of the rules by the Bank of Italy. The rules of Fondo Investimenti per l'Abitare already provides for the first subscription period to have a maximum duration of 18 months as from the publication of the rules or any longer period established by law. Unit holders will be specifically notified that the maximum term of the first subscription period has been extended by law from 10 September 2011 to 10 March 2012. The extension of the first subscription period will also be notified to all parties who have expressed an interest in investing in the FIA.

In the coming months, in addition to completing the transaction for the MIT to subscribe the FIA, the company plans to carry out an additional subscription round with the private pension funds belonging to ADEPP with the aim of bringing total subscriptions of the FIA to €2 billion.

Investment will also continue in the second half of 2011. The company's investment team will be involved in analysing new projects in order to submit additional proposals for investment to the board of directors and in continuing the preparatory work for real estate projects by the local real estate funds for which CDPI has already earmarked funds on a preliminary basis, with a view to achieving final approval and subscription of the funds.

5.1.3 The outlook for the Terna Group

On the basis of the results achieved in the first half of the year and the current forecast for operations in the coming months, at the end of the year, it is felt that the Terna Group will achieve the objectives for this year as established in the 2011-2015 Strategic Plan, approved by the company's board of directors.

With reference to the external context, the signs of recovery seen in 2010 and the first half of 2011 are expected to continue with regard to the demand for energy. 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.

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

With regard to the cost of debt, net financial expense is likely to rise in the second half of the year, following an increase in interest rates and net debt linked largely to the significant level of capital investment.

In 2011, the consultations with the AEEG will also be completed, seeking to ensure continuity and stability of the principles underlying the determination of rates in the 4th regulatory period running from 2012 to 2015.

Rome, 27 July 2011

The Chairman
Franco Bassanini

REPORT OF THE INDEPENDENT AUDITORS

AUDITORS' REPORT ON THE REVIEW OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2011

To the Shareholders of
Cassa Depositi e Prestiti SpA

1 We have reviewed the condensed consolidated interim financial statements of Cassa Depositi e Prestiti Group and its subsidiaries (Cassa Depositi e Prestiti Group) as of 30 June 2011, comprising the consolidated balance sheet, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related explanatory notes. The Directors of Cassa Depositi e Prestiti SpA are responsible for the preparation of the condensed consolidated interim financial statements in accordance with the international accounting standard (IAS 34), applicable to interim financial reporting, as adopted by the European Union. Our responsibility is to issue this report based on our review.

2 Our work was conducted in accordance with the criteria for a review recommended by the National Commission for Listed Companies and the Stock Exchange (CONSOB) with Resolution no. 10867 of 31 July 1997. The review consisted principally of inquiries of company personnel about the information reported in the consolidated interim financial statements and about the consistency of the accounting principles utilised therein as well as the application of analytical review procedures on the data contained in the above mentioned condensed interim financial statements. The review excluded certain auditing procedures such as compliance testing and verification and validation tests of the assets and liabilities and was therefore substantially less in scope than an audit performed in accordance with generally accepted auditing standards. Accordingly, unlike an audit on the annual consolidated financial statements, we do not express a professional audit opinion on the consolidated interim financial statements.

The amounts of the consolidated financial statements of the prior year and the condensed consolidated interim financial statements of the prior year presented for comparative purposes were examined and subject to the review of other auditors; reference should be therefore made to their reports dated 28 April 2011 and dated 4 August 2010, respectively.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. 3.754.400,00 Euro i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n. 43 dell'Albo Consob - Altri Uffici: **Bari** 70124 Via Don Luigi Guanella 17 Tel. 0805640211 – **Bologna** Zola Predosa 40069 Via Tevere 18 Tel. 0516186211 – **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 – **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 – **Genova** 16121 Piazza Dante 7 Tel. 01029041 – **Napoli** 80121 Piazza dei Martiri 58 Tel. 08136181 – **Padova** 35138 Via Vicenza 4 Tel. 049873481 – **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 – **Parma** 43100 Viale Tanara 20/A Tel. 0521242848 – **Roma** 00154 Largo Fochetti 29 Tel. 06570251 – **Torino** 10129 Corso Montevecchio 37 Tel. 011556771 – **Trento** 38122 Via Grazioli 73 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 – **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 – **Verona** 37122 Corso Porta Nuova 125 Tel.0458002561

www.pwc.com/it

3 Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim financial statements of Cassa Depositi e Prestiti Group as of 30 June 2011 have not been prepared, in all material respects, in accordance with the international accounting standard (IAS 34), applicable to interim financial reporting, as adopted by the European Union.

Rome, 4 August 2011

PricewaterhouseCoopers SpA
Signed by

Lorenzo Pini Prato
(Partner)

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

(2)

CERTIFICATION pursuant to Article 154-bis of Legislative Decree 58/98

Certification of the condensed consolidated interim financial statements at 30 June 2011 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, paragraphs 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 condensed consolidated interim financial statements for the period (1 January – 30 June 2011).

2. In this regard:
2.1 the assessment of the appropriateness of the administrative and accounting procedures followed in preparing the condensed consolidated interim financial statements at 30 June 2011 was based on a process developed by Cassa depositi e prestiti S.p.A. in line with the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission, which is a generally accepted framework at the international level;
2.2 in the first half of 2011 the manager responsible for the preparation of the financial reports of Cassa depositi e prestiti S.p.A. assessed the adequacy and effective adoption of existing administrative and accounting procedures, with reference to the internal control system for financial reporting. Work also continued on the updating of information technology procedures of the parent company, which requires further activities for its completion.

3. In addition, we certify that:
3.1 the condensed consolidated interim 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 interim report on operations contains a reliable analysis of references to significant events in the first six months of the year and their impact on the condensed consolidated interim financial statements, together with a description of the main risks and uncertainties to be faced in the remaining six months of the year.

Rome, 4 August 2011

Chief Executive Officer	Manager responsible for the preparation of the financial reports
/signature/Giovanni Gorno Tempini	*/signature/Andrea Novelli*

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2011

FORM AND CONTENT OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2011

The condensed consolidated interim financial statements at 30 June 2011 have been prepared in conformity with the applicable regulations and are composed of:

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

CONSOLIDATED FINANCIAL STATEMENTS AT 30 JUNE 2011

(thousands of euros)

CONSOLIDATED BALANCE SHEET

	Assets	30/06/2011	31/12/2010
10.	Cash and cash equivalents	125,571,744	123,751,325
20.	Financial assets held for trading	865,194	856,438
40.	Financial assets available for sale	2,538,751	2,288,808
50.	Financial assets held to maturity	3,282,083	2,947,380
60.	Loans to banks	12,011,920	9,180,623
70.	Loans to customers	91,247,038	90,327,955
	of which securing covered bonds	*13,546,098*	*14,052,249*
80.	Hedging derivatives	422,305	583,088
100.	Equity investments	17,249,475	17,273,669
120.	Property, plant and equipment	10,327,296	10,000,820
130.	Intangible assets	766,683	772,130
	of which:		
	- goodwill	*486,332*	*486,723*
140.	Tax assets	350,342	482,696
	a) current	313,726	444,394
	b) deferred	36,616	38,302
150.	Non-current assets and disposal groups held for sale	-	575,793
160.	Other assets	1,862,429	1,896,287
	Total assets	**266,495,260**	**260,937,012**

(thousands of euros)

CONSOLIDATED BALANCE SHEET

	Liabilities and equity	30/06/2011	31/12/2010
10.	Due to banks	9,461,950	9,800,916
20.	Due to customers	104,595,330	106,988,550
	of which amounts to be disbursed on loans securing covered bonds	*797,427*	*871,850*
30.	Securities issued	129,546,775	120,083,003
	of which covered bonds	*5,216,155*	*5,378,892*
40.	Financial liabilities held for trading	746,671	940,034
60.	Hedging derivatives	860,733	1,232,520
70.	Adjustment of financial liabilities hedged generically (+/-)	61,084	63,683
80.	Tax liabilities	1,367,651	1,535,692
	a) current	308,763	476,003
	b) deferred	1,058,888	1,059,689
90.	Liabilities associated with assets held for sale	-	148,737
100.	Other liabilities	2,790,527	3,039,257
110.	Staff severance pay	67,384	68,605
120.	Provisions	199,899	235,670
	b) other provisions	199,899	235,670
140.	Valuation reserves	(551,166)	103,386
170.	Reserves	9,593,665	7,962,939
180.	Share premium reserve	5,882	2,601
190.	Share capital	3,500,000	3,500,000
210.	Non-controlling interests (+/-)	2,925,494	2,887,391
220.	Net income (loss) for the period	1,323,381	2,344,028
	Total liabilities and equity	**266,495,260**	**260,937,012**

(thousands of euros)

CONSOLIDATED INCOME STATEMENT

		30/06/2011	30/06/2010
10.	Interest income and similar revenues	3,614,285	3,131,694
20.	Interest expense and similar charges	(2,612,241)	(2,410,207)
30.	**Net interest income**	**1,002,044**	**721,487**
40.	Commission income	13,942	5,322
50.	Commission expense	(776,050)	(340,625)
60.	**Net commission income**	**(762,108)**	**(335,303)**
70.	Dividends and similar revenues	2,642	448,328
80.	Net gain (loss) on trading activities	(12,792)	(7,863)
90.	Net gain (loss) on hedging activities	624	1,692
100.	Gains (losses) on disposal or repurchase of:	3,790	31,246
	a) loans	3,789	30,225
	b) financial assets available for sale	0	1,021
	c) financial assets held to maturity	1	-
120.	**Gross income**	**234,200**	**859,587**
130.	Net impairment adjustments of:	(1,320)	124
	a) loans	(1,320)	124
140.	**Financial income (expense), net**	**232,880**	**859,711**
180.	Administrative expenses	(223,796)	(222,542)
	a) staff costs	(127,747)	(121,237)
	b) other administrative expenses	(96,049)	(101,305)
190.	Net provisions	(3,750)	(1,918)
200.	Net adjustments of property, plant and equipment	(192,979)	(177,189)
210.	Net adjustments of intangible assets	(26,487)	(22,268)
220.	Other operating income (costs)	795,711	758,471
230.	**Operating costs**	**348,699**	**334,554**
240.	Gains (losses) on equity investments	1,127,067	128,265
270.	Gains (losses) on disposal of investments	896	(261)
280.	**Income (loss) before tax from continuing operations**	**1,709,542**	**1,322,269**
290.	Income tax for the period on continuing operations	(266,094)	(300,148)
300.	**Income (loss) after tax on continuing operations**	**1,443,448**	**1,022,121**
310.	Income (loss) after tax on disposal groups held for sale	93,025	(669)
320.	**Net income (loss) for the period**	**1,536,473**	**1,021,452**
330.	Net income (loss) for the period pertaining to non-controlling interests	213,092	152,720
340.	**Net income (loss) for the period pertaining to shareholders of the parent company**	**1,323,381**	**868,732**

(thousands of euros)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		30/06/2011	30/06/2010
10.	**Net income (loss) for the period**	**1,536,473**	**1,021,452**
	Other comprehensive income net of taxes		
20.	Financial assets available for sale	(1,667)	(1,846,302)
60.	Cash flow hedges	964	(2,279)
70.	Exchange rate differences		110,551
100.	Share of valuation reserves of equity investments accounted for using equity method	(656,596)	(128,153)
110.	**Total other comprehensive income net of taxes**	**(657,299)**	**(1,866,183)**
120.	**Comprehensive income (items 10+110)**	**879,174**	**(844,731)**
130.	Consolidated comprehensive income pertaining to non-controlling interests	210,345	156,234
140.	**Consolidated comprehensive income pertaining to shareholders of the parent company**	**668,829**	**(1,000,965)**

(thousands of euros)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Balance at 31.12.10	Changes in opening balance	Balance at 1.1.11	Allocation of net income for previous year		Changes for the period								Equity at 30.06.2011 - Group	Equity at 30.06.2011 - Non-controlling interests
							Equity transactions								
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of own shares	Special dividend distribution	Changes in equity instruments	Derivatives on own shares	Stock options	Comprehensive income for first half of 2011		
Share capital:															
a) ordinary shares	2,450,000		2,450,000											**2,450,000**	**309,830**
b) preference shares	1,050,000		1,050,000											**1,050,000**	
Share premium reserve	2,601		2,601				3,281							**5,882**	**13,806**
Reserves:															
a) income	7,766,169		7,766,169	1,644,028		(6,166)	368							**9,404,399**	**1,944,997**
b) other	196,770		196,770			(7,309)						(195)		**189,266**	**460,113**
Valuation reserves	103,386		103,386										(654,552)	**(551,166)**	**(16,344)**
Equity instruments															
Treasury shares															
Net income (loss) for the period	2,344,028		2,344,028	(1,644,028)	(700,000)								1,323,381	**1,323,381**	**213,092**
Equity - Group	13,912,954		13,912,954	-	(700,000)	(13,475)	3,649					(195)	668,829	**13,871,762**	
Equity - Non-controlling interests	2,887,391		2,887,391	-	(183,408)	3,033	8,592					(458)	210,345		**2,925,494**

(thousands of euros)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Balance at 31.12.09	Changes in opening balance	Balance at 1.1.10	Allocation of net income for previous year		Changes for the period								Equity at 30.06.2010 - Group	Equity at 30.06.2010 - Non-controlling interests
							Equity transactions								
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of own shares	Special dividend distribution	Changes in equity instruments	Derivatives on own shares	Stock options	Comprehensive income for first half of 2010		
Share capital:															
a) ordinary shares	2,450,000		2,450,000											**2,450,000**	**308,945**
b) preference shares	1,050,000		1,050,000											**1,050,000**	
Share premium reserve	539		539				2,003							**2,542**	**5,948**
Reserves:															
a) income	4,970,149		4,970,149	1,726,022		(189,387)	223							**6,507,007**	**1,824,730**
b) other	316,007		316,007									(126)		**315,881**	**468,628**
Valuation reserves	2,118,026		2,118,026			186,843							(1,869,697)	**435,172**	**(39,392)**
Equity instruments															
Treasury shares															
Net income (loss) for the period	2,026,022		2,026,022	(1,726,022)	(300,000)								868,732	**868,732**	**152,720**
Equity - Group	12,930,743		12,930,743		(300,000)	(2,544)	2,226					(126)	(1,000,965)	**11,629,334**	
Equity - Non-controlling interests	2,726,875		2,726,875		(168,420)	1,973	5,211					(294)	156,234		**2,721,579**

(thousands of euros)

CONSOLIDATED STATEMENT OF CASH FLOWS (INDIRECT METHOD)

	30/06/2011	30/06/2010
A. OPERATING ACTIVITIES		
1. Operations	**704,088**	**1,124,259**
- net income for the period (+/-)	1,536,473	1,021,452
- gains (losses) on financial assets held for trading and on financial assets/liabilities at fair value (-/+)	12,792	7,860
- gains (losses) on hedging activities (-/+)	(625)	2,025
- net impairment adjustments (+/-)	1,320	(124)
- net value adjustments to property, plant and equipment and intangible assets (+/-)	219,467	199,566
- net provisions and other costs/revenues (+/-)	10,186	21,101
- unpaid taxes and duties (+)	146,420	174,362
- writedowns/writebacks of equity investments (+/-)	(1,123,821)	(128,264)
- other adjustments (+/-)	(98,124)	(173,719)
2. Cash generated by / used in financial assets	**(3,801,152)**	**(6,219,898)**
- financial assets held for trading	(28,819)	(122,898)
- financial assets available for sale	(251,098)	(1,360,049)
- loans to banks: on demand	(882,138)	(901)
- loans to banks: other	(1,613,952)	(2,390,455)
- loans to customers	(1,554,042)	(2,249,616)
- other assets	528,897	(95,979)
3. Cash generated by / used in financial liabilities	**5,919,930**	**8,620,409**
- due to banks: other	(341,212)	2,388,394
- due to customers	(2,232,085)	3,115,159
- securities issued	9,575,582	3,532,047
- financial liabilities held for trading	(186,357)	126,350
- other liabilities	(895,998)	(541,541)
Cash generated by / used in operating activities	**2,822,866**	**3,524,770**
B. INVESTING ACTIVITIES		
1. Cash generated by	**1,176,024**	**13,963**
- sale of equity investments	-	-
- dividends from equity investments	528,089	6,918
- sale of financial assets held to maturity	49,998	-
- sale of property plant and equipment	597,937	7,045
- sale of intangible assets	-	-
2. Cash used in	**(947,257)**	**(787,746)**
- purchase of equity investments	(35,666)	-
- purchase of financial assets held to maturity	(366,746)	(300,137)
- purchase of property, plant and equipment	(523,406)	(463,113)
- purchase of intangible assets	(21,439)	(24,496)
- purchase of business units	-	-
Cash generated by / used in investing activities	**228,767**	**(773,783)**
C. FINANCING ACTIVITIES		
- issue/purchase of equity instruments	1,231	6,692
- dividend distribution and other allocations	(883,408)	(468,420)
Cash generated by / used in financing activities	**(882,177)**	**(461,728)**
CASH GENERATED / USED DURING THE PERIOD	**2,169,456**	**2,289,259**

RECONCILIATION

Cash and cash equivalents at beginning of period	123,780,552	115,134,615
Total cash generated/used during the period	2,169,456	2,289,259
Cash and cash equivalents at end of period	125,950,008	117,423,874

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONSOLIDATED INTERIM FINANCIAL REPORT AT 30 JUNE 2011)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

INTRODUCTION

STRUCTURE AND CONTENT OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

These condensed consolidated interim financial statements have been prepared in accordance with international accounting standards, specifically IAS 34, which establishes the minimum content and preparation rules for interim financial reports.

The financial statements are expressed in euros and include the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and these explanatory notes to the financial statements and related annexes, as well as the directors' report on operations.

The condensed consolidated interim financial statements at 30 June 2011 present a clear, true and fair view of the performance and financial position for the period. The figures reported in the statements correspond with the company's accounting records and fully reflect the transactions conducted during the period.

PRESENTATION OF DATA

The financial statements and the tables in the explanatory notes 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 as positive numbers, while costs are shown as negative numbers (in parentheses).

The figures in the explanatory 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 statement of cash flows 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.

COMPARISON AND DISCLOSURE

The financial statements comply with the provisions of Bank of Italy circular no. 262/2005 as updated on 18 November 2009 and, in accordance with IAS 34, contain the following comparative information in addition to the accounting data at 30 June 2011:

- balance sheet at 31 December 2010;
- income statement at 30 June 2010;
- statement of comprehensive income at 30 June 2010;
- statement of changes in equity at 30 June 2010;
- statement of cash flows at 30 June 2010.

CDP SEGREGATED ASSET POOL

The CDP Group holds the covered bond segregated asset pool, which pertains to the parent company.

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 that 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 in the financial statements.

AUDITING OF THE FINANCIAL STATEMENTS

The CDP condensed consolidated interim financial statements have undergone a limited audit by PricewaterhouseCoopers S.p.A. in execution of the shareholder resolution of 25 May 2011, which engaged this firm to audit the financial statements and accounts for the period 2011-2019.

ACCOUNTING POLICIES

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 and International Accounting Standards (IFRSs/IASs) issued by the IASB (and related IFRIC and SIC interpretations) endorsed by the European Commission as of 30 June 2011. More specifically, the condensed consolidated interim financial statements have been prepared in compliance with the provisions of IAS 34 governing interim financial reporting. As permitted under this standard, CDP has elected to prepare a condensed report in place of the full reporting envisaged for the annual financial statements.
The schedules have been prepared in compliance with the Bank of Italy circular of 22 December 2005 as updated on 18 November 2009.

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 explanatory notes to the financial statements also include supplemental information for such purpose.

These condensed consolidated interim 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.

Pursuant to the provisions of joint Bank of Italy/Consob/Isvap document no. 2 of 6 February 2009 and document no. 4 of 4 March 2010 concerning disclosures on business continuity and in compliance with the requirements on the same issue contained in IAS 1 Revised, the CDP Group has conducted an assessment of its ability to continue to operate as a going concern, considering all available information over a medium-term time horizon.
Based on an analysis of the information and the results achieved in previous years, the CDP Group feels that it is appropriate to prepare its financial statements on a going-concern basis.

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

SECTION 3 – SCOPE AND METHODS OF CONSOLIDATION

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

EQUITY INVESTMENTS IN SUBSIDIARIES AND JOINT VENTURES (CONSOLIDATED PROPORTIONATELY)

	Registered office	Type of relationship (1)	Equity investment		% of votes (2)
			Investor	% holding	
A. Enterprises					
A.1 Consolidated on a line-by-line basis					
1. Terna S.p.A.	Rome	2	CDP S.p.A.	29.85%	29.85%
2. CDP Investimenti SGR S.p.A.	Rome	1	CDP S.p.A.	70.00%	70.00%
3. Sun Tergrid S.p.A.	Rome	1	Terna S.p.A.	100%	100%
4. Telat S.r.l.	Rome	1	Terna S.p.A.	100%	100%
5. Terna Crna Gora	Podgorica	1	Terna S.p.A.	100%	100%
6. Rete Solare S.r.l	Rome	1	Terna S.p.A.	100%	100%
7. Nuova Rete Solare S.r.l.	Rome	1	Terna S.p.A.	100%	100%
8. Reno Solar 2 S.r.l.	Rome	1	Terna S.p.A.	100%	100%
9. Lira PV S.r.l.	Rome	1	Terna S.p.A.	100%	100%
10. Solar Margherita S.r.l.	Rome	1	Terna S.p.A.	100%	100%
A.2 Consolidated proportionately					

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

SECTION 4 – EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

During the period between the reporting date for the financial statements and their approval by the Board of Directors, no events occurred that would require supplemental disclosure.

SECTION 5 – OTHER ISSUES

Following the sale of the photovoltaic companies (Rete Rinnovabile S.r.l. and Valmontone Energia S.r.l.) at 31 March 2011, the comparative income statement data at 30 June 2010 affected by the transactions have been restated.

The following table reports restatements made to the Group income statement at 30 June 2010.

CONSOLIDATED INCOME STATEMENT

(thousands of euros)

		30/06/2010 Restated	30/06/2010	Change
10.	Interest income and similar revenues	3,131,694	3,132,877	1,183
20.	Interest expense and similar charges	(2,410,207)	(2,411,317)	(1,110)
30.	**Net interest income**	**721,487**	**721,560**	**73**
40.	Commission income	5,322	5,322	
50.	Commission expense	(340,625)	(340,625)	
60.	**Net commission income**	**(335,303)**	**(335,303)**	
70.	Dividends and similar revenues	448,328	448,328	
80.	Net gain (loss) on trading activities	(7,863)	(7,863)	
90.	Net gain (loss) on hedging activities	1,692	1,617	(75)
100.	Gains (losses) on disposal or repurchase of:	31,246	31,246	
	a) loans	30,225	30,225	
	b) financial assets available for sale	1,021	1,021	
120.	**Gross income**	**859,587**	**859,585**	**(2)**
130.	Net impairment adjustments of:	124	124	
	a) loans	124	124	
140.	**Financial income (expense), net**	**859,711**	**859,709**	**(2)**
180.	Administrative expenses	(222,542)	(226,561)	(4,019)
	a) staff costs	(121,237)	(121,251)	(14)
	b) other administrative expenses	(101,305)	(105,310)	(4,005)
190.	Net provisions	(1,918)	(1,188)	730
200.	Net adjustments of property, plant and equipment	(177,189)	(177,298)	(109)
210.	Net adjustments of intangible assets	(22,268)	(22,268)	
220.	Other operating income (costs)	758,471	757,583	(888)
230.	**Operating costs**	**334,554**	**330,268**	**(4,286)**
240.	Gains (losses) on equity investments	128,265	128,265	
270.	Gains (losses) on disposal of investments	(261)	3,245	3,506
280.	**Income (loss) before tax from continuing operations**	**1,322,269**	**1,321,487**	**(782)**
290.	Income tax for the period on continuing operations	(300,148)	(300,148)	
300.	**Income (loss) after tax on continuing operations**	**1,022,121**	**1,021,339**	**(782)**
310.	Income (loss) after tax on disposal groups held for sale	(669)	113	782
320.	**Net income (loss) for the period**	**1,021,452**	**1,021,452**	
330.	Net income (loss) for the period pertaining to non-controlling interests	152,720	152,720	
340.	**Net income (loss) for the period pertaining to shareholders of the parent company**	**868,732**	**868,732**	

THE MAIN FINANCIAL STATEMENT AGGREGATES

The accounting policies governing the classification, recognition, measurement and derecognition of assets and liabilities and the recognition of revenues and costs used in preparing the half-year financial statements are the same as those adopted in preparing the annual financial statements.

The following pages provide a description of the accounting principles adopted in preparing the condensed consolidated interim 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 demand deposits (i.e. the reserve requirement).

5 – 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.

6 – 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. For the purpose of using the equity method, account is also taken of treasury shares held by the investee company.
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.

7 – 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.

8 – 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.

9 – 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.

10 – CURRENT AND DEFERRED TAXATION

Corporate income tax (IRES) and the regional tax on business activities (IRAP), which are determined in compliance with applicable tax law, are recognised on the basis of a realistic estimate of the associated income components for the period.
Deferred tax items regard the recognition of the effects of differences, including timing 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). More specifically, “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 – are recognised in the tax provision without offsetting against deferred tax assets, which are recognised in the balance sheet under "Tax assets".
If the deferred tax items regard developments that directly affect equity, they are recognised in equity.

11 – 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.

12 – DEBT AND SECURITIES ISSUED

"Due to banks" (item 10) and "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.

13 – 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.

14 – 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.

15 - 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 account held with the Central State Treasury.
The balance is increased for accrued interest that has not yet been settled on the current account. 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 in effective hedging relationships.

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, the volatility of the security and the yield curve at the grant date, in line with the duration of the plan.

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

CAPITALISED BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of an asset that qualify for capitalisation are capitalised as part of the cost of the asset. The qualifying assets (property, plant and equipment and intangible assets) involved are those that require at least one year before being ready for use. The directly attributable borrowing cost is that which would not have been incurred if the expenditure for the asset had not been incurred.

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

GRANTS

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

REVENUES

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

- revenues from the sale of goods are recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer;
- revenues from services are recognised with reference to the stage of completion of the service. If revenues cannot be reliably measured, they are recognised to the extent of recoverable costs.

More specifically, revenues of the Terna Group 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-Terna 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.

DISCLOSURES ON FAIR VALUE MEASUREMENT

HIERARCHY OF FAIR VALUE INPUTS

(thousands of euros)

PORTFOLIOS: BREAKDOWN BY LEVEL OF FAIR VALUE INPUTS

	30/06/2011			31/12/2010		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading		863,857	1,337		855,230	1,208
2. Financial assets at fair value						
3. Financial assets available for sale	2,430,084	7,280	101,387	2,211,559	7,270	69,979
4. Hedging derivatives		421,282	1,023		582,518	570
Total	**2,430,084**	**1,292,419**	**103,747**	**2,211,559**	**1,445,018**	**71,757**
1. Financial liabilities held for trading		15,182	731,489		190,910	749,124
2. Financial liabilities at fair value						
3. Hedging derivatives		854,447	6,286		1,217,337	15,183
Total		**869,629**	**737,775**		**1,408,247**	**764,307**

(thousands of euros)

CHANGE FOR THE PERIOD IN FINANCIAL ASSETS AT FAIR VALUE (LEVEL 3)

	FINANCIAL ASSETS			
	held for trading	at fair value	available for sale	hedging
1. Opening balance	**1,208**		**69,979**	**570**
2. Increases	**129**		**37,852**	**453**
2.1 Purchases			32,725	
2.2 Profits taken to:	129		5,127	453
2.2.1 Income statement	129			453
- of which: capital gains	*129*			*453*
2.2.2 Equity	x	x	5,127	
2.3 Transfers from other levels				
2.4 Other increases				
3. Decreases			**6,444**	
3.1 Sales			52	
3.2 Repayments				
3.3 Losses taken to:			6,392	
3.3.1 Income statement				
- of which: capital losses				
3.3.2 Equity	x	x	6,392	
3.4 Transfers to other levels				
3.5 Other decreases				
4. Closing balance	**1,337**		**101,387**	**1,023**

(thousands of euros)

CHANGE FOR THE PERIOD IN FINANCIAL LIABILITIES AT FAIR VALUE (LEVEL 3)

	FINANCIAL LIABILITIES		
	held for trading	**at fair value**	**hedging**
1. Opening balance	**749,124**		**15,183**
2. Increases	**14,689**		
2.1 Purchases	2,917		
2.2 Losses taken to:	11,772		
2.2.1 Income statement	11,772		
- of which: capital losses	*11,772*		
2.2.2 Equity	x	x	
2.3 Transfers from other levels			
2.4 Other increases			
3. Decreases	**32,324**		**8,897**
3.1 Sales	1,086		
3.2 Repayments			
3.3 Profits taken to:	31,238		8,897
3.3.1 Income statement	31,238		8,897
- of which: capital gains	*31,238*		*8,897*
3.3.2 Equity	x	x	
3.4 Transfers to other levels			
3.5 Other decreases			
4. Closing balance	**731,489**		**6,286**

INFORMATION ON THE BALANCE SHEET

ASSETS

CASH AND CASH EQUIVALENTS – ITEM 10

The liquid assets of the CDP Group are mainly deposited on the interest-bearing treasury current account no. 29814 held at the Bank of Italy denominated "*Cassa DP SPA-gestione separata*", which holds all liquid balances associated with the operations conducted by CDP in its activities under the Separate Account. At the end of the first half of 2011 the balance on the account was about €124,144 million.

As envisaged by Article 6.1 of the MEF decree of 5 December 2003, the Ministry for the Economy and Finance pays semi-annual interest on account no. 29814 the interest-bearing treasury account at a floating rate equal to the simple arithmetic mean between the gross yield on 6-month Treasury bills and the monthly level of the Rendistato index.

Interest accrued and not yet paid on account no. 29814 amounted to about €1,427 million.

FINANCIAL ASSETS HELD FOR TRADING – ITEM 20

(thousands of euros)

FINANCIAL ASSETS HELD FOR TRADING: COMPOSITION BY TYPE

	30/06/2011	31/12/2010
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	865,194	856,438
1.1 trading	865,194	856,438
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	**865,194**	**856,438**
Total (A+B)	**865,194**	**856,438**

The financial derivatives set out in the table exclusively consist of financial derivatives of CDP S.p.A. and, in particular, 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.

FINANCIAL ASSETS AVAILABLE FOR SALE – ITEM 40

(thousands of euros)

FINANCIAL ASSETS AVAILABLE FOR SALE: COMPOSITION BY TYPE

	30/06/2011	31/12/2010
1. Debt securities	2,437,364	2,218,828
1.1 Structured securities		
1.2 Other debt securities	2,437,364	2,218,828
2. Equity securities	10,310	10,310
2.1 At fair value		
2.2 At cost	10,310	10,310
3. Units in collective investment undertakings	91,077	59,670
4. Loans		
Total	**2,538,751**	**2,288,808**

The assets reported in the table pertain entirely to CDP S.p.A.
The increase in the item is mainly attributable to the subscription of government securities during the period as a means of investing liquidity.

FINANCIAL ASSETS HELD TO MATURITY – ITEM 50

The increase in the item is associated with the purchase during the period by CDP S.p.A. of inflation-linked government securities with a nominal value of about €300 million acquired by CDP as an operational hedge of the issue of postal savings bonds indexed to inflation.

LOANS TO BANKS – ITEM 60

(thousands of euros)

LOANS TO BANKS: COMPOSITION BY TYPE

	Banking group	Other entities	30/06/2011	31/12/2010
A. Claims on central banks	**4,049,010**		**4,049,010**	**4,059,117**
1. Fixed-term deposits				
2. Reserve requirement	4,049,010		4,049,010	4,059,117
3. Repurchase agreements				
4. Other				
B. Loans to banks	**6,931,773**	**1,031,137**	**7,962,910**	**5,121,506**
1. Current accounts and demand deposits	369,345	1,031,137	1,400,482	248,350
2. Fixed-term deposits	830,950		830,950	1,203,858
3. Other financing	5,731,478		5,731,478	3,669,298
3.1 repurchase agreements				
3.2 finance leasing				
3.3 other	5,731,478		5,731,478	3,669,298
4. Debt securities				
4.1 structured				
4.2 other debt securities				
Total	**10,980,783**	**1,031,137**	**12,011,920**	**9,180,623**

The increase in the balance for the period is mainly attributable to new loans granted by CDP S.p.A. to banks within the framework of economic support instruments (loans to SMEs and Abruzzo earthquake reconstruction loans).

The balance for the banking group also includes the liquidity of CDPI SGR deposited on a bank current account in the amount of about €5 million.

The balance of the item for other entities, equal to about €1,031 million, increased with respect to 31 December 2010, mainly due to the subscription of €750 million in certificates of deposit with a maturity of less than 12 months by the Terna Group.

LOANS TO CUSTOMERS – ITEM 70

Loans to customers mainly regard lending operations under the Separate Account and Ordinary Account of CDP and include unlisted securities issued by public entities, public-law bodies and other entities subscribed by the parent company. The following table provides a breakdown of the positions by technical form.

(thousands of euros)

LOANS TO CUSTOMERS: COMPOSITION BY TYPE

	30/06/2011		31/12/2010	
	Performing	Impaired	Performing	Impaired
1. Current accounts	109		107	
2. Repurchase agreements				
3. Loans	89,823,228	52,084	88,808,086	37,131
4. Credit cards, personal loans and loans repaid by automatic deductions from wages				
5. Finance leasing				
6. Factoring				
7. Other	9,014		110,122	
8. Debt securities	1,362,603		1,372,509	
8.1 structured				
8.2 other debt securities	1,362,603		1,372,509	
Total	**91,194,954**	**52,084**	**90,290,824**	**37,131**

Loans include €13,546 million, highlighted in the balance sheet, pledged as collateral for covered bonds issued by CDP.

Total writedowns of loans amount to €61 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.

Developments in the impaired exposures of the banking group and the associated writedowns during the period are reported in the following table.

(thousands of euros)

BANKING GROUP - ON-BALANCE-SHEET EXPOSURES TO CUSTOMERS: CHANGES IN GROSS IMPAIRED POSITIONS

	Bad debts	Substandard loans	Restructured positions	Past due positions
A. Opening gross exposure	**37,294**	**53,594**	**-**	**5,679**
- of which: exposures assigned but not derecognised				
B. Increases	**2,036**	**3,182**		**16,346**
B.1 transfers from performing positions		1,881		16,344
B.2 transfers from other categories of impaired positions	1,302	904		
B.3 other increases	734	397		2
C. Decreases	**(482)**	**(1,903)**		**(2,907)**
C.1 to performing loans		(509)		(1,486)
C.2 writeoffs				
C.3 collections	(482)	(92)		(517)
C.4 assignments				
C.5 transfers to other categories of impaired positions		(1,302)		(904)
C.6 other decreases				
D. Closing gross exposure	**38,848**	**54,873**	**-**	**19,118**
- of which: exposures assigned but not derecognised				

(thousands of euros)

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

	Bad debts	Substandard loans	Restructured positions	Past due positions
A. Total opening adjustments	**33,564**	**25,176**		
- of which: exposures assigned but not derecognised				
B. Increases	**1,833**	**3**		
B.1 writedowns	1,833	3		
B.2 transfers from other categories of impaired positions				
B.3 other increases				
C. Decreases	**(86)**	**(32)**		
C.1 writebacks from valuations	(86)	(32)		
C.2 writebacks from collection				
C.3 writeoffs				
C.4 transfers to other categories of impaired positions				
C.5 other decreases				
D. Total closing adjustments	**35,311**	**25,147**		
- of which: exposures assigned but not derecognised				

HEDGING DERIVATIVES – ITEM 80

(thousands of euros)

HEDGING DERIVATIVES: COMPOSITION BY TYPE OF HEDGE

	Banking group	Other entities	30/06/2011	31/12/2010
A. Financial derivatives:	**158,592**	**263,713**	**422,305**	**583,088**
1) Fair value	133,737	263,713	397,450	553,254
2) Cash flow	24,855		24,855	29,834
3) Investment in foreign operation				
B. Credit derivatives				-
1) Fair value				
2) Cash flow				
Total	**158,592**	**263,713**	**422,305**	**583,088**

The item reports derivatives transactions which at the end of the period had a positive value and were carried out to hedge the exposure to changes in fair value and in cash flows.

EQUITY INVESTMENTS – ITEM 100

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. Imprese					
1. Eni S.p.A.	Rome	Significant influence	CDP S.p.A.	26.37%	26.37%
2. Galaxy S.àr.l. SICAR	Luxembourg	Significant influence	CDP S.p.A.	40.00%	40.00%
3. Europrogetti & Finanza S.p.A. in liquidazione	Rome	Significant influence	CDP S.p.A.	31.80%	31.80%
4. Cesi S.p.A.	Milan	Significant influence	Terna S.p.A.	41.41%	41.41%
5. Elmed Etudes S.àr.l.	Tunis	Joint control	Terna S.p.A.	50.00%	50.00%
6. Coreso S.A.	Brussels	Significant influence	Terna S.p.A.	22.49%	22.49%
7. CrnoGorski Elektroprenosni Sistem AD ("CGES")	Podgorica	Significant influence	Terna S.p.A.	22.09%	22.09%

There were no changes in the portfolio of equity investments held by the parent company, CDP S.p.A., during the period.
As regards the equity investments held by Terna S.p.A., there was an increase in the stake held in Cesi S.p.A. (from 39.906% to 41.406%) and the acquisition of 22.089% of CrnoGorski Elektroprenosni Sistem AD (CGES).

(thousands of euros)

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

	30/06/2011	31/12/2010
1. Eni S.p.A.	17,162,229	17,240,440
2. Galaxy S.àr.l. SICAR	25,254	9,657
3. Europrogetti & Finanza S.p.A. in liquidazione	-	-
4. Cesi S.p.A.	26,403	23,285
5. Elmed Etudes S.àr.l.	-	-
6. Coreso S.A.	345	287
7. CrnoGorski Elektroprenosni Sistem AD ("CGES")	35,244	-
Total	**17,249,475**	**17,273,669**

The investment in Eni, which has been accounted for using the equity method, was equal to about 29.16%, taking account of treasury shares held by Eni itself.

PROPERTY, PLANT AND EQUIPMENT – ITEM 120

Property, plant and equipment includes all of the movable property and real estate held by the Group, net of depreciation, and at period-end break down as follows:

(thousands of euros)

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

	Banking group	Other entities	30/06/2011	31/12/2010
A. Operating assets				
1.1 owned	**198,371**	**10,128,925**	**10,327,296**	**10,000,820**
a) land	117,406	88,302	205,708	199,120
b) buildings	66,279	736,939	803,218	739,175
c) movables	2,858	7,757	10,615	9,353
d) electrical plant	1,549	37,336	38,885	20,659
e) other	10,279	9,258,591	9,268,870	9,032,513
1.2 acquired under finance leases				
a) land				
b) buildings				
c) movables				
d) electrical plant				
e) other				
Total A	**198,371**	**10,128,925**	**10,327,296**	**10,000,820**
B. Investment property				
2.1 owned				
a) land				
b) buildings				
2.2 acquired under finance leases				
a) land				
b) buildings				
Total B				
Total (A+B)	**198,371**	**10,128,925**	**10,327,296**	**10,000,820**

Property, plant and equipment of other Group entities essentially comprises the electricity transmission network, the transformation stations in Italy.
The increase in the item is largely due to investments to develop and upgrade the grid during the period, as well as the value of the investments (land and buildings) of Reno Solar 2, Lira PV and Solar Margherita, which were acquired in the second quarter of 2011.

INTANGIBLE ASSETS – ITEM 130

Intangible assets break down as follows:

(thousands of euros)

INTANGIBLE ASSETS: COMPOSITION BY CATEGORY

	Banking group		Other entities		30/06/2011		31/12/2010	
	Definite life	Indefinite life	Definite life	Indefinite life	Definite life	Indefinite life	Definite life	Indefinite life
A.1 Goodwill	x		x	**486,332**	x	**486,332**	x	**486,723**
A.1.1 pertaining to Group	x		x	486,332	x	486,332	x	486,723
A.1.2 non-controlling interests	x		x		x		x	
A.2 Other intangible assets	**4,101**		**276,250**		**280,351**		**285,407**	
A.2.1 Assets carried at cost	4,101		276,250		280,351		285,407	
a) internally-generated intangible assets			24,226		24,226		32,729	
b) other assets	4,101		252,024		256,125		252,678	
A.2.2 Assets carried at fair value								
a) internally-generated intangible assets								
b) other assets								
Total	**4,101**		**276,250**	**486,332**	**280,351**	**486,332**	**285,407**	**486,723**

The item mainly regards the following assets pertaining to other Group entities:

- the rights to infrastructure used for the dispatching service, recognised in application of IFRIC 12 with a net carrying amount at 30 June 2011 of €100 million for infrastructure already in use and €33.9 million for infrastructure under construction;
- the concession for the provision of electricity transmission and dispatching services in Italy, with a net carrying amount of €103.7 million at 30 June 2011;
- goodwill, which was largely unchanged during the period.

OTHER ASSETS – ITEM 160

The item, which was equal to €1,862 million at the end of the period (a decrease of 1.8% compared with the end of 2010), mainly comprises the trade receivables of the Terna Group in respect of electricity dispatching services and the fees paid by electricity distributors to use the National Transmission Grid.

LIABILITIES

DUE TO BANKS – ITEM 10

(thousands of euros)

DUE TO BANKS: COMPOSITION BY TYPE

	Banking group	Other entities	30/06/2011	31/12/2010
1. Due to central banks	**93,046**		**93,046**	**417,435**
2. Due to banks	**7,663,392**	**1,705,512**	**9,368,904**	**9,383,481**
2.1 Current accounts and demand deposits	7,756		7,756	236,347
2.2 Fixed-term deposits	560,783		560,783	649,634
2.3 Loans	7,094,853	1,705,512	8,800,365	8,493,336
2.3.1 Repurchase agreements	4,889,571		4,889,571	4,456,825
2.3.2 Other	2,205,282	1,705,512	3,910,794	4,036,511
2.4 Liabilities in respect of commitments to repurchase own equity instruments				
2.5 Other payables				4,164
Total	**7,756,438**	**1,705,512**	**9,461,950**	**9,800,916**

The rise in the amounts due to banks of the banking group during the period is mainly attributable to drawings on credit lines granted by the EIB in the total amount of €850 million.

The decrease in the amounts due to banks of other entities essentially regards the repayment of maturing instalments (about €30 million) on loans from the EIB, the repayment of the Revolving Credit Facility in the total amount of €750 million and the repayment of a short-term loan in the amount of €50 million.

DUE TO CUSTOMERS – ITEM 20

(thousands of euros)

DUE TO CUSTOMERS: COMPOSITION BY TYPE

	30/06/2011	31/12/2010
1. Current accounts and demand deposits	94,664,209	97,661,375
2. Fixed-term deposits	28,787	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	9,902,334	9,256,745
Total	**104,595,330**	**106,988,550**

Amounts due to customers are entirely accounted for by funding on the part of CDP S.p.A.

"Current accounts and demand deposits" mainly regard the value at 30 June 2011 of postal passbooks issued by CDP.

Other payables mainly regard amounts to be disbursed on loans to public entities and public-law bodies.

SECURITIES ISSUED – ITEM 30

(thousands of euros)

SECURITIES ISSUED: COMPOSITION BY TYPE

	Banking group	Other entities	30/06/2011	31/12/2010
A. Securities				
1. Bonds	8,268,303	4,054,101	12,322,404	10,434,893
1.1 structured				
1.2 other	8,268,303	4,054,101	12,322,404	10,434,893
2. Other securities	117,224,371		117,224,371	109,648,110
2.1 structured	13,092,727		13,092,727	12,160,002
2.2 other	104,131,644		104,131,644	97,488,108
Total	**125,492,674**	**4,054,101**	**129,546,775**	**120,083,003**

As regards the banking group, the item includes covered bonds, bonds issued under the Euro Medium Term Notes programme and postal savings bonds.
During the period new issues were carried out under the EMTN programme in the total nominal amount of €1,150 million. During the same period, maturing bonds were redeemed in the amount of €100 million and bond repurchases were carried out in the amount of €250 million.
Other structured securities report indexed postal savings bonds and the *Premia* bonds, for which the embedded derivative has been separated from the host contract.

Securities issued by other entities increased, mainly due to a new bond issue by Terna S.p.A. in the first half of 2011, equal to €1,234.8 million net of costs and issue discount.

FINANCIAL LIABILITIES HELD FOR TRADING – ITEM 40

(thousands of euros)

FINANCIAL LIABILITIES HELD FOR TRADING: COMPOSITION BY TYPE

	30/06/2011	31/12/2010
A. On-balance-sheet liabilities		
1. Due to banks		
2. Due to customers		
3. Debt securities		
3.1 Bonds		
3.1.1 Structured		
3.1.2 Other		
3.2 Other securities		
3.2.1 Structured		
3.2.2 Other		
Total A		
B. Derivatives		
1. Financial derivatives	746,671	940,034
1.1 Trading		163,494
1.2 Associated with fair value option		
1.3 Other	746,671	776,540
2. Credit derivatives		
2.1 Trading		
2.2 Associated with fair value option		
2.3 Other		
Total B	**746,671**	**940,034**
Total (A+B)	**746,671**	**940,034**

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

HEDGING DERIVATIVES – ITEM 60

(thousands of euros)

HEDGING DERIVATIVES: COMPOSITION BY TYPE OF HEDGE

	Banking group	Other entities	30/06/2011	31/12/2010
A. Financial derivatives	**820,768**	**39,965**	**860,733**	**1,232,520**
1) Fair value	814,482		814,482	1,160,616
2) Cash flow	6,286	39,965	46,251	71,904
3) Investment in foreign operation				
B. Credit derivatives				
1) Fair value				
2) Cash flow				
Total	**820,768**	**39,965**	**860,733**	**1,232,520**

The cash flow hedge derivatives, pertaining to other Group entities, regard transactions carried out by Terna in respect of floating-rate loans received.

OTHER LIABILITIES – ITEM 100

The item amounted to €2,791 million (down 8.2% compared with the end of 2010). It mainly comprises the liability of the parent company, CDP, in respect of the fees due to Poste Italiane for its postal savings management and placement services and the trade payables of the Terna Group.

EQUITY – ITEMS 140, 170, 180, 190, 210 AND 220

(thousands of euros)

GROUP EQUITY: COMPOSITION

	30/06/2011	31/12/2010
1. Share capital	3,500,000	3,500,000
2. Share premium reserve	5,882	2,601
3. Reserves	9,593,665	7,962,939
4. (Treasury shares)	-	
5. Valuation reserves	(551,166)	103,386
6. Equity instruments		
7. Net income (loss) for the period	1,323,381	2,344,028
Total	**13,871,762**	**13,912,954**

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

The par value of the preference shares is reported under "Share capital" along with that of the ordinary shares, taking due account of the intentions expressed by the shareholders in this regard. Under the provisions of CDP's articles of association, preference shares will automatically be converted into ordinary shares as from 1 January 2013, without prejudice to the right of preference shareholders to withdraw from the company.

The company does not hold treasury shares.

INFORMATION ON THE INCOME STATEMENT

INTEREST – ITEMS 10 AND 20

(thousands of euros)

INTEREST INCOME AND SIMILAR REVENUES: COMPOSITION

	Debt securities	Loans	Other	30/06/2011	30/06/2010
1 Financial assets held for trading					
2 Financial assets at fair value					
3 Financial assets available for sale	31,452			**31,452**	**5,363**
4 Financial assets held to maturity	60,310			**60,310**	**8,818**
5 Loans to banks		63,422	35,187	**98,609**	**36,386**
6 Loans to customers	29,214	1,963,589	0	**1,992,803**	**1,958,100**
7 Hedging derivatives	x	x			
8 Other assets	x	x	1,431,111	**1,431,111**	**1,123,027**
Total	**120,976**	**2,027,011**	**1,466,298**	**3,614,285**	**3,131,694**

The balance at 30 June 2011 mainly regards interest income on loans by CDP, in the amount of about €2,027 million, and on liquidity deposited on current account no. 29814, in the amount of about €1,427 million.

The interest income of the Terna Group amounted to €12.9 million, mainly attributable to the yield on its short-term investments and interest on current account balances.

(thousands of euros)

INTEREST EXPENSE AND SIMILAR CHARGES: COMPOSITION

	Payables	Securities	Other	30/06/2011	30/06/2010
1 Due to central banks	2,543	x		**2,543**	
2 Due to banks	56,409	x		**56,409**	**22,549**
3 Due to customers	406,850	x		**406,850**	**355,390**
4 Securities issued	x	1,972,745		**1,972,745**	**1,802,421**
5 Financial liabilities held for trading			23	**23**	**327**
6 Financial liabilities at fair value					
7 Other liabilities and funds	x	x	(10,515)	**(10,515)**	**(7,633)**
8 Hedging derivatives	x	x	184,186	**184,186**	**237,153**
Total	**465,802**	**1,972,745**	**173,694**	**2,612,241**	**2,410,207**

The item mainly reports interest paid by CDP on the various forms of funding. More specifically, interest expense on amounts due to customers mainly regards interest on passbook savings accounts, totalling about €341 million, and interest on loans being repaid but not yet disbursed by CDP, equal to about €65 million.

Interest on securities issued regarded bond issues for about €113 million and postal savings bonds for about €1,793 million.

The negative differences on hedges amounted to about €184 million.

The interest expense at 30 June 2011 of the Terna Group includes about €16 million in interest on bank loans and about €66 million in interest on bonds issued, reduced by about €12 million by capitalised financial expense in respect of investments in property, plant and equipment.

COMMISSIONS - ITEMS 40 AND 50

During the period, CDP earned commission income on lending operations amounting to about €8.6 million and commission income of €1.5 million relating to the agreement signed with the Ministry for the Economy and Finance in respect of assets and liabilities transferred to the MEF pursuant to Article 3 of the ministerial decree of 5 December 2003. Commission income also includes management fees earned in the first half of the year by CDPI SGR in the amount of €3.9 million.

Commission expense mainly regarded the portion, equal to about €775 million, of the fees accruing for the period due to Poste Italiane S.p.A. for its postal savings placement and management services. The increase in the item with respect to the first half of 2010 is attributable to the new contractual arrangements between CDP and Poste Italiane for the 2011-2013 period. More specifically, under the new agreement the fee structure for Poste's activities has been modified so that the commissions no longer represent a cost directly attributable to the issue of new postal bonds – and as such incorporated in the initial value of the bond and amortized over the expected residual life of the security itself – but rather as a comprehensive fee for the activities performed as part of the postal saving service, which is recognized entirely in the year in which it accrues. The new fee structure is consistent with the developments in the service provided by Poste Italiane, which now emphasises the overall management of postal savings rather than merely providing placement services.
The balance at 30 June 2011 also includes the commission expense of the Terna Group in the amount of €760 thousand, mainly in respect of loans received.

DIVIDENDS AND SIMILAR REVENUES - ITEM 70

The balance at 30 June 2011 reports dividends authorised in the period in respect of equity investments in Istituto per il Credito Sportivo (about €2.4 million), F2i SGR S.p.A. (about €240 thousand) and Sinloc S.p.A. (about €47 thousand).

OTHER OPERATING COSTS/INCOME – ITEM 220

At 30 June 2011 the item showed a balance of €795.7 million, an increase of 5% compared with the first half of 2010. The rise is essentially attributable to the increase in revenues from the core business of Terna and its subsidiaries. More specifically:

1) an increase of €37.5 million in Terna revenues, mainly attributable to the effects of AEEG Resolution no. 228/10, which revised rates for 2011 (€32.4 million); grid transmission fees in respect of the defence plan also rose (+4.4 million);
2) the contribution of TELAT (+€3.3 million), including the revenues from the plants of the merged company Rete di Trasmissione Brescia, which was acquired in August 2010 and therefore was not comprised in the scope of consolidation for the first half of last year.

GAINS (LOSSES) ON EQUITY INVESTMENTS – ITEM 240

The item came to €1,127 million, reflecting the valuation at the end of the period of the Group's associated companies.

More specifically, the gains mainly regard the valuation of Eni S.p.A. (+€1,108 million) and Galaxy S.àr.l. SICAR (+€16 million).

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 30 June 2011 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 at 30 June 2011

(thousands of euros)

	Financial operations	Non-financial operations	Eliminations / Adjustments	Total CDP Group
Cash and cash equivalents and interbank deposits	129,386,888	1,029,243	-	130,416,130
Loans to customers and banks	95,825,269	-	(500,000)	95,325,269
Debt securities	5,966,515	-	-	5,966,515
Equity investments and shares	18,683,434	62,507	(1,395,079)	17,350,862
Assets held for trading and hedging derivatives	1,023,787	263,713	-	1,287,500
Property, plant and equipment and intangible assets	202,472	8,619,963	2,271,543	11,093,979
Accrued income, prepaid expenses and other non-interest-bearing assets	2,843,102	2,019	(2,885)	2,842,236
Other assets	570,144	1,643,306	(679)	2,212,770
Total assets	**254,501,609**	**11,620,751**	**372,900**	**266,495,260**
Funding	237,463,944	5,974,490	(500,000)	242,938,433
- of which: postal funding	*211,971,237*	-	-	*211,971,237*
- of which: funding from banks	*7,712,617*	*1,699,213*	-	*9,411,830*
- of which: funding from customers	*9,716,178*	*500,000*	*(500,000)*	*9,716,178*
- of which: funding from bonds	*8,063,912*	*3,775,277*	-	*11,839,189*
Liabilities held for trading and hedging derivatives	1,628,524	39,965	-	1,668,489
Accrued expenses, deferred income and other non-interest-bearing liabilities	380,498	288,043	(2,919)	665,621
Other liabilities	1,055,793	1,735,033	(299)	2,790,527
Provisions for contingencies, taxes and staff severance pay	231,625	747,566	655,743	1,634,934
Equity	13,741,227	2,835,654	220,376	16,797,256
Total liabilities and equity	**254,501,609**	**11,620,751**	**372,900**	**266,495,260**

Income statement at 30 June 2011

(thousands of euros)

	Financial operations	Non-financial operations	Eliminations / Adjustments	Total CDP Group
Net interest income	**1,063,742**	**(61,733)**	**35**	**1,002,044**
Dividends	608,732	-	(606,090)	2,642
Net commission income	(761,007)	(1,122)	21	(762,108)
Other net revenues	(11,928)	3,551	-	(8,377)
Gross income	**899,538**	**(59,304)**	**(606,034)**	**234,201**
Net writedowns	(1,320)	-	-	(1,320)
Overheads	(41,933)	(378,670)	(22,453)	(443,056)
of which: administrative expenses	*(37,932)*	*(185,761)*	*97*	*(223,595)*
Operating income	**860,872**	**549,957**	**(606,034)**	**804,795**
Gains on equity investments	-	3,246	1,123,821	1,127,067
Net income (loss)	**716,612**	**329,162**	**490,700**	**1,536,473**
Net income (loss) for the period pertaining to non-controlling interests				**213,092**
Net income (loss) for the period pertaining to shareholders of the parent company				**1,323,382**

TRANSACTIONS WITH RELATED PARTIES

1. Information on the compensation of directors and management

(thousands of euros)

REMUNERATION OF BOARD OF DIRECTORS AND BOARD OF AUDITORS

	30/06/2011
a) Board of Directors	847
b) Board of Auditors	60
Total	**907**

(thousands of euros)

REMUNERATION OF OTHER KEY MANAGEMENT PERSONNEL

	30/06/2011
(a) short-term benefits	3,058
(b) post-employment benefits	64
(c) other long-term benefits	
(d) severance benefits	108
(e) share-based payments	
Total	**3,230**

(thousands of euros)

REMUNERATION PAID TO BOARD OF DIRECTORS AND BOARD OF AUDITORS

Name	Position	Period in office	End of term (*)	Compensation and bonuses
Directors				
Franco Bassanini	Chairman	01/01/11-30/06/11	2012	160
Giovanni Gorno Tempini	Chief Executive Officer	01/01/11-30/06/11	2012	559
Cristian Chizzoli	Director	01/01/11-30/06/11	2012	18
Cristiana Coppola	Director	01/01/11-30/06/11	2012	18
Piero Gastaldo	Director	01/01/11-30/06/11	2012	(***)
Ettore Gotti Tedeschi	Director	01/01/11-30/06/11	2012	18
Vittorio Grilli	Director	01/01/11-30/06/11	2012	(**)
Nunzio Guglielmino	Director	01/01/11-30/06/11	2012	18
Mario Nuzzo	Director	01/01/11-30/06/11	2012	18
Supplementary members for administration of Separate Account (Article 5.8, Decree Law 269/03)				
Giovanni De Simone	Director (1)	01/01/11-30/06/11	2012	18
Maria Cannata	Director (2)	01/01/11-30/06/11	2012	(**)
Giuseppe Pericu	Director	01/01/11-30/06/11	2012	18
Romano Colozzi	Director	01/01/11-30/06/11	2012	18
Guido Podestà	Director	01/01/11-30/06/11	2012	18
Board of Auditors				
Angelo Provasoli	Chairman	01/01/11-30/06/11	2012	14
Paolo Fumagalli	Auditor	01/01/11-30/06/11	2012	10
Biagio Mazzotta	Auditor	01/01/11-30/06/11	2012	(**)
Gianfranco Romanelli	Auditor	01/01/11-30/06/11	2012	10
Giuseppe Vincenzo Suppa	Auditor	01/01/11-30/06/11	2012	(**)

(*) Date of Shareholders' Meeting called to approve financial statements for the year

(**) The remuneration is paid to the Ministry for the Economy and Finance

(***) The remuneration is paid to Compagnia di San Paolo

(1) Delegate of State Accountant General

(2) Delegate of Director General of the Treasury

2. Information on transactions with related parties

2.1 Banking group

At 30 June 2011 CDP was involved in the following transactions with the parent, subsidiaries and associates, as well as with Poste Italiane S.p.A., which is controlled by the Ministry for the Economy and Finance, with which CDP undertakes substantial transactions in connection with the management of postal savings.

Transactions with the Ministry for the Economy and Finance

The main transactions conducted with the Ministry for the Economy and Finance regarded the treasury service performed by the MEF and lending transactions.

Specifically, CDP’s liquidity is deposited on the interest-bearing account no. 29814 at the Central 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 average of the gross yield on 6-month treasury bills and the level of the monthly Rendistato index.

As regards receivables in respect of loans, it should be noted that about 34% 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 period-end were as follows:

(thousands of euros)

Transactions with Ministry for the Economy and Finance	30/06/2011
Cash and cash equivalents	125,571,614
Financial assets available for sale	2,229,924
Financial assets held to maturity	3,283,783
Loans to customers	32,161,211
Other assets	4,929
Due to customers	3,043,773
Other liabilities	81
Valuation reserves	75,264
Interest income and similar revenues	2,332,836
Interest expense and similar charges	(20,144)
Commission income	1,500
Commitments in respect of loans to disburse	5,631,883

Transactions with associates

Transactions with Eni S.p.A.

The transactions outstanding at 30 June 2011 with Eni S.p.A. regarded loans from CDP under the Revolving Fund to support enterprises and investment in research.

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

(thousands of euros)

Transactions with Eni S.p.A.	30/06/2011
Loans to customers	763
Interest income and similar revenues	2

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

Transactions outstanding at 30 June 2011 with Europrogetti & Finanza S.p.A. in liquidazione regard a loan, which has been fully written down, of about €1.8 million granted by CDP, of which about €298 thousand had not yet been disbursed.

(thousands of euros)

Transactions with Europrogetti & Finanza S.p.A. in liquidazione	30/06/2011
Loans to customers	-
Commitments for loans to be disbursed	298

Transactions with Poste Italiane S.p.A.

Transactions with Poste Italiane S.p.A. outstanding at 30 June 2011 regard 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 fee set in a specific agreement between the parties.

Outstanding transactions and the related financial effects at period-end were as follows:

(thousands of euros)

Transactions with Poste Italiane S.p.A.	30/06/2011
Loans to customers	521,681
Other liabilities	775,000
Interest income and similar revenues	9,952
Commission expense	(775,000)

2.2 Other entities

Transactions with other related parties during the period essentially regarded services rendered as part of ordinary operations that were settled on an arm's length basis. The following table sets out the nature of the Terna Group's transactions, assets and liabilities with related parties, as well as the relevant revenues and costs for the period and receivables and payables at 30 June 2011.

Related party	Assets	Liabilities
Cesi S.p.A.	*non-energy related items* Lease of laboratories and other similar structures for specific use	*non-energy related items* Technical consultancy, studies and research, design and experimentation
GSE Group	*energy-related items* Remuneration of the grid and MIS component, energy sales, 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, testing
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

(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
Associates:						
Cesi S.p.A.			0.1			0.9
Total associates			**0.1**			**0.9**
Other related parties:						
GSE Group	13.9	509.9	0.2		199.1	
Enel Group	617.8	306.7	1.4	2.6	302.7	1
Eni Group	2	129.4	0.2		57.9	0.1
Ferrovie Group	0.7	17.6		3.4	1.7	
Anas S.p.A.						
Total other related parties	**634.4**	**963.6**	**1.8**	**6**	**561.4**	**1.1**
Pension funds:						
Fondenel						0.2
Fopen						0.9
Total pension funds						**1.1**
Total	**634.4**	**963.6**	**1.9**	**6**	**561.4**	**3.5**

(millions of euros)

	Balance sheet			Guarantees*
	Property, plant and equipment	Receivables and other assets	Payables and other liabilities	
	Capitalised costs			
Associates:				
Cesi S.p.A.	4.2	0.1	2.5	0.8
Total associates	**4.2**	**0.1**	**2.5**	**0.8**
Other related parties:				
GSE Group			0.1	
Enel Group	1.6	119.6	26.7	372.5
Eni Group		0.6	2.5	10.2
Ferrovie Group		0.1	0.7	22
Anas S.p.A.		0.5	0.4	
Total other related parties	**1.6**	**120.8**	**30.4**	**404.7**
Pension funds:				
Fondenel				
Fopen			1.4	
Total pension funds			**1.4**	
Total	**5.8**	**121.3**	**34.3**	**405.5**

*The guarantees refer to the sureties received on contracts.

BUSINESS COMBINATIONS

1. Acquisitions by Nuova Rete Solare S.r.l.

Reno Solar 2 S.r.l.

On 18 May 2011 the company completed the acquisition from TRE S.p.A. - Tozzi Renewable Energy of 100% of Reno Solar 2 S.r.l., a company with share capital of €10,000, fully subscribed and paid in.

The total price paid amounted to €1,250,000.

Reno Solar 2, which operates in the renewable energy sector and was in the start-up stage at the acquisition date, has full and exclusive ownership of a project for the development and operation of a photovoltaic plant with a total capacity of 25 MW and the related works to connect to the NTG in the municipality of Alfonsine (RA), for which it obtained the relevant single authorisation on 1 June 2011. On the same date, contracts were signed with which Reno Solar 2 purchased the land on which the photovoltaic plant will be developed and obtained ownership of the right of way for the underground electric main in order to connect the plant to the NTG.

At the end of this section, we report the amount recognised, at the acquisition date, in respect of the company's assets and liabilities measured at fair value at that date, and the IFRS carrying amounts immediately before the combination.

The difference between the price paid for the purchase (€1,250 thousand) and the fair value of the assets acquired and liabilities assumed (€101 thousand) was provisionally allocated to inventories.

The process, which is not yet definitive, of allocating the excess cost paid for the acquisition of Reno Solar 2 involved the recognition of the following amounts:

- inventories: €1,149 thousand;
- deferred tax liabilities: €371 thousand.

Accordingly, following the allocation process and considering the tax effect, goodwill deriving from the business combination amounts to €371 thousand.

The company did not record any revenues for the first half of 2011.

Lira PV S.r.l.

On 1 June 2011, NRTS S.r.l. purchased from SunPower Malta Limited, a company subject to the management and coordination of SunPower Corporation, 100% of Lira PV S.r.l., with a share capital of €10,000, fully subscribed and paid in.
The total price for the transaction amounted to €1,768,500.
Lira PV S.r.l. is the owner of a project for the construction, development and operation of a photovoltaic plant with an authorised capacity of 26.26 MW on land located in the municipality of Lanuvio (RM) and the related works to connect to the NTG, for which it obtained the single authorisation on 18 June 2010.

At the end of this section, we report the amount recognised, at the acquisition date, in respect of the company's assets and liabilities measured at fair value at that date, and the IFRS carrying amounts immediately before the combination.
The difference between the price paid for the purchase (€1,769 thousand) and the fair value of the assets acquired and liabilities assumed (€3,829 thousand) is accounted for as revenue from a bargain purchase, under "other revenues and income" of the Group (€2,060 thousand).
No difference was found between the IFRS carrying amounts of the assets and liabilities acquired and their fair value.
The company did not record any revenues for the first half of 2011.

Solar Margherita S.r.l.

On 7 June 2011, NRTS S.r.l. completed the purchase from Margherita S.r.l., of the entire shares of Solar Margherita S.r.l., with share capital of €6,504,000, fully subscribed and paid in.
The total price for the transaction amounted to €6,562,500, of which €3,312,500 paid on the acquisition date while the remainder – which may be subject to adjustment of the contractual price – will be paid at the earlier of 31 August 2011 or the latest date of entry into operation of the two photovoltaic parks (indicated below) of which the company is the owner.
Solar Margherita S.r.l. was incorporated on 30 November 2010 with share capital of €3,379,000 subscribed and paid in by the then sole shareholder Margherita S.r.l. by way of the transfer of the business unit comprising all the assets and resources allocated to the implementation, operation and development of the photovoltaic plant located in the municipality of Troia (FG) with a total installed capacity of 13.516 MW, inclusive, among other things, of the single authorisation to build and operate the plant, issued on 24 November 2010.
In June 2011, in accordance with the provisions of the preliminary sale agreement, Solar Margherita S.r.l. approved a capital increase of €3,125,000 (par value), entirely paid in by Margherita S.r.l. by way of the transfer of the

business unit comprising all assets and, more generally, resources allocated to the development and operation of a photovoltaic plant with a total capacity of 12.50 MW and the related works to connect to the NTG, to be developed in the municipality of Ascoli Satriano e Deliceto (FG) for which the single authorisation was obtained on 9 March 2011.

At the end of this section, we report the amount recognised, at the acquisition date, in respect of the company's assets and liabilities measured at fair value at that date, and the IFRS carrying amounts immediately before the combination.
The difference between the price paid for the purchase (€6,563 thousand) and the fair value of the assets acquired and liabilities assumed (€6,499 thousand) was recognised as goodwill (€64 thousand).
No difference was found between the IFRS carrying amounts of the assets and liabilities acquired and their fair value.
The company did not record any revenues for the first half of 2011.

(thousands of euros)

	Reno Solar 2 S.r.l.		Lira PV S.r.l.		Solar Margherita S.r.l.	
	IFRS carrying amounts before combination	Fair value	IFRS carrying amounts before combination	Fair value	IFRS carrying amounts before combination	Fair value
NON-CURRENT ASSETS			**219**	**219**	**118**	**118**
Property, plant and equipment			219	219	118	118
CURRENT ASSETS	**104**	**1,253**	**3,895**	**3,895**	**6,737**	**6,737**
Inventories	64	1,213	3,123	3,123	6,494	6,494
Cash and cash equivalents			32	32	2	2
Tax assets	10	10				
Other current assets	30	30	740	740	241	241
TOTAL ASSETS	**104**	**1,253**	**4,115**	**4,115**	**6,856**	**6,856**
NON-CURRENT LIABILITIES	**-**	**371**				
Deferred tax liabilities		371				
CURRENT LIABILITIES	**3**	**3**	**286**	**286**	**357**	**357**
Short-term loans						
Trade payables			286	286	357	357
Current financial liabilities	3	3				
Other current liabilities						
TOTAL LIABILITIES	**3**	**374**	**286**	**286**	**357**	**357**
NET ASSETS AND LIABILITIES	**101**	**879**	**3,829**	**3,829**	**6,499**	**6,499**
Goodwill		371				64
Gain from bargain purchase				(2,060)		
Price	**1,250**	**1,250**	**1,769**	**1,769**	**6,563**	**6,563**