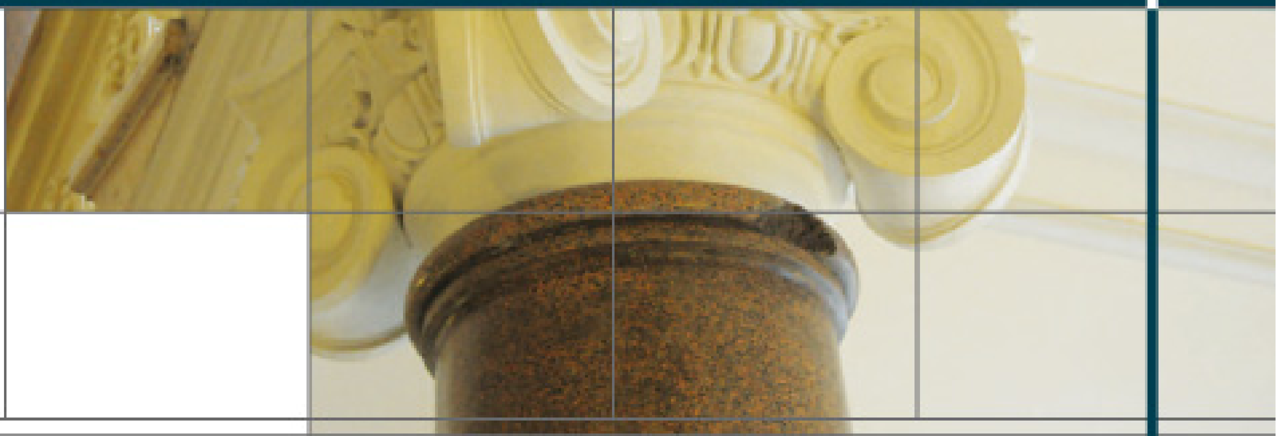
Cassa depositi e prestiti

CDP GROUP
Consolidated Report and Financial Statements

at 31 December 2009



cdp

2009 Consolidated Financial Statements

CDP GROUP

Cassa depositi e prestiti S.p.A. parent company of the CDP Group

REGISTERED OFFICE

ROME – Via Goito, 4

COMPANY REGISTER OF ROME

Entered in Company Register of Rome no. 80199230584

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

SHARE CAPITAL

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

Tax code 80199230584 – VAT registration no. 07756511007

CONTENTS

REPORT

ON

GROUP OPERATIONS

(YEAR ENDED 31 DECEMBER 2009)

CONTENTS OF THE REPORT ON GROUP OPERATIONS

1. PRESENTATION OF THE GROUP

1.1 INTRODUCTION

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

These circumstances require Cassa Depositi e Prestiti S.p.A. ("CDP") to prepare consolidated financial statements in addition to its individual separate financial statements. The consolidated financial statements are prepared using the formats established in Bank of Italy circular 262 of 22 December 2005 as updated, consolidating the assets, liabilities, costs and revenues of the Terna Group and CDPI SGR on a line-by-line basis, even though they use different formats for their own financial statements that are more appropriate for representing their specific operations. In particular, Terna uses the formats called for under the applicable accounting standards for non-financial companies.

In order to harmonise the data for consolidation purposes, Terna and CDPI SGR were asked to reclassify their financial statements on the basis of the formats established by the Bank of Italy for banks, which have already been adopted by CDP S.p.A.

The 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 and, accordingly, this representation is felt to provide a less accurate picture of the situation than that provided in the separate financial statements.

Accordingly, where possible, readers are explicitly invited to refer to the separate financial statements for CDP, which report all the accounting information and analysis of operations for the company.

1.2 THE CDP GROUP

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 early 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.

Terna S.p.A.

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, paragraphs 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.

The CDP Group

In consideration of the foregoing, given the very different activities and contexts in which the Group companies operate (financial and industrial), it is impossible to provide a unified vision of the performance and financial position of these companies. Accordingly, the 2009 performance of the companies in the scope of consolidation will be discussed separately in this consolidated report.

At 31 December 2009, the CDP Group is composed of the parent company CDP S.p.A., CDPI SGR S.p.A., Terna S.p.A. and its subsidiaries and associates.

	Registered office	Investor	% holding	Method of consolidation
CDPI SGR S.p.A.	Rome	CDP S.p.A.	70.00%	line-by-line
Terna S.p.A.	Rome	CDP S.p.A.	29.99%	line-by-line
SunTergrid S.p.A.	Rome	Terna S.p.A.	100.00%	line-by-line
Telat S.r.l.	Rome	Terna S.p.A.	100.00%	line-by-line
RTR S.r.l.	Rome	SunTergrid S.p.A.	100.00%	line-by-line
Elmed Etudes S.àr.l.	Tunis	Terna S.p.A.	50.00%	equity
CESI S.p.A.	Milan	CDP S.p.A.	30.91%	equity
Poste Italiane S.p.A.	Rome	CDP S.p.A.	35.00%	equity
STMicroelectronics Holding N.V.	Amsterdam	CDP S.p.A.	50.00%	equity
Galaxy S.àr.l. SICAR	Luxembourg	CDP S.p.A.	40.00%	equity
Europrogetti & Finanza S.p.A. in liquidation	Rome	CDP S.p.A.	31.80%	equity
Tunnel di Genova S.p.A.	Genoa	CDP S.p.A.	33.33%	equity

Compared with 31 December 2008, the scope of consolidation has changed as follows:

- the establishment of CDPI SGR, followed by the subscription of 70% of the share capital by CDP;
- the acquisition by Terna of the entire share capital of TELAT S.r.l. from Enel Distribuzione S.p.A., completed on 1 April 2009;
- the disposal of the Brazilian subsidiaries to Cemig Geração e Transmissão S.A., with the transfer of the 66% stake in Terna Participações S.A. held by Terna S.p.A., completed on 3 November 2009;
- the establishment, on 23 December 2009, by SunTergrid S.p.A. (formerly International S.p.A.) of Rete Rinnovabile S.r.l. ("RTR S.r.l.") with registered office in Rome and share capital of €50,000;
- the establishment of the Tunisian limited company Elmed Etudes S.àr.l., jointly held by Terna and Société Tunisienne de l'Electricité et du Gaz (STEG), completed on 20 April 2009;
- the acquisition of holdings in Cesi S.p.A.

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 create a platform for the launch of real estate investment funds.

The first initiative will in fact be aimed at expanding the supply of residential housing in Italy through the promotion, establishment and management of the closed-end real estate investment fund reserved for qualified investors called "Fondo Investimenti per l'Abitare".

In the first few months of 2010, the Bank of Italy approved the rules of the fund, which will invest its assets in real estate investment funds and local initiatives. Meeting the social interest requirements set out in the national residential building plan (the "Housing Plan" established under Decree Law 112/2008, ratified with Law 133/2008), the objective of those funds is to help expand the supply of social housing leased at controlled rents or sold at facilitated prices.
To this end, CDPI SGR intends to participate in the tender to be held by the Ministry for Infrastructure and Transportation to select the fund to implement the Housing Plan, which will receive part of the resources made available by the Government pursuant to the Prime Minister's Order of 16 July 2009.

Fondo Investimenti per l'Abitare will invest most of its assets in units of local real estate investment funds operated by other asset management companies or, possibly, in project companies operating in the real estate sector by way of significant equity stakes of up to 40% of the fund or company involved. The ceiling is intended to ensure that the majority of capital invested is contributed by local investors while at the same time maintaining a substantial presence for the fund in the individual initiatives. The fund may invest the remainder of its resources in direct investment projects.

At 31 December 2009, 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 Network (NTN), with more than 98% of national infrastructure.
It is also the company responsible for the transmission and dispatching of electricity on the high and very-high-voltage grid in Italy and, as such, it is

charged with safely balancing electricity supply and demand. The company is also responsible for planning, developing and maintaining the NTN.

The current structure of the company is the result of the unification of ownership and operation of the NTN in November 2005 (in implementation of the Prime Minister's Order of 11 May 2004).
As from 1 April 2009, with the acquisition of the assets of Enel Linee Alta Tensione, Terna is the leading independent system operator in Europe and seventh in the world.

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

At 31 December 2009, Cassa Depositi e Prestiti S.p.A. held a plurality of the share capital, with 29.99%.

According to the periodic census conducted by the company, of the total Terna share capital, 64% is held by Italian investors and 36% by foreign institutional investors, mainly from Europe and the United States. The share of Italian institutional investors remained unchanged at 6.6%.

Terna Group operations

Terna is an international group: it has consolidated its position at the world level and is one of the leading players in the sector, the second-largest independent transmission system operator in Europe after France and seventh in the world in terms of strategic assets.
The Terna Group operates in the electricity transmission sector in Italy and in Brazil, provides consulting services abroad to other grid operators and evaluates development opportunities in other countries, compatibly with its own activities and with a focus on the quality of the services offered and financial efficiency.

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

The companies of the Terna Group

At 31 December 2009 the Terna Group included the following fully consolidated companies:

- SunTergrid S.p.A. (formerly inTERNAtional S.p.A.) and TELAT S.r.l., directly controlled by Terna S.p.A. with a stake of 100%;
- Rete Rinnovabile S.r.l. ("RTR S.r.l."), indirectly controlled through SunTergrid S.p.A., with a stake of 100%.

The Group's also includes the associated company Cesi S.p.A. (in which Terna has a 30.91% holding) and the joint venture Elmed Etudes S.àr.l. (50%), both accounted for using the equity method.

SunTergrid S.p.A

In order to make most effective use of its resources and maximise returns on its assets, Terna designated its subsidiary inTERNAtional S.p.A. (renamed SunTergrid S.p.A.) to build and manage photovoltaic systems on sites where no installations exist, adjacent to transformation stations leased by the Terna S.p.A.

Investments exceeding €300 million are planned by the end of 2010.

Energy generation in 2009 was negligible, and will only really take off starting in 2010. The electricity generated will be withdrawn and priced by GSE S.p.A., in accordance with the dedicated withdrawal mechanism envisaged under the energy account, guaranteeing the full neutrality of Terna with respect to the sale of the power on the electricity market.

As part of an internal reorganisation process conceived to optimise the resources and potential of new photovoltaic power generation operations, in 2009 SunTergrid founded a new company, Rete Rinnovabile S.r.l. (RTR S.r.l.), as a vehicle to take over all projects that could become operational by the end of 2010.

The company's purpose includes the design, construction, management, development and maintenance of networks and other infrastructures for the transmission and dispatching of electricity, as well as of power generation plants – including renewable energy – for self-consumption or sale, both in Italy and abroad, and related research, consulting and assistance services.

Effective from February 1, 2010, SunTergrid transferred to RTR the business unit consisting of plants for generating power from renewable resources for internal consumption or sale, and all activities and contractual relationships pertaining to the planning, construction, management, development and maintenance of these plants.

TELAT S.r.l.

In April 2009, Enel Distribuzione sold the entire capital of Enel Linee Alta Tensione S.r.l. (ELAT) to Terna. At the same time, the ELAT Extraordinary Shareholders' Meeting approved the change of the name of the company to "Terna Linee Alta Tensione S.r.l." (TELAT S.r.l.).

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

Following the sale, the company entrusted operational management activities to the new parent company, Terna S.p.A., by way of intercompany contracts for technical services on power lines as well as corporate assistance and consulting services.

At 31 December 2009 the company had no employees.

Cesi S.p.A.

In 2009, Terna acquired additional stakes in Cesi S.p.A., bringing its overall holding to 30.91%, which, for the Terna Group, represents an investment in an associated company.

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

Elmed Etudes S.àr.l.

Last year also saw the establishment of Tunisian limited company Elmed Etudes S.àr.l., joint venture between Terna S.p.A. and Société Tunisienne de l'Electricité et du Gaz (STEG).

The company is involved in the study and preliminary consulting concerning the preparation of documents for the Tunisian government's call for tenders for the construction and management of the power generation hub in Tunisia for the Italy-Tunisia interconnection project.

Terna Participações S.A.

In 2009, the sale of the equity investment held by Terna in Terna Participações S.A. to TAESA S.A., a company held by Cemig GT and FIP (Fundo de Investimento em Participações) Coliseu, which brings together a number of Brazilian investors, was completed.

As envisaged under Brazilian law and the articles of association of Terna Participações, the change of control requires TAESA to undertake a public tender offer for the remaining shares of Terna Participações at the same per-share price. At 31 December 2009, Terna held an additional 10,000 units, which it will sell in the tender offer held in March 2010.

Agreement with A2A

Terna, through its subsidiary TELAT, signed an agreement with A2A for the acquisition of the entire share capital in Retrasm, a transmission company that owns a portion of the NTN and which is a wholly owned subsidiary of A2A.
Under this agreement, in early 2010, A2A also transferred the high-voltage lines owned by A2A Reti Elettriche S.p.A. to Retrasm. This transaction will enable the Terna Group to further increase its ownership of the NTN.
Transfer of holding is subject to the approval of the antitrust authority, completion of the demerger of A2A Reti Elettriche and the inclusion of Retrasm's high-voltage grid into the NTN by the competent authorities.

1.6 STRUCTURE OF CDP

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

1.7 STRUCTURE OF CDPI SGR

At 31 December 2009 CDPI SGR had three employees.

In the first year of operations, the company established an organisational structure designed to identify, measure, monitor and control the risks associated with its activity, both with the implementation of control activities and with the engagement of specific outsourcers.

1.8 STRUCTURE OF THE TERNA GROUP

In 2009, the Italian Operations department underwent a series of organisational changes to prepare for major growth in investments Terna is poised to make over the next few years and handle the variety of the planned works, with the goal of ensuring that project management (time taken, quality and cost) is pursued more efficiently.
The Grid Planning and Development and Engineering departments have been rolled into the new Grid Development and Engineering department, whose core focus is implementation of the grid development plan. Investment planning and

NTN user connection management have been reassigned to a new Investment Planning department which reports directly to the Operations director.
At the same time, in order to foster synergies, negotiations with ministries and local authorities have been brought back under the aegis of the Institutional Affairs department.
Within Staff departments, organisational changes included a spin-off of international business development activities (specifically regarding south-eastern Europe and North Africa) from the Business Development and International department to the Finance and Control department, which was already responsible for mergers and acquisitions. As a result of this change, the Business Development and the Finance, Control, International and M&A departments were formed, both of which report directly to the CEO.

Following the above developments, changes in the number of employees are shown below. The figures refer to Terna S.p.A., as at 31 December 2009, the fully consolidated subsidiaries TELAT, SunTergrid and RTR did not have any employees.

	Workforce at		Average workforce	
	31/12/2009	31/12/2008	31/12/2009	31/12/2008
Senior management	65	65	67	68
Middle management	488	485	485	475
Office staff	1,874	1,907	1,908	1,895
Workers	1,020	1,067	1,058	1,073
Total	**3,447**	**3,524**	**3,518**	**3,511**

To enable comparison between the structure at the end of 2009 and that at the end of 2008, the human resource figures for the end of 2008 have been restated on the basis of the disposal of the Brazilian subsidiaries (at 31 December 2008 Terna Group had 3,734 employees).
Data for both years do not include terminations with effect from 31 December. Developments in the workforce reflect the expansion of the organisational units involved in the investment plan, while turnover associated with early retirement incentive plans continues.

2. THE GENERAL MACROECONOMIC SITUATION

2.1 THE MACROECONOMIC FRAMEWORK

The recovery in the global economy, which nonetheless contracted by 0.8% in 2009 as a whole, began in the summer of 2009 and continued through the rest of the year.[1]

During the last four months of 2009, the decline in GDP slowed in the U.S. (-0.7%), the euro area (-1.8%) and Japan (-1.8%), while growth accelerated in the Asian emerging economies (+3.6%) and Latin America (+3.1%).[2] Global trade also began expanding again, although it remained about 10% below the level of the previous year.

In the fourth quarter, industrial production continued its recovery and confidence began to return. Strains lessened on international financial markets and banks began easing their lending conditions.
In this environment, inflation remained moderate despite gradually rising prices for oil and other raw materials. Market expectations point to a continuation of the expansionary monetary policy stance of central banks. Interbank rates on the London market are expected to develop as follows: for the US dollar, from 1.1% in 2009 to 0.7% in 2010; for the euro, from 1.2% in 2009 to 1.3% in 2010; and for the yen, from 0.7% in 2009 to 0.6% in 2010.[3]

Thus, although the outlook for the global economy improved during the year, broad uncertainty remains as to the pattern and pace of the recovery, both for the financial markets and for the real economy.
The main critical factors concern: the deterioration in the public finances of the more advanced economies; the high levels of private-sector debt (which could limit consumption); the difficulties on the labour market; the low level of capacity utilisation (which tends to hold back capital expenditure); and excess supply on the real estate market (which tends to discourage construction investment).

[1] Source: IMF, World Economic Outlook, January 2010.
[2] See previous note.
[3] See previous note.

Nonetheless, the consensus forecasts for 2010 have been revised upwards. The latest forecasts of the International Monetary Fund are for growth of 3.9% in the global economy (compared with a contraction of 0.8% in 2009). Forecasts show growth of 2.1% for the more advanced economies (against a decline of 3.2% in 2009) and 6% for the emerging and developing economies (compared with 2.1% in 2009). Therefore, for 2010 and 2011, growth is expected to remain weak overall.

In this context, Italy's GDP returned to growth in the summer and continued expanding at a moderate pace in the autumn months as well (with GDP growth in the third quarter of 2009 of 0.6% over the previous quarter).[4]
Inflation rose in the latter part of the year, although it remained at 0.8% for the year (compared with 3.3% in 2008). The Bank of Italy expects inflation to remain below 2% over the next two years. However, the modest uptick in industrial production (+4.4% in the third quarter over the previous period) and in exports (+2.5% in the third quarter over the previous period) did not continue through the autumn, and both consumption (+0.3% in the third quarter over the previous period) and investment (+0.3% in the third quarter over the previous period) remained weak.[5]

Over the next two years, the domestic components of demand are not expected to contribute much to growth, which will therefore depend on the recovery in foreign demand, assuming that the global economy is able to return to rapid growth. Overall, the Bank of Italy expects the Italian economy to grow by 0.7% for the year, before accelerating to 1% in 2011.

Bank lending has continued growing swiftly, although it is slowing due to greater prudence in demand for credit by businesses and consumers as a result of the recession. The slowdown was sharpest in lending to smaller businesses. The periodic survey on lending conducted by the Bank of Italy also shows a gradual tightening of lending conditions. Other surveys show that the percentage of businesses struggling to obtain financing is rising. Banks in Italy, as in other countries, are adapting their assets to the difficulties in funding and to the rising cost of such funding. The lessening of tensions on the financial and money markets and the strengthening of bank capital, facilitated by the measures taken by the Italian Government and the Bank of Italy, could help ease credit conditions.

[4] Source: Bank of Italy, Economic Bulletin, January 2010.
[5] See previous note.

The key critical issues for the banking industry in 2010 could therefore emerge not so much in the supply of credit, but rather in the risk of default of a significantly larger-than-normal number of businesses. In many industries, turnover has fallen by 20-30% (and by much more in the automotive and home appliance industries). As the Bank of Italy recently noted, the demand for credit, which posted a recovery in the second half of 2009, came in conjunction with a sharply negative contribution from investment. Loan applications have been driven by the need to finance working capital and by widespread recourse to the restructuring and consolidation of bank borrowing. Based on empirical data from the banking industry, it is estimated that about 1% of loans to SMEs could deteriorate into bad debts.[6] This crisis would be a source of concern both in terms of margins for the banking industry (which would not be sufficient to absorb these losses without a further severe erosion of capital) and in terms of employment levels among SMEs, which would decline significantly.

2.2 THE FINANCIAL MARKET AND RATES

Conditions in the domestic and international financial markets are showing signs of improvement.

At the end of the year, despite the fact that the balance sheets of the leading central banks have remained essentially unchanged, the Federal Reserve declared that it was no longer necessary to renew, beyond their February expiration, the majority of the facilities introduced during the crisis to provide liquidity to the markets. In the second half of February 2010, the US central bank raised the discount rate by a quarter point, to 0.75%.

Conversely, the European Central Bank (ECB) kept its official policy rate at 1.0%. At the end of the year, the ECB also took a number of decisions regarding the implementation of monetary policy, so as to begin gradually removing extraordinary refinancing operations that are no longer considered indispensable, while confirming the commitment of the Eurosystem to provide the liquidity needed by the banking system within the euro area. The abundance of liquidity for short-term loans contributed to keeping interest rates on the interbank market at very low levels.

Improvements continued in the capitalisation of the leading international banks, which, as a group, reported better-than-expected profits in the third quarter of

[6] ABI, 2009 Annual Report.

2009. Announced or recognised writedowns of financial instruments declined significantly during the same period and were nil in the fourth quarter. In the second half of the year, several European banks carried out recapitalisation transactions, turning to the market in most cases. The premiums on credit default swaps of the leading international banks, which in October had already returned to the levels seen just prior to the Lehman Brothers collapse, continued to decline in the last quarter as well, but remain well above the levels of the first half of 2007.

Since mid-October, yields on ten-year government bonds in the United States and United Kingdom rose by about 40 basis points to 3.8% and 4.2%, respectively. In the euro area and Japan, on the other hand, yields remained stable at around 3.4% and 1.3%, respectively.

Equity prices in the leading industrial countries rose rapidly during the spring and summer before stabilising in the last quarter of 2009. From the lows reached in March, stock market indices posted gains of between 50% and 70%. Risk premiums on corporate bonds declined in all ratings classes and in all of the leading countries. The decline for non-financial, high-yield corporate bonds denominated in euros and in dollars was about 1.8 percentage points, falling to 6.7 and 6.0 points, respectively. Risk premiums on higher-rated bonds (BBB) declined by about 0.5 percentage points to return to levels near those seen at the start of 2008 (at 1.5 and 1.9 points).

Financial conditions remained favourable in the leading emerging countries as well, as they continued to benefit from substantial inflows of portfolio investment from abroad, driven by both the improved growth outlooks in many of these economies, as well as by low interest rates in the more advanced countries and a general reduction in risk aversion.

The period of weakness of the dollar was interrupted at the end of the year, with the dollar appreciating by some 5% against both the euro and the yen in early January. Conversely, the dollar has remained stable since October against the currencies of the leading emerging countries, whose tendency to appreciate was in many cases countered by central bank intervention.

In general, over the medium to long term, uncertainty remains concerning the methods, timing and effects of the deleveraging process, both for private-sector debt (banks, businesses and households) and public debt.

2.3 CDPI SGR'S REFERENCE MARKET

CDPI SGR operates in the residential building sector, and in particular the social housing sector.
This involves the creation of residential buildings and services for those who are unable to find housing on the market for economic reasons or owing to a lack of supply, with the aim of creating a sustainable supply of housing, with a preference for medium/long-term leases. The social and housing issues that the social housing sector addresses are generally felt most acutely in large metropolitan areas and municipalities with housing shortages, where there also tends to be a greater need for rentals at below-market rates.

In this segment, one of the most commonly adopted tools for undertaking such initiatives in Italy has recently been the closed-end real estate investment fund.
The approach of a real estate investment fund dedicated to social housing makes it possible to create a supply of rental housing at controlled rates in high density areas, establishing clear rules for the management of the projects while offering flexibility in the definition of investment and governance policies.
As regards the latter aspect, the fund is distinguished by the fact that it is subject to Bank of Italy supervision, both at the initial stage with the approval of its operating rules and during the operational phase in monitoring compliance with the limits imposed by law and the rules. Moreover, this model involves a plurality of parties in the management process, allowing the private sector to develop governance arrangements and investor representative bodies.

2.4 THE TERNA GROUP'S REFERENCE MARKET

2.4.1 Electricity demand in Italy

In 2009, according to preliminary figures, domestic energy demand amounted to 316,852 GWh, a decline of 6.7% from 2008. In order to compare 2009 figures with those of the previous year, a number of factors need to be considered. First of all, there is the difference in the calendar. Although there were fewer total days than the previous year (2008 was a leap year so there were 366 days), there was one more business day in 2009. Secondly, weather conditions were different. In 2009, the first three months were cooler on average than the same months of 2008, whereas the remaining months (from April to December) were slightly warmer than in the prior year. Therefore, adjusting for both number of days and temperature, the change in electricity demand came to -6.9%.

2.4.2 Electricity generation

According to initial estimates, in 2009 net domestic power generation decreased by 9.4% year on year. Breaking down the figures for generation by source, net of ancillary services, there was a decline in thermal power generation for the year of 13.9% from 2008.
In 2009, hydroelectric output rose by a significant 9.5% compared with 2008, net of consumption for ancillary services.
The annual hydroelectric production index exceeded the figures recorded for the previous year, rising to 1.03 compared with 0.91 in 2008.
Wind and photovoltaic generation once again rose substantially compared with the previous year, posting a 30.3% overall rise compared with 2008, spurred by growth of around 25.2% in wind power and 159.1% in photovoltaic energy compared with 2008.
Geothermal generation posted a small 3.1% fall compared with the preceding year.

2.4.3 Dispatching and sales

Electricity business

During the year, 86% of the demand for electricity on the network was met by domestic power generation (88.2% in 2008), for a total of 272,403 GWh, net of consumption by ancillary services and pumping, for a decrease of 27,044 GWh over (-9%) from 2008. The remaining portion of demand (14%) was covered by net imports, for a total of 44,449 GWh, compared with 40,034 GWh for the previous year (+11%).
Net imports rose from 2008 due to an increase in the amount of energy imported from 43,433 GWh to 46,570 GWh (7.2%), along with a decline in exports, which fell from 3,399 GWh to 2,121 GWh (down 37.6%).
In 2009, in every month demand peaks were lower than in the corresponding month of the previous year; with significant reductions in the first half of the year.
The highest level of demand registered at any time in 2009 was at midday on 17 July, when demand reached 51,873 MW. The 2008 peak was at midday on 26 June, when demand reached 55,292 MW. The highest load in 2009 was down 6.2% compared with the corresponding peak the preceding year.

Coverage of demand

The high margins available at the peak recorded in 2009 are attributable to the considerable reduction in demand compared with the preceding year, as well as to maintenance forecasting and coordination by Terna. The year also saw the start-up of a number of new generating plants.

In line with expectations, the coverage margins for Sicily and Sardinia were extremely slim, owing to structural deficiencies in power generation and in interconnection capacity with the mainland.

On the whole, the critical points of electrical system management expected on the islands were encountered in actual operations, thereby confirming the area as at risk for covering demand with adequate reserve margins, and thus ensuring the continuity of electricity supply.

In the final month of the year, the first pole of the SA.PE.I. connection between the Italian mainland and Sardinia significantly increased the island’s coverage margins and security.

With regard to foreign trade, the average hourly price differential between the Italian electricity market and those of France and Germany was about 15% higher (€23/MWh vs. €20/MWh) than 2008. This price trend caused an increase in the net balance of energy imports of about 5.4 TWh compared with the corresponding period of 2008.

Provisioning of dispatching resources

As part of the gradual introduction of the electricity market rules, the Authority for Electricity and Gas issued ARG/elt Resolution no. 203/08 on 23 December 2008, establishing that it will not reintroduce the possibility for Terna to operate on the day-ahead market except in response to exceptional difficulties in the national electricity system.

Terna had used this possibility to correct divergences between the total demand of consumers on the day-ahead market and Terna’s own demand forecasts. As from 1 January 2009, however, Terna has been balancing demand by recourse to the ancillary services market.

Terna operated on the ancillary services market during the scheduling phase, which is held on the day prior to that of the actual flow, buying about 12.5 TWh and selling about 14.8 TWh of energy (respectively 11.6 TWh and 11.5 TWh in 2008, corresponding to increases of 8% and 29%), for a net outlay of €1,385 million (€1,861 million[7] in 2008, down 26%). Despite changes in the regulatory

[7] Total inclusive of charges associated with forward contracts for dispatching services signed in 2008.

framework, the 4.2 TWh increase in overall ancillary services market volumes was far below the volumes traded in 2008 on the day-ahead market (11.3 TWh). This large reduction in volume also reflects the effectiveness of Terna's various actions to reduce/optimise provisioned dispatch resource volumes.
The reduction was recorded during real-time equalisation of the ancillary services market, where the volumes bought and sold up to November were, respectively, 7.1 TWh (down 19% compared with the same period in 2008, when the figure totalled 8.8 TWh), and 9.7 TWh (down 8% compared with the 2008 figure of 10.6 TWh), for a net charge of €384 million (down 49% on the 2008 figure of €760 million).
Overall costs in fees for dispatching resources provisioning (inclusive of forward contracts for 2008) registered a reduction of €852 million over the period taken into consideration.

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 are billed on a pro-rata basis to each consumer with the uplift fee.

Interruptibility service

In view of the exceptional and unpredictable economic climate that triggered a sudden and considerable reduction in manufacturing activities, and, consequently, a reduction in electricity consumption, the interruptibility service underwent a number of changes in 2009. Specifically, in implementation of Authority requests, in February Terna drafted Regulations for instantaneous interruptibility service management on a monthly basis.
These Regulations, which were introduced for March 2009 allocations, enabled:

- holders of instant interruptibility contracts for the three-year period 2008-2010 to offer Terna a share of contractually-agreed instantaneous interruptibility on a monthly basis;
- Terna, also on a monthly basis, to reallocate instantaneously interruptible power available to parties eligible for the interruptibility service.

During all months (except October and November), the amount of instantaneous power available exceeded allocation demand.

Following guidance from the Authority, in July 2009 Terna amended its Regulations to extend the instantaneous interruptibility service on a monthly basis to the emergency interruptibility service.

Overall charges associated with remuneration of the interruptibility service amounted to €421 million, down 12% on the figure of €479 million recognised for the preceding year.

Service quality, unsupplied energy and other service issues

Service quality in 2009 recorded decidedly positive figures for Regulated Energy Not Supplied (RENS) and the Number of Supply Failures per User (NSFU), falling below the averages seen in recent years: RENS amounted to 796 MW, compared with a quality target of 1,425 MW; the NSFU value was 0.203, compared with a quality target of 0.231.

In 2009, only one significant incident attributable to Terna was reported, in the Naples area, in addition to an incident involving a 150 kV connection cable to the island of Ischia, which had only just been acquired from Enel Distribuzione (TELAT), and which triggered a significant outage on the island. Notwithstanding these incidents, the level of energy not supplied remained low.

Critical issues generated by causes not attributable to Terna included storms, strong winds and significant snowfalls between January and March 2009 in and around Turin and Naples, which led to an increase in the NSFU in these areas. No gas and water availability-related critical issues were recorded.

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

3 CONSOLIDATED FINANCIAL POSITION AND PERFORMANCE

3.1 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).

Consolidated balance sheet

(millions of euros)

ASSETS	31/12/2009 CDP Group	31/12/2009 *of which financial operations*	31/12/2009 *of which non-financial operations*	31/12/2008 CDP Group	% change
Cash and cash equivalents	114,689	*114,689*	*0*	105,269	8.9%
Financial assets held for trading	869	*869*	*0*	401	116.6%
Financial assets available for sale	13,991	*13,991*	*0*	9,775	43.1%
Financial assets held to maturity	205	*205*	*0*	206	-0.2%
Loans to banks	6,477	*5,976*	*501*	5,570	16.3%
Loans to customers	85,624	*85,624*	*0*	84,061	1.9%
Hedging derivatives	455	*332*	*123*	217	110.0%
Equity investments	3,815	*4,487*	*15*	3,315	15.1%
Property, plant and equipment	9,323	*204*	*7,075*	8,332	11.9%
Intangible assets	676	*7*	*372*	878	-23.0%
Tax assets	636	*600*	*36*	807	-21.1%
a) current	610	*574*	*36*	587	*3.9%*
b) deferred	26	*26*	*0*	219	*-88.1%*
Non-current assets and disposal groups held for sale	0	*0*	*0*	0	N/S
Other assets	1,267	*73*	*1,196*	1,801	-29.6%
Total assets	**238,027**	***227,056***	***9,320***	**220,632**	**7.9%**

At the end of 2009 the total assets of the CDP Group came to €238 billion, up about 8% on the previous year.
This increase was due mainly to the change in cash and cash equivalents, entirely pertaining to the parent company, CDP, which expanded by more than €9 billion to €115 billion (+9% on 2008). Equity investments and shares also rose by about €5 billion, to some €18 billion at the end of 2009 (+36% on 2008), also pertaining to the parent company.
The stock of loans to customers, pertaining to the parent company, amounted to about €86 billion, an increase of 2% on the end-2008 figure of €84 billion. The

carrying amount of property, plant and equipment came to more than €9 billion, almost entirely accounted for by the Terna Group, an increase of 12% on 2008.

Consolidated balance sheet

(millions of euros)

	31/12/2009			31/12/2008	% change
	CDP Group	*of which financial operations*	*of which non-financial operations*	CDP Group	
LIABILITIES AND SHAREHOLDERS' EQUITY					
Due to banks	4,334	*2,674*	*1,660*	2,873	50.9%
Due to customers	100,460	*100,460*	*0*	92,281	8.9%
Securities issued	110,943	*108,269*	*2,674*	105,555	5.1%
Financial liabilities held for trading	783	*783*	*0*	382	104.8%
Hedging derivatives	930	*826*	*104*	1,356	-31.4%
Adjustment of financial liabilities hedged generically (+/-)	66	*66*	*0*	17	298.1%
Tax liabilities	1,625	*541*	*415*	1,969	-17.5%
a) current	462	*410*	*51*	593	*-22.2%*
b) deferred	1,163	*131*	*364*	1,375	*-15.4%*
Other liabilities	2,944	*1,255*	*1,691*	3,330	-11.6%
Staff severance pay	72	*1*	*72*	75	-3.8%
Provisions	212	*9*	*203*	169	25.2%
b) other provisions	*212*	*9*	*203*	169	*25.2%*
Valuation reserves	2,118	*2,136*	*-61*	1,152	83.8%
Reserves	5,286	*4,809*	*1,350*	3,977	32.9%
Share premium reserve	1	*0*	*2*	1	-36.7%
Share capital	3,500	*3,502*	*440*	3,500	0.0%
Minority interest (+/-)	2,727	*0*	*0*	2,581	5.6%
Income (loss) for the period	2,026	*1,724*	*771*	1,414	43.3%
Total liabilities and shareholders' equity	**238,027**	***227,056***	***9,320***	**220,632**	**7.9%**

The increase in liabilities with respect to 2008 is mainly attributable to the substantial increase in amounts due to customers, which rose by more than €8 billion to €100 billion (+9% on 2008).

This was accompanied by an increase in securities issued of more than €5 billion to €111 billion (+5% on 2008). The developments in amounts due to customers and securities issued were largely attributable to the parent company.

Finally, amounts due to banks at the end of 2009 came to €4 billion, of which €1.7 billion pertaining to the Terna Group. The item showed an increase of more than €1 billion.

Shareholders' equity

(millions of euros)

	31/12/2009	31/12/2008
Shareholders' equity of the parent company	12,931	10,044
Minority interest	2,727	2,581
Total shareholders' equity	**15,658**	**12,626**

Equity at the end of the year came to about €16 billion, of which €13 billion pertaining to the parent company and some €3 billion to minority interests.

3.1.1 CDP's financial position

For more information on the financial position of CDP, please see the separate report and financial statements.

For greater clarity of presentation, the following table provides a reconciliation of the financial statements of CDP (Bank of Italy circular 262/2005 as amended) used to prepare the consolidated financial statements and the aggregates reclassified on the basis of operational criteria, as presented in the report on operations of the separate financial statements.

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.

Balance sheet - Assets

		ASSETS - Reclassified schedules							
millions of euros	31/12/2009	Cash and cash equivalents	Loans to customers and banks	Debt securities	Equity investments and shares	Assets held for trading and hedging derivatives	Property, plant and equipment and intangible assets	Accrued income, prepaid expenses and other non-interest-bearing assets	Other assets
ASSETS									
10 Cash and cash equivalents	114,689	113,330						1,358	
20 Financial assets held for trading	869					869			
40 Financial assets available for sale	13,991			206	13,784			1	
50 Financial assets held to maturity	205			200				6	
60 Loans to banks	5,974	5,050	913					12	
70 Loans to customers	85,624		84,265	285				1,073	
80 Hedging derivatives	332					332			
100 Equity investments	4,487				4,487				
110 Property, plant and equipment	204						204		
120 Intangible assets	7						7		
130 Tax assets	600								600
150 Other assets	73								73
Total assets	**227,054**	**118,380**	**85,178**	**692**	**18,271**	**1,200**	**210**	**2,450**	**673**

Balance sheet - Liabilities and shareholders' equity

millions of euros	31/12/2009	LIABILITIES AND SHAREHOLDERS' EQUITY Reclassified schedules: Funding	Liabilities held for trading and hedging derivatives	Accrued expenses, deferred income and other non-interest-bearing liabilities	Other liabilities	Provisions, taxes and staff severance pay	Shareholders' equity
Liabilities and shareholder's equity							
10 Due to banks	2,674	2,475		200			
20 Due to customers	100,460	100,288		172			
30 Securities issued	108,269	107,871		398			
40 Financial liabilities held for trading	783		783				
60 Hedging derivatives	826		826				
70 Adjustment of financial liabilities hedged generically (+/-)	66		66				
80 Tax liabilities	541					541	
100 Other liabilities	1,254				1,254		
110 Staff severance pay	1					1	
120 Provisions	9					9	
130 Valuation reserves	2,136						2,136
160 Reserves	4,809						4,809
180 Share capital	3,500						3,500
200 Income (loss) for the period	1,725						1,725
Total liabilities and shareholders' equity	**227,054**	**210,633**	**1,675**	**770**	**1,254**	**551**	**12,170**

3.1.2 CDPI SGR's financial position

The position of the company reflects its limited operations in its first year of activity.

Balance sheet

ASSETS

	(thousands of euros)
	31/12/2009
Loans to banks	1,816
Tax assets	113
a) current	2
b) deferred	111
Other assets	-
Total assets	**1,930**

Assets are almost entirely accounted for by liquidity (€1,816 thousand) represented by the deposit of share capital. The item was reduced by charges incurred for operating expenses, while the only increase regarded the crediting of interest accrued in the period.

The other significant asset regards tax assets, which came to €113 thousand. The credit essentially represents the future deductible amount associated with the loss for 2009, recognised on the basis of the company's prospective ability to generate taxable income as from 2010, in line with the forecasts contained in the business plan filed with the Bank of Italy as part of the authorisation process.

Balance sheet

LIABILITIES

	(thousands of euros)
	31/12/2009
Other liabilities	224
Staff severance pay	-
Share capital	2,000
Income (loss) for the period	-294
Total liabilities and shareholders' equity	**1,930**

"Other liabilities", equal to €224 thousand, include liabilities to tax authorities, social security institutions and suppliers.

Equity came to €1,706 thousand, equal to initial share capital less the loss for the year.

3.1.3 Terna Group financial position

At 31 December 2009 the property, plant and equipment of the Terna Group totalled €7,075 million, reflecting net changes in the property, plant and equipment of Terna S.p.A.; the acquisition of TELAT lines and the capital expenditure and depreciation of that subsidiary; and investments made by SunTergrid in 2009 related to the construction of photovoltaic plants on land owned by Terna S.p.A.

The following is a summary breakdown of the changes in property, plant and equipment for the year, net of the reclassification of the amounts at 31 December 2008 of discontinued operations in the amount of €620 million (cost of €722 million and accumulated depreciation of €102 million):

(millions of euros)

	31/12/2009
Capital expenditure	
- Transmission lines	340
- Transformer stations	378
- Other investments	142
Total investments	**860**
Change in scope of consolidation	1,101
Depreciation and amortisation	-277
Disposals, writedowns and other changes	-24
TOTAL	**1,660**

In addition to ordinary changes during the year in respect of capital expenditure (€860 million, of which €11 million in capitalised financial expense), disposals, writedowns and other changes (€24 million) and depreciation (€277 million), the item also reflects the value of the plant in service and under construction (€1,101 million, including the final allocation of the excess cost in the amount of €224 million) from the acquisition of TELAT S.r.l., which owns a portion of the national high-voltage transmission grid.
Capital expenditure for the year (€860 million, of which €832 million for the Terna S.p.A., €23 million for TELAT and €6 million for SunTergrid) comprises, in particular, expenditure on the Italian transmission grid.

At the end of 2009, the financial liabilities of the Terna Group broke down as follows:

Financial liabilities

(millions of euros)

	31/12/2009	31/12/2008	Change (+/-)	%
Due to banks	1,660	2,179	-519	-23.8%
Securities issued	2,674	2,048	626	30.6%
Hedging derivatives	104	84	20	23.9%
Total	**4,438**	**4,311**	**128**	

Securities issued rose by more than €600 million as a result of the new bond issued carried out by Terna S.p.A. in 2009 in the form of a private placement.
The decrease in amounts due to banks was essentially attributable to the exit of the Brazilian subsidiaries from the Terna Group (€504 million).
The stock of European Investment Bank loans and other financing declined by €45 million following repayments made on outstanding loans, while drawings on credit lines amounted to €40 million

3.2 CONSOLIDATED INCOME STATEMENT

The following table presents the situation of the CDP Group, with specific reporting of the contributions of financial operations (CDP and CDPI SGR) and non-financial operations (Terna Group).

Consolidated income statement

(millions of euros)

	31/12/2009			31/12/2008	% change
	CDP Group	*of which financial operations*	*of which non-financial operations*	CDP Group	
Interest income and similar revenues	7,586	*7,560*	*29*	8,161	-7.1%
Interest expense and similar charges	-5,708	*-5,566*	*-145*	-5,915	-3.5%
Net interest income	**1,878**	**1,994**	**-116**	**2,246**	**-16.4%**
Commission income	7	*8*	*0*	7	-1.7%
Commission expense	-919	*-918*	*-3*	-737	24.6%
Net commission income	**-912**	**-909**	**-3**	**-731**	**24.9%**
Dividends and similar revenues	809	*971*	*0*	852	-5.0%
Net gain (loss) on trading activities	89	*118*	*-29*	-13	N/S
Net gain (loss) on hedging activities	-25	*-26*	*1*	-147	-82.9%
Gains (losses) on disposal or repurchase of:	15	15	*0*	8	81.9%
a) loans	*14*	*14*	*0*	7	*84.4%*
b) financial assets available for sale	*1*	*1*	*0*	0	*N/S*
d) financial liabilities	0	*0*	*0*	1	N/S
Gross income	**1,854**	**2,162**	**-146**	**2,215**	**-16.3%**
Net impairment adjustments of:	-1	-1	0	-24	
a) loans	-1	*-1*	*0*	-24	-94.9%
Financial income (expense), net	**1,853**	**2,161**	**-146**	**2,191**	**-15.5%**
Administrative expenses	-409	-71	-338	-408	0.2%
a) staff costs	*-229*	*-45*	*-185*	-245	*-6.2%*
b) other administrative expenses	*-180*	*-27*	*-153*	-164	*9.8%*
Net provisions	-2	*0*	*-3*	-5	-52.7%
Net adjustments of property, plant and equipment	-332	*-7*	*-280*	-281	18.3%
Net adjustments of intangible assets	-35	*-2*	*-32*	-27	30.1%
Other operating income (costs)	1,343	*1*	*1,342*	1,188	13.0%
Operating costs	**565**	**-79**	**689**	**468**	**20.8%**
Gains (losses) on equity investments	272	*0*	*3*	-366	N/S
Gains (losses) on disposal of investments	0	*0*	*0*	3	-92.8%
Income (loss) before tax from continuing operations	**2,690**	**2,082**	**546**	**2,296**	**17.2%**
Income tax for the period on continuing operations	-545	*-358*	*-192*	-693	-21.4%
Income (loss) after tax on continuing operations	**2,146**	**1,724**	**354**	**1,603**	**33.8%**
Income (loss) after tax on non-current assets held for sale	355	*0*	*417*	38	N/S
Net income (loss) for the period	**2,500**	**1,724**	**771**	**1,641**	**52.4%**
Net income (loss) pertaining to minority interest	474	*0*	*0*	227	108.8%
Net income (loss) pertaining to parent company	**2,026**	**1,724**	**771**	**1,414**	**43.3%**

The results achieved in 2009 by the CDP Group were positive on the whole, considering the difficult macroeconomic environment and the negative impact of the decline in margins resulting from the low levels to which interest rates fell.

Net interest income, in particular, came to €1,878 million, a decline of 16% from 2008 mainly due to the reduction in the margin between lending and funding by the parent company, whose contribution nevertheless offset the negative contribution of the Terna Group (-€116 million).

Gross income also declined (-16%) to €1,854 million.
In addition to the change in net interest income, this reduction can mainly be attributed to the performance of the parent company, which posted a decline in dividends and an increase in commissions on postal savings, mitigated by the positive performance of hedging and trading activities

Administrative expenses came to €409 million, broadly unchanged with respect to 2008, of which €338 million pertaining to the Terna Group.

Other operating income and costs amounted to €1.3 billion, nearly all attributable to the Terna Group. The item reports costs and revenues specific to the core business of that Group.

Income taxes for the year amounted to €545 million.

The Group's results benefited from positive non-recurring factors for both the parent company and the Terna Group, with the capital gain generated by the sale of the Brazilian subsidiaries.

Net income at 31 December 2009 therefore totalled €2,500 million, of which €2,026 million pertaining to the parent company.

3.2.1 Performance of CDP

For more information on the performance of CDP, please see the separate report and financial statements.

3.2.2 Performance of CDPI SGR

Income statement

	(thousands of euros) 31/12/2009
Interest income and similar revenues	8
Net interest income	**8**
Gross income	**8**
Administrative expenses:	-414
a) staff costs	-153
b) other administrative expenses	-261
Other operating income (expenses)	-
Operating costs	**-406**
Income (loss) before tax from continuing operations	**-406**
Income tax for the period on continuing operations	111
Income (loss) after tax on continuing operations	**-294**
Income (loss) for the period	**-294**

At the end of 2009, the only positive income component was interest income of €8 thousand accrued as at 31 December on the liquidity represented by the deposit of share capital.

Administrative expenses came to about €414 thousand, of which about 37% accounted for by staff costs (of which 15% for employees and 85% for directors and statutory auditors).
The remaining 63% was accounted for by other administrative expenses, including legal advice, outsourced services, notary costs, fees to the independent auditors and other costs necessary for company operations.

The loss for the year amounted to €294 thousand, net of the reduction of the loss itself as a result of the recognition of deferred tax assets.

3.2.3 Performance of the Terna Group

Net profit for the year of the Terna Group, which is attributable entirely to the shareholders of the parent, reached €771 million, an increase of 135.4% over the same figure of the previous year (€328 million).
Of the total, €354 million is attributable to continuing operations and €417 million to discontinued operations as a result of the aforementioned sale of the investment in Terna Participações during the year.

Other expenses and income include the ordinary revenues of the Terna Group. The latter amounted to about €1,361 million, of which €1,186 million for revenues from fees paid for the use of the National Transmission Network, an increase of €165 million compared with 2008. In particular, transmission fees in the amount of about €1,088 million are attributable to Terna S.p.A. and about €98 million to the subsidiary TELAT for the last nine months of the year.

Administrative expenses amounted to about €338 million, of which €185 million for personnel.

Gross income was a negative €146 million, entirely attributable to Terna S.p.A.

Income taxes for the year amounted to €192 million, of which €180 million for Terna S.p.A., an effective tax rate of 35.2%.

Net income from continuing operations totalled €354 million, of which €301 million attributable to Terna S.p.A.

Net income from discontinued operations came to €417 million and reflects the sale of the Brazilian subsidiaries.

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)

2009 FINANCIAL YEAR	Net income	Capital and reserves	Total
PARENT COMPANY FINANCIAL STATEMENTS	**1,725**	**10,446**	**12,170**
Balance from financial statements of fully consolidated companies	771	1,733	2,503
Consolidation adjustments:	-469	-1,273	-1,743
- carrying amount of fully consolidated equity investments		-1,317	-1,317
- goodwill		297	297
- revaluation of property, plant and equipment and intangibles		2,340	2,340
- elimination of revaluation of divested intangible assets	-62		-62
- depreciation of revaluation of non-current assets	-45	-160	-205
- dividends from fully consolidated companies	-101	101	0
- valuation of equity investments accounted for with equity method	209	420	629
- elimination of intercompany transactions	0		0
- minority interest	-474	-2,253	-2,727
- deferred tax assets and liabilities	5	-703	-698
CONSOLIDATED FINANCIAL STATEMENTS	**2,026**	**10,905**	**12,931**

4. EQUITY INVESTMENTS

4.1 CDP EQUITY INVESTMENTS

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

Please note that the accounting treatment of equity investments of CDP in associates for consolidation purposes differs from that used in the separate financial statements.

Equity investments and financial assets available for sale

(millions of euros)

	31/12/2009	
	Financial statements	**Consolidated financial statements**
ASSETS		
Financial assets available for sale	13,991	13,991
Equity investments	4,487	3,800
Reclassified data		
Equity investments and shares	18,271	17,583

4.2 CDPI SGR EQUITY INVESTMENTS

At 31 December 2009 CDPI SGR did not have any equity investments.

4.3 TERNA GROUP EQUITY INVESTMENTS

At 31 December 2009, the equity investment portfolio amounted to more than €15 million, accounted for by the investments of Terna S.p.A. in:

- the associated company Cesi S.p.A. (about €15 million), representing a stake of 30.91%;
- the joint venture Elmed Etudes S.àr.l. (€0.7 million), representing a stake of 50%.

The following table summarises the main financial information concerning the above companies:

(millions of euros)

31/12/2009	Assets		Liabilities		Shareholders' equity	Revenues	Net income (loss) for the period
	Current	Non-current	Current	Non-current			
Cesi	65	46.5	28.9	34.6	48	75.1	8
Elmed Etudes	1.4	-	-	-	1.4	-	-

5. MONITORING RISK

5.1 CDP RISK MANAGEMENT

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

5.2 CDPI SGR RISK MANAGEMENT

In view of the start-up status of the company in 2009, the financial risks are limited to the small exposure of CDPI SGR in respect of its investment of liquid assets, as the entire liquidity of CDPI SGR is deposited on a bank current account earning money market rates.

The company's exposure to operational risks is also small. Since the start of operations CDPI SGR has deployed a comprehensive system of internal controls, implementing an internal audit function and compliance function and managing the start-up of a risk management function.

5.3 TERNA GROUP RISK MANAGEMENT

Pursuant to Article 154-ter of Legislative Decree 58/98, introduced with Legislative Decree 195 of 6 November 2007 (the "Transparency Decree"), this section presents a description of the risks and uncertainties faced by Terna over the medium term (2 years). Such risks and uncertainties will not be new to shareholders and the market, given that they have been discussed both in past annual reports and in other previously published disclosures.
Terna has always paid particular attention to the prevention of all forms of risk that could in any way compromise or even minimally undermine company performance.

Regulatory risk

About 94% of the Group's consolidated revenues come from annual fees paid for the services regulated by the Authority for Electricity and Gas (AEEG) in Italy. Within the scope of such regulations, there are a number of variables that could have an impact on the performance of the Terna Group.

Volume effect

Terna's revenues from the management, operation and development of the National Transmission Network and from the management of dispatching services are governed by rates that are established by the AEEG. Such rates are applied to the total volume of electricity transmitted over the Italian network. The volume of electricity transmitted over the grid depends on factors that are beyond the company's control.

Given the current exceptional economic climate and the consequent decline in power consumption, and to protect transmission revenues from unusually high levels of risk, the AEEG has, with ARG/elt Resolution no. 188/08, established a guarantee mechanism for the level of revenues for the company with effect as of the beginning of 2009 through to the end of the regulatory period (December 31, 2011). Under on this mechanism:

- if actual volumes should fall below the levels used to determine the rates for 2009, the AEEG will supplement Terna's remuneration for the portion of volumes in excess of a 0.5% deductible;
- if actual volumes should exceed the levels used to determine the rates for 2009, the AEEG will require Terna to refund the excess revenues for the portion of volumes in excess of a 0.5% deductible.

Terna has used this mechanism starting from 2009, and will continue to so until the end of 2011.

ARG/elt Resolution no. 204/09 confirmed that the guarantee mechanism for the level of revenues for transmission services may be adopted for the DIS component to cover the costs of Terna operations.

Bonuses and penalties

There are also currently a number of mechanisms for calculating bonuses and penalties in relation to certain activities conducted by the company:

- in accordance with Resolution no. 341/07, Terna is required to pay its portion of penalties due to surpassing the service continuity targets established by the AEEG for medium-voltage customers, as well as refunds to customers connected to the medium and low-voltage distribution networks in the event it exceeds the time limit for restoring power following prolonged interruptions of service affecting either the National Transmission Network or the distribution networks;

- beginning in 2009, in accordance with Resolution no. 333/07, Terna is also required to pay a specific contribution to the Exceptional Events Provision established at the Electricity Equalisation Fund based on the electricity not delivered for which Terna is responsible for the portion of outages exceeding two hours;
- the mechanism of bonuses and penalties that was in place for 2008 and 2009 (under Resolution no. 351/07) based on Terna's capacity to forecast demand and power output from wind facilities was maintained for 2010;
- with ARG/elt Resolution no. 188/08, the AEEG established the parameters for a bonus and penalty mechanism connected with the effective start of a number of investments to develop the National Transmission Network, as defined by Terna and recognised by the AEEG as being of strategic importance. This optional mechanism is defined in greater detail in an Authority measure to be adopted;
- with ARG/elt Resolution no. 213/09, the AEEG confirmed the incentive payment mechanism related to procuring resources for Terna's dispatching service which was introduced on an experimental basis for 2009. This mechanism uses the level of resources procured by Terna on the ancillary services market as the variable for measuring Terna's performance, and this is valid for the period 2010-2012. Payment of the incentive is conditioned upon meeting the same conditions defined in 2009 – maintaining safety standards and effectively monitoring and revising the algorithms for selecting the bids on the ancillary services market.

Operational risks: risks connected with NTN malfunction

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

Litigation risk

The company is involved, as both plaintiff and defendant, in a number of legal proceedings involving contracts, employees, the environment, regulatory matters, and public safety issues arising from normal business operations.

Financial risks

In the conduct of its operations, Terna is exposed to various financial risks: market risk (namely exchange rate risk, interest rate risk and inflation risk), liquidity risk and credit risk.

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

Terna's risk management policies seek to identify and analyse the risks the company is exposed to, establishing appropriate limits and controls and monitoring risks and compliance with such limits. These policies and related systems are revised on a regular basis in order to reflect any changes in market conditions and the company's activities. For more information, please see the notes to the financial statements.

Risks connected with financing needs

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

6. OUTLOOK FOR 2010

6.1 THE OUTLOOK FOR CDP

For more information on the outlook for CDP for 2010, please see the separate report and financial statements.

6.2 THE OUTLOOK FOR CDPI SGR

In the coming months the company will be involved in the promotion and marketing of units in the fund and will be seeking investment opportunities by scouting new real estate initiatives. It will also work to disseminate at the local level its know-how on real estate development operations of potential interest to the fund and on implementing the initiative.

6.3 THE OUTLOOK FOR THE TERNA GROUP

The focus of 2010 will be on implementing the 2010-2014 business plan adopted by the Board of Directors of Terna S.p.A.
Investments will be targeted at reducing grid congestion and at removing bottlenecks caused by an increase in energy generated from renewable sources. 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 electricity system energy flows.

In 2010, the company will also be focusing on developing its photovoltaic project, adding further value to the Terna Group's assets.

During the year, Terna expects to complete its acquisition of Retrasm S.r.l., which will enable the Terna Group to further consolidate the percentage of the National Transmission Network that it owns (rising to around 99%). In addition, further progress is expected in the agreement with the government of

Montenegro, which in addition to the construction of an underwater interconnection cable also envisages a strategic partnership between Terna and the local transmission operator.

Rome, 28 April 2010

The Chairman
Franco Bassanini

* * *

With regard to the "Report on corporate governance and ownership structure: main characteristics of the risk management and internal control system with regard to separate and consolidated-level financial disclosure, pursuant to article 123-bis.2, b) of the Consolidated Law on Financial Intermediation", please see section 4.4.2 of the report on operations of the separate financial statements of CDP S.p.A., which is also applicable to the consolidated financial statements with regard to the parent company, CDP.
As regards the Terna Group, please see the report "Corporate Governance 2009", prepared and published by Terna S.p.A.

REPORT OF THE BOARD OF AUDITORS

Shareholders,
the consolidated financial statements at 31 December 2009, which were transmitted to the Board of Auditors together with the report on operations, have been prepared in accordance with the international accounting standards issued by the International Accounting Standards Board (IASs/IFRSs) and endorsed by the European Commission pursuant to Regulation EC no. 1606 of 19 July 2002, in compliance with the formats and rules established by the Bank of Italy (circular 262/2005 as amended).
While the certification, and thus the formulation of an opinion concerning the content and form of the consolidated financial statements are the responsibility of the auditors, KPMG, pursuant to applicable law (please see the opinion issued by them), we affirm that:

- the consolidated financial statements at 31 December 2009 have been prepared in accordance with the appropriate accounting standards;
- the scope of consolidation includes entities over which the parent company exercises direct or indirect control. For more information on changes in the scope of consolidation during the year, please see the report on Group operations;
- the content of the report of the Directors on the consolidated financial statements meets both the specific compulsory requirements and the general requirements concerning completeness and clarity.

No significant facts have emerged from our work, including our meetings with KPMG, that would require reporting to the control bodies or mention in this report.
Rome, 8 April 2010

THE BOARD OF AUDITORS

Alberto SABATINI	Chairman
Mario BASILI	Auditor
Biagio MAZZOTTA	Auditor
Antonio Angelo ARRU	Auditor
Francesco BILOTTI	Auditor

REPORT OF THE INDEPENDENT AUDITORS

KPMG S.p.A.
Revisione e organizzazione contabile
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(Translation from the Italian original which remains the definitive version)

Report of the auditors in accordance with articles 156 and 165-bis of Legislative decree no. 58 of 24 February 1998 (now article 14 of Legislative decree no. 39 of 27 January 2010)

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

1 We have audited the consolidated financial statements of the Cassa Depositi e Prestiti Group as at and for the year ended 31 December 2009, comprising the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and notes thereto. The parent's directors are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Our responsibility is to express an opinion on these financial statements based on our audit.

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

We carried out our audit of the consolidated financial statements as at and for the year ended 31 December 2009 in compliance with legislation ruling during the year.

Reference should be made to the report dated 14 April 2009 for our opinion on the prior year consolidated financial statements, which included the corresponding figures presented for comparative purposes that have been restated to reflect the changes in the presentation of financial statements introduced by IAS 1.

3 In our opinion, the consolidated financial statements of the Cassa Depositi e Prestiti Group as at and for the year ended 31 December 2009 comply with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Therefore, they are clearly stated and give a true and fair view of the financial position of the Cassa Depositi e Prestiti Group as at 31 December 2009, the results of its operations and its cash flows for the year then ended.

KPMG

Cassa Depositi e Prestiti Group
Report of the auditors
31 December 2009

4 The directors of Cassa Depositi e Prestiti S.p.A. are responsible for the preparation of a report on operations in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations and its specific section on corporate governance and ownership structure, to the extent of the information required by article 123-bis.2.b of Legislative decree no. 58/98 with the financial statements to which they refer, as required by the law. For this purpose, we have performed the procedures required by the Italian Standard on Auditing 001 issued by the Italian Accounting Profession and recommended by Consob. In our opinion, the report on operations and the information required by article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the specific section of such report are consistent with the consolidated financial statements of the Cassa Depositi e Prestiti Group as at and for the year ended 31 December 2009.

Rome, 12 April 2010

KPMG S.p.A.

(signed on the original)

Riccardo De Angelis
Director of Audit

2

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS pursuant to Article 154-bis of Legislative Decree 58/98

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

1. The undersigned Massimo Varazzani, 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 consolidated financial statements in 2009.

2. In this regard:

2.1 the assessment of the appropriateness of the administrative and accounting procedures followed in preparing the consolidated financial statements at 31 December 2009 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 2009 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, and continued the upgrading of administrative and accounting procedures, beginning to extend the scope of the process to encompass specific activities concerning information technology. The process of upgrading these procedures therefore requires further activities for its completion.

3. In addition, we certify that:

3.1 the consolidated financial statements:

a) have been prepared in compliance with the international accounting standards adopted in the European Union pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;

b) correspond to the information in the books and other accounting records;

c) provide a true and fair representation of the performance and financial position of the issuer and the companies included in the scope of consolidation;

3.2 the report on operations contains a reliable analysis of operations and performance, as well as the situation of the issuer and the companies included in the scope of consolidation, together with a description of the main risks and uncertainties to which they are exposed.

Rome, 12 April 2010

Chief Executive Officer	Manager responsible for the preparation of the financial reports
Massimo Varazzani	*Andrea Novelli*

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

CONSOLIDATED FINANCIAL STATEMENTS

(YEAR ENDED 31 DECEMBER 2009)

FORM AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2009

The consolidated financial statements at 31 December 2009 have been prepared in conformity with the applicable regulations and are composed of:

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

The notes to the consolidated financial statements are composed of:

INTRODUCTION

PART A – Accounting policies

PART B – Information on the consolidated balance sheet

PART C – Information on the consolidated income statement

PART D – Consolidated comprehensive income

PART E – Information on risks and related hedging policies

PART G – Business combinations

PART H – Transactions with related parties

PART I – Share-based payments

PART L – Operating segments

CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2009

(thousands of euros)

CONSOLIDATED BALANCE SHEET

	Assets	31/12/2009	31/12/2008
10.	Cash and cash equivalents	114,688,820	105,269,186
20.	Financial assets held for trading	868,511	400,991
40.	Financial assets available for sale	13,991,359	9,775,278
50.	Financial assets held to maturity	205,285	205,795
60.	Loans to banks	6,477,344	5,570,120
70.	Loans to customers	85,623,841	84,061,306
	of which securing covered bonds	*15,293,458*	*16,542,634*
80.	Hedging derivatives	454,773	216,526
100.	Equity investments	3,815,099	3,314,814
120.	Property, plant and equipment	9,322,708	8,332,246
130.	Intangible assets	675,765	878,006
	of which:		
	- goodwill	*487,240*	*500,908*
140.	Tax assets	636,155	806,602
	a) current	610,107	587,232
	b) deferred	26,048	219,370
150.	Non-current assets and disposal groups held for sale	57	-
160.	Other assets	1,267,405	1,801,155
	Total assets	**238,027,122**	**220,632,025**

(thousands of euros)

CONSOLIDATED BALANCE SHEET

	Liabilities and shareholders' equity	31/12/2009	31/12/2008
10.	Due to banks	4,334,224	2,872,504
20.	Due to customers	100,459,936	92,281,093
	of which amounts to be disbursed on loans securing covered bonds	*1,099,699*	*1,476,183*
30.	Securities issued	110,942,749	105,554,798
	of which covered bonds	*6,382,222*	*8,287,063*
40.	Financial liabilities held for trading	782,977	382,377
60.	Hedging derivatives	930,117	1,355,835
70.	Adjustment of financial liabilities hedged generically (+/-)	66,478	16,699
80.	Tax liabilities	1,624,940	1,968,782
	a) current	461,546	593,410
	b) deferred	1,163,394	1,375,372
100.	Other liabilities	2,943,973	3,330,136
110.	Staff severance pay	72,205	75,045
120.	Provisions	211,905	169,191
	b) other provisions	211,905	169,191
140.	Valuation reserves	2,118,026	1,152,347
170.	Reserves	5,286,156	3,977,459
180.	Share premium reserve	539	852
190.	Share capital	3,500,000	3,500,000
210.	Minority interest (+/-)	2,726,875	2,581,323
220.	Income (loss) for the period	2,026,022	1,413,584
	Total liabilities and shareholders' equity	**238,027,122**	**220,632,025**

(thousands of euros)

CONSOLIDATED INCOME STATEMENT

		31/12/2009	31/12/2008
10.	Interest income and similar revenues	7,585,755	8,161,461
20.	Interest expense and similar charges	(5,707,523)	(5,915,173)
30.	**Net interest income**	**1,878,232**	**2,246,288**
40.	Commission income	6,596	6,709
50.	Commission expense	(918,976)	(737,246)
60.	**Net commission income**	**(912,380)**	**(730,537)**
70.	Dividends and similar revenues	809,337	851,617
80.	Net gain (loss) on trading activities	89,116	(13,321)
90.	Net gain (loss) on hedging activities	(25,072)	(146,986)
100.	Gains (losses) on disposal or repurchase of:	14,605	8,028
	a) loans	13,653	7,403
	b) assets available for sale	952	-
	d) financial liabilities	-	625
120.	**Gross income**	**1,853,838**	**2,215,089**
130.	Net impairment adjustments of:	(1,218)	(23,863)
	a) loans	(1,218)	(23,863)
140.	**Financial income (expense), net**	**1,852,620**	**2,191,226**
180.	Administrative expenses	(409,335)	(408,432)
	a) staff costs	(229,436)	(244,528)
	b) other administrative expenses	(179,899)	(163,904)
190.	Net provisions	(2,366)	(4,998)
200.	Net adjustments of property, plant and equipment	(332,153)	(280,699)
210.	Net adjustments of intangible assets	(34,504)	(26,512)
220.	Other operating income (costs)	1,343,380	1,188,386
230.	**Operating costs**	**565,022**	**467,745**
240.	Gains (losses) on equity investments	272,443	(366,232)
270.	Gains (losses) on disposal of investments	208	2,883
280.	**Income (loss) before tax from continuing operations**	**2,690,293**	**2,295,622**
290.	Income tax for the period on continuing operations	(544,618)	(692,535)
300.	**Income (loss) after tax on continuing operations**	**2,145,675**	**1,603,087**
310.	Income (loss) after tax on disposal groups held for sale	354,677	37,683
320.	**Income (loss) for the period**	**2,500,352**	**1,640,770**
330.	Net income (loss) pertaining to minority interest	474,330	227,186
340.	**Net income (loss) pertaining to parent company**	**2,026,022**	**1,413,584**

(thousands of euros)

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

		31/12/2009	31/12/2008
10.	**Income (loss) for the period**	**2,500,352**	**1,640,770**
	Other comprehensive income net of taxes		
20.	Financial assets available for sale	973,581	(5,572,569)
60.	Cash flow hedges	(11,314)	(48,958)
70.	Exchange rate differences	(2,723)	(35,279)
110.	**Total other comprehensive income net of taxes**	**959,544**	**(5,656,806)**
120.	**Comprehensive income (items 10+110)**	**3,459,896**	**(4,016,036)**
130.	Consolidated comprehensive income pertaining to minority interest	468,195	145,010
140.	**Consolidated comprehensive income pertaining to the parent company**	**2,991,701**	**(4,161,046)**

(thousands of euros)

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

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

(thousands of euros)

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

	Balance at 31/12/2007	Changes in opening balance	Balance at 1/1/2008	Allocation of net income for previous year		Changes for the period								Shareholders' equity at 31/12/2008 - Group	Shareholder's equity at 31/12/2008 - Minority 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 2008		
Share capital:															
a) ordinary shares	2,450,000		2,450,000											**2,450,000**	**445,454**
b) preference shares	1,050,000		1,050,000											**1,050,000**	
Share premium reserve	425		425				427							**852**	**2,346**
Reserves:															
a) income	2,675,173	147	2,675,320	1,172,449		(46,517)								**3,801,252**	**1,459,812**
b) other	211,876	(105)	211,771	33,593		(69,162)						5		**176,207**	**489,724**
Valuation reserves	6,726,977	-	6,726,977										(5,574,630)	**1,152,347**	**(43,199)**
Equity instruments															
Treasury shares															
Income (loss) for the period	1,660,609	433	1,661,042	(1,206,042)	(455,000)								1,413,584	**1,413,584**	**227,186**
Shareholders' equity - Group	14,775,060	475	14,775,535	-	(455,000)	(115,679)	427					5	(4,161,046)	**10,044,242**	
Shareholders' equity - Minority interest	2,681,046	1,111	2,682,157	-	(223,000)	(23,920)	1,065					11	145,010		**2,581,323**

(thousands of euros)

CONSOLIDATED CASH FLOW STATEMENT (INDIRECT METHOD)

A. OPERATING ACTIVITIES	31/12/2009	31/12/2008
1. Operations	**2,846,804**	**3,078,927**
- net income for the year (+/-)	2,500,352	1,640,770
- gains (losses) on financial assets held for trading and on financial assets/liabilities at fair value (-/+)	(117,638)	12,085
- gains (losses) on hedging activities (-/+)	27,162	143,706
- net impairment adjustments (+/-)	1,218	23,863
- net value adjustments to property, plant and equipment and intangible assets (+/-)	362,891	338,326
- net provisions and other costs/revenues (+/-)	104,355	57,589
- unpaid taxes and duties (+)	371,641	467,319
- writedowns/writebacks of equity investments (+/-)	(269,493)	368,550
- other adjustments (+/-)	(133,684)	26,719
2. Cash generated by/used in financial assets	**(5,665,933)**	**(5,887,912)**
- financial assets held for trading	(263,405)	(337,910)
- financial assets available for sale	(3,187,346)	(13,852)
- loans to banks: on demand	284,766	(541,056)
- loans to banks: other	(1,018,508)	(849,829)
- loans to customers	(1,680,358)	(4,064,111)
- other assets	198,918	(81,154)
3. Cash generated by/used in financial liabilities	**13,968,324**	**18,276,425**
- due to banks: other	1,447,638	447,146
- due to customers	8,178,843	4,664,010
- securities issued	5,286,717	12,976,756
- financial liabilities held for trading	314,123	299,225
- other liabilities	(1,258,997)	(110,712)
Cash generated by/used in operating activities	**11,149,195**	**15,467,440**
B. INVESTING ACTIVITIES		
1. Cash generated by	**98,310**	**113,542**
- sale of equity investments	28,479	
- dividends from equity investments	60,533	107,119
- sale of property plant and equipment	9,298	6,423
- sale of intangible assets		0
2. Cash used in	**(1,194,130)**	**(1,000,468)**
- purchase of equity investments	(182,318)	(3,300)
- purchase of financial assets held to maturity		(202,514)
- purchase of property, plant and equipment	(862,511)	(753,397)
- purchase of intangible assets	(149,301)	(31,761)
- purchase of business units	0	(9,496)
Cash generated by/used in investing activities	**(1,095,820)**	**(886,926)**
C. FINANCING ACTIVITIES		
- issue/purchase of capital instruments	2,000	1,522
- dividend distribution and other allocations	(459,944)	(678,000)
Cash generated by/used in financing activities	**(457,944)**	**(676,478)**
CASH GENERATED/USED DURING THE YEAR	**9,595,431**	**13,904,036**

RECONCILIATION

Cash and cash equivalents at beginning of year	**105,539,182**	**91,635,146**
Total cash generated/used during the year	9,595,431	13,904,036
Cash and cash equivalents at end of year	**115,134,613**	**105,539,182**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2009)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

INTRODUCTION

STRUCTURE AND CONTENT OF THE FINANCIAL STATEMENTS

As in previous years, the CDP Group financial statements have been prepared in accordance with the regulations of the Bank of Italy, which are set out in its circular concerning banking and financial service supervision of 22 December 2005, updated to 18 November 2009, which set out the formats and rules for compiling bank financial statements, incorporating the introduction of International Financial Reporting Standards (IFRSs) for bank financial reporting.
With Regulation (EC) 1606/2002 of 19 July 2002, the European Union made it compulsory, as of the 2006 financial year, to adopt the IFRSs in preparing the financial statements of EU companies that issue equity or debt securities on a regulated market in the European Union.
Legislative Decree 38 of 20 February 2005 was then issued in Italy in order to govern the application of:

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

as well as the *Implementation Guidance and Basis for Conclusions* adopted by the International Financial Reporting Interpretations Committee (IFRIC, formerly the Standing Interpretations Committee, or SIC) and by the IASB.
The financial statements are expressed in euros and include the consolidated balance sheet, the consolidated income statement, the statement of consolidated comprehensive income, the statement of changes in consolidated equity, the consolidated cash flow statement and these explanatory notes to the consolidated financial statements and related annexes, as well as the directors' report on operations. Pursuant to IAS 1 Revised, the financial statements also include the statement of consolidated comprehensive income with the related comparative figures.
The financial statements present a clear, true and fair overview of the company's financial performance and standing.
The account balances correspond with the company's accounting records and fully reflect the transactions conducted during the year.

BASIS OF PRESENTATION

In accordance with the regulations issued by the Bank of Italy, the financial statements and the notes to the financial statements are expressed in thousands of euros.

Accounts with zero balances for both the current and prior period have been excluded. In the income statement, revenues are indicated without a sign, while costs are shown in parentheses.

The figures in the tables of the notes to the financial statements have been rounded to the nearest thousand, and the rounded totals for the various figures are obtained by summing the rounded balances of the items making up such totals.

The parts of the notes to the financial statements provided for by the Bank of Italy circular of 22 December 2005 that have not been presented regard issues not applicable to the CDP Group.

COMPARISON AND DISCLOSURE

As detailed below, the notes to the financial statements provide all of the information required by law, as well as any supplemental information deemed necessary in order to provide a true and fair presentation the company's financial performance and standing.

The tables and other details required by the Bank of Italy have been numbered in accordance with the parts and sections specified in Annex "A" of the supervisory instructions issued by the Bank of Italy.

Tables with no amounts for either 2009 or 2008 have been omitted.

CDP SEGREGATED ASSET POOL

CDP holds the covered bond segregate asset pool. This is not a segregated asset pool as defined by the Italian Civil Code, but rather a separation related to certain CDP assets (loans to local authorities) for which CDP has established guarantees/liens on the cash flows for the holders of the covered bonds issued, which enables the bond itself to have a higher rating than that of the issuer.

The separation concerns the flows related to the portfolio of loans that constitute the collateral of the related bond issue.

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

AUDITING OF THE FINANCIAL STATEMENTS

The CDP financial statements have been audited by KPMG S.p.A. in execution of the shareholder resolution of April 2007, which engaged this firm to audit the financial statements and accounts for the period 2007-2010.

PART A – ACCOUNTING POLICIES

A.1 – GENERAL INFORMATION

SECTION 1 – DECLARATION OF CONFORMITY WITH THE INTERNATIONAL ACCOUNTING STANDARDS

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) issued by the IASB (and related IFRIC and SIC interpretations) endorsed by the European Commission as of 31 December 2009 and with the Bank of Italy circular of 22 December 2005 updated to 18 November 2009, which establishes the required format of the financial statements and related methods of preparation, as well as the content of the related notes.

SECTION 2 – GENERAL PREPARATION PRINCIPLES

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

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

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

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

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

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

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

SECTION 3 – SCOPE AND METHODS OF CONSOLIDATION

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

1. EQUITY INVESTMENTS IN SUBSIDIARIES AND JOINT VENTURES (CONSOLIDATED PROPORTIONATELY)

Name	Registered office	Type of relationship (1)	Equity investment		% of votes (2)
			Investor	% holding	
A. Enterprises					
A.1 Consolidated on a line-by-line basis					
1. Terna S.p.A.	Rome	2	CDP S.p.A.	29.99%	29.99%
2. SunTergrid S.p.A.	Rome	1	Terna S.p.A.	100.00%	100.00%
3. Telat S.r.l.	Rome	1	Terna S.p.A.	100.00%	100.00%
4. RTR S.r.l.	Rome	1	Terna S.p.A.	100.00%	100.00%
A.2 Consolidated proportionately					

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

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

SECTION 4 – EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

During the period between the reporting date for the financial statements and their approval by the Board of Directors on 31 March 2010, no events occurred that would require an adjustment to the figures approved or the provision of additional information.

SECTION 5 – OTHER ISSUES

FIRST-TIME ADOPTION/RECENTLY ADOPTED ACCOUNTING STANDARDS

The CDP Group adopted the following international accounting standards and interpretations for the first time as from 1 January 2009:

"Amendments to IAS 1 - Presentation of financial statements": this introduces a new method of presentation of financial statements, with a particular impact on the presentation of income statement data for the period through "comprehensive income", which provides for separate reporting of profit and loss for the period and of profit and loss recognised as a change in equity ("other comprehensive income"). The standard gives companies the option of presenting this information in one "statement of comprehensive income", or in two separate statements presented together:

- one statement ("income statement"), which shows the components of profit and loss for the period; and
- a second statement ("statement of comprehensive income") which, starting with the net income (loss) for the period, includes gains and losses recognised directly in equity (OCI - other comprehensive income).

The CDP Group, in line with the instructions issued by the Bank of Italy, has elected to present comprehensive income for the year in two separate statements. IAS 1 Revised also eliminated the option of disclosing changes in shareholders' equity items and transactions with owners in the notes to the financial statements and rather requires this information to be presented in a separate statement.

"Amendments to IFRS 7 - Financial instruments: disclosures": the amendments introduce a three-level hierarchy for classifying assets and liabilities measured at fair value and providing the related disclosures. This hierarchy reflects the availability of observable market data to be used in determining fair value. The amendments also introduce new disclosure requirements, with the information to be presented in table form, for assets and liabilities measured at fair value for each of the three levels in the hierarchy, with the extension of disclosure requirements for financial instruments measured at fair value on the basis of inputs not based on observable market data. The disclosure requirements for liquidity risk were also amended to reflect the manner in which such risk is managed. The application of the amendments on a prospective basis did not have a material impact for the CDP Group.

OTHER INFORMATION

The consolidated financial statements for 2009 are subject to approval by the CDP Board of Directors and will be published following presentation to the Shareholders' Meeting of 28 April 2010.

RECLASSIFICATION OF THE 2008 FINANCIAL STATEMENTS

On November 3, 2009, in implementation of the sale agreement signed on April 24, 2009 between Terna S.p.A., Cemig Geração e Transmissão S.A. ("Cemig GT") and Companhia Energética de Minas Gerais ("Cemig"), the sale of the equity investment held by Terna in Terna Participações S.A. to TAESA S.A. ("TAESA"), a company held by Cemig GT and FIP (Fundo de Investimento em Participações) Coliseu, which brings together a number of Brazilian investors, was completed.

For the purposes of presenting the operation in the financial statements, the financial effects of the sale were reported under "310. Income (loss) after tax on disposal groups held for sale" for 2009 and, for comparative purposes, the items of the income statement affected by the transaction were reclassified.

The comparative income statement figures at 31 December 2008 have also been reclassified to improve the allocation of capitalised costs to the value of items of property, plant and equipment. More specifically, the value reported at 31 December 2008 for capitalised internal work was transferred to a specific sub-item of personnel expenses and to raw materials and consumables as appropriate.

In compliance with the Bank of Italy notice of 2 January 2009 containing certain clarifications concerning the presentation of a number of items in the financial statements of banks:

- receivables in respect of the supply of goods and services were allocated to asset item “160. Other assets” rather than item “70. Loans to customers” in the amount of €1,730,594 thousand;
- remuneration paid to members of the Board of Auditors were reallocated to item “180.a Staff costs” of the income statement from item “180.b Other administrative expenses”.

RECLASSIFICATION OF THE 2008 FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

(thousands of euros)

	Assets	31/12/2008 Reclassified data	31/12/2008	Change
10.	Cash and cash equivalents	105,269,186	105,269,186	
20.	Financial assets held for trading	400,991	400,991	
40.	Financial assets available for sale	9,775,278	9,775,278	
50.	Financial assets held to maturity	205,795	205,795	
60.	Loans to banks	5,570,120	5,570,120	
70.	Loans to customers	84,061,306	85,791,900	(1,730,594)
	of which securing covered bonds	*16,542,633*	*16,542,633*	
80.	Hedging derivatives	216,526	216,526	
100.	Equity investments	3,314,814	3,314,814	
120.	Property, plant and equipment	8,332,246	8,332,246	
130.	Intangible assets	878,006	878,006	
	of which:			
	- goodwill	*500,908*	*500,908*	
140.	Tax assets	806,602	857,560	(50,958)
	a) current	587,232	578,132	9,100
	b) deferred	219,370	279,428	(60,058)
160.	Other assets	1,801,155	79,661	1,721,494
	Total assets	**220,632,025**	**220,692,083**	**(60,058)**

(thousands of euros)

	Liabilities and shareholders' equity	31/12/2008 Reclassified data	31/12/2008	Change
10.	Due to banks	2,872,504	2,872,504	
20.	Due to customers	92,281,093	92,281,093	
	of which amounts to be disbursed on loans securing covered bonds	*1,476,183*	*1,476,183*	
30.	Securities issued	105,554,798	105,554,798	
	of which covered bonds	*8,287,063*	*8,287,063*	
40.	Financial liabilities held for trading	382,377	382,377	
60.	Hedging derivatives	1,355,835	1,355,835	
70.	Adjustment of financial liabilities hedged generically (+/-)	16,699	16,699	
80.	Tax liabilities	1,968,782	2,030,471	(61,689)
	a) current	593,410	595,041	(1,631)
	b) deferred	1,375,372	1,435,430	(60,058)
100.	Other liabilities	3,330,136	3,328,505	1,631
110.	Staff severance pay	*75,045*	75,045	
120.	Provisions	169,191	169,191	
	b) other provisions	169,191	*169,191*	
140.	Valuation reserves	1,152,347	1,152,347	
170.	Reserves	3,977,459	3,977,459	
180.	Share premium reserve	852	852	
190.	Share capital	3,500,000	3,500,000	
210.	Minority interest (+/-)	2,581,323	2,581,323	
220.	Income (loss) for the period	1,413,584	1,413,584	
	Total liabilities and shareholders' equity	**220,632,025**	**220,692,083**	**(60,058)**

CONSOLIDATED INCOME STATEMENT *(thousands of euros)*

		31/12/2008 Reclassified data	31/12/2008	Change
10.	Interest income and similar revenues	8,161,461	8,172,803	(11,342)
20.	Interest expense and similar charges	(5,915,173)	(5,974,373)	59,200
30.	**Net interest income**	**2,246,288**	**2,198,430**	**47,858**
40.	Commission income	6,709	6,709	
50.	Commission expense	(737,246)	(737,946)	700
60.	**Net commission income**	**(730,537)**	**(731,237)**	**700**
70.	Dividends and similar revenues	851,617	851,617	
80.	Net gain (loss) on trading activities	(13,321)	(24,393)	11,072
90.	Net gain (loss) on hedging activities	(146,986)	(146,441)	(545)
100.	Gains (losses) on disposal or repurchase of:	8,028	8,028	
	a) loans	7,403	7,403	
	d) financial liabilities	625	625	
120.	**Gross income**	**2,215,089**	**2,156,004**	**59,085**
130.	Net impairment adjustments of:	(23,863)	(25,697)	1,834
	a) loans	(23,863)	(25,697)	1,834
140.	**Financial income (expense), net**	**2,191,226**	**2,130,307**	**60,919**
180	Administrative expenses	(408,432)	(529,004)	120,572
	a) staff costs	(244,528)	(306,897)	62,369
	b) other administrative expenses	(163,904)	(222,107)	58,203
190.	Net provisions	(4,998)	(4,998)	
200.	Net adjustments of property, plant and equipment	(280,699)	(303,661)	22,962
210.	Net adjustments of intangible assets	(26,512)	(34,649)	8,137
220.	Other operating income (costs)	1,188,386	1,455,801	(267,415)
230.	**Operating costs**	**467,745**	**583,489**	**(115,744)**
240.	Gains (losses) on equity investments	(366,232)	(365,932)	(300)
270.	Gains (losses) on disposal of investments	2,883	2,883	
280.	**Income (loss) before tax from continuing operations**	**2,295,622**	**2,350,747**	**(55,125)**
290.	Income tax for the period on continuing operations	(692,535)	(709,977)	17,442
300.	**Income (loss) after tax on continuing operations**	**1,603,087**	**1,640,770**	**(37,683)**
310.	Income (loss) after tax on disposal groups held for sale	37,683	-	37,683
320.	**Income (loss) for the period**	**1,640,770**	**1,640,770**	
330.	Net income (loss) for the year pertaining to minority interest	227,186	227,186	
340.	**Net income (loss) for the year pertaining to the parent company**	**1,413,584**	**1,413,584**	

A.2 – THE MAIN FINANCIAL STATEMENT ACCOUNTS

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

1 – FINANCIAL ASSETS HELD FOR TRADING

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

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

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

own category. This is not done in cases in which the compound instrument containing the derivative is measured at fair value through profit or loss.
The financial instruments are measured subsequently at fair value based on the official prices as of the balance sheet 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 adjusted in the event of losses in value.
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 are 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 shown 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. In cases in which 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 done on 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.
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 balance sheet date if the financial instruments 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.
Available-for-sale financial assets are subject to impairment tests 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 concerning 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 amount of 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 to public entities and public-law bodies under the CDP Group's 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 detailed 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 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 the IFRSs.

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 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, as well as the creditworthiness of the CDP Group's 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, are also subject to 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 derivative transactions.
“Loans to banks” include unlisted financial assets in respect of banks (current accounts, security deposits, debt securities, operating receivables, etc.) that are allocated to the “loans” portfolio. This also includes the amounts receivable from central banks other than free deposits (i.e. the reserve requirement).

6 – HEDGING TRANSACTIONS

According to the IASs, 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 position 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 balance sheet date have either a positive or negative value.

7 – Equity investments

The term "equity investments" refers to investments in subsidiaries (IAS 27), in joint ventures (IAS 31), and associates subject to significant influence (IAS 28) other than financial assets held for trading (item 20) and financial assets at fair value through profit or loss (item 30) in accordance with IAS 28, paragraph 1, and IAS 31, paragraph 1.
Subsidiaries are companies in which CDP holds, either directly or indirectly, more than half of the voting rights for the purpose of appointing dependent directors or, in any event, when CDP exercises the power to determine financial and operating policies. Joint ventures are companies in which control is shared with other parties by contract. 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 interests 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.
Equity investments recognised under item 100 "Equity investments" that are not consolidated on a line-by-line basis over which the parent company exercises joint control or a significant influence are accounted for using the equity method.
Where there is evidence that the value of an equity investment may be impaired, its recoverable value is determined, taking account of both its market value and the present value of future cash flows.
If this value is lower than the carrying amount, the difference is recognised in the income statement as an impairment loss. This loss is only recognised when the loss in value is significant and persistent. Impairment losses on investments listed on active markets, and unless there are additional, specifically justified reasons, are recognised when the impairment is deemed to be significant, which

for investments in listed companies is when the market price is more than 20% lower than the carrying amount for nine months out of the year.

8 – PROPERTY, PLANT AND EQUIPMENT

"Property, plant and equipment" includes all non-current tangible assets used in operations governed by IAS 16 and investment property 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 VAT, increased by revaluations carried out under the provisions of specific laws.
The carrying amount represents the book value of the assets net of depreciation.
The depreciation rates used are felt to reflect the remaining useful economic lives of the assets.
Newly acquired assets are depreciated as from the period in which they enter service.
Land and buildings are treated as separate assets for accounting purposes, even if purchased together. Land is considered to have an indefinite life and, as such, is not depreciated.
Assets whose use or nature classifies them as capital equipment are depreciated on a straight line basis over their remaining useful lives.
In the event an asset should suffer a lasting impairment of value, independently of depreciation, it is written down. The original value is restored where the conditions that had prompted the writedown should cease to obtain.
Maintenance and repair costs that do not increase the utility or useful lives of assets are charged directly to income for the year.
Financial expense directly attributable to the acquisition, construction or production of an asset that qualifies for capitalisation under IAS 23 (revised in 2007) is capitalised in the carrying amount of the asset as part of its cost.
"Assets under construction and advances" are composed of advances or expenses incurred in respect of assets and materials that have not been completed or are undergoing testing before entering service. Since they have not yet entered the company's production cycle, depreciation is suspended.

9 – INTANGIBLE ASSETS

"Intangible assets" include goodwill and other intangibles governed by IAS 38. They include assets held under finance leases.
Intangible assets are recognised at purchase or development cost including incidental expenses and are amortised over their estimated useful lives, which,

at the end of each year, is subject to impairment testing in order to verify the appropriateness of the estimates.
An intangible asset is only recognised under the following conditions:
(a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity;
(b) the cost of the asset can be measured reliably.
Goodwill generated from the acquisition of subsidiaries is allocated to each identified cash generating unit (CGU). Following initial recognition, goodwill is not amortised but is reduced for any impairment losses. The estimate of the recoverable value of goodwill recognised uses a discounted cash flow model, which determines value in use on the basis of an estimation of future cash flows and an appropriate discount rate.

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.

11 – CURRENT AND DEFERRED TAXATION

Corporate income tax (IRES) and the regional tax on business activities (IRAP) are recognised on an accruals basis using a realistic estimate of the negative and positive tax components for the year and were calculated on the basis of the tax rates currently in force.

Deferred tax items regard the recognition of the effects of differences between the valuation of accounting items under tax regulations (which are used to determine taxable income) and that under statutory reporting regulations (which seek to quantify the result for the year). "Taxable timing differences" between statutory and tax values are those that will give rise to taxable amounts in future tax periods, while "deductible timing differences" are those that will give rise to deductible amounts in the future.

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

12 – PROVISIONS

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

(a) there is a present (legal or constructive) obligation resulting from a past event;
(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation;
(c) a reliable estimate can be made of the amount of the obligation.

When the financial impact of the time factor is significant and the dates of payment of the obligation can be estimated reliably, the provision is measured as the present value (discounted at market rates as of the balance sheet date) of the charges that are expected to be incurred in order to settle the obligation.

The provisions are only used when the charges for which they were originally established are incurred. When the outlay to fulfil the obligation is no longer deemed to be probable, the provision is reversed through the income statement.

13 – DEBT AND SECURITIES ISSUED

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

These are initially measured at fair value including the costs incurred to issue the securities. Subsequent measurement is at amortised cost. The payables are eliminated when they mature or are extinguished.

14 – FINANCIAL LIABILITIES HELD FOR TRADING

This item includes all forms of financial liabilities (debt securities, loans, etc.) designated as being held for trading purposes. It does not include the portion of the company's own debt securities issued but not yet placed with third parties.

The financial liabilities are initially recognised at fair value, which generally equals the amount received net of transactions costs or revenues. In cases in which the amount paid differs from the fair value, the financial asset is recognised at fair value, and the difference between the two amounts is recognised through profit or loss. Initial recognition is effected at the subscription 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 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 liability held for trading.

16 – FOREIGN CURRENCY TRANSACTIONS

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

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

- in the case of monetary instruments, at the spot exchange rate prevailing at the preparation date of the financial statements, recognising exchange

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

Exchange rate differences in respect of non-monetary items are treated using the same rules for gains and losses on the original instruments.

The effects of foreign exchange differences related to the equity of investments measured using the equity method are recognised in an equity reserve.

The financial statements of each consolidated foreign company are prepared using the functional currency of the economy in which each company operates.

In these financial statements, all transactions in currencies other than the functional currency are recognised at the exchange rate prevailing on the transaction date. Monetary assets and liabilities denominated in currencies other than the functional currency are subsequently adjusted at the exchange rate prevailing at the balance sheet date and any foreign exchange gains or losses are recognised in the income statement.

17 - OTHER INFORMATION

CASH AND CASH EQUIVALENTS (ITEM 10 OF ASSETS)

Liquid assets are recognised at fair value.

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

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

STAFF SEVERANCE PAY

The liability in respect of employee benefits to be paid at the time of or subsequent to termination of the employment relationship under defined benefit and other long-term benefit plans is recognised net of any plan assets. It is determined separately for each plan on the basis of actuarial assumptions, estimating the amount of future benefits accrued by employees at the reference

date. The liability is recognised over the period in which the entitlement accrues. The liability is estimated by independent actuaries.
It should also be noted that the provision for staff severance pay (trattamento di fine rapporto – TFR) for employees of the parent company is negligible given that CDP employees maintained their participation the INPDAP pension scheme after the transformation; therefore, contributions are paid to that institution. As such, the amount shown for TFR for the parent company is related solely to newly hired employees (under the INPS pension scheme) for amounts accrued until 2006, given that the amounts accrued subsequently were not applied to this fund, but to the supplemental pension fund or to INPS in accordance with the applicable legislation.
Therefore, the effects of the application of IAS 19 with regard to the parent company's share of TFR are not significant and so the related liability continues to be reported in an amount based on statutory requirements (Article 2120 of the Italian Civil Code).

INTEREST INCOME AND EXPENSE

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

COMMISSIONS

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

DIVIDENDS

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

CONTRACT WORK IN PROGRESS

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

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

SHARE-BASED PAYMENTS

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

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

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

CAPITALISED BORROWING COSTS

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

Where funds are borrowed specifically, costs eligible for capitalisation are the actual costs incurred less any income earned on the temporary investment of such borrowings. Where funds are part of a general pool, the eligible amount is determined by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate will be the weighted average of the borrowing costs applicable to the general pool, excluding any specifically borrowed funds. The amount of borrowing costs capitalised during a year shall in any case not exceed the amount of borrowing costs incurred during that year.

Capitalisation commences as from the date all the following conditions have been met: (a) expenditures have been incurred for the asset; (b) borrowing costs are

being incurred; and (c) activities to prepare the asset for its intended use or sale are in progress.
Capitalisation ceases when the activities necessary to prepare the asset for its intended use or sale are substantially complete.

GRANTS

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

REVENUES

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

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

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

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

A.3 - DISCLOSURES ON FAIR VALUE MEASUREMENT

A.3.2 Hierarchy of fair value inputs

(thousands of euros)

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

	31/12/2009			31/12/2008		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading		868,551			400,991	
2. Financial assets at fair value						
3. Financial assets available for sale	13,932,295	8,500	50,564	9,740,837	9,560	24,881
4. Hedging derivatives		454,196	577		216,526	
Total	**13,932,295**	**1,331,247**	**51,141**	**9,740,837**	**627,077**	**24,881**
1. Financial liabilities held for trading		9,135	773,842			382,377
2. Financial liabilities at fair value						
3. Hedging derivatives		930,117			1,355,779	56
Total		**939,252**	**773,842**		**1,355,779**	**382,433**

(thousands of euros)

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

	FINANCIAL ASSETS			
	held for trading	at fair value	available for sale	hedging
1. Opening balance			**24,881**	**-**
2. Increases			**30,202**	**577**
2.1 Purchases			30,202	
2.2 Profits taken to:				577
2.2.1 Income statement				577
- of which: capital gains				*577*
2.2.2 Shareholders' equity	x	x		
2.3 Transfers to other levels				
2.4 Other increases				
3. Decreases			**4,519**	
3.1 Sales				
3.2 Repayments				
3.3 Losses taken to:			4,519	
3.3.1 Income statement				
- of which: capital losses				
3.3.2 Shareholders' equity	x	x	4,519	
3.4 Transfers to other levels				
3.5 Other decreases				
4. Closing balance			**50,564**	**577**

(thousands of euros)

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

	FINANCIAL LIABILITIES		
	held for trading	**at fair value**	**hedging**
1. Opening balance	**382,377**		**56**
2. Increases	**391,465**		
2.1 Purchases	306,829		
2.2 Losses taken to:	84,636		
2.2.1 Income statement	84,636		
- of which: capital losses	*84,636*		
2.2.2 Shareholders' equity	x	x	
2.3 Transfers to other levels			
2.4 Other increases			
3. Decreases			**56**
3.1 Sales			
3.2 Repayments			
3.3 Profits taken to:			56
3.3.1 Income statement			56
- of which: capital gains			*56*
3.3.2 Shareholders' equity	x	x	
3.4 Transfers to other levels			
3.5 Other decreases			
4. Closing balance	**773,842**		-

PART B – INFORMATION ON THE BALANCE SHEET

ASSETS

SECTION 1 – CASH AND CASH EQUIVALENTS – ITEM 10

1.1 Cash and cash equivalents: composition

The following table summarises liquidity at 31 December 2009, including interest accrued and not yet credited on amounts deposited in interest-bearing accounts.

(thousands of euros)

1.1 CASH AND CASH EQUIVALENTS: COMPOSITION

	31/12/2009	31/12/2008
a) Cash	88	149
b) Free deposits with central banks	114,688,732	105,269,037
Total	**114,688,820**	**105,269,186**

SECTION 2 – FINANCIAL ASSETS HELD FOR TRADING – ITEM 20

2.1 Financial assets held for trading: composition by type

(thousands of euros)

2.1 FINANCIAL ASSETS HELD FOR TRADING: COMPOSITION BY TYPE

	31/12/2009			31/12/2008		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A On-balance-sheet financial 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:		868,511			400,991	
1.1 trading		868,511			400,991	
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		**868,511**			**400,991**	
Total (A+B)		**868,511**			**400,991**	

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

The item also includes the interest rate swaps entered into to hedge the postal savings bonds classified under financial assets held for trading with a view to their closure.

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

(thousands of euros)

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

	31/12/2009	31/12/2008
A. ON-BALANCE-SHEET FINANCIAL ASSETS		
1. Debt securities		
a) Governments and central banks		
b) Other government agencies		
c) Banks		
d) Other		
2. Equity securities		
a) Banks		
b) Other:		
- insurance undertakings		
- financial companies		
- non financial companies		
- other		
3. Units in collective investment undertakings		
4. Loans		
a) Governments and central banks		
b) Other government agencies		
c) Banks		
d) Other		
Total A		
B. DERIVATIVES		
a) Banks	868,511	400,991
- fair value	868,511	400,991
b) Customers		
- fair value		
Total B	**868,511**	**400,991**
Total (A+B)	**868,511**	**400,991**

SECTION 4 – FINANCIAL ASSETS AVAILABLE FOR SALE – ITEM 40

4.1 Financial assets available for sale: composition by type

(thousands of euros)

4.1 FINANCIAL ASSETS AVAILABLE FOR SALE: COMPOSITION BY TYPE

	31/12/2009			31/12/2008		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	199,116	8,500		202,014	9,560	
1.1 Structured securities						
1.2 Other debt securities	199,116	8,500		202,014	9,560	
2. Equity securities	13,733,179		10,263			
2.1 At fair value	13,733,179			9,538,823		
2.2 At cost			10,263			9,763
3. Units in collective investment undertakings			40,301			15,118
4. Loans						
Total	**13,932,295**	**8,500**	**50,564**	**9,740,837**	**9,560**	**24,881**

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

(thousands of euros)

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

	31/12/2009	31/12/2008
1. Debt securities	**207,616**	**211,574**
a) Governments and central banks		
b) Other government agencies	8,500	9,560
c) Banks		
d) Other	199,116	202,014
2. Equity securities	**13,743,442**	**9,548,586**
a) Banks	2,066	2,066
b) Other	13,741,376	9,546,520
- insurance undertakings		
- financial companies	8,197	7,697
- non financial companies	13,733,179	9,538,823
- other		
3. Units in collective investment undertakings	**40,301**	**15,118**
4. Loans		
a) Governments and central banks		
b) Other government agencies		
c) Banks		
d) Other		
Total	**13,991,359**	**9,775,278**

4.4 Financial assets available for sale: change for the year

(thousands of euros)

4.4 FINANCIAL ASSETS AVAILABLE FOR SALE: CHANGE FOR THE YEAR

	Debt securities	Equity securities	Units in collective investment undertakings	Loans	Total
A. Opening balance	**211,574**	**9,548,586**	**15,118**		**9,775,278**
B. Increases	**175,664**	**4,194,856**	**29,702**		**4,400,222**
B1. Purchases	175,000	3,158,866	29,702		3,363,568
B2. Fair value gains	664	1,035,990			1,036,654
B3. Writebacks					
- recognised through income statement		x			
- recognised through equity					
B4. Transfers from other portfolios					
B5. Other changes					
C. Decreases	**179,622**	**-**	**4,519**		**184,141**
C1. Sales	175,048				175,048
C2. Repayments	1,222				1,222
C3. Fair value losses			4,519		4,519
C4. Writedowns for impairment					
- recognised through income statement					
- recognised through equity					
C5. Transfers to other portfolios					
C6. Other changes	3,352				3,352
D. Closing balance	**207,616**	**13,743,442**	**40,301**	**-**	**13,991,359**

The substantial increase is attributable to the participation of CDP in the capital increase of Enel S.p.A., including the portion pertaining to the Ministry for the Economy and Finance, with a total commitment for CDP of €3,158 million, and to the rise in the market prices of the shareholdings in Enel S.p.A. and Eni S.p.A.

SECTION 5 – FINANCIAL ASSETS HELD TO MATURITY – ITEM 50

5.1 Financial assets held to maturity: composition by type

(thousands of euros)

5.1 FINANCIAL ASSETS HELD TO MATURITY: COMPOSITION BY TYPE

	31/12/2009				31/12/2008			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities								
- structured								
- other	205,285	215,133			205,795	197,132		
2. Loans								
Total	**205,285**	**215,133**			**205,795**	**197,132**		

Key
FV = fair value
BV = book value

The item includes inflation-linked Treasury bonds with a nominal value of €200 million acquired in 2008 in response to the increasing exposure of the balance sheet to Italian inflation due to the issue of postal savings bonds indexed to inflation.

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

(thousands of euros)

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

	31/12/2009	31/12/2008
1. Debt securities	**205,285**	**205,795**
a) Governments and central banks	205,285	205,795
b) Other government agencies		
c) Banks		
d) Other		
2. Loans to		
a) Governments and central banks		
b) Other government agencies		
c) Banks		
d) Other		
Total	**205,285**	**205,795**
Total (fair value)	**215,133**	**197,132**

5.4 Financial assets held to maturity: change for the year

(thousands of euros)

5.4 FINANCIAL ASSETS HELD TO MATURITY: CHANGE FOR THE YEAR

	Debt securities	Loans	Total
A. Opening balance	**205,795**		**205,795**
B. Increases	**-**		**-**
B1. Purchases			
B2. Writebacks			
B3. Transfers from other portfolios			
B4. Other changes			-
C. Decreases	**510**		**510**
C1. Sales			
C2. Repayments			
C3. Writedowns			
C4. Transfers to other portfolios			
C5. Other changes	510		510
D. Closing balance	**205,285**		**205,285**

SECTION 6 – LOANS TO BANKS – ITEM 60

6.1 Loans to banks: composition by type

(thousands of euros)

6.1 LOANS TO BANKS: COMPOSITION BY TYPE

	31/12/2009	31/12/2008
A. Claims on central banks	**3,703,220**	**3,358,655**
1. Fixed-term deposits		
2. Reserve requirement	3,703,220	3,358,655
3. Repurchase agreements		
4. Other		
B. Loans to banks	**2,774,124**	**2,211,465**
1. Current accounts and free deposits	794,179	1,013,252
2. Fixed-term deposits	907,947	668,985
3. Other financing	921,886	529,228
3.1 Repurchase agreements		
3.2 Finance leasing		
3.3 Other	921,886	529,228
4. Debt securities	150,112	
4.1 Structured		
4.2 Other debt securities	150,112	-
Total (book value)	**6,477,344**	**5,570,120**
Total (fair value)	**6,479,346**	**5,555,048**

For the banking group, loans to banks are primarily composed of the balance on the management account for the reserve requirement of about €3,703 million, loans amounting to about €922 million, deposits (cash collateral) at banks to hedge the credit risk on derivatives of about €908 million and current account balances totalling €443 million.

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

6.2 Loans to banks: assets hedged specifically

(thousands of euros)

6.2 LOANS TO BANKS: ASSETS HEDGED SPECIFICALLY

	31/12/2009	31/12/2008
1. Loans with specific fair value hedges:	**107,853**	**116,221**
a) interest rate risk	107,853	116,221
b) exchange rate risk		
c) credit risk		
d) multiple risks		
2. Loans with specific cash flow hedges:		
a) interest rate risk		
b) exchange rate risk		
c) other		
Total	**107,853**	**116,221**

SECTION 7 – LOANS TO CUSTOMERS – ITEM 70

7.1 Loans to customers: composition by type

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

(thousands of euros)

7.1 LOANS TO CUSTOMERS: COMPOSITION BY TYPE

	31/12/2009		31/12/2008	
	Performing	Impaired	Performing	Impaired
1. Current accounts	84		93	
2. Repurchase agreements				
3. Loans	84,171,757	46,402	82,051,444	52,753
4. Credit cards, personal loans and loans repaid by automatic deductions from wages				
5. Finance leasing				
6. Factoring				
7. Other	86,936		692,650	
8. Debt securities	1,318,662		1,264,366	
8.1 Structured				
8.2 Other debt securities	1,318,662		1,264,366	
Total (book value)	**85,577,439**	**46,402**	**84,008,553**	**52,753**
Total (fair value)	**88,120,934**	**46,402**	**83,982,360**	**52,753**

Net impaired exposures in respect of loans came to €46.4 million. On the basis of the quality of the borrowers, the guarantees securing the loans and the regular payment of instalments, as well as the experience of the CDP in this area, it was not considered necessary to carry out a collective writedown of the loan portfolio.

“Other” includes net funding from postal savings products that has not yet been deposited on the CDP’s treasury account.

7.2 Loans to customers: composition by debtor/issuer

(thousands of euros)

7.2 LOANS TO CUSTOMERS: COMPOSITION BY DEBTOR/ISSUER

	31/12/2009		31/12/2008	
	Performing	**Impaired**	**Performing**	**Impaired**
1. Debt securities:	**1,318,662**	-	**1,264,366**	
a) Governments	274,312		274,234	
b) Other government agencies	609,151		532,607	
c) Other issuers	435,199		457,525	
- non-financial companies	49,358		457,525	
- financial companies	385,841			
- insurance undertakings				
- other				
2. Loans to:	**84,258,777**	**46,402**	**82,744,187**	**52,753**
a) Governments	33,231,368		33,934,883	
b) Other government agencies	44,278,780	5,466	42,312,526	23,676
c) Other	6,748,629	40,936	6,496,778	29,077
- non financial companies	6,701,434	18,783	6,262,323	7,248
- financial companies		21,829	193,749	21,829
- insurance undertakings				
- other	47,195	324	40,706	
Total	**85,577,439**	**46,402**	**84,008,553**	**52,753**

7.3 Loans to customers: assets hedged specifically

(thousands of euros)

7.3 LOANS TO CUSTOMERS: ASSETS HEDGED SPECIFICALLY

	31/12/2009	31/12/2008
1. Loans with specific fair value hedges:	**16,808,271**	**18,527,794**
a) interest rate risk	16,808,271	18,527,794
b) exchange rate risk		
c) credit risk		
d) multiple risks		
2. Loans with specific cash flow hedges:		
a) interest rate risk		
b) exchange rate risk		
c) other		
Total	**16,808,271**	**18,527,794**

SECTION 8 – HEDGING DERIVATIVES – ITEM 80

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

(thousands of euros)

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

	31/12/2009			NV 31/12/2009	31/12/2008			NV 31/12/2008
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives:		**454,196**	**577**	**10,148,103**		**216,526**		**5,370,791**
1) Fair value		442,270	577	10,073,005		201,271		5,291,514
2) Cash flow		11,926		75,098		15,255		79,277
3) Investment in foreign operation								
B. Credit derivatives								
1) Fair value								
2) Cash flow								
Total		**454,196**	**577**	**10,148,103**		**216,526**		**5,370,791**

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

8.2 Hedging derivatives: composition by hedged portfolio and type of hedge (book value)

(thousands of euros)

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

	Fair value						Cash flow		Investment in foreign operation
	Specific					Generic	Specific	Generic	
	interest rate risk	exchange rate risk	credit risk	price risk	multiple risks				
1. Financial assets available for sale						x		x	x
2. Loans	969			x		x		x	x
3. Financial assets held to maturity	x			x		x		x	x
4. Portfolio	x	x	x	x	x		x		x
5. Other						x		x	
Total assets	**969**								
1. Financial liabilities	432,886			x	8,992	x	11,926	x	x
2. Portfolio	x	x	x	x	x		x		x
Total liabilities	**432,886**				**8,992**		**11,926**		
1. Forecast transactions	x	x	x	x	x	x		x	x
2. Portfolio of financial assets and liabilities	x	x	x	x	x		x		

SECTION 10 – EQUITY INVESTMENTS – ITEM 100

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

(thousands of euros)

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

Name	Registered office	Type of relationship	Equity investment		% of votes
			Investor	% holding	
A. Companies					
1. Cesi S.p.A.	Milan	Significant influence	Terna S.p.A.	31.00%	31.00%
2. Elmed Etudes S.àr.l.	Tunis	Significant influence	Terna S.p.A.	50.00%	50.00%
3. STMicroelectronics Holding N.V.	Amsterdam	Joint control	CDP S.p.A.	50.00%	50.00%
4. Poste Italiane S.p.A.	Rome	Significant influence	CDP S.p.A.	35.00%	35.00%
5. Galaxy S.àr.l. SICAR	Luxembourg	Significant influence	CDP S.p.A.	40.00%	40.00%
6. Europrogetti & Finanza S.p.A. in liquidation	Rome	Significant influence	CDP S.p.A.	31.80%	31.80%
7. Tunnel di Genova S.p.A.	Genoa	Significant influence	CDP S.p.A.	33.33%	33.33%

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

(thousands of euros)

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

Name	Total assets	Total revenues	Net income (loss)	Shareholders' equity	Book value	Fair value
A. Companies accounted for with equity method						
A.1 under joint control						
1. STMicroelectronics Holding N.V. (1)	770,012	2	(81,942)	768,065	625,990	x
A.2 under significant influence						
1. Cesi S.p.A.	111,489	75,115	8,020	47,963	14,814	
2. Elmed Etudes S.àr.l.	1,391	-	(1)	1,420	669	
3. Poste Italiane S.p.A. (2)	85,896,520	9,530,622	467,645	3,944,747	2,518,744	
4. Galaxy S.àr.l. SICAR (2)	93,133	37,347	(34,967)	67,702	25,568	
5. Europrogetti & Finanza S.p.A. in liquidation (3)	13,497	5,614	(2,476)	7,355	-	
6. Tunnel di Genova S.p.A. (3)	4,786	50	(49)	275	-	

(1) Figures from financial statements at 31/12/2009.
(2) Figures from financial statements at 30/06/2009.
(3) Figures from financial statements at 31/12/2007.

10.3 Equity investments: change for the year

(thousands of euros)

10.3 EQUITY INVESTMENTS: CHANGE FOR THE YEAR

	31/12/2009	31/12/2008
A. Opening balance	**3,314,814**	**3,863,170**
B. Increases	**602,995**	**276,161**
B.1 Purchases	180,918	12,796
B.2 Writebacks		
B.3 Revaluations	406,043	260,820
B.4 Other increases	16,034	2,545
C. Decreases	**102,710**	**824,517**
C.1 Sales	28,479	
C.2 Writedowns	13,698	458,662
C.3 Other decreases	60,533	365,855
D. Closing balance	**3,815,099**	**3,314,814**
E. Total revaluations		
F. Total writedowns	**1,032,573**	**1,018,875**

10.5 Obligations relating to companies subject to significant influence

CDP is a shareholder of Galaxy S.àr.l. SICAR, a Luxembourg company that makes equity or quasi-equity investments in projects and infrastructure in the transportation sector. At 31 December 2009, a total of some €25.6 million had been paid in.

Under the shareholders agreement, as from the end of the investment period, which terminated on 9 July 2008, additional payments can be requested from the shareholders only for: (i) payment of the company's running costs (such as, for example, operating expenses and management commissions) and (ii) the completion of investments already approved.

SECTION 12 – PROPERTY, PLANT AND EQUIPMENT – ITEM 120

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

(thousands of euros)

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

	Banking group	Other entities	31/12/2009	31/12/2008
A. Operating assets				
1.1 owned	**203,918**	**9,118,790**	**9,322,708**	**8,332,246**
a) land	117,406	53,675	171,081	156,113
b) buildings	69,874	582,297	652,171	559,328
c) movables	3,317	5,177	8,494	5,301
d) electrical plant	3,143	18,705	21,848	12,163
e) other	10,178	8,458,936	8,469,114	7,599,341
1.2 acquired under finance leases				
a) land				
b) buildings				
c) movables				
d) electrical plant				
e) other				
Total A	**203,918**	**9,118,790**	**9,322,708**	**8,332,246**
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)	**203,918**	**9,118,790**	**9,322,708**	**8,332,246**

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

(thousands of euros)

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

	Land	Buildings	Movables	Electrical plant	Other	Total
A. Opening gross balance	**117,406**	**82,805**	**11,357**	**17,684**	**24,610**	**253,862**
A.1 Total net writedowns	-	(10,633)	(7,899)	(13,025)	(14,445)	(46,002)
A.2 Opening net balance	**117,406**	**72,172**	**3,458**	**4,659**	**10,165**	**207,860**
B. Increases	**-**	**189**	**544**	**195**	**1,792**	**2,720**
B.1 Purchases		189	544	195	1,792	2,720
B.2 Capitalised improvement costs						
B.3 Writebacks						
B.4 Fair value gains recognised in:						
a) equity						
b) income statement						
B.5 Positive exchange rate differences						
B.6 Transfers from investment property						
B.7 Other changes						
C. Decreases	**-**	**2,487**	**685**	**1,711**	**1,779**	**6,662**
C.1 Sales						
C.2 Depreciation		2,487	685	1,711	1,779	6,662
C.3 Writedowns for impairment recognised in:						
a) equity						
b) income statement						
C.4 Fair value losses recognised in:						
a) equity						
b) income statement						
C.5 Negative exchange rate differences						
C.6 Transfers to:						
a) investment property						
b) assets held for sale						
C.7 Other changes						
D. Closing net balance	**117,406**	**69,874**	**3,317**	**3,143**	**10,178**	**203,918**
D.1 Total net writedowns	-	(13,120)	(8,584)	(14,736)	(16,224)	(52,664)
D.2 Closing gross balance	**117,406**	**82,994**	**11,901**	**17,879**	**26,402**	**256,582**
E. Measurement at cost						

(thousands of euros)

12.3.2 OPERATING PROPERTY, PLANT AND EQUIPMENT CHANGE FOR THE YEAR - MINORITY INTERESTS

	Land	Buildings	Movables	Electrical plant	Other	Total
A. Opening gross balance	**38,707**	**747,307**	**3,872**	**22,486**	**11,984,815**	**12,797,187**
A.1 Total net writedowns	-	(260,151)	(2,029)	(14,982)	(4,395,639)	(4,672,801)
A.2 Opening net balance	**38,707**	**487,156**	**1,843**	**7,504**	**7,589,176**	**8,124,386**
B. Increases	**15,098**	**125,794**	**3,620**	**14,281**	**1,947,725**	**2,106,518**
B.1 Purchases	94	12,005	2,403	1,101	844,187	859,790
B.2 Capitalised improvement costs						
B.3 Writebacks						
B.4 Fair value gains recognised in:						
a) equity						
b) income statement						
B.5 Positive exchange rate differences						
B.6 Transfers from investment property						
B.7 Other changes	15,004	113,789	1,217	13,180	1,103,538	1,246,728
C. Decreases	**130**	**30,653**	**286**	**3,080**	**1,077,965**	**1,112,114**
C.1 Sales	2	1,025			7,312	8,339
C.2 Depreciation		17,297	286	3,080	301,665	322,328
C.3 Writedowns for impairment recognised in:						
a) equity						
b) income statement					3,163	3,163
C.4 Fair value losses recognised in:						
a) equity						
b) income statement						
C.5 Negative exchange rate differences						
C.6 Transfers to:						
a) investment property						
b) assets held for sale	128	12,266			607,757	620,151
C.7 Other changes		65			158,068	158,133
D. Closing net balance	**53,675**	**582,297**	**5,177**	**18,705**	**8,458,936**	**9,118,790**
D.1 Total net writedowns	-	(277,448)	(2,315)	(18,062)	(4,697,304)	(4,995,129)
D.2 Closing gross balance	**53,675**	**859,745**	**7,492**	**36,767**	**13,156,240**	**14,113,919**
E. Measurement at cost						

SECTION 13 – INTANGIBLE ASSETS – ITEM 130

13.1 Intangible assets: composition by category

(thousands of euros)

13.1 INTANGIBLE ASSETS: COMPOSITION BY CATEGORY

	Banking group		Other entities		31/12/2009		31/12/2008	
	Definite life	Indefinite life	Definite life	Indefinite life	Definite life	Indefinite life	Definite life	Indefinite life
A.1 Goodwill	x		x	**487,240**	x	**487,240**	x	**500,908**
A.1.1 pertaining to Group	x		x	487,240	x	487,240	x	500,908
A.1.2 minority interests	x		x		x		x	
A.2 Other intangible assets	**6,572**		**181,953**		**188,525**		**377,098**	
A.2.1 Assets carried at cost	6,572		181,953		188,525		377,098	
a) internally-generated intangible assets			55,763		55,763		42,274	
b) other assets	6,572		126,190		132,762		334,824	
A.2.2 Assets carried at fair value:								
a) internally-generated intangible assets								
b) other assets								
Total	**6,572**	**-**	**181,953**	**487,240**	**188,525**	**487,240**	**377,098**	**500,908**

13.2 Intangible assets: change for the year

(thousands of euros)

13.2.1 INTANGIBLE ASSETS: CHANGE FOR THE YEAR - GROUP

	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total
		DEF	INDEF	DEF	INDEF	
A. Opening balance				**11,876**		**11,876**
A.1 Total net writedowns				(5,497)		(5,497)
A.2 Opening net balance				**6,379**		**6,379**
B. Increases				**2,543**		**2,543**
B.1 Purchases				2,543		2,543
B.2 Increases in internally-generated intangible assets	x					
B.3 Writebacks	x					
B.4 Fair value gains						
- equity	x					
- income statement	x					
B.5 Positive exchange rate differences						
B.6 Other changes						
C. Decreases				**2,350**		**2,350**
C.1 Sales						
C.2 Writedowns						
- Amortisation	x			2,350		2,350
- Impairment						
+ equity	x					
+ income statement						
C.3 Fair value losses						
- equity	x					
- income statement	x					
C.4 Transfer to non-current assets held for sale						
C.5 Negative exchange rate differences						
C.6 Other changes						
D. Closing net balance				**6,572**		**6,572**
D.1 Total net writedowns				(7,847)		(7,847)
E. Closing gross balance				**14,419**		**14,419**
F. Measurement at cost						

Key
DEF: definite life
INDEF: indefinite life

(thousands of euros)

13.2.2 INTANGIBLE ASSETS: CHANGE FOR THE YEAR - MINORITY INTERESTS

	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total
		DEF	INDEF	DEF	INDEF	
A. Opening balance	**500,908**	**117,984**		**358,466**		**977,358**
A.1 Total net writedowns		(75,710)		(30,021)		(105,731)
A.2 Opening net balance	**500,908**	**42,274**		**328,445**		**871,627**
B. Increases	**101,651**	**45,351**		**40,445**		**187,447**
B.1 Purchases	101,651	6,461		38,647		146,759
B.2 Increases in internally-generated intangible assets		38,890				38,890
B.3 Writebacks						
B.4 Fair value gains						
- equity						
- income statement						
B.5 Positive exchange rate differences						
B.6 Other changes				1,798		1,798
C. Decreases	**115,319**	**25,461**		**249,101**		**389,881**
C.1 Sales				91,398		91,398
C.2 Writedowns		25,461		6,693		32,154
- Amortisation		25,400		6,152		31,552
- Impairment		61		541		602
+ equity						
+ income statement		61		541		602
C.3 Fair value losses						
- equity						
- income statement						
C.4 Transfer to non-current assets held for sale	115,319			112,119		227,438
C.5 Negative exchange rate differences						
C.6 Other changes				38,891		38,891
D. Closing net balance	**487,240**	**62,164**		**119,789**		**669,193**
D.1 Total net writedowns	-	(101,171)		(36,714)		(137,885)
E. Closing gross balance	**487,240**	**163,335**		**156,503**		**807,078**
F. Measurement at cost						

Key
DEF: definite life
INDEF: indefinite life

The decrease in goodwill for the year is attributable to:

- the reclassification of assets sold (the Terna Participações cash generating unit) at 31 December 2008 (€115.3 million);
- the recognition of goodwill (€101.6 million) following the definitive allocation of the greater value paid for the TELAT acquisition compared with the fair value of the assets and liabilities at the date of the acquisition.

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

14.1 Deferred tax assets: composition

(thousands of euros)

14.1 DEFERRED TAX ASSETS: COMPOSITION

	Banking group	Other entities	31/12/2009	31/12/2008
Provisions for liabilities and contingencies	2,467		2,467	22,644
Depreciation and amortisation	3,616		3,616	3,642
Financial instruments	13,167		13,167	13,201
Provision for impaired loans				896
Severance pay and other staff costs				29,880
Financial income and expenses - Brazil				105,117
Equity investments	1,649		1,649	15,539
Payables	4,360		4,360	5,804
Securities holding	646		646	808
Other	143		143	21,839
Total	**26,048**		**26,048**	**219,370**

14.2 Deferred tax liabilities: composition

(thousands of euros)

14.2 DEFERRED TAX LIABILITIES: COMPOSITION

	Banking group	Other entities	31/12/2009	31/12/2008
Land holdings			-	
Equity investments	138,568		138,568	89,845
Property, plant and equipment		1,014,465	1,014,465	1,006,878
Depreciation and amortisation			-	
Securities holding	75		75	22
Financial instruments	573		573	2,175
Provision for impaired loans			-	269,702
Employee benefits			-	1,835
Acquisition of new companies			-	
Revaluation of plant and machinery			-	
Other	9,713		9,713	4,915
Total	**148,929**	**1,014,465**	**1,163,394**	**1,375,372**

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

(thousands of euros)

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

	31/12/2009	31/12/2008
Opening balance	**211,513**	**488,338**
2. Increases	**2,180**	**42,910**
2.1 Deferred tax assets recognised during the year	2,180	42,905
a) in respect of previous periods		
b) due to change in accounting policies		
c) writebacks	2,180	8,009
d) other		34,896
2.2 New taxes or increases in tax rates		5
2.3 Other increases		
3. Decreases	**189,940**	**319,735**
3.1 Deferred tax assets derecognised during the year	54,369	319,735
a) reversals	54,369	277,763
b) writedowns for supervening non-recoverability		
c) due to change in accounting policies		
d) other		41,972
3.2 Reduction in tax rates		
3.3 Other decreases		
3.4 Business combinations (*)	135,571	
Closing balance	**23,753**	**211,513**

(*) Disposal of controlling stake in Terna Participações

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

(thousands of euros)

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

	31/12/2009	31/12/2008
1. Opening balance	**1,303,218**	**1,672,457**
2. Increases	**104,909**	**11,739**
2.1 Deferred tax liabilities recognised during the year	**28**	
a) in respect of previous periods		
b) due to change in accounting policies		
c) other	28	
2.2 New taxes or increases in tax rates		
2.3 Other increases	13,096	11,739
2.4 Business combinations (*)	91,785	
3. Decreases	**357,072**	**380,978**
3.1 Deferred tax liabilities derecognised during the year	346,900	335,795
a) reversals	43,531	335,795
b) due to change in accounting policies		
c) other	303,369	
3.2 Reduction in tax rates		
3.3 Other decreases	3,981	45,183
3.4 Business combinations (**)	6,191	
4. Closing balance	**1,051,055**	**1,303,218**

(*) TELAT acquisition
(**) TELAT acquisition and disposal of Terna Participações

14.5 Changes in deferred tax assets (recognised in shareholders' equity)

(thousands of euros)

14.5 CHANGES IN DEFERRED TAX ASSETS (RECOGNISED IN SHAREHOLDERS' EQUITY)

	31/12/2009	31/12/2008
1. Opening balance	**7,857**	**4,444**
2. Increases	**9,950**	**55,752**
2.1 Deferred tax assets recognised during the year	1,461	33,787
a) in respect of previous periods		
b) due to change in accounting policies		
c) other	1,461	33,787
2.2 New taxes or increases in tax rates		
2.3 Other increases	8,489	21,965
3. Decreases	**15,512**	**52,340**
3.1 Deferred tax assets derecognised during the year	15,512	52,340
a) reversals	15,512	34,253
b) writedowns for supervening non-recoverability		
c) due to changes in accounting policies		
d) other		18,087
3.2 Reduction in tax rates		
3.3 Other decreases		
4. Closing balance	**2,295**	**7,856**

14.6 Changes in deferred tax liabilities (recognised in shareholders' equity)

(thousands of euros)

14.6 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNISED IN SHAREHOLDER'S EQUITY)

	31/12/2009	31/12/2008
1. Opening balance	**72,154**	**96,273**
2. Increases	**44,801**	**68,601**
2.1 Deferred tax liabilities recognised during the year	44,801	66,780
a) in respect of previous periods		
b) due to change in accounting policies		
c) other	44,801	66,780
2.2 New taxes or increases in tax rates		
2.3 Other increases		1,821
3. Decreases	**4,616**	**92,720**
3.1 Deferred tax liabilities derecognised during the year	4,616	74,634
a) reversals		73,260
b) due to change in accounting policies		
c) other	4,616	1,374
3.2 Reduction in tax rates		
3.3 Other decreases		18,086
4. Closing balance	**112,339**	**72,154**

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

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

(thousands of euros)

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

	31/12/2009	31/12/2008
A. Individual assets		
A.1 Financial assets		
A.2 Equity investments		
A.3 Property, plant and equipment		
A.4 Intangible assets		
A.5 Other		
Total A		
B. Disposal groups		
B.1 Financial assets held for trading		
B.2 Financial assets at fair value		
B.3 Financial assets available for sale		
B.4 Financial assets held to maturity		
B.5 Loans to banks		
B.6 Loans to customers		
B.7 Equity investments	57	
B.8 Property, plant and equipment		
B.9 Intangible assets		
B.10 Other assets		
Total B	**57**	-
C. Liabilities associated with individual assets held for sale		
C.1 Payables		
C.2 Securities		
C.3 Other liabilities		
Total C		
D. Liabilities associated with disposal groups		
D.1 Due to banks		
D.2 Due to customers		
D.3 Securities issued		
D.4 Financial liabilities held for trading		
D.5 Financial assets at fair value		
D.6 Provisions		
D.3 Other liabilities		
Total D		

SECTION 16 – OTHER ASSETS – ITEM 160

16.1 Other assets: composition

(thousands of euros)

16.1 OTHER ASSETS: COMPOSITION

	Banking group	Other entities	31/12/2009	31/12/2008
1. Receivables from Min. Univ. and Research	329		329	285
2. Receivables from MEF	7,098		7,098	4,233
3. Receivables from MIT	118		118	87
4. Receivables from equity investments			-	2,945
5. Payments on account for withholding tax on interest on postal passbook savings accounts	60,732		60,732	
6. Trade receivables		1,169,090	1,169,090	1,741,283
7. Advances to personnel		6,033	6,033	7,726
8. Other	3,514	20,491	24,005	44,596
Total	**71,791**	**1,195,614**	**1,267,405**	**1,801,155**

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

LIABILITIES

SECTION 1 – DUE TO BANKS – ITEM 10

1.1 Due to banks: composition by type

(thousands of euros)

1.1 DUE TO BANKS: COMPOSITION BY TYPE

	31/12/2009	31/12/2008
1. Due to central banks	**24,128**	**19,449**
2. Due to banks	**4,310,096**	**2,853,055**
2.1 Current accounts and demand deposits	425,852	7,429
2.2 Fixed-term deposits	625,165	85,046
2.3 Borrowings	3,242,299	2,744,440
2.3.1 Repurchase agreements	188,660	
2.3.2 Other	3,053,639	2,744,440
2.4 Liabilities in respect of commitments to repurchase own equity instruments		
2.6 Other payables	16,780	16,140
Total	**4,334,224**	**2,872,504**
Fair value	**4,334,224**	**2,872,504**

SECTION 2 – DUE TO CUSTOMERS – ITEM 20

2.1 Due to customers: composition by type

(thousands of euros)

2.1 DUE TO CUSTOMERS: COMPOSITION BY TYPE

	31/12/2009	31/12/2008
1. Current accounts and demand deposits	91,108,472	81,805,836
2. Fixed-term deposits		
3. Borrowings		
3.1 Repurchase agreements		
3.2 Other		
4. Liabilities in respect of commitments to repurchase own equity instruments		
5. Other payables	9,351,464	10,475,257
Total	**100,459,936**	**92,281,093**
Fair value	**100,459,936**	**92,281,093**

SECTION 3 – SECURITIES ISSUED – ITEM 30

3.1 Securities issued: composition by type

(thousands of euros)

3.1 SECURITIES ISSUED: COMPOSITION BY TYPE

	31/12/2009				31/12/2008			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	11,277,539	8,977,127	1,676,155	611,247	12,239,806	10,058,291	3,909,094	
1.1 structured								
1.2 other	11,277,539	8,977,127	1,676,155	611,247	12,239,806	10,058,291	3,909,094	
2. Other securities	99,665,210			103,679,661	93,314,992			95,878,567
2.1 structured	10,037,547			17,750,863	6,866,122			6,979,978
2.2 other	89,627,663			85,928,798	86,448,870			88,898,589
Total	**110,942,749**	**8,977,127**	**1,676,155**	**104,290,908**	**105,554,798**	**10,058,291**	**3,909,094**	**95,878,567**

For the banking group, the item includes covered bonds in the amount of €6,382 million, bonds issued under the Euro Medium-Term Notes programme totalling €2,221 million and postal savings bonds of €99,665 million. During the year, €2 billion in covered bonds were redeemed following maturity, while €1,550 million in new bonds were issued under the EMTN programme.

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

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

(thousands of euros)

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

	31/12/2009	31/12/2008
1. Securities covered by specific fair value hedges	**10,600,385**	**10,836,117**
a) interest rate risk	10,264,087	10,755,487
b) exchange rate risk		
c) multiple risks	336,298	80,630
2. Securities covered by specific cash flow hedges		
a) interest rate risk		
b) exchange rate risk		
c) other		

SECTION 4 – FINANCIAL LIABILITIES HELD FOR TRADING – ITEM 40

4.1 Financial liabilities held for trading: composition by type

(thousands of euros)

4.1 FINANCIAL LIABILITIES HELD FOR TRADING: COMPOSITION BY TYPE

	31/12/2009					31/12/2008				
	NV	FV			FV *	NV	FV			FV *
		L1	L2	L3			L1	L2	L3	
A. On-balance-sheet liabilities										
1. Due to banks										
2. Due to customers										
3. Debt securities										
3.1 Bonds										
3.1.1 Structured					x					x
3.1.2 Other					x					x
3.2 Other securities										
3.2.1 Structured					x					x
3.2.2 Other					x					x
Total A										
B. Derivatives										
1. Financial derivatives			**9,135**	**773,842**					**382,377**	
1.1 Trading	x				x	x				x
1.2 Associated with fair value option	x				x	x				x
1.3 Other	x		9,135	773,842	x	x			382,377	x
2. Credit derivatives										
2.1 Trading	x				x	x				x
2.2 Associated with fair value option	x				x	x				x
2.3 Other	x				x	x				x
Total B			**9,135**	**773,842**					**382,377**	
Total (A+B)			**9,135**	**773,842**					**382,377**	

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

SECTION 6 – HEDGING DERIVATIVES – ITEM 60

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

(thousands of euros)

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

	31/12/2009			NV 31/12/2009	31/12/2008			NV 31/12/2008
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives:		**930,117**		**18,781,270**		**1,355,779**	**56**	**32,537,014**
1) Fair value		930,117		18,781,270		1,355,779	56	32,537,014
2) Cash flow								
3) Investment in foreign operation								
B. Credit derivatives								
1) Fair value								
2) Cash flow								
Total		**930,117**		**18,781,270**		**1,355,779**	**56**	**32,537,014**

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

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

(thousands of euros)

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

	Fair value						Cash flow		Investment in foreign operation
	Specific					Generic	Specific	Generic	
	interest rate risk	exchange rate risk	credit risk	price risk	multiple risks				
1. Financial assets available for sale						x		x	x
2. Loans	824,940			x		x		x	x
3. Financial assets held to maturity	x			x		x		x	x
4. Portfolio	x	x	x	x	x		x		x
5. Other						x		x	
Total assets	**824,940**								
1. Financial liabilities	104,900			x	277	x		x	x
2. Portfolio	x	x	x	x	x		x		x
Total liabilities	**104,900**				**277**				
1. Forecast transactions	x	x	x	x	x	x		x	x
2. Portfolio of financial assets and liabilities	x	x	x	x	x		x		

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

7.1 Value adjustments of hedged financial liabilities

(thousands of euros)

7.1 VALUE ADJUSTMENTS OF HEDGED FINANCIAL LIABILITIES

	31/12/2009	31/12/2008
1. Positive adjustments of financial liabilities		
2. Negative adjustment of financial liabilities	66,478	16,699
Total	**66,478**	**16,699**

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

This item reports the net change in the value of the postal savings bonds portfolio hedged generically against interest rate risk.

SECTION 8 – TAX LIABILITIES – ITEM 80

For information concerning this item, refer to Section 14 of "Assets".

SECTION 10 – OTHER LIABILITIES – ITEM 100

10.1 Other liabilities: composition

(thousands of euros)

10.1 OTHER LIABILITIES: COMPOSITION

	Banking group	Other entities	31/12/2009	31/12/2008
1. Items being processed	4,445		4,445	11,408
2. Amounts due to employees		35,495	35,495	25,811
3. Charges for postal funding service	918,044		918,044	659,775
4. Tax payables	317,212		317,212	300,092
5. Trade payables		1,493,296	1,493,296	1,891,863
6. Due to social security institutions		23,569	23,569	17,612
7. Other	14,658	137,254	151,912	423,575
Total	**1,254,359**	**1,689,614**	**2,943,973**	**3,330,136**

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

SECTION 11 – STAFF SEVERANCE PAY – ITEM 110

11.1 Staff severance pay: change for the year

(thousands of euros)

11.1 STAFF SEVERANCE PAY: CHANGE FOR THE YEAR

	31/12/2009	31/12/2008
A. Opening balance	**75,045**	**74,569**
B. Increases	**15,180**	**13,860**
B.1 Provision for the year	11,994	10,600
B.2 Other increases	3,186	3,260
C. Decreases	**18,020**	**13,384**
C.1 Severance payments	17,205	12,701
C.2 Other decreases	815	683
D. Closing balance	**72,205**	**75,045**

SECTION 12 – PROVISIONS – ITEM 120

12.1 Provisions: composition

(thousands of euros)

12.1 PROVISIONS: COMPOSITION

	31/12/2009	31/12/2008
1 Company pension plans		
2. Other provisions	**211,905**	**169,191**
2.1 legal disputes	17,639	17,287
2.2 staff costs	72,704	112,864
2.3 other	121,562	39,040
Total	**211,905**	**169,191**

12.2 Provisions: change for the year

(thousands of euros)

12.2 PROVISIONS: CHANGE FOR THE YEAR

	Total	
	Pensions	Other provisions
A. Opening balance		**169,191**
B. Increases		**100,190**
B.1 Provision for the year		96,100
B.2 Changes due to passage of time		2,592
B.3 Changes due to changes in discount rate		12
B.4 Other increases		1,486
C. Decreases		**57,476**
C.1 Use during the year		56,293
C.2 Changes due to changes in discount rate		29
C.3 Other decreases		1,154
D. Closing balance		**211,905**

12.4 Provisions – Other

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

(thousands of euros)

12.4 PROVISIONS - OTHER

	31/12/2009	31/12/2008
2. Other provisions	**211,905**	**169,191**
2.1 legal disputes	17,639	17,287
2.2 staff costs	61,280	112,864
early retirement	12,170	12,390
loyalty bonus	4,902	5,179
electricity discount	26,727	51,904
other	17,481	43,391
2.3 other	132,986	39,040

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

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

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

The parent company does not hold treasury shares.

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

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

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

15.4 Income reserves: additional information

(thousands of euros)

15.4 INCOME RESERVES: ADDITIONAL INFORMATION

	31/12/2009	31/12/2008
Income reserves	**5,286,156**	**3,977,459**
Legal reserve	301,615	232,143
Other	4,984,541	3,745,316

OTHER INFORMATION

1. Guarantees issued and commitments

(thousands of euros)

1. GUARANTEES ISSUED AND COMMITMENTS

	31/12/2009	31/12/2008
1) Financial guarantees issued	135,307	680,057
a) Banks		577,500
b) Customers	135,307	102,557
2) Commercial guarantees issued		
a) Banks		
b) Customers		
3) Irrevocable commitments to disburse funds	13,938,926	10,044,879
a) Banks	-	
i) certain use		
ii) uncertain use		
b) Customers	13,938,926	10,044,879
i) certain use	13,938,926	10,044,879
ii) uncertain use		
4) Commitments underlying credit derivatives: sales of protection		
5) Assets pledged as collateral for third-party debts		
6) Other commitments	316,821	247,276
Total	**14,391,054**	**10,972,212**

2. Assets pledged as collateral for own debts and commitments

(thousands of euros)

2. ASSETS PLEDGED AS COLLATERAL FOR OWN DEBTS AND COMMITMENTS

Portfolio	31/12/2009	31/12/2008
1. Financial assets held for trading		
2. Financial assets at fair value		
3. Financial assets available for sale		
4. Financial assets held to maturity	131,000	
5. Loan to banks		
6. Loans to customers	15,424,458	16,542,634
7. Property, plant and equipment		

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

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

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

PART C – INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

SECTION 1 – INTEREST – ITEMS 10 AND 20

1.1 Interest income and similar revenues: composition

(thousands of euros)

1.1 INTEREST INCOME AND SIMILAR REVENUES: COMPOSITION

		Debt securities	Loans	Other	31/12/2009	31/12/2008
1	Financial assets held for trading					
2	Financial assets at fair value					
3	Financial assets available for sale	4,943			**4,943**	**10,265**
4	Financial assets held to maturity	4,266			**4,266**	**5,687**
5	Loan to banks		20,916	62,595	**83,511**	**162,935**
6	Loan to customers	48,418	3,924,069		**3,972,487**	**3,860,878**
7	Hedging derivatives	x	x			
8	Other assets	x	x	3,520,548	**3,520,548**	**4,121,696**
	Total	**57,627**	**3,944,985**	**3,583,143**	**7,585,755**	**8,161,461**

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

- loans to banks and customers: interest income on loans by CDP amounted to about €3,945 million;

- debt securities: interest income on debt securities amounted to about €57.6 million;

- other interest income: this is primarily composed of interest income on current account no. 29814, equal to about €3,502 million.

1.4 Interest expense and similar charges: composition

(thousands of euros)

1.4 INTEREST EXPENSE AND SIMILAR CHARGES: COMPOSITION

	Payables	Securities	Other	31/12/2009	31/12/2008
1 Due to central banks		x			
2 Due to banks	99,086	x		**99,086**	**74,738**
3 Due to customers	1,584,644	x		**1,584,644**	**2,195,958**
4 Securities issued	x	3,669,011		**3,669,011**	**3,550,017**
5 Financial liabilities held for trading			640	**640**	**617**
6 Financial liabilities at fair value					
7 Other liabilities and funds	x	x	2,367	**2,367**	**281**
8 Hedging derivatives	x	x	351,775	**351,775**	**93,562**
Total	**1,683,730**	**3,669,011**	**354,782**	**5,707,523**	**5,915,173**

Interest expense on amounts due to customers mainly regards interest on passbook savings accounts, totalling about €1,286 million and interest on loans being repaid but not yet disbursed by CDP, equal to about €297 million.

Interest on debt securities regarded postal savings bonds for about €3,294 million.

1.5 Interest expense and similar charges: differences on hedging transactions

(thousands of euros)

1.5 INTEREST EXPENSE AND SIMILAR CHARGES: DIFFERENCES ON HEDGING TRANSACTIONS

	31/12/2009	31/12/2008
A. Positive differences on hedging transactions	100,740	1,490,050
B. Negative differences on hedging transactions	452,515	1,583,612
C. Balance (A-B)	**(351,775)**	**(93,562)**

SECTION 2 – COMMISSIONS – ITEMS 40 AND 50

2.1 Commission income: composition

(thousands of euros)

2.1 COMMISSION INCOME: COMPOSITION

	31/12/2009	31/12/2008
a) guarantees issued	324	
b) credit derivatives		
c) management, intermediation and advisory services:		
1. trading in financial instruments		
2. foreign exchange		
3. asset management		
3.1. individual		
3.2. collective		
4. securities custody and administration		
5. depository services		
6. securities placement		
7. order collection and transmission		
8. advisory services		
8.1. concerning investments		
8.2. concerning financial structure		
9. distribution of third-party services		
9.1 asset management		
9.1.1. individual		
9.1.2. collective		
9.2. insurance products		
9.3. other		
d) collection and payment services		
e) servicing activities for securitizations		
f) services for factoring transactions		
g) tax collection services		
h) management of multilateral trading systems		
i) holding and management of current accounts		
j) other services	6,272	6,709
Total	**6,596**	**6,709**

2.2 Commission expense: composition

(thousands of euros)

2.2 COMMISSION EXPENSE: COMPOSITION

	31/12/2009	31/12/2008
a) guarantees received		
b) credit derivatives		
c) management and intermediation services:	917,237	736,016
1. trading in financial instruments		
2. foreign exchange		
3. asset management		
3.1 own portfolio		
3.2 third-party portfolio		
4. securities custody and administration		
5. placement of financial instruments	917,237	736,016
6. off-premises distribution of securities, products and services		
d) collection and payment services	1,589	1,230
e) other services	150	
Total	**918,976**	**737,246**

Commission expense mainly regards the charge for the period, equal to about €917 million, of the remuneration paid to Poste Italiane S.p.A. for managing postal funding products.

SECTION 3 – DIVIDENDS AND SIMILAR REVENUES – ITEM 70

3.1 Dividends and similar revenues: composition

(thousands of euros)

3.1 DIVIDENDS AND SIMILAR REVENUES: COMPOSITION

	31/12/2009		31/12/2008	
	dividends	income from units in collective investment undertakings	dividends	income from units in collective investment undertakings
A Financial assets held for trading				
B Financial assets available for sale	808,550		851,617	
C Financial assets at fair value				
D Equity investments	787	x		x
Total	**809,337**		**851,617**	

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

4.1 Net gain (loss) on trading activities: composition

(thousands of euros)

4.1 NET GAIN (LOSS) ON TRADING ACTIVITIES: COMPOSITION

	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses (D)	Net income [(A+B) - (C+D)]
1. Financial assets held for trading					
1.1 Debt securities					
1.2 Equity securities					
1.3 Units in collective investment undertakings					
1.4 Loans					
1.5 Other					
2. Financial liabilities held for trading					
2.1 Debt securities					
2.2 Payables					
2.3 Other					
3. Other financial assets and liabilities: exchange rate differences	x	x	x	x	**(25,149)**
4. Derivatives	**107,211**	**96,904**	**86,477**	**3,373**	**114,265**
4.1 Financial derivatives	107,211	96,904	86,477	3,373	114,265
- on debt securities and interest rates	15,763	96,904			112,667
- on equity securities and equity indices	91,448		86,477		4,971
- on foreign currencies and gold	x	x	x	x	
- other				3,373	(3,373)
4.2 Credit derivatives					
Total	**107,211**	**96,904**	**86,477**	**3,373**	**89,116**

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

5.1 Net gain (loss) on hedging activities: composition

(thousands of euros)

5.1 NET GAIN (LOSS) ON HEDGING ACTIVITIES: COMPOSITION

	31/12/2009	31/12/2008
A. Income on:		
A.1 Fair value hedges	446,608	796,808
A.2 Hedged financial assets (fair value)	8,171	1,918,429
A.3 Hedged financial liabilities (fair value)	14,991	173,009
A.4 Cash flow hedges		
A.5 Assets and liabilities in foreign currencies	7,095	3,055
Total income on hedging activities (A)	**476,865**	**2,891,301**
B. Expense on:		
B.1 Fair value hedges	23,290	2,058,030
B.2 Hedged financial assets (fair value)	302,559	56,299
B.3 Hedged financial liabilities (fair value)	168,993	920,903
B.4 Cash flow hedges		
B.5 Assets and liabilities in foreign currencies	7,095	3,055
Total expense on hedging activities (B)	**501,937**	**3,038,287**
C. Net gain (loss) on hedging activities	**(25,072)**	**(146,986)**

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

6.1 Gains (losses) on disposal or repurchase: composition

(thousands of euros)

6.1 GAINS (LOSSES) ON DISPOSAL OR REPURCHASE: COMPOSITION

	31/12/2009			31/12/2008		
	Gains	Losses	Net gain (loss)	Gains	Losses	Net gain (loss)
Financial assets						
1 Loans to banks						
2 Loans to customers	13,653		13,653	7,403		7,403
3 Financial assets available for sale	952		952			
3.1 Debt securities	952		952			
3.2 Equity securities						
3.3 Units in collective investment undertakings						
3.4 Loans						
4 Financial assets held to maturity						
Total assets	**14,605**		**14,605**	**7,403**		**7,403**
Financial liabilities						
1 Due to banks						
2 Due to customers						
3 Securities issued				625		625
Total liabilities				**625**		**625**

SECTION 8 – NET IMPAIRMENT ADJUSTMENTS – ITEM 130

8.1 Net impairment adjustments of loans: composition

(thousands of euros)

8.1 NET IMPAIRMENT ADJUSTMENTS OF LOANS: COMPOSITION

	Writedowns			Writebacks				31/12/2009	31/12/2008
	Specific		Portfolio	Specific		Portfolio			
	Writeoffs	Other		A	B	A	B		
A. Loans to banks									
- Borrowings									
- Debt securities									
B. Loans to customers		(1,752)		534				(1,218)	(23,863)
- Borrowings		(1,752)		534				(1,218)	(23,863)
- Debt securities									
C. Total		**(1,752)**		**534**				**(1,218)**	**(23,863)**

Key
A = Interest
B = Other writebacks

SECTION 11 – GENERAL AND ADMINISTRATIVE EXPENSES – ITEM 180

11.1 Staff costs: composition

(thousands of euros)

11.1 STAFF COSTS: COMPOSITION

	Banking group	Other entities	31/12/2009	31/12/2008
1) Employees	42,643	182,717	225,360	241,606
a) wages and salaries	29,842	101,222	131,064	156,541
b) social security contributions	143	59,302	59,445	51,997
c) severance pay				
d) pensions	7,927	4,411	12,338	11,836
e) allocation to staff severance pay provision	824	14,034	14,858	16,844
f) allocation to provision for pensions and similar liabilities				
- defined contribution				
- defined benefit				
g) payments to external pension funds				695
- defined contribution	796		796	695
- defined benefit				
h) costs in respect of agreements to make payments in own equity instruments				
i) other employee benefits	3,111	3,748	6,859	3,693
2) Other personnel in service	630		630	344
3) Board of Directors and Board of Auditors	1,383	2,063	3,446	2,578
4) Retired personnel				
Total	**44,656**	**184,780**	**229,436**	**244,528**

11.2 Average number of employees by category

11.2 AVERAGE NUMBER OF EMPLOYEES BY CATEGORY

	Banking group	Other entities	31/12/2009
Employees	**411**	**3,518**	**3,929**
a) Senior management	34	67	101
b) Middle management	142	485	627
- of which: grade 3 and 4	*112*	*485*	*597*
c) Other employees	235	2,966	3,201
Other personnel	**7**	**-**	**7**

11.4 Other employee benefits

(thousands of euros)

11.4 OTHER EMPLOYEE BENEFITS

	31/12/2009	31/12/2008
Lunch vouchers	500	474
Staff insurance	1,453	1,540
Interest subsidies on loans	22	7
Other benefits	4,884	1,672
Total	**6,859**	**3,693**

11.5 Other administrative expenses: composition

(thousands of euros)

11.5 OTHER ADMINISTRATIVE EXPENSES: COMPOSITION

	Banking group	Other entities	31/12/2009	31/12/2008
IT costs (licences, maintenance and consulting)	6,594	4,889	11,483	10,618
Property expenses	2,892	11,170	14,062	12,809
Leased land and buildings	62	10,451	10,513	8,577
Owned land and buildings	2,830	719	3,549	4,232
- maintenance of owned land and buildings	1,583	719	2,302	3,160
- operating expenses	1,247		1,247	1,072
Utilities	1,437	5,996	7,433	7,140
General expenses	6,627	92,259	98,886	93,752
- consumables and other	1,128	10,200	11,328	12,784
- services	5,499	82,059	87,558	80,968
Entertainment and marketing	401	8,092	8,493	6,811
Professional and insurance expenses	5,880	17,642	23,522	17,373
Professional and service costs for personnel	1,388	7,050	8,438	8,724
Corporate bodies other than BoD	251	282	533	530
Indirect taxes and duties	1,304	5,745	7,049	6,147
Total	**26,774**	**153,125**	**179,899**	**163,904**

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

(thousands of euros)

FEES FOR AUDITING AND NON-AUDIT SERVICES

	Service provider	Client	Fees for the year
Auditing and financial statements	KPMG S.p.A.	CDP S.p.A.	256
Certification	KPMG S.p.A.	CDP S.p.A.	15
Auditing and financial statements	KPMG S.p.A.	Terna Group	805
Certification	KPMG S.p.A.	Terna Group	147
Auditing and financial statements	PricewaterhouseCoopers S.p.A.	CDP Investimenti SGR S.p.A.	5
		Total	**1,228**

SECTION 12 – NET PROVISIONS – ITEM 190

12.1 Net provisions: composition

(thousands of euros)

12.1 NET PROVISIONS: COMPOSITION

	31/12/2009	31/12/2008
Legal disputes	(153)	1,463
Staff costs	2,519	3,535
Total	**2,366**	**4,998**

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

13.1 Net adjustments of property, plant and equipment: composition

(thousands of euros)

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

	Depreciation (a)	Writedowns for impairment (b)	Writebacks (c)	Net income (a+b-c)
A. Property, plant and equipment				
A.1 owned	**6,662**			**6,662**
- operating assets	6,662			6,662
- investment property				
A.2 acquired under finance leases				
- operating assets				
- investment property				
Total	**6,662**			**6,662**

(thousands of euros)

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

	Depreciation (a)	Writedowns for impairment (b)	Writebacks (c)	Net income (a+b-c)
A. Property, plant and equipment				
A.1 owned	**322,328**	**3,163**		**325,491**
- operating assets	322,328	3,163		325,491
- investment property				
A.2 acquired under finance leases				
- operating assets				
- investment property				
Total	**322,328**	**3,163**		**325,491**

SECTION 14 – NET ADJUSTMENTS OF INTANGIBLE ASSETS – ITEM 210

14.1 Net adjustments of intangible assets: composition

(thousands of euros)

14.1.1 NET ADJUSTMENTS OF INTANGIBLE ASSETS: BANKING GROUP

	Amortisation (a)	Writedowns for impairment (b)	Writebacks (c)	Net gain (loss) (a+b-c)
A Intangible assets	**2,350**			**2,350**
A.1 owned	2,350			2,350
- internally generated				
- other	2,350			2,350
A.2 Acquired under finance leases				
Total	**2,350**			**2,350**

(thousands of euros)

14.1.2 NET ADJUSTMENTS OF INTANGIBLE ASSETS: OTHER ENTITIES

	Amortisation (a)	Writedowns for impairment (b)	Writebacks (c)	Net gain (loss) (a+b-c)
A Intangible assets	**31,552**	**602**		**32,154**
A.1 owned	31,552	602		**32,154**
- internally generated	25,400	61		25,461
- other	6,152	541		6,693
A.2 Acquired under finance leases				
Total	**31,552**	**602**		**32,154**

SECTION 15 – OTHER OPERATING COSTS AND INCOME – ITEM 220

15.1 Other operating costs: composition

(thousands of euros)

15.1 OTHER OPERATING COSTS: COMPOSITION

	Banking group	Other entities	31/12/2009	31/12/2008
Operating costs in respect of supply chain	110		110	1,030
Other		5,134,821	5,134,821	6,551,067
Total	**110**	**5,134,821**	**5,134,931**	**6,552,097**

15.2 Other operating income: composition

(thousands of euros)

15.2 OTHER OPERATING INCOME: COMPOSITION

	Banking group	Other entities	31/12/2009	31/12/2008
Income from adjustment of liability items	98		98	60
Income for corporate offices paid to employees	183		183	246
Sundry reimbursements	338		338	1,098
Reimbursement of expenses incurred under Min. Univ. and Research agreement	300		300	380
Other	409	6,476,983	6,477,392	7,738,699
Total	**1,328**	**6,476,983**	**6,478,311**	**7,740,483**

Other income mainly comprises electricity grid usage fees accruing to other Group companies.

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

16.1 Gains (losses) on equity investments: composition

(thousands of euros)

16.1 GAINS (LOSSES) ON EQUITY INVESTMENTS: COMPOSITION

	31/12/2009	31/12/2008
1. Joint ventures		
A. Gains	**48,467**	
1. Revaluations	48,467	
2. Gains on disposals		
3. Writebacks		
4. Other		
B. Losses	**5,898**	
1. Writedowns		
2. Impairments		
3. Losses on disposals		
4. Other	5,898	
Net gain (loss)	**54,365**	
2. Companies under significant influence		
A. Gains	**231,818**	**231,557**
1. Revaluations	220,823	231,557
2. Gains on disposals		
3. Writebacks		
4. Other	10,995	
B. Losses	**(13,740)**	**(597,789)**
1. Writedowns	(42)	(139,127)
2. Impairments	(13,698)	(458,662)
3. Losses on disposals		
4. Other		
Net gain (loss)	**218,078**	**(366,232)**
Total	**272,443**	**(366,232)**

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

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

(thousands of euros)

19.1 GAINS (LOSSES) ON DISPOSAL OF INVESTMENTS: COMPOSITION

	31/12/2009	31/12/2008
A. Land and buildings	2,053	126
- Gains on disposal	2,096	179
- Losses on disposal	(43)	(53)
B. Other assets	(1,845)	2,757
- Gains on disposal	2,671	6,382
- Losses on disposal	(4,516)	(3,625)
Net gain (loss)	**208**	**2,883**

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

20.1 Income tax for the period on continuing operations: composition

(thousands of euros)

20.1 INCOME TAX FOR THE PERIOD ON CONTINUING OPERATIONS: COMPOSITION

	31/12/2009	31/12/2008
1. Current taxes (-)	(798,152)	(789,821)
2. Change in current taxes from previous periods (+/-)	(2,934)	4,872
3. Reduction of current taxes for the year (+)		
4. Change in deferred tax assets (+/-)	(52,189)	(276,825)
5. Change in deferred tax liabilities (+/-)	308,657	369,239
6. Taxes for the year (-) (-1+/-2+3+/-4+/-5)	(544,618)	(692,535)

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

(thousands of euros)

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

	Total 31/12/2009	Total 31/12/2008
1. Gains		
2. Losses		
3. Result of valuation of disposal group (assets and associated liabilities)		
4. Gain (loss) on realisation	325,578	36,721
5. Tax and duties	29,099	962
Net income (loss)	**354,677**	**37,683**

(thousands of euros)

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

	Total 31/12/2009	Total 31/12/2008
1. Current taxes (-)		
2. Change in deferred tax assets (+/-)		
3. Change in deferred tax liabilities (-/+)	29,099	962
4. Taxes for the year (-1 +/- 2 +/- 3)	**29,099**	**962**

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

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

Net income pertaining to minority interests amounts to €474,330 thousand.

PART D – CONSOLIDATED COMPREHENSIVE INCOME

(thousands of euros)

DETAILED BREAKDOWN OF CONSOLIDATED COMPREHENSIVE INCOME

		Gross amount	Income taxes	Net amount
10.	**Income (loss) for the period**	**3,044,970**	**(544,618)**	**2,500,352**
	Other comprehensive income			
20.	Financial assets available for sale			
	a) fair value changes	1,032,134	(58,553)	973,581
	b) reversal to income statement			
	- impairment adjustments			
	- gain/loss on realisation			
	c) other changes			
30.	Property, plant and equipment			
40.	Intangible assets			
50.	Hedging of foreign investments			
	a) fair value changes			
	b) reversal to income statement			
	c) other changes			
60.	Cash flow hedges			
	a) fair value changes	(15,633)	4,319	(11,314)
	b) reversal to income statement			
	c) other changes			
70.	Exchange rate differences			
	a) change of value	4,401	(1,226)	3,175
	b) reversal to income statement	(5,898)		(5,898)
	c) other changes			
80.	Non-current assets held for sale			
	a) change of value			
	b) reversal to income statement			
	c) other changes			
90.	Actuarial gains (losses) on defined benefit plans			
100.	Valuation reserves of equity investments accounted for with equity method			
	a) fair value changes			
	b) reversal to income statement			
	- impairment adjustments			
	- gain/loss on realisation			
	c) other changes			
110.	**Total other comprehensive income**	**1,015,004**	**(55,460)**	**959,544**
120.	**Comprehensive income (items 10+110)**	**4,059,974**	**(600,078)**	**3,459,896**
130.	Consolidated comprehensive income pertaining to minority interests	584,886	(116,691)	468,195
140.	**Consolidated comprehensive income pertaining to shareholders of the parent company**	**3,475,088**	**(483,387)**	**2,991,701**

PART E – INFORMATION ON RISKS AND RELATED HEDGING POLICIES

The Risk Management department is responsible for measuring and controlling actual and prospective exposures to interest rate, price, exchange rate, credit, liquidity and operational risks, enforcing compliance with the limits approved by the Board of Directors.
Risk Management also monitors use of economic capital and participates in capital management activities, as well as providing the company with certified calculation models.

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

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

SECTION 1 – THE RISKS OF THE BANKING GROUP

1.1 CREDIT RISK

QUALITATIVE DISCLOSURES

General aspects

Credit risk arises primarily in relation to lending activity – both under the Separate Account and the Ordinary Account – and on a secondary level in derivatives operations for hedging purposes on financial markets (in the form of counterparty risk).

The Separate Account, which easily has the largest stock of assets, is primarily exposed to the Italian government and local authorities.

Although currently limited, exposures under the Separate Account to the main banking groups operating in Italy (through which CDP channels various types of financing envisaged in the 2009-2011 business plan) are expected to become substantial, as are those to private-sector parties involved in public interest projects promoted by public entities.

The Ordinary Account grants corporate and project financing for initiatives concerning the delivery of public services, drawing on funding not guaranteed by the State, in competition with the banking system.

Credit risk management policies

Organisational aspects

As part of pre-lending assessments, the Risk Management department focuses on risk-adjusted pricing, monitoring risk-adjusted returns and identifying exposure concentrations. Risk Management also monitors overall developments in the risk level of the loan portfolio with a view to identifying any necessary corrective actions to optimise the risk/return profile.
It is also responsible for validating and/or developing rating models and methods. Ultimate responsibility for the assignment of ratings is held by the Credit department.
The principles followed by CDP in its lending activities are set out in the Lending Rules.

Management, measurement and control systems

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

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

A new system, already examined by the CDP Board of Directors, is currently being implemented within the new Lending Rules.

For the Ordinary Account and lending for projects promoted by public entities pursuant to Decree Law 185 of 29 November 2008, CDP uses a validated proprietary model to calculate portfolio credit risk.

Risk Management regularly monitors the limits for counterparty risk in derivatives transactions for hedging purposes. As well as a minimum rating requirement for counterparties, the system also establishes absolute and concentration limits based on the gross nominal amounts of transactions and credit equivalents.

Credit risk mitigation techniques

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

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

As regards bank counterparties in transactions in hedging derivatives, in view of the ISDA contracts signed, netting arrangements are also used. All the contracts are based on the 2002 ISDA agreement.

Credit Support Annexes, which involve the periodic exchange of collateral, are also used to strengthen credit risk mitigation.

The arrangement is based on the standard format recommended by ISDA.

Impaired financial assets

In 2009 the new organisational process for the end-period measurement of the CDP loan portfolio became operational. In addition to Administration and Control, participants in the process include the functions involved in loan monitoring and the assessment of the creditworthiness of counterparties.

CDP's approach to credit assessment is essentially based on analytical analyses of counterparties in financial difficulty that are behind on their loan repayments.

The decision to adopt such an approach is justified by the absence of time series on bad debts, owing to the type of customer (public entities) in CDP's traditional lending activity.

The main credit events monitored in analysing the financial soundness of counterparties and the consequent valuation of the exposure in the financial statements regard failure to make payments (or other contractual breaches), declarations of financial crisis by local authorities or the initiation of bankruptcy proceedings for other borrowers.

The measurement of impaired positions is based on an estimate of the loan recovery plan, discounted at the effective interest rate of the specific loan. In estimating the recovery plan and the consequent writedown, account is taken of any collateral or unsecured guarantees received. These include amounts granted but not yet disbursed on specific-purpose loans, which are disbursed on a state-of-completion basis.

Borrowers with substantial arrears are disqualified from accessing new CDP financing and any remaining amounts to be disbursed are frozen.

The assessment is reviewed whenever new information is received on events that might modify the outlook for recovery. In order to ensure that such events are reflected promptly, the information on borrowers is monitored periodically and developments in out-of-court arrangements and the various stages of court proceedings are tracked constantly.

The identification of impaired positions is carried out on the basis of supervisory instructions using prudent materiality thresholds.

The restoration of impaired exposures to performing status is subject to verification that the problem conditions or insolvency have been eliminated and to the binding opinion, where envisaged, of the credit monitoring unit.

QUANTITATIVE DISCLOSURES

A. CREDIT QUALITY

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

(thousands of euros)

A.1.1 DISTRIBUTION OF FINANCIAL ASSETS BY PORTFOLIO AND CREDIT QUALITY (BOOK VALUE)

	Banking group					Other entities		Total
	Bad debts	Substandard loans	Restructured positions	Past due positions	Other assets	Impaired	Other	
1. Financial assets held for trading					868,511			868,511
2. Financial assets available for sale					207,616			207,616
3. Financial assets held to maturity					205,285			205,285
4. Loans to banks					5,976,296		501,048	6,477,344
5. Loans to customers	25,538	9,709		11,155	85,577,439			85,623,841
6. Financial assets at fair value								-
7. Financial assets being divested							57	57
8. Hedging derivatives					331,603		123,169	454,772
Total at 31/12/2009	**25,538**	**9,709**	**-**	**11,155**	**93,166,750**	**-**	**624,274**	**93,837,426**
Total at 31/12/2008	**24,130**	**7,181**	**-**	**21,441**	**89,711,839**	**-**	**901,720**	**90,666,311**

(thousands of euros)

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

	Impaired assets			Performing			Total (net exposure)
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	
A. Banking group							
1. Financial assets held for trading				x	x	868,511	868,511
2. Financial assets available for sale				207,616		207,616	207,616
3. Financial assets held to maturity				205,285		205,285	205,285
4. Loans to banks				5,976,296		5,976,296	5,976,296
5. Loans to customers	167,533	(121,130)	46,402	85,577,439		85,577,439	85,623,841
6. Financial assets at fair value				x	x		
7. Financial assets being divested							
8. Hedging derivatives				x	x	331,603	331,603
Total A	**167,533**	**(121,130)**	**46,402**	**91,966,636**	**-**	**93,166,750**	**93,213,152**
B. Other consolidated entities							
1. Financial assets held for trading				x	x		
2. Financial assets available for sale							
3. Financial assets held to maturity							
4. Loans to banks				501,048		501,048	501,048
5. Loans to customers							
6. Financial assets at fair value				x	x		
7. Financial assets being divested				57		57	57
8. Hedging derivatives				x	x	123,169	123,169
Total B	**-**	**-**	**-**	**501,105**	**-**	**624,274**	**624,274**
Total at 31/12/2009	**167,533**	**(121,130)**	**46,402**	**92,467,741**	**-**	**93,791,024**	**93,837,426**
Total at 31/12/2008	**140,716**	**(87,964)**	**52,752**	**101,290,293**	**-**	**101,907,810**	**101,960,562**

(thousands of euros)

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

	Gross exposure	Specific writedowns	Portfolio writedowns	Net exposure
A. ON-BALANCE-SHEET EXPOSURES				
a) Bad debts			x	
b) Substandard loans			x	
c) Restructured positions			x	
d) Past due positions			x	
e) Other assets	5,976,296	x		5,976,296
Total A	**5,976,296**	**-**	**-**	**5,976,296**
B. OFF-BALANCE-SHEET EXPOSURES				
a) Impaired			x	
b) Other	2,631,853	x		2,631,853
TOTAL B	**2,631,853**	**-**	**-**	**2,631,853**
Total (A+B)	**8,608,149**	**-**	**-**	**8,608,149**

(thousands of euros)

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

	Gross exposure	Specific writedowns	Portfolio writedowns	Net exposure
A. ON-BALANCE-SHEET EXPOSURES				
a) Bad debts	121,393	(95,854)	x	25,539
b) Substandard loans	34,985	(25,276)	x	9,709
c) Restructured positions			x	-
d) Past due positions	11,155		x	11,155
e) Other assets	85,990,341	x		85,990,341
Total A	**86,157,874**	**(121,130)**	**-**	**86,036,744**
B. OFF-BALANCE-SHEET EXPOSURES				
a) Impaired	2,028		x	2,028
b) Other	12,640,466	x		12,640,466
Total B	**12,642,494**	**-**	**-**	**12,642,494**
Total (A+B)	**98,800,368**	**(121,130)**	**-**	**98,679,238**

(thousands of euros)

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

	Bad debts	Substandard loans	Restructured positions	Past due positions
A. Opening gross exposure	**118,364**	**32,859**	**-**	**21,442**
- of which: exposures assigned but not derecognised				
B. Increases	**3,029**	**4,578**	**-**	**11,155**
B.1. from performing loans	635	3,402		10,782
B.2 transfers from other categories of impaired positions				
B.3 other increases	2,394	1,176		373
C. Decreases	**(1)**	**(2,452)**	**-**	**(21,442)**
C.1. to performing loans		(1,091)		(21,442)
C.2. writeoffs				
C.3. collections		(1,361)		
C.4. assignments				
C.5. transfers to other categories of impaired positions				
C.6. other decreases	(1)			
D. Closing gross exposure	**121,392**	**34,985**	**-**	**11,155**
- of which: exposures assigned but not derecognised				

(thousands of euros)

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

	Bad debts	Substandard loans	Restructured positions	Past due positions
A. Total opening adjustments	**94,235**	**25,678**	**-**	**-**
- of which: exposures assigned but not derecognised				
B. Increases	**1,753**	**-**	**-**	**-**
B.1 writedowns	1,753			
B.2 transfers from other categories of impaired positions				
B.3 other increases				
C. Decreases	**(133)**	**(402)**	**-**	**-**
C.1 writebacks from valuations	(133)	(402)		
C.2 writebacks from valuations				
C.3 writeoffs				
C.4 transfers to other categories of impaired positions				
C.5 other decreases				
D. Total closing adjustments	**95,855**	**25,276**	**-**	**-**
- of which: exposures assigned but not derecognised				

A.2 CLASSIFICATION OF CREDIT EXPOSURES ON THE BASIS OF EXTERNAL AND INTERNAL RATINGS

(thousands of euros)

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

	External rating grades						Not rated	Total
	class 1	class 2	class 3	class 4	class 5	class 6		
A. On-balance-sheet exposures	**39,712,447**	**15,391,116**	**713,059**	**20,359**		**35,064**	**36,140,994**	**92,013,039**
B. Derivatives	**557,021**	**639,881**					**3,212**	**1,200,114**
B.1 Financial derivatives	557,021	639,881					3,212	1,200,114
B.2 Credit derivatives								-
C. Guarantees issued							**135,307**	**135,307**
D. Commitments to disburse funds	**3,779,614**	**4,325,198**	**162,167**	**7,572**	**-**	**-**	**5,664,375**	**13,938,926**
Total	**44,049,082**	**20,356,195**	**875,226**	**27,931**	**-**	**35,064**	**41,943,888**	**107,287,386**

A.3 DISTRIBUTION OF SECURED CREDIT EXPOSURES BY TYPE OF GUARANTEE

(thousands of euros)

A.3.2 BANKING GROUP - SECURED CREDIT EXPOSURES TO CUSTOMERS

	Net exposure	Collateral (1)			Unsecured guarantees (2)									Total (1)+(2)
						Credit derivatives				Guarantees				
						Other derivatives								
		Land and buildings	Securities	Other assets	CLN	Governments and central banks	Other government agencies	Banks	Other	Governments and central banks	Other government agencies	Banks	Other	
1. Secured on-balance-sheet credit exposures:														
1.1 fully secured	2,499,764	147,653	57,597	110,325						755,587	180,700	51,590	1,239,111	**2,542,563**
- of which: impaired	*5,334*									*5,334*				***5,334***
1.2 partially secured	77,104,913			9,143,402								6,021		**9,149,423**
- of which: impaired	*2,367*													
2. Secured off-balance-sheet credit exposures:														
2.1 fully secured	1,554,847	37,290	157,403	36,300						1,004,113	344,759		55,680	**1,635,545**
- of which: impaired														
2.2 partially secured														
- of which: impaired														

B. DISTRIBUTION AND CONCENTRATION OF CREDIT EXPOSURES

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

(thousands of euros)

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

	Governments			Other government agencies			Financial companies			Insurance undertakings			Non financial companies			Other		
	Net exposure	Specific writedowns	Portfolio writedowns	Net exposure	Specific writedowns	Portfolio writedowns	Net exposure	Specific writedowns	Portfolio writedowns	Net exposure	Specific writedowns	Portfolio writedowns	Net exposure	Specific writedowns	Portfolio writedowns	Net exposure	Specific writedowns	Portfolio writedowns
A. On-balance-sheet exposures																		
A.1 Bad debts			x	2,367	(1,087)	x	21,829	(65,486)	x			x	1,342	(29,281)	x			x
A.2 Substandard loans			x	661	(25,061)	x			x			x	9,048	(215)	x			x
A.3 Restructured positions			x			x			x			x			x			x
A.4 Past due positions			x	2,438	-	x			x			x	8,393	-	x	324		x
A.5 Other	33,710,965	x	-	44,896,431	x	-	584,957	x	-		x		6,750,792	x	-	47,195	-	
Total A	**33,710,965**	**-**	**-**	**44,901,897**	**(26,148)**	**-**	**606,786**	**(65,486)**	**-**	**-**	**-**	**-**	**6,769,575**	**(29,496)**	**-**	**47,519**	**-**	**-**
B. Off-balance-sheet exposures																		
B.1 Bad debts			x			x			x			x			x			x
B.2 Substandard loans			x			x			x			x	586	-	x			x
B.3 Other impaired assets			x			x			x			x	1,442		x			x
B.4 Other	1,902,669	x	-	6,842,268	x	-	122,913	x	-		x		3,745,916	x	-	26,700	x	-
Total B	**1,902,669**	**-**	**-**	**6,842,268**	**-**	**-**	**122,913**	**-**	**-**	**-**	**-**	**-**	**3,747,944**	**-**	**-**	**26,700**	**-**	**-**
Total (A+B) at 31/12/2009	**35,613,634**	**-**	**-**	**51,744,165**	**(26,148)**	**-**	**729,699**	**(65,486)**	**-**	**-**	**-**	**-**	**10,517,519**	**(29,496)**	**-**	**74,219**	**-**	**-**
Total (A+B) at 31/12/2008	**35,606,380**	**-**	**-**	**49,423,512**	**(26,281)**	**-**	**704,881**	**(21,829)**	**-**	**-**	**-**	**-**	**9,095,406**	**(28,146)**	**-**	**74,714**	**-**	**-**

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

(thousands of euros)

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

	Italy		Other European countries		Americas		Asia		Rest of world	
	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance-sheet exposures										
A.1 Bad debts	3,709	(30,368)	21,829	(65,486)						
A.2 Substandard loans	9,709	(25,276)								
A.3 Restructured positions										
A.4 Past due positions	11,155									
A.5 Other	85,982,753		7,588	-						
Total A	**86,007,326**	**(55,644)**	**29,417**	**(65,486)**	**-**	**-**	**-**	**-**	**-**	**-**
B. Off-balance-sheet exposures										
B.1 Bad debts										
B.2 Substandard loans	586									
B.3 Other impaired assets	1,442									
B.4 Other	12,516,158	-	49,344	-	74,964					
Total B	**12,518,186**	**-**	**49,344**	**-**	**74,964**	**-**	**-**	**-**	**-**	**-**
Total (A+B) at 31/12/2009	**98,525,512**	**(55,644)**	**78,761**	**(65,486)**	**74,964**	**-**	**-**	**-**	**-**	**-**
Total (A+B) at 31/12/2008	**94,759,447**	**(54,426)**	**130,448**	**(21,829)**	**14,998**	**-**	**-**	**-**	**-**	**-**

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

(thousands of euros)

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

	Italy		Other European countries		Americas		Asia		Rest of world	
	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance-sheet exposures										
A.1 Bad debts										
A.2 Substandard loans										
A.3 Restructured positions										
A.4 Past due positions										
A.5 Other	5,068,319	-	907,977							
Total	**5,068,319**	**-**	**907,977**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Off-balance-sheet exposures										
B.1 Bad debts										
B.2 Substandard loans										
B.3 Other impaired assets										
B.4 Other	1,684,371	-	947,482							
Total	**1,684,371**	**-**	**947,482**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) at 31/12/2009	**6,752,690**	**-**	**1,855,459**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) at 31/12/2008	**4,196,713**	**-**	**1,051,256**	**-**						

C. SECURITISATIONS AND ASSET DISPOSALS

C.1 SECURITISATIONS

QUALITATIVE DISCLOSURES

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

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

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

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

In 2009, with the extinguishment of the bonds issued in respect of the securitised portfolio of loans to the operators of public services, the portfolio was closed and the residual assets were transferred to CDP as the deferred price for the transaction. In addition to liquidity, the residual assets transferred to CDP include loans not yet past due to operators of public services and a security issued by the securitised portfolio of receivables due from AEM Elettricità S.p.A., the value of which at the end of 2009 came to €29.9 million.

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

QUANTITATIVE DISCLOSURES

(thousands of euros)

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

	On-balance-sheet exposures						Guarantees issued						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. With own underlying assets						**29,888**												
a) Impaired																		
b) Other						29,888												
B. With third-party underlying assets	**199,116**	**199,116**																
a) Impaired																		
b) Other	199,116	199,116																

(thousands of euros)

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

	On-balance-sheet exposures						Guarantees issued						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Carrying value	Writedowns/writebacks	Carrying value	Writedowns/writebacks	Carrying value	Writedowns/writebacks	Net exposure	Writedowns/writebacks	Net exposure	Writedowns/writebacks	Net exposure	Writedowns/writebacks	Net exposure	Writedowns/writebacks	Net exposure	Writedowns/writebacks	Net exposure	Writedowns/writebacks
A. Fully derecognised																		
A.1 CPG - Società di cartolarizzazione a r.l.					29,888													
- Long-term loans																		
B. Partially derecognised																		
B.1 name of securitisation 1																		
- type of asset																		
B.2 name of securitisation 2																		
- type of asset																		
B.3 name of securitisation ..																		
- type of asset																		
C. Not derecognised																		
C.1 name of securitisation 1																		
- type of asset																		
C.2 name of securitisation 2																		
- type of asset																		
C.3 name of securitisation ..																		
- type of asset																		

(thousands of euros)

C.1.3 BANKING GROUP - EXPOSURES IN RESPECT OF MAIN THIRD-PARTY SECURITISATIONS BY TYPE OF SECURITISED ASSETS AND TYPE OF EXPOSURE

	On-balance-sheet exposures						Guarantees issued						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Carrying value	Writedowns/writebacks	Carrying value	Writedowns/writebacks	Carrying value	Writedowns/writebacks	Net exposure	Writedowns/writebacks	Net exposure	Writedowns/writebacks	Net exposure	Writedowns/writebacks	Net exposure	Writedowns/writebacks	Net exposure	Writedowns/writebacks	Net exposure	Writedowns/writebacks
A.1 - S.C.C.I																		
- Social security receivables	199,116																	

(thousands of euros)

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

	Financial assets held for trading	Financial assets at fair value	Financial assets available for sale	Financial assets held to maturity	Loans	31/12/2009	31/12/2008
1. On-balance-sheet exposures			**199,116**		**29,888**	**229,004**	**395,667**
- senior			199,116			199,116	202,014
- mezzanine							
- junior					29,888	29,888	193,653
2. Off-balance-sheet exposures							
- senior							
- mezzanine							
- junior							

(thousands of euros)

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

		Securitised assets (end-period figure)		Collections in the year		% of securities redeemed (end-period figure)					
						Senior		Mezzanine		Junior	
		Impaired	Performing	Impaired	Performing	impaired assets	performing assets	impaired assets	performing assets	impaired assets	performing assets
CDP S.p.A.	CPG - Società di cartolarizzazione a r.l.		334,254		154,110						

C.3 BANKING GROUP – COVERED BOND TRANSACTIONS

To fund its lending activities under the Separate Account, in 2004 CDP launched a programme for the emission of up to €20 billion in covered bonds secured by assets consisting of CDP loans to or guaranteed by Italian regional and local governments. The operation was conducted on the basis of Article 5, paragraph 18 of Decree Law 269/03, pursuant to which CDP "may pledge its assets and legal relationships to satisfy the rights of the holders of securities it issues".

This instrument limited the exposure to market and refinancing risks, ensuring a closer matching of assets and liabilities (thanks to the relatively long-term maturities of the fixed-rate securities issued), with a consequent reduction of the cost of related hedging transactions. It also gave CDP access to a broad, diversified pool of investors not to be found among traditional subscribers of postal savings products. This form of funding does not benefit from a State guarantee, but its cost is still lower than the cost of any unsecured bonds the company might issue.
Since the start of the programme, four public issues have been carried out with a total overall value of €8 billion (at present, following the redemption of €2 billion on 31 July 2009, the nominal value of the securities issued comes to €6 billion) as well as a privately-placed yen-denominated issue equal to about €64 million.
Since 2007, issues under the programme have been suspended and under current conditions there appear to be no market opportunities that would counsel additional issues of covered bonds.

1.2 BANKING GROUP – MARKET RISKS

1.2.1 INTEREST RATE AND PRICE RISK – SUPERVISORY TRADING BOOK

QUALITATIVE DISCLOSURES

A. General aspects

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

1.2.2 INTEREST RATE AND PRICE RISK – BANKING BOOK

QUALITATIVE DISCLOSURES

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

As part of its maturity transformation activities, the parent company is exposed to interest rate risk in all its forms: repricing, yield curve, basis and optionality. This risk can affect the profits and economic value of CDP.

Since its transformation into a company limited by shares, Cassa Depositi e Prestiti has faced unusual circumstances in terms of controlling and measuring interest rate risk, both in respect of the substantial volumes of existing unhedged positions and the special characteristics of its products.
This situation has made it necessary, as well as advisable, to adopt best practices in dealing with interest rate risk. Traditional measurement techniques for interest rate risk on the banking book, based on gap analysis, are not sufficient to capture the risk profile of interest-bearing postal savings bonds: the presence of large volumes of assets with an early redemption option is one of the recognised cases in which such models are not recommended.

CDP calculates exposure and risk metrics on the basis of the measurement of all balance sheet items – an approach termed the "economic value perspective" – and measures the changes in the value of those items in response to small changes (sensitivity analysis) and large changes (stress testing) in risk factors.
The transition from the exposure measurements obtained from the sensitivity and stress analyses to the risk metrics involves assigning a probability to possible market scenarios: this gives a statistical distribution of the value of the balance sheet items. This monitoring structure is translated into the calculation of value at risk (VaR), which summarises the outcome of the simulations performed in a single value.
While aware of the limits of any composite metric, CDP uses VaR because it has two significant strengths:

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

CDP supplements the VaR approach, which offers a view of risk exposure on an unchanged-portfolio basis, with a dynamic ALM system (DALM). The system enables the company to simulate, under various market scenarios, the impact of corrective hedging on the exposure to risk and on net interest income within the long-term horizon of the business plan, given the pricing strategies adopted for its products.

Under the Separate Account, CDP seeks to exploit "natural hedge relationships" between fixed-rate assets and liabilities. Hedging therefore regards subsets of asset or liabilities depending on the sign of the net exposure, with a view to limiting the overall VaR.
Operational responsibility for managing interest rate risk lies with the Finance department.
The measurement and monitoring of interest rate risk are performed by the Risk Management department for top management, which reports periodically to the Board of Directors.

The components of price risk associated with large listed equity investments regard adverse movements in stock prices. This could produce – as it did in 2008 and the first part of 2009 – a significant decrease in their value, with a potentially adverse impact on the balance sheet and/or income statement.
An additional source of price risk is the indexation of indexed postal savings bonds and the *Premia* bonds to the Dow Jones EUROSTOXX 50 index.

B. Fair value hedges

Strategies underlying the fair value hedging are aimed at reducing interest rate risk metrics and differ in part for the two Accounts.

The lending and funding of the Ordinary Account are normally hedged against interest rate risk at the origination stage. As regards the liability side, structured floating-rate issues were hedged with interest rate swaps (IRSs) linked to 6-month Euribor plus a spread, while on the asset side fixed-rate loans were hedged with amortising IRSs in which CDP pays fixed and receives floating.
All the hedges under the Ordinary Account are micro fair value hedges. In the case of bond issues, the hedges are specific to the issue; for loans, hedges may regard a uniform aggregate of loans.

The Separate Account faces special circumstances in view of the substantial volume of unhedged exposures that pre-dated the transformation of CDP into a joint-stock company.
As regards financial liabilities, in 2005, with a negative exposure to a reduction in interest rates, CDP undertook a programme of hedging interest rate risk (qualified as a macro fair value hedge) on a portfolio of postal savings bonds using roller-coaster IRSs in which CDP receives fixed and pays 12-month Euribor plus a spread.
Between the end of 2009 and early 2010, CDP terminated all hedges of the portfolio, realising a mark-to-market gain. This move, which was only partially offset by the termination of a number of hedges of assets, enabled CDP to obtain a moderate positive exposure to a rise in interest rates, an optimal situation given the overall ALM position and macroeconomic conditions.

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

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

In 2007 and 2008, part of new fixed-rate lending continued to be hedged, together with transactions regarding existing fixed-rate loans.

The price risk associated with issues of indexed savings bonds and the *Premia* series is systematically hedged using options that match those embedded in the bonds. These transactions are not subject to hedge accounting: the embedded options sold and the options purchased are both recognised at fair value.
The notional of the options purchased for each issue is calculated on the basis of the proprietary model of customer redemption behaviour.

C. Cash flow hedges

At 31 December 2009, the only open cash flow hedge regarded the issue of a fixed-rate covered bond in yen, which was hedged with a cross currency swap to counter the uncertainty concerning cash flows due to possible exchange rate variations. The hedge converts the original exposure into a fixed rate in euros.

QUANTITATIVE DISCLOSURES

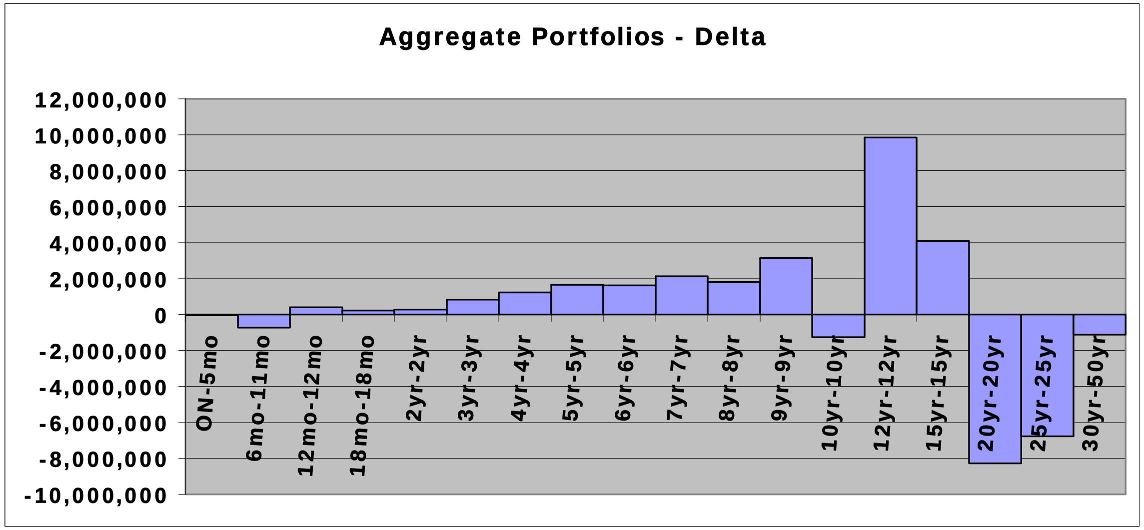
1. Banking book: distribution of financial assets and liabilities by residual maturity (repricing date)

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

Sensitivity to euro zero-coupon rates by maturity

Market data at 31 December 2009

Risk Factors	Delta
ON-5mo	-28,438
6mo-11mo	-723,854
12mo-12mo	409,598
18mo-18mo	227,907
2yr-2yr	273,833
3yr-3yr	828,653
4yr-4yr	1,227,809
5yr-5yr	1,652,920
6yr-6yr	1,623,602
7yr-7yr	2,126,078
8yr-8yr	1,820,416
9yr-9yr	3,140,928
10yr-10yr	-1,254,005
12yr-12yr	9,848,591
15yr-15yr	4,091,089
20yr-20yr	-8,277,218
25yr-25yr	-6,768,526
30yr-50yr	-1,115,144



1.2.3 EXCHANGE RATE RISK

QUALITATIVE DISCLOSURES

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

In 2009 CDP accrued a temporary exposure in dollars associated with the deferred payment of a part of the dividends of STMicroelectronics Holding N.V.

B. Hedging exchange rate risk

The exchange rate risk in respect of foreign-currency issues (a covered bond issue and two bond issues under the EMTN programme) was hedged with cross currency swaps.

QUANTITATIVE DISCLOSURES

(thousands of euros)

1. DISTRIBUTION BY CURRENCY OF ASSETS, LIABILITIES AND DERIVATIVES

	Currency					
	US dollar	**Pound sterling**	**Yen**	**Canadian dollar**	**Swiss franc**	**Other**
A. Financial assets						
A.1 Debt securities						
A.2 Equity securities						
A.3 Loans to banks						
A.4 Loans to customers						
A.5 Other financial assets						
B. Other assets						
C. Financial liabilities						
C.1 Due to banks						
C.2 Due to customers						
C.3 Debt securities	259,756		76,379			
C.4 Other financial liabilities						
D. Other liabilities	**259,756**		**76,379**			
E. Financial derivatives:						
- Options						
+ long positions						
+ short positions						
- Other derivatives						
+ long positions	259,756		76,379			
+ short positions						
Total assets	**259,756**		**76,379**			
Total liabilities	**259,756**		**76,379**			
Difference (+/-)	**-**		**-**			

1.2.4 DERIVATIVES

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

(thousands of euros)

A.2.1 HEDGING

	31/12/2009		31/12/2008	
	Over the counter	Other	Over the counter	Other
1. Debt securities and interest rates				
a) Options				
b) Swaps	24,390,885		34,017,266	
c) Forwards				
d) Futures				
e) Other				
2. Equity securities and equity indices				
a) Options				
b) Swaps				
c) Forwards				
d) Futures				
e) Other				
3. Exchange rates and gold				
a) Options				
b) Swaps				
c) Forwards				
d) Futures				
e) Other	434,000		79,277	
4. Commodities				
5. Other underlyings				
Total	**24,824,885**		**34,096,543**	
Average values	**29,460,714**		**30,007,378**	

(thousands of euros)

A.2.2 OTHER DERIVATIVES

	31/12/2009		31/12/2008	
	Over the counter	**Other**	**Over the counter**	**Other**
1. Debt securities and interest rates				
a) Options				
b) Swaps	1,320,434			
c) Forwards				
d) Futures				
e) Other				
2. Equity securities and equity indices				
a) Options	71,423,822		41,227,345	
b) Swaps				
c) Forwards				
d) Futures				
e) Other				
3. Exchange rates and gold				
a) Options				
b) Swaps				
c) Forwards				
d) Futures				
e) Other				
4. Commodities				
5. Other underlyings				
Total	**72,744,256**		**41,227,345**	
Average values	**56,985,801**		**30,310,883**	

(thousands of euros)

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

	Positive fair value			
	Total 31/12/2009		Total 31/12/2008	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Supervisory trading book				
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
B. Banking book - hedging				
a) Options				
b) Interest rate swaps	310,685		134,695	
c) Cross currency swaps	20,918		21,201	
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
C. Banking book - other derivatives				
a) Options	851,685		382,377	
b) Interest rate swaps	16,826			
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
Total	**1,200,114**		**538,273**	

(thousands of euros)

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

	Negative fair value			
	Total 31/12/2009		Total 31/12/2008	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Supervisory trading book				
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
B. Banking book - hedging				
a) Options				
b) Interest rate swaps	825,385		381,083	
c) Cross currency swaps	277			
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
C. Banking book - other derivatives				
a) Options	784,205		1,814,865	
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
Total	**1,609,867**		**2,195,948**	

(thousands of euros)

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

Contracts not covered by netting arrangement	Governments and central banks	Other government agencies	Banks	Financial companies	Insurance undertakings	Non-financial companies	Other
1) Debt securities and interest rates							
- notional value							
- positive fair value							
- negative fair value							
- future exposure							
2) Equity securities and equity indices							
- notional value	28,983,474						
- positive fair value							
- negative fair value	784,204						
- future exposure							
3) Exchange rates and gold							
- notional value							
- positive fair value							
- negative fair value							
- future exposure							
4) Other							
- notional value							
- positive fair value							
- negative fair value							
- future exposure							

(thousands of euros)

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

Contracts covered by netting arrangements	Governments and central banks	Other government agencies	Banks	Financial companies	Insurance undertakings	Non-financial companies	Other
1) Debt securities and interest rates							
- notional value			22,096,699	3,614,620			
- positive fair value			219,402	108,109			
- negative fair value			723,539	101,846			
2) Equity securities and equity indices							
- notional value			36,824,600	388,000			
- positive fair value			831,105	20,580			
- negative fair value							
3) Exchange rates and gold							
- notional value			434,000				
- positive fair value			20,918				
- negative fair value			277				
4) Other							
- notional value							
- positive fair value							
- negative fair value							

(thousands of euros)

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

	To 1 year	From 1 to 5 years	More than 5 years	Total
A. Supervisory trading book				
A.1 Financial derivatives on debt securities and interest rates				
A.2 Financial derivatives on equity securities and equity indices				
A.3 Financial derivatives on exchange rates and gold				
A.4 Financial derivatives on other assets				
B. Banking book				
B.1 Financial derivatives on debt securities and interest rates	1,379,282	8,117,073	16,214,964	25,711,319
B.2 Financial derivatives on equity securities and equity indices	4,756,427	47,271,333	8,154,015	60,181,775
B.3 Financial derivatives on exchange rates and gold		261,275	172,724	433,999
B.4 Financial derivatives on other assets				
Total 31/12/2009	**6,135,709**	**55,649,681**	**24,541,703**	**86,327,093**
Total 31/12/2008	**4,282,021**	**30,583,904**	**31,459,348**	**66,325,273**

C. FINANCIAL AND CREDIT DERIVATIVES

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

(thousands of euros)

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

	Governments and central banks	Other government agencies	Banks	Financial companies	Insurance undertakings	Non financial companies	Other
1) Bilateral financial derivatives agreements							
- positive fair value			674,181	120,823			
- negative fair value			326,572	93,980			
- future exposure			1,455,132	25,642			
- net counterparty risk			2,067,104	93,521			
2) Bilateral credit derivatives agreements							
- notional value							
- positive fair value							
- negative fair value							
- future exposure							
- net counterparty risk							
3) Cross product agreements							
- notional value							
- positive fair value							
- negative fair value							
- future exposure							
- net counterparty risk							

1.3 BANKING GROUP – LIQUIDITY RISK

QUALITATIVE DISCLOSURES

General aspects, management and measurement of liquidity risk

In managing liquidity risk, CDP benefits from the mitigating effect of the state guarantee on postal savings and the stable and large surplus of liquid assets. Considering the nature of postal savings, it is nevertheless a priority to hold sufficient liquidity to cover possible temporary surges in redemptions. To this end, a lower limit on the stock of liquid assets has been established, which is monitored by the Risk Management department.

As regards the Ordinary Account, CDP raises funds through the market or the EIB, adopting an approach similar to that of ordinary banks.
Risk Management prepares liquidity gap analyses that identify any potential shortfalls at short, medium and long term.

Current management of treasury activities by Finance enables CDP to raise funds on the interbank market as well, using deposits and repos, for both the Separate and Ordinary Accounts.

QUANTITATIVE DISCLOSURES

(thousands of euros)

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

	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	Indefinite life
On-balance-sheet assets										
A.1 Government securities					3,794		3,794		500,000	
A.2 Other debt securities			4,643	2,673	164	18,179	109,256	434,495	667,272	
A.3 Units in collective investment undertakings										40,802
A.4 Loans										
- banks							31,095	264,880	145,148	
- customers	154,096		3,974	65	23,710	26,721	3,535,519	17,107,442	64,371,727	
On-balance-sheet liabilities										
B.1 Deposits										
- banks	221,708	50,005	147,382	625,165	396,036	3,291	23,229	118,053	1,100,679	
- customers	100,459,936									
B.2 Debt securities						150,000	1,350,000	6,050,000	365,500	
B.3 Other liabilities	99,718,037									
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal										
- long positions										
-short positions										
C.2 Financial derivatives without exchange of principal										
- long positions	16,826				113,274	506,082	72,307	350		
- short positions	375			34,779	656	214,922	217,299			
C.3 Deposits and loans to receive										
- long positions										
- short positions										
C.4 Irrevocable commitments to disburse funds										
- long positions	13,938,926									
- short positions										
C.5 Financial guarantees issued	135,307									

(thousands of euros)

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

	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	Indefinite life
On-balance-sheet assets										
A.1 Government securities										
A.2 Other debt securities										
A.3 Units in collective investment undertakings										
A.4 Loans										
- banks										
- customers										
On-balance-sheet liabilities										
B.1 Deposits										
- banks										
- customers										
B.2 Debt securities				1,398			454		173,178	
B.3 Other liabilities										
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal										
- long positions				1,398			454		173,178	
- short positions			97,626							
C.2 Financial derivatives without exchange of principal										
- long positions										
- short positions										
C.3 Deposits and loans to receive										
- long positions			97,626							
- short positions										
C.4 Irrevocable commitments to disburse funds										
- long positions										
- short positions										
C.5 Financial guarantees issued										

(thousands of euros)

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

	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	Indefinite life
On-balance-sheet assets										
A.1 Government securities										
A.2 Other debt securities										
A.3 Units in collective investment undertakings										
A.4 Loans										
- banks										
- customers										
On-balance-sheet liabilities										
B.1 Deposits										
- banks										
- customers										
B.2 Debt securities					558				261,745	
B.3 Other liabilities										
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal										
- long positions					558				261,746	
- short positions										
C.2 Financial derivatives without exchange of principal										
- long positions										
- short positions										
C.3 Deposits and loans to receive										
- long positions										
- short positions										
C.4 Irrevocable commitments to disburse funds										
- long positions										
- short positions										
C.5 Financial guarantees issued										

1.4 BANKING GROUP – OPERATIONAL RISKS

QUALITATIVE DISCLOSURES

General aspects, management and measurement of operational risks

CDP has taken measures to mitigate operational risks in specific areas of its business, although it has not implemented systems for tracking events that could generate operating losses.

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

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

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

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

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

In the final part of 2009 an operational risk assessment and mitigation project was launched, which will also draw on the information already collected as part of internal audit activities and the financial reporting manager project.

As regards the potential losses that could be caused by the interruption of operations or the unavailability of systems, CDP is planning a project to develop an emergency plan to limit losses in situations of serious interruptions.

SECTION 3 – THE RISKS OF OTHER ENTITIES

QUALITATIVE DISCLOSURES

As a normal part of operations, the Terna Group is exposed to a variety of financial risks: market risk (exchange rate risk, interest rate risk and inflation risk), liquidity risk, and credit risk.
This section provides information regarding the Terna Group's exposure to all the above risks, along with a presentation of the objectives, policies and processes for managing those risks and the methods used to measure them, with further quantitative disclosures concerning the 2009 financial statements.
Terna's risk management policies seek to identify and analyse the risks the Group is exposed to, establishing appropriate limits and controls and monitoring risks and compliance with such limits. These policies and the related systems are reviewed on a regular basis in order to take account of any changes in market conditions or in the operations of the Group companies.
The exposure of the Terna Group to the aforementioned risks is substantially represented by the exposure of the parent. As a part of the financial risk management policies approved by the Board of Directors, Terna has established the responsibilities and operating procedures for financial risk management, specifically as concerns the instruments to be used and the precise operating limits in managing them.

Market risks

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

Risk management must be performed with the objective of maximising financial income and minimising the related risks by selecting counterparties and instruments compatible with the corporate risk management policy. Speculative activity is not envisaged in the corporate mission.

Terna SpA seeks to adopt a dynamic approach to financial risk management. This approach is characterised by risk aversion, aiming at minimising risk through continuous monitoring of financial markets in order to plan hedging transactions in favourable market conditions. The dynamic approach makes it possible to take action to improve existing hedges where changes in market conditions or in the hedged item make the latter unsuitable or excessively expensive. The concept of hedging transaction is not restricted to those hedges that qualify for hedge accounting, but rather encompasses the objective of total or partial hedging of the income statement or balance sheet item from interest rate risk.

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

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

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

- cash flow hedge derivatives, essentially related to hedging the risk of changes in the cash flows associated with long-term floating-rate loans;
- fair value hedge derivatives, essentially related to hedging the exposure to changes in the fair value of a financial asset or liability associated with fluctuations in interest rates (fixed-rate bonds);
- non-hedge-accounting derivatives, related to hedges of exchange rate risk but which do not qualify for treatment under IAS 39 as hedges of specific assets, liabilities, commitments or forecast transactions.

Interest rate risk

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

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

Accordingly, the hedging instruments used, at various maturity dates, include both derivatives that transform fixed rates into floating rates and derivatives that transform floating rates into fixed rates.

In order to reduce the amount of financial debt exposed to the risk of fluctuations in interest rates and to optimise the temporal correlation between average cost of debt and regulatory rate used in the WACC formula, various types of plain vanilla derivatives are used, such as interest rate swaps and interest rate collars.

Interest rate swaps are used in order to reduce the volume of debt exposed to fluctuations in interest rates and to reduce the volatility of borrowing costs. With an interest rate swap, Terna agrees with a counterparty to exchange, at specific intervals, the floating-rate cash flows on a specified notional amount against the fixed-rate (agreed between the parties) cash flows, or vice versa.

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

Sensitivity to interest rate risk

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

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

Inflation risk

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

Exchange rate risk

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

Such contracts have a notional amount and maturity date less than or equal to that of the underlying financial liability, or the expected cash flows, so that any change in the fair value and/or estimated cash flows deriving from an appreciation or depreciation of the euro against other currencies is fully offset by a corresponding change in the fair value and/or estimated cash flows of the underlying position.

During the year non-deliverable forward contracts were used to hedge the cash flows from Brazil in respect of the repayment of principal and/or payments of dividends, interest on the intercompany loan and the sale of the Brazilian equity investment. At 31 December 2009 (as at 31 December 2008), no financial instruments exposed to exchange rate risk were present.

Liquidity risk

The liquidity risk is the risk Terna might encounter difficulty in discharging its obligations in respect of its financial liabilities and operational cycle. Liquidity risk management seeks to ensure adequate coverage of financial needs by obtaining adequate lines of credit and appropriate management of any surplus liquidity. At 31 December 2009 Terna had €1,550 million in medium-term credit lines and €729 million in short-term credit lines. Such amount is sufficient to refinance the debt falling due discussed in the section on long-term loans (€59.7 million).

Credit risk

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

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

Terna provides its services to counterparties considered solvent by the market, who therefore have a high credit standing, and does not have highly concentrated credit risk.

Credit risk management is guided by the provisions of Resolution no. 111/06 of the Authority for Electricity and Gas (AEEG), which, at Article 49, introduced instruments for the limitation of risks related to the insolvency of dispatching customers, both on a preventive basis and in the event of actual insolvency. In particular, the resolution establishes three instruments to safeguard the electricity market: a guarantee system (bank guarantees provided by individual dispatching customers, based on their revenues), the option of terminating dispatching contracts (in the event of insolvency or failure to replace enforced guarantees) and, finally, the possibility of recovering uncollected debts, after having taken all other possible collection actions, through a specific fee defined by the AEEG.

Default risk and debt covenants

This risk is associated with the possibility that the loan contracts or bond rules to which the company is party may contain provisions authorising counterparties to call in such loans immediately upon the occurrence of certain events, thereby generating liquidity risk. For more information on the contractual provisions of outstanding loans at 31 December 2009, please see the section "Loans and financial liabilities" in the notes to the financial statements of Terna SpA.

QUANTITATIVE DISCLOSURES

Financial instruments subscribed by Terna

(millions of euros)

	Carrying amount 31/12/2009	Carrying amount 31/12/2008	Change
Fixed-rate financial instruments			
- assets	-	-	-
- liabilities	2,726	2,099	627
Floating-rate financial instruments			
- assets	623	805	(182)
- liabilities	1,655	1,660	(5)
Total	**3,758**	**2,954**	**804**

Sensitivity to interest rate risk

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

(millions of euros)

	Profit or loss			Shareholders' equity		
	current rates +10%	rates at 31/12/2009	current rates -10%	current rates +10%	rates at 31/12/2009	current rates -10%
31/12/2009						
Positions sensitive to interest rate variations (FVH, bonds, CFH)	2	1	1	(11)	(17)	(23)
Hypothetical change	0	-	(0)	6	-	(6)
31/12/2008						
Positions sensitive to interest rate variations (FVH, bonds)	1	(1)	(4)	(53)	(66)	(79)
Hypothetical change	2	-	(2)	13	-	(13)

Credit risk

Terna's credit exposure is as follows:

(millions of euros)

	Carrying amount 31/12/2009	Carrying amount 31/12/2008	Change
FVH derivatives	123	116	7
Cash and cash equivalents	0	689	(689)
Trade receivables	1,177	1,706	(529)
Total	**1,300**	**2,511**	**(1,211)**

The total value of the exposure to credit rate risk at 31 December 2009 is represented by the carrying amount of financial assets (current and non current), trade receivables and cash and cash equivalents.

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

Geographical distribution

(millions of euros)

	Carrying amount 31/12/2009	Carrying amount 31/12/2008
Italy	1,166	1,675
Euro-area countries	10	27
Brazil	-	-
Other countries	1	5
Total	**1,177**	**1,707**

Customer type

(millions of euros)

	Carrying amount 31/12/2009	Carrying amount 31/12/2008
Distributors (*)	209	180
Electricity Equalisation Fund (**)	89	19
Input dispatching contractors	381	678
Withdrawal dispatching contractors (non distributors)	455	786
Receivables from unregulated activities	43	43
Total	**1,177**	**1,706**

(*) Includes receivable accrued in respect of TELAT grid transmission fees
(**) Of which €62.9 million from volume effect on grid transmission fees and DIS

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

(millions of euros)

	31/12/2009		31/12/2008	
	Impairment	Gross	Impairment	Gross
Not yet past due	(2)	1,134	-	1,496
0-30 days past due	-	19	(1)	148
31-120 days past due	(1)	16	-	44
More than 120 days past due	(24)	36	(11)	29
Total	**(27)**	**1,205**	**(12)**	**1,717**

Changes in the provision for bad debts in the course of the year were as follows:

(millions of euros)

	31/12/2009	31/12/2008
Balance at January 1	(12)	(14)
Reversal of provision	-	4
Impairment for the year	(15)	(2)
Balance	**(27)**	**(12)**

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

(millions of euros)

	31/12/2009	31/12/2008
Input dispatching activity	251	193
Withdrawal dispatching activity	851	1,026
Grid transmission fees - distributors	172	169
Balance	**1,274**	**1,388**

PART G – BUSINESS COMBINATIONS

SECTION 1 – OPERATIONS CARRIED OUT DURING THE YEAR

1.1 BUSINESS COMBINATIONS

(millions of euros)

	Transaction date	(1)	(2)	(3)	(4)
1. Enel Linee Alta Tensione S.r.l.	01/04/2009	1,157	100%	129.6	43.9
2. STMicroelectronics Holding N.V. (*)	22/12/2009	666	50%		(82.00)

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

(*) Transaction cost composed of:
- cost of 20% stake acquired from Finmeccanica on 22 December 2009 for €179 million
- the fair value at the date of acquisition of control of 30% already held, equal to €487 million

ELAT ACQUISITION

On 1 April 2009, in implementation of the agreement signed on 19 December 2008, Enel Distribuzione sold the entire capital of Enel Linee Alta Tensione S.r.l. (ELAT) to Terna, after transferring (effective as of 1 January 2009) a business unit to this company comprising 18,583 kilometres of high-voltage lines and related legal relationships. At the same time, ELAT shareholders approved a change in the name of the company to "Terna Linee Alta Tensione S.r.l." (or "TELAT S.r.l." for short).

The €1,152 million price for the company was paid in full upon closing of the deal and was subject to a balancing payment of €12.3 million based on the change in TELAT equity which took place in the first quarter of 2009. In addition, following the calculation of the remuneration, by the Authority for Electricity and Gas, of the portion of the NTN owned by TELAT, which took place following the signing of the sale agreement, Enel Distribuzione paid Terna a lump sum of €11 million as compensation for the rate differential. As a result, the total cost of the acquisition

came to €1,157.7 million, including charges directly attributable to the transaction (€4.4 million).
For Terna, the acquisition resulted in growth of about 43% in total kilometres of power lines and of 18% in regulated asset base (RAB).
The transaction was completed after the contract conditions were met, particularly including approval by the Antitrust Authority, inclusion of the high-voltage lines in the National Transmission Network by the competent authorities, and the issuance of a measure by the AEEG (Resolution no. 31/09) granting TELAT the rate component related to the business unit in question.

(millions of euros)

	IFRS carrying amounts before the business combination	**Fair value**
Non-current assets	**879**	**1,109**
Property, plant and equipment	877	1,101
Intangible assets		6
Deferred tax assets	2	2
Current assets	**64**	**64**
Inventories	0	0
Trade receivables	1	1
Current financial assets	1	1
Cash and cash equivalents	62	62
TOTAL ASSETS	**943**	**1,173**
Non-current liabilities	**64**	**94**
Provisions	2	2
Deferred tax liabilities	20	92
Other non-current liabilities	42	
Current liabilities	**23**	**23**
Trade payables	10	10
Tax liabilities	7	7
Other current liabilities	6	6
TOTAL LIABILITIES	**87**	**117**
Net identifiable assets and liabilities	**856**	**1,056**
Goodwill from acquisition		102
Price	**1,158**	**1,158**

The revenues and the profit for the year of TELAT in 2009, calculated in accordance with the Terna Group's accounting policies, amounted to,

respectively, €129.6 million and €43.9 million. Measured from the date of acquisition, the contribution to consolidated profit at 31 December 2009 was €53.0 million.
During the year the allocation of the excess cost paid with respect to the fair value of the assets and liabilities of TELAT at the acquisition date was completed. The determination of the fair values of the assets acquired and liabilities assumed led to the recognition of the following amounts:

- property, plant and equipment in the amount of €224.2 million;
- intangible assets in the amount of €6.3 million;
- deferred tax liabilities in the amount of €72.4 million.

Accordingly, considering that the value of deferred income in respect of grants (allocated to other current liabilities) is already included in the value of the assets, goodwill from the business combination amounts to €101.7 million.

ACQUISITION OF STMicroelectronics Holding N.V. ("STH")

On 22 December 2009 CDP and Finmeccanica S.p.A. signed a contract for CDP to acquire shares corresponding to around 3.7% of the share capital of STMicroelectronics N.V. (STM) for a total of around €172 million (in addition to an earn-out for Finmeccanica that will be triggered if, in March 2011, the STM share price exceeds an agreed threshold).
The exchange of STM shares was carried out indirectly through STH, a Dutch firm with Italian and French shareholders, which manages – through its wholly-owned subsidiary STMicroelectronics Holding II B.V. – a 27.5% stake in STM.
Following completion of this transaction, CDP, which had previously owned 30% of the company, now holds 50% of STH and, indirectly, 13.77% of STM.

PART H – TRANSACTIONS WITH RELATED PARTIES

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

(thousands of euros)

REMUNERATION OF DIRECTORS AND STATUTORY AUDITORS

	31/12/2009
a) directors	1,100
b) statutory auditors	107
Total	**1,207**

(thousands of euros)

REMUNERATION OF KEY MANAGEMENT

	31/12/2009
(a) short-term benefits	4,932
(b) post-employment benefits	69
(c) other long-term benefits	-
(d) severance benefits	199
(e) share-based payments	-
Total	**5,200**

(thousands of euros)

REMUNERATION PAID TO DIRECTORS AND STATUTORY AUDITORS

Name	Position	Period in office	End of term (*)	Compensation and bonuses
Directors				
Franco Bassanini	Chairman	01/01/09-31/12/09	2009	228
Massimo Varazzani	Chief Executive Officer	01/01/09-31/12/09	2009	533
Vittorio Grilli	Director	01/01/09-31/12/09	2009	(**)
Nunzio Guglielmino	Director	01/01/09-31/12/09	2009	35
Luisa Torchia	Director	01/01/09-31/12/09	2009	35
Fiorenzo Tasso	Director	01/01/09-31/12/09	2009	35
Francesco Giovannucci	Director	01/01/09-31/12/09	2009	35
Gianfranco Imperatori	Director	01/01/09-23/04/09		11
Ettore Gotti Tedeschi	Director	29/04/09-31/12/09	2009	24
Gianfranco Viesti	Director	01/01/09-31/12/09	2009	35
Supplementary members for administration of Separate Account (Article 5.8, Decree Law 269/03. 269/03)				
Edoardo Grisolia	Director (1)	01/01/09-31/12/09	2009	(**)
Maria Cannata	Director (2)	01/01/09-31/12/09	2009	(**)
Isaia Sales	Director	01/01/09-31/12/09	2009	35
Francesco Scalia	Director	01/01/09-31/12/09	2009	35
Giuseppe Pericu	Director	01/01/09-31/12/09	2009	35
Board of Auditors				
Alberto Sabatini	Chairman	01/01/09-31/12/09	2009	27
Mario Basili	Auditor	01/01/09-31/12/09	2009	(**)
Fabio Alberto Roversi Monaco	Auditor	01/01/09-31/12/09	2009	20
Antonio Angelo Arru	Auditor	01/01/09-31/12/09	2009	20
Biagio Mazzotta	Auditor	01/01/09-31/12/09	2009	(**)

(*) Date of Shareholders' Meeting called to approve financial statements for the year.
(**) The remuneration is paid to the Ministry for the Economy and Finance
(1) Delegate of State Accountant General
(2) Delegate of Director General of the Treasury

2. Information on transactions with related parties – Banking group

Certain transactions between CDP and related parties, notably those with the Ministry for the Economy and Finance and Poste Italiane S.p.A., arise as a result of legislative provisions. In any event, CDP did not carry out any atypical or unusual transactions with related parties whose size could have an impact on the assets and liabilities or performance of the company. All transactions with related parties were carried out on an arm's length basis and form part of CDP's ordinary operations.

At the end of 2009 CDP had the following transactions with the parent, subsidiaries and associates.

Transactions with the Ministry for the Economy and Finance

The main transactions conducted with the Ministry for the Economy and Finance regarded the liquidity held on the treasury account and lending transactions.

Specifically, CDP's liquidity is deposited on the interest-bearing account no. 29814 at the State Treasury and earns interest, as envisaged by Article 6.1 of the decree of the Minister for the Economy and Finance of 5 December 2003, at a floating 6-month rate equal to the simple arithmetic main between the gross yield on 6-month Treasury bills and the monthly level of the Rendistato index.

As regards receivables in respect of loans, it should be noted that more than 40% of CDP's portfolio is repaid by the state.

CDP also manages loans and postal savings products owned by the MEF, for which it receives a fee established in a specific contract.

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

(thousands of euros)

Transactions with Ministry for the Economy and Finance	31/12/2009
Cash and cash equivalents	114,688,733
Financial assets held to maturity	205,285
Loans to customers	33,723,232
Other assets	7,545
Due to customers	3,978,787
Other liabilities	55
Interest income and similar revenues	5,046,313
Commission income	3,031
Interest expense and similar charges	(116,394)

Transactions with subsidiaries

Transactions with Terna S.p.A.

In 2009, Terna S.p.A. subscribed EMTN bonds issued by CDP in the nominal amount of €700 million, which were repaid in full during the year. Also during the year, CDP granted financing of up to €500 million to Terna S.p.A., which had not been disbursed as of 31 December 2009.

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

(thousands of euros)

Transactions with Terna S.p.A.	31/12/2009
Other assets	1,153
Commission income	1,653
Interest expense	(3,075)
Commitments in respect of loans to disburse	500,000

Transactions with CDPI SGR S.p.A.

The only transactions with the subsidiary CDPI SGR S.p.A. regarded administrative and accounting services provided by CDP and CDP personnel seconded to CDPI.

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

(thousands of euros)

Transactions with CDPI SGR S.p.A.	31/12/2009
Other assets	29
Administrative expenses (reimbursement expenses - seconded personnel)	9
Other operating income	20

Transactions with associates

Transactions with associates are entirely accounted for by relations with Poste Italiane S.p.A., including both the placement and management service for postal savings products and loans granted by CDP.

The service provided by Poste Italiane is remunerated with an annual commission set in a specific agreement between the parties.

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

(thousands of euros)

Transactions with Poste Italiane S.p.A.	31/12/2009
Loans to customers	766,537
Other liabilities	918,044
Interest income and similar revenues	32,712
Commission expense	(1,600,000)
of which: subject to amortisation	(682,763)

3. Information on transactions with related parties – Other entities

Transactions with related parties during 2009 essentially comprises transactions carried out in the course of ordinary operations, settled on an arm's length basis. The following table describes the nature of transactions between the Group and related parties and, in a subsequent table, the revenues and costs posted during the year and the respective receivables and payables outstanding at 31 December 2009:

Related party	Assets	Liabilities
Cassa Depositi e Prestiti S.p.A.	*non-energy related items* Subscription of bonds	*non-energy related items* Commitments in respect of loans to disburse
Cesi S.p.A.	*non-energy related items* Lease of laboratories and other similar structures for specific use	*non-energy related items* Technical consultancy, studies and research, projects and experimentation
GSE Group	*energy-related items* Remuneration of the grid and MIS component, energy sale, rights of withdrawal, rights of use of transport capacity for interconnection *non-energy related items* Specialist services (remote console), leases, IT services	*energy-related items* Purchase of energy, rights of use of the transport capacity for interconnection
Enel Group	*energy-related items* Remuneration of National Transmission Network 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	*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, supply of MV power to new stations, specialised services for connection to Terna control and protection systems
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 maintenance	*energy-related items* Energy purchase, cover of joint management costs, National Transmission Network remuneration
Ferrovie Group	*energy-related items* National Transmission Network remuneration *non-energy related items* Line moving, connection grants	*energy-related items* National Transmission Network remuneration *non-energy related items* Right of way fees
Anas S.p.A.	*non-energy related items* Line moving, connection grants	
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
<u>De facto controlling company</u>						
CDP S.p.A.			3			1
Total de facto controlling company			**3**			**1**
<u>Associates:</u>						
Cesi S.p.A.						1
Total associates						**1**
<u>Other related parties:</u>						
GSE Group	26	1,343	1	-	643	
Enel Group	996	1,105	12	9	1,583	9
Eni Group	7	105	0	-	110	
Ferrovie Group	1	33	0	7	5	0
Anas S.p.A.						
Total other related parties	**1,030**	**2,586**	**13**	**16**	**2,341**	**9**
<u>Pension funds:</u>						
Fondenel						1
Fopen						2
Total pension funds						**3**
Total	**1,030**	**2,586**	**16**	**16**	**2,341**	**14**

(millions of euros)

	Statement of financial position			Guarantees*
	Property, plant and equipment	Receivables and other assets	Payables and other liabilities	
	Capitalised costs			
<u>De facto controlling company</u>				
CDP S.p.A.		1	1	
Total de facto controlling company		**1**	**1**	**-**
<u>Associates:</u>				
Cesi S.p.A.	12		8	3
Total associates	**12**		**8**	**3**
<u>Other related parties:</u>				
GSE Group		1		
Enel Group	19	118	31	436
Eni Group		0	1	24
Ferrovie Group		2	2	22
Anas S.p.A.		1	1	
Total other related parties	**19**	**122**	**35**	**482**
<u>Pension funds</u>				
Fondenel				
Fopen			1	
Total pension funds			**1**	**-**
Total	**31**	**123**	**45**	**485**

* The guarantees refer to the bank guarantees received on contracts.

PART I – SHARE-BASED PAYMENTS

A. QUALITATIVE DISCLOSURES

Terna S.p.A. stock option plans

On 21 December 2005, based on a proposal of the Remuneration Committee, the Parent's Board of Directors resolved to adopt a 2006 stock option plan for Terna Group managers holding the most important roles in terms of achieving the Group's strategic targets.
This plan is aimed at giving the Terna Group – in line with international best practice and that of the leading publicly listed Italian companies – a management incentive and loyalty tool that imbues key employees with a sense of belonging to the corporate team, while ensuring they are constantly focused on creating value, with a view to melding the interests of shareholders and management.

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

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

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

Under the approved rules governing the stock option plan:

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

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

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

3. if the exercise conditions are met, individual beneficiaries can exercise their options by 31 March 2010 up to the following maximum quantities:
   - up to 30% of vested options, beginning from the date specified in the notice announcing that the exercise conditions have been met;
   - up to 60% of vested options, beginning from the first day of the first calendar year subsequent to that in which the notice announcing that the exercise conditions have been met is issued;
   - up to 100% of vested options, beginning from the first day of the second calendar year subsequent to the year in which the notice announcing that the exercise conditions have been met is issued.

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

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

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

B. QUANTITATIVE DISCLOSURES

The 2006 stock option plan entailed the granting, on 21 December 2005, of 9,992,000 options with a strike price of €2.072 to 17 managers of the company. The Board of Directors verified that the conditions for exercise were met when it approved the financial statements at 31 December 2006.

At 31 December 2009, all the options granted under the plan were outstanding and, as the vesting period was complete, were exercisable at the end of the year

(9,083,200 options). During the year, no options were taken up and no options lapsed.

The fair value at the grant date was determined using the Cox-Rubinstein method, which considers the price of Terna shares at the grant date, the volatility of the shares, the yield curve at the grant date consistent with the duration of the plan. The pricing parameters applied are the following:

- closing price (underlying or spot price) of the shares at the grant date (source: Bloomberg) of €2.058;
- strike price of €2.072;
- yield curve for the calculation of the discount factor at the grant date (source: Reuters);
- historic volatility of the shares recorded at the grant date (source: Bloomberg) of 14.860%.

PART L – OPERATING SEGMENTS

Absent an overall assessment of the CDP Group by management, the figures for financial operations (CDP S.p.A. and CDPI SGR S.p.A.) are analysed separately from non-financial operations (Terna Group).

The following tables summarise the main balance sheet and income statement data for the Group, with separate reporting of the contribution of financial and non-financial business.

Balance sheet

(thousands of euros)

	Financial operations	Non-financial operations	Eliminations/ Adjustments	Total
Cash and cash equivalents	114,688,739	81		114,688,820
Financial assets available for sale	13,991,312		47	13,991,359
Loans to banks	5,976,296	501,048		6,477,344
Loans to customers	85,623,841			85,623,841
Equity investments	4,486,902	15,483	(687,286)	3,815,099
Property, plant and equipment and intangible assets	210,490	7,447,448	2,043,389	9,701,327
	-			-
Due to banks	2,674,297	1,659,927		4,334,224
Due to customers	100,459,936	-		100,459,936
Securities issued	108,268,862	2,673,887		110,942,749

Income statement

(thousands of euros)

	Financial operations	Non-financial operations	Eliminations/ Adjustments	Total
Net interest income	1,994,146	(115,914)	-	1,878,232
Dividends	971,150	-	(161,813)	809,337
Net commission income	(909,319)	(2,610)	(451)	(912,380)
Gross income	2,162,103	(146,001)	(162,264)	1,853,838
Operating costs	(78,850)	688,972	(45,100)	565,022
Gains (losses) on equity investments	-	2,950	269,493	272,443
Net income (loss) pertaining to shareholders of the parent company	**1,724,326**	**770,954**	**(469,258)**	**2,026,022**