CASSA DEPOSITI E PRESTITI
SOCIETÀ PER AZIONI

REPORT AND FINANCIAL STATEMENTS
AT 31 DECEMBER 2006

2006 Financial Statements

Cassa depositi e prestiti società per azioni

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

Board of Directors

Alfonso Iozzo	*Chairman*	*(1)*
Salvatore Rebecchini	*Chairman*	*(2)*
Luigi Roth	*Deputy Chairman*	
Luigi Fausti	*Director*	
Gianluca Galletti	*Director*	*(3)*
Ettore Gotti Tedeschi	*Director*	
Vittorio Grilli	*Director*	*(4)*
Nunzio Guglielmino	*Director*	
Mario Sarcinelli	*Director*	
Luisa Torchia	*Director*	

Supplementary members for administration of Separate Account

(Article 5.8, Decree Law 269/2003, ratified with amendments by Law 326/03)

State Accountant General	*Director*	*(5)*
Director General of the Treasury	*Director*	*(6)*
Donato Robilotta	*Director*	*(7)*
Sergio Vedovato	*Director*	*(7)*
Lucio D'Ubaldo	*Director*	*(7)*

(1) Appointed with Prime Minister's Decree of 5 December 2006
(2) Resigned on 16 November 2006
(3) Resigned on 20 June 2006
(4) Prime Minister's Decree of 29 July 2005
(5) Edoardo Grisolia, non-permanent delegate of the State Accountant General
(6) Maria Cannata , delegate of the Director General of the Treasury
(7) Appointed with Ministerial Decree of 20 April 2005

Preference Shareholders Support Committee

Mario Nuzzo	*Chairman*
Silvano Antonini Canterin	*Member*
Teresio Barioglio	*Member*
Pier Giuseppe Dolcini	*Member*
Gianmaria Galimberti	*Member*
Amedeo Grilli	*Member*
Francesco Lorenzetti	*Member*
Stefano Marchettini	*Member*
Davide Tinelli	*Member*

Steering Committee

Giuseppe Mussari	*Chairman*
Carlo Colaiacovo	*Member*
Adriano Giannola	*Member*
Antonio Miglio	*Member*
Giuliano Segre	*Member*
Riccardo Triglia	*Member*
Dario Scannapieco	*Member*
Giuseppe Maresca	*Member*
Antonino Turicchi	*Member*

General Manager

Antonino Turicchi

Board of Auditors

Alberto Sabatini	*Chairman*
Paolo Asso	*Auditor*
Mario Basili	*Auditor*
Piergiorgio Benvenuti	*Auditor*
Antonio Finotti	*Auditor*
Ignazio Cardone	*Alternate*
Biagio Mazzotta	*Alternate*

Parliamentary Supervisory Committee

Carmine Santo Patarino	*Chairman*
Antonio Vicini	*Deputy Chairman*
Filoreto D'Agostino	*Secretary for Confidential Matters*
Mario Alberto Taborelli	*Parliamentary member*
Francesco Saverio Romano	*Parliamentary member*
Antonio Potenza	*Parliamentary member*
Antonio Domenico Pasinato	*Parliamentary member*
Cesarino Monti	*Parliamentary member*
Salvatore Meleleo	*Parliamentary member*
Mario Egidio Schinaia	*Non-parliamentary member*
Giancarlo Coraggio	*Non-parliamentary member*
Furio Pasqualucci	*Non-parliamentary member*

Judge of the State Audit Court

(Article 5.17, Decree Law 269/2003 – attends meetings of the Board of Directors and the Board of Auditors)

Luigi Mazzillo	(*)
Francesco De Filippis	(**)

Independent auditors

KPMG S.p.A.

(*) As from 20 July 2006

(**) Until 19 July 2006

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ON

OPERATIONS

(YEAR ENDED 31 DECEMBER 2006)

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Reclassified balance sheet

	31/12/2006 (€/mil)	31/12/2005 (€/mil)	Change (%)
ASSETS			
A. Cash and cash equivalents	81,812	62,915	30.0%
B. Financial assets (other than loans and those held to maturity)	227	124	83.1%
C. Loans	76,778	65,537	17.2%
D. Debt securities	215	993	-78.4%
E. Equity investments in associates and shares	20,523	18,812	9.1%
F. Property, plant and equipment and intangible assets	213	209	2.0%
G. Other assets	925	944	-2.0%
Total assets	**180,692**	**149,533**	**20.8%**
LIABILITIES AND SHAREHOLDERS' EQUITY			
A. Debt and payables	164,815	135,803	21.4%
- due to customers	*10,391*	*7,774*	*33.7%*
- due to banks	*1,246*	*1,448*	*-14.0%*
- debt securities	*8,639*	*4,375*	*97.5%*
- postal funding	*144,540*	*122,206*	*18.3%*
B. Financial liabilities (other than debt and payables and those held to maturity)	476	437	9.0%
C. Other liabilities	771	1,772	-56.5%
D. Provisions for contingencies, taxes and staff severance benefit	1,347	936	43.9%
E. Shareholders' equity	13,284	10,586	25.5%
Total liabilities and shareholders' equity	**180,692**	**149,533**	**20.8%**

Reclassified income statement

	31/12/2006 (€/mil)	31/12/2005 (€/mil)	Change (%)
Interest income and similar revenues	5,642	4,874	16%
of which on loans to customers	3,393	3,352	1%
Interest expense and similar charges	(3,861)	(2,839)	36%
NET INTEREST INCOME	**1,780**	**2,035**	**-12.5%**
Dividends	907	886	2%
Gains (losses) on equity investments	312	66	373%
Commission income	11	2	495%
Commission expense	(725)	(673)	8%
of which postal savings management commissions	(725)	(672)	*8%*
Net gain (loss) on trading activities	231	(181)	-228%
Net gain (loss) on hedging activities	(1)	(27)	-95%
Gains (losses) on disposal or repurchase of assets and liabilities	200	71	181%
GROSS OPERATING MARGIN	**2,716**	**2,180**	**24.6%**
Net impairment adjustments	(35)	(2)	1604%
of which impairment adjustments of loans	(35)	(2)	1604%
NET INCOME FROM FINANCIAL OPERATIONS	**2,681**	**2,178**	**23.1%**
General and administrative expenses	(68)	(70)	-3%
of which staff costs	(40)	(43)	*-8%*
Other operating income (expenses)	1	2	-31%
OPERATING INCOME	**2,614**	**2,110**	**23.9%**
Net provisions	9	(4)	-303%
Net adjustments of non-current assets	(6)	(5)	30%
Gains (losses) on disposal of investments	(0)	0	
INCOME (LOSS) BEFORE TAX ON CONTINUING OPERATIONS	**2,617**	**2,100**	**24.6%**
Income tax	(564)	(459)	23%
NET INCOME FOR THE PERIOD	**2,053**	**1,642**	**25.0%**

(millions of euros)

MAIN INDICATORS

	2006	2005
BALANCE SHEET DATA		
Total assets	180,692	149,533
Loans to customers	76,850	62,589
Financial assets available for sale, *of which*	15,317	14,556
- debt securities	212	1,015
- shares	15,106	13,541
Direct funding	163,629	135,213
Shareholders' equity	13,284	10,586
PERFORMANCE DATA		
Net interest income	1,780	2,035
Dividends and gains (losses) from equity investments	1,219	952
Net commissions	(714)	(671)
Other net revenues	430	(136)
Gross income	2,716	2,180
Net writedowns	(35)	(2)
Overheads	(75)	(75)
Operating income	2,614	2,110
Net income	2,053	1,642
PERFORMANCE RATIOS (%)		
Spread on interest-bearing assets - liabilities	1.6%	2.1%
Cost/income ratio	2.8%	3.4%
ROE	19.4%	20.9%
CREDIT RISK RATIOS (%)		
Gross bad debts / Gross loans to customers	0.191%	0.103%
Net writedowns/ Net loans to customers	0.045%	0.003%
OPERATING STRUCTURE		
No. of employees	409	430

1. INTRODUCTION

1.1 CDP's ROLE AND MISSION

Cassa Depositi e Prestiti S.p.A. (CDP) is the result of the transformation of the CDP from an agency part of general government into a joint-stock company pursuant to Article 5 of Decree Law 269 of 30 September 2003.

Article 5.7 of the decree outlines the new company's main lines of activity, which maintain continuity with CDP's mission prior to the transformation. Specifically, they are:

- financing of any form for the state, regional governments, local authorities, public bodies and public-law entities using repayable funds raised from postal savings bonds and passbook savings accounts and other forms of funding that may benefit from state guarantees;
- financing of works, plant, networks, and other resources intended for the delivery of public services and for improvement projects. To this end, the CDP may raise funds through the issue of securities, borrowing and other financial operations, without state guarantees and precluding demand funding.

Decrees issued by the Minister for the Economy and Finance on 5 December 2003 and 6 October 2004 implemented the decree law and established the assets and liabilities of CDP, as well as the criteria for organisational and accounting separation and the procedures to be followed in setting the terms and conditions of lending and funding under the Separate Account.

With regard to the acquisition of equity investments, on 27 January 2005 the Minister for the Economy and Finance issued, pursuant to Article 5.9 of Decree Law 269 of 30 September 2003 (regulating the minister's policy-making powers for CDP activities), a decree establishing the criteria for determining which equity investments CDP may make. The decree makes reference to CDP's Bylaws, which at Article 3.2, establish that "The Company may also carry out any other operations instrumental, related or accessory to the attainment of its corporate purpose, including *inter alia*: […] acquiring equity investments and interests in companies, other businesses, consortiums and business groupings in Italy and abroad". The decree specifies the definitions of instrumental, related and accessory to the corporate purpose of CDP. Accordingly, the

CDP may acquire, using funds from postal savings if deemed appropriate, equity investments in companies whose business:

- is functional or auxiliary to the pursuit of CDP's corporate purpose (instrumental equity investments);
- is interdependent with CDP's corporate purpose (related equity investments);
- is complementary to CDP's corporate purpose (accessory equity investments).

In accordance with Article 5(6) of Decree Law 269 of 30 September 2003, the provisions of Title V of the 1993 Banking Law also apply to CDP, given its characteristics.

All of the activities established by the new regulatory framework in which CDP now operates must be conducted in a manner such that they preserve the financial stability of the organisation over the long term while ensuring a return on investment for the shareholders (bearing in mind the "preferential dividend" to be paid to the holders of preferred shares).

CDP's mission was further defined in the 2005-2009 Business Plan approved by the Board of Directors in June 2005. It includes fostering the development of public investment, infrastructure works for the delivery of local public services and major works of national interest, as well as providing small investors with financial products with a moderate risk profile in order to encourage saving.

The Business Plan also defines the organisation of the business areas resulting from CDP's new regulatory framework, which is as follows:

- the Public Lending business unit, which covers financing activities for general government, particular as concerns the regional and local authorities, in respect of the principles of universality and non-discrimination;
- the Development Policy Management and Support business unit, which covers new incentives for enterprises and research;
- the Infrastructure and Major Public Works business unit, responsible for all forms of financing for entities involved in providing public services;
- the Finance business unit, which includes the activities of funding, including postal savings, monitoring investments, and managing liquidity and related investment risks;
- and the corporate centre, which includes all the functions that support the various business units, as well as the functions of governance and control.

Each of the CDP business units corresponds to a specific division within the company, and the corporate centre is made up of the support areas and the governance and control bodies.

1.2 ORGANISATIONAL AND ACCOUNTING SEPARATION

Article 5(8) of Decree Law 269 of 30 September 2003 established a system of organisational and accounting separation between the activities of general economic interest and the other activities performed by the company. To this end, Article 8 of the decree of the Minister for the Economy and Finance (MEF) of 5 December 2003 called for CDP to submit the criteria for organisational and accounting separation to the MEF, having heard the opinion of the Bank of Italy, with such criteria to be based on the guidelines set out in the MEF decree of 6 October 2004.

By the end of the 2004 financial year, CDP had completed the procedures to implement organisational and accounting separation, having obtained the opinion of the Bank of Italy as required and submitted the definitive criteria to the MEF. As such, the organisational and accounting separation takes effect from the 2005 financial year. The results for 2004, on the other hand, are entirely attributable to the Separate Account, given that Article 8(2) of the decree of the Minister for the Economy and Finance of 5 December 2003 provided that the funding of infrastructure would not start until the final separation criteria had been implemented.

CDP's implementation of the system of organisational and accounting separation, as envisaged in Decree Law 269/2003, made it first necessary to observe EU regulations regarding state aid and domestic competition, in light of the fact that certain forms of CDP funding, such as postal bonds and passbook savings accounts, benefit from an explicit state guarantee in the event of issuer default. The existence of this guarantee, which is justified, first and foremost, by the social and economic importance of postal savings (which was defined by the MEF decree of 6 October 2004 as a service of general economic interest on the same level as the activities of lending to government under the Separate Account), makes it necessary to distinguish between activities that are not of general economic interest and are, therefore, conducted in competition with other market players. This separation is, in particular, intended to avoid the indiscriminate transfer of resources between the activities that benefit from forms of compensation, such as the state guarantee, and "market" activities.

More specifically, the separation arrangements put in place by CDP envisage:

- the establishment of three operating units called, respectively, the Separate Account, the Ordinary Account, and Joint Services, within which CDP's existing organisational units have been re-grouped. The Separate Account includes the units responsible for government financing activity, the management of equity investments, the management of the assets and functions transferred to MEF with CDP's transformation into a joint-stock company, and the provision of advisory services to government bodies. The Ordinary Account includes the units responsible for funding activities regarding infrastructure for the delivery of public services and related advisory, study, and research activities. Joint Services include the units responsible for shared functions of governance, policy and control of the company in the light of the company's unique status;

- the implementation of a double level of separation, with the first level envisaging the allocation of direct costs and revenues to the Accounts and Joint Services, and the second level the subsequent allocation to the Accounts of the costs and revenues of Joint Services on the basis of appropriate analytical accounting methods;
- the recognition and measurement of any internal transactions between the Separate Account and the Ordinary Account, or between the Accounts and Joint Services, using the respective market prices as a benchmark, with a view to preventing unauthorised transfers of resources;
- the preparation of distinct annual income statements on the basis of the levels of separation described above.

As regard the organisational structure of CDP in effect as of 31 December 2005, the Public Lending and Development Policy Management & Support Divisions fall under the Separate Account, while the Infrastructure & Major Public Works Division falls under the Ordinary Account. Joint Services include all of the support areas and the governance and control bodies. The departments of the Finance Division, on the other hand, are divided among the other three divisions based on the specific activity being performed.

From the very start of operations for the Ordinary Account, CDP chose to keep cash flows separated for the two Accounts, although such a strict division is not required by the system of accounting separation. In other words, the forms of funding, lending and liquidity management (deposits and current accounts) for the Separate Account are distinct and autonomous from the analogous instruments used for the Ordinary Account. At the same time, during 2005, there were no transactions between the two Accounts, as the lending activities for each were financed by independent sources of funding.

The contribution of the Separate Account and the Ordinary Account to CDP's performance is detailed in Part D of the notes to the financial statements (Segment Information).

1.3 OPERATION OF THE SEPARATE ACCOUNT

On the basis of the provisions of the MEF decree of 6 October 2004, CDP has continued to broaden its range of products, an effort begun in 2005 with the launch of the flexible specific-purpose loans, in order to meet the needs of its customers more effectively. The targeted marketing dedicated to the specific-purpose loan generated considerable success in terms of new lending. While ensuring compliance with the principles of uniformity and accessibility that govern access to the Separate Account, CDP also offered a further two new products, the "spot state-repayment loan" and the "spot regional-repayment loan", both of which have no pre-repayment grace period (i.e. repayment starts "spot") and with repayment charged to the state in the first case and the regions or autonomous provinces in the second.

In CDP continued to offer government entities the opportunity to reshape their loan portfolio through renegotiation or extinguishment and refinancing with two programmes for local authorities, two programmes for regional governments and ad hoc programmes for metropolitan cities.

Within the scope of the Separate Account, development of activities for the new Development Policy Management and Support Division also began, with lending through the fund to support investment in rail cargo transport, especially combined transport and transport of hazardous goods, and investment in rolling highways (the "Intermodal Fund"), established with Article 38.6 of Law 166 of 1 August 2002. Lending also began under the Revolving Fund to support enterprises and investment in research, which was established by Article 1.354 of Law 311 of 30 December 2004.

With regard to funding within the Separate Account, CDP continued to issue new series of postal savings bonds on a monthly basis, with the financial restructuring of existing products and diversification with a mix of products for savers. The most significant developments, whose full effects will materialise beginning in 2007, were as follows:

- the revision of postal savings passbooks, with the introduction of a new interest structure;
- the issue of two new bonds (the "inflation-indexed bond" and the "young people's bond") which were an immediate funding success following their introduction in the third quarter of 2006.

The introduction of a yield incentive (for passbooks) and the issue of two new types of bond is part of the effort at enhancing customer loyalty and ensuring that CDP maintains strong new funding flows. Thanks in part to the above initiatives, all the targets set in the agreement with Poste Italiane S.p.A. were easily exceeded.

On the institutional funding side, activity in 2006 focused on updating the covered bond programme and the sourcing of funding to support operations on the Separate Account. As part of this, CDP carried out two new bond issues backed by an earmarked set of loans to local governments, for a total of €4 billion, with the interest rate hedged with derivatives. In 2006 CDP was once again the only Italian financial intermediary to issue covered bonds.

1.4 OPERATION OF THE ORDINARY ACCOUNT

Initiatives undertaken within the Ordinary Account in 2006 involved both the continuation of financing infrastructure for public services and completion of the internal structure supporting these new operations.

The lending activity originated by the Ordinary Account regarded the structuring of project finance and corporate finance transactions. While in the latter case the disbursement of funds is virtually simultaneous with the commitment, in project finance projects CDP makes disbursements over a period of years. As a result the multi-year financial structure of CDP's investments, it is necessary to select counterparties with special care.

The loans approved by the Board of Directors during the year and the new agreements regarded projects in many areas:

a. solid waste treatment and waste separation plants;
b. extension of the electricity distribution network;
c. integrated water management;
d. expansion, upgrading and operation of sundry infrastructure;
e. specialised hospital building;
f. refinancing of loans to multi-utility operators.

In this context, it should be noted that the final results for the year reflected the difficulties that still hamper more widespread use of project finance in the Italian market, where major sectors (such as road infrastructure) remain almost entirely blocked. This is accompanied by increasing competition in the corporate sector for customers of local public services, where spreads on new lending have been narrowing for some time.

Funding strategy for the Ordinary Account in 2006 provided for a direct correlation between the volume of funds raised and the amount of lending. Funding continued in the following forms:

- funding from Community bodies under the framework agreement signed in July 2005 with the European Investment Bank (EIB) in the amount of €50 million;
- issues under the Euro Medium Term Notes programme totalling €394 million, part of which was hedged with derivatives.

1.5 ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSS)

REGULATORY FRAMEWORK

The European Union process of adopting the International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (hereinafter jointly the "IFRSs") began with EC Regulation no. 1606 of 19 July 2002 and was completed under Italian legislation with Legislative Decree 39 of 28 February 2005. Specifically, in accordance with Article 4.1 of the decree, application of the IFRSs is mandatory beginning with the 2006 financial year for all banks and financial intermediaries entered in the register provided for under Article 107 of the 1993 Banking Law that are not required to prepare consolidated financial statements. For entities required to prepare consolidated financial statements, application of the IFRSs became mandatory as of the 2005 financial year. Although CDP is not formally a bank or financial intermediary pursuant to Article 107, we feel that this provision can be applied by way of analogy given, in part, the current conduct of CDP, which calls for compliance with the accounting regulations for such organisations. It should also be noted that application of the IFRSs is in any case mandatory for all companies that issue financial instruments for trading on any regulated market within the European Union. As such, CDP falls within this category, given that we have issued bonds for trading on the Luxembourg stock exchange.

In view of the foregoing, CDP is required to apply fully the IFRSs beginning with the 2006 financial year, given that the company does not currently prepare consolidated financial statements.

Legislative Decree 38/2005 also confirmed the powers of the Bank of Italy concerning the financial statements of banks and financial intermediaries. In that regard, the Bank of Italy, with its circular no. 262 of 22 December 2005 (hereinafter "Circular 262/2005"), issued the new financial statement formats and related rules of application.

Therefore, with the adoption of the IFRSs, the previous accounting system for banks and other financial institutions set out in Legislative Decree 87 of 27 January 1992 and in Bank of Italy circular no. 166 of 30 July 1992 as amended has been abandoned.

ADOPTION PROCEDURES

IFRS 1 states that, under first-time adoption (hereinafter also "FTA") of the new accounting standards, first-time adopters must first apply all such standards from the first financial year. It further states that an opening balance sheet is to be prepared by restating that for the financial year prior to first-time adoption, and that the related income statement is also to be restated. In compliance with the IFRSs, for CDP this entailed reopening the balance sheet as at 1 January 2005, restating the balance sheet and income statement as at 31 December 2005, and preparing the 2006 financial statements in full compliance with the new accounting standards.

Therefore, the financial statements for first-time adoption, which are included with the notes to the financial statements (Annex 3), are to be approved by shareholders along with the draft financial statements for 2006.

PRIMARY CHANGES RESULTING FROM THE ADOPTION OF THE IFRSS

The following provides a description of the main changes and most significant effects of the transition to the IFRSs.

A. ADOPTION OF THE NEW BALANCE SHEET AND INCOME STATEMENT

Circular 262/2005 radically revised the formats and the rules for preparing a bank's financial statements (which CDP essentially adopts). In particular, the structures of the balance sheet and income statement have moved away from the traditional classification by type of "instrument" (loans, equities, other securities, etc.) prescribed by Italian accounting standards and has adopted a classification by "portfolio" as prescribed by the IFRSs and as described in greater detail below.

As concerns the income statement, certain typical partial figures (such as net interest income, gross income, etc.) are now to be indicated.

Another impact on the financial statements comes from the new procedures for handling derivatives, as well as from the elimination of the provision for general banking risks and the implementation of specific measurement procedures for financial assets and liabilities.

Finally, Circular 262/2005 requires that four mandatory statements be prepared. In addition to the balance sheet and income statement, a statement of changes in equity and a statement of cash flows are also required.

B. NEW CLASSIFICATION OF ASSETS AND LIABILITIES

IAS 39 states that all financial assets are to be classified in one of the following categories:

- financial assets at fair value through profit or loss;
- held-to-maturity investments;
- loans and receivables;
- available-for-sale financial assets.

For financial liabilities, it is first necessary to distinguish between instruments classified as equity and liabilities proper.

Initial measurement of financial assets and liabilities must be at fair value, which, under normal conditions, is equal to the price paid in a financial transaction (e.g. the price paid to purchase a bond or the amount of loan granted/disbursed). With the exception of financial assets recognised at fair value through profit or loss, this initial fair value must include any transaction costs related to the asset or liability, i.e. the marginal costs directly attributable to the purchase, issue, or sale of a financial asset or liability (e.g. fees, commissions, taxes, etc.).

The subsequent periodic measurement of financial assets in the balance sheet or income statement varies for each of the categories listed above:

- financial assets at fair value through profit or loss are always recognised in the balance sheet at their fair value as of the measurement date, while the difference between the new measurement and the previous value is recognised through profit or loss in the income statement;
- held-to-maturity investments and loans and receivables are measured at amortised cost both in the balance sheet and the income statement;
- available-for-sale financial assets are recognised in the income statement and measured at amortised cost; however, for these financial assets, measurement of their fair value passes through a specific equity reserve that has no impact on the income statement.

Financial liabilities are measured at amortised cost on both the balance sheet and income statement, with the exception of financial liabilities at fair value through profit or loss, which are handled in the same way as the corresponding category of financial assets.

Application of the amortised cost method and the classification of CDP assets and liabilities as described above is discussed in greater detail in the sections that follow.

C. AMORTISED COST FOR LOANS AND POSTAL SAVINGS BONDS

As defined by IAS 39, the amortised cost of a financial asset or liability is the amount at which the asset or liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the cash flows at the various dates. The effective interest rate is the internal rate of return of the asset or liability, taking account of transaction costs.

For a "plain vanilla" financial asset or liability, such as a fixed-rate loan with constant payments and without commissions or embedded derivatives, the effective interest rate is, by definition, the contract rate for the transaction. However, the effective interest rate can diverge from the contract rate when there are up-front fees treated as transaction costs or in the case of structured assets/liabilities, given that the internal rate of return on such transactions, for example, takes account of the financial amortisation of the fees over the expected life of the instrument.

The adoption of the amortised cost method is particularly significant for certain loans granted by CDP within the scope of the Separate Account and for postal savings bonds. For all other financial assets and liabilities, the amortised cost method does not result in any materially significant difference in the balance sheet or income statement from the previous measurement methods based on Italian accounting standards.

Loans that are significantly impacted by the amortised cost method are, in particular, those that are involved in the total return swap transactions completed before CDP became a joint-stock company, under which the excess spread was assigned without recourse. These loans were subsequently involved in the renegotiation, completed in December 2005, of the loans with amortisation charges to be paid, either in whole or in part, by the Italian government pursuant to Article 1.71-74 of Law 311 of 30 December 2004 and Article 2 of Decree Law 250 of 5 December 2005. The interest structure of these loans was, therefore, not uniform. Until 2015, the net interest received by CDP is equal to the interest paid by the customers, net of the portion assigned. After 2015, CDP will receive all of the interest called for under the amortisation schedule for each loan. This unusual interest structure means that the effective interest rate for this loan portfolio is different from the contract rate. As the aforementioned renegotiation took effect on 1 January 2006, there were no significant effects upon first-time application of the amortised cost method for the renegotiated loans, whereas significant effects can be seen beginning with the 2006 financial year.

With regard to postal savings bonds, it is first necessary to take a brief look at how these were recognised under Italian accounting standards. Postal savings bonds are zero-coupon securities (where the interest accrued is paid when the principal is redeemed) with a step-up interest structure (the interest rate increases as the period for which the bond is held increases) and with principal and interest redeemed in a single payment upon maturity, although the bonds may be redeemed at any time prior to the bond's contractual maturity, with principal and interest paid according to the period for which the bond was held. In observance of the principle of prudence, the amount recognised in the balance sheet for postal savings bonds and the corresponding income statement effects have thus far been measured based on the internal rate at maturity for each series of savings bond (i.e. the maximum yield an investor would obtain in the event the bond was held to its contractual maturity). Any differences in favour of CDP due to the difference between the amount of interest accrued and the amounts actually paid out to investors in the case of early redemption have been recognised as adjustments to interest expense.

For the fees paid to Poste Italiane S.p.A. for the placement and management of postal savings instruments, Italian accounting standards prescribed the following: (i) management fees (based on the average principal for savings bonds and passbooks) were recognised as commission expenses directly, as the payment of the fees essentially coincided with the period to which they referred; (ii) distribution fees (based on gross subscriptions of postal savings bonds with certain corrective factors connected with net funding), which are essentially paid up front to Poste Italiane S.p.A., were accrued during the year in which the bond was purchased and amortised (as interest expense) over the useful life of the bond. In the case of early redemption of savings bonds, the portion of distribution fees still to be amortised was expensed in its entirety in the same period as the redemption.

The IFRSs call for adopting the amortised cost method for postal savings bonds in particular. IAS 39, specifically, states that the effective interest rate used to calculate the amortised cost is to be equal to the internal rate of return of the estimated cash flows (and not the flows specified by contract) throughout the estimated life (not the contract life) of the instrument. Given the early redemption option, the expected life of postal savings bonds is less than their contract life. This means that the effective interest rate resulting from the amortised cost method is less than the internal rate of return at maturity as used under Italian accounting standards. Accordingly, CDP has developed a statistical model for forecasting early redemption of savings bonds based on a time series of redemptions, which is used to price new issues. The forecasting model used at the time of the bond issue is also used to determine the initial estimated amortisation schedule for each series of savings bonds. Based on these estimated flows, the effective interest rate and the amortised cost to be recognised in the balance sheet are then calculated. Differences between the actual early redemptions and these estimates result in an adjustment to the remaining amortisation schedule. In such cases, the IFRSs state that the amortised cost of the instrument being measured is to be equal to the present value of the new estimated future cash flows using the unchanged effective interest rate calculated upon issuing each series of savings bonds as the discount rate.

It is also necessary to recognise distribution fees as transaction costs. These fees are therefore considered along with the other cash flows in respect of the savings bonds for the purpose of determining the effective interest rate and are no longer amortised at a constant annual rate.

Management fees are handled in the same manner as under Italian accounting standards.

The adoption of the amortised cost method for postal savings bonds as described above had the following effects in terms of FTA:

- opening balance sheet 2005: under Italian accounting standards, the balance of savings bonds at 31 December 2004 came to €39,303 million (net of the deferred placement fee), whereas the balance for FTA at 1 January 2005 came to €39,092 million, for a difference of €211 million, which went to increase equity reserves;
- balance sheet at year-end 2005: under Italian accounting standards, the balance of savings bonds at 31 December 2005 came €57,248 million (net of the deferred placement fee), whereas the balance for FTA at 31 December 2005 came to €56,871 million (including €69 million in embedded options that were separated), for a difference of €377 million, which went to increase equity reserves;
- 2005 income statement: under Italian accounting standards, interest expense on savings bonds (including the accrued portion of amortised distribution fees) came to €2,002 million, whereas interest expense totalled €1,835 million under the new accounting standards, for a net positive effect of €167 million.

D. Classification of derivative instruments

One of the main changes brought about by the IFRSs is the recognition in the balance sheet of the fair value of all derivative instruments. The fair value of derivative instruments used to hedge other financial assets or liabilities is accompanied by a corresponding recognition of the fair value of the instrument being hedged. In the event of an effective hedge, the net impact on the balance sheet and income statement should tend towards zero, given that the changes in fair value of the two instruments should be of equal amount but opposite sign (and hedge accounting then applies).

During 2004, CDP undertook a number of interest-rate hedging transactions (using interest rate swaps) for a portion of its portfolio of loans charged to the state. As a result of the aforementioned renegotiation of these loans, which was completed in December 2005, it was necessary to restructure the existing hedge transactions by closing the existing contracts and entering into new interest rate swaps with characteristics appropriate to the new amortisation schedule of the loans being hedged. Under the IFRSs, as of 1 January 2006 (the effective date of the renegotiation) and until the date on which they were restructured, these derivative instruments did not meet the requirements to be considered hedging transactions. However, at the time of FTA, the IFRSs provide for the option of retroactively considering transactions that fail to meet the requirements of hedge accounting as trading derivatives.

Based on the above, CDP has recognised the original interest rate swaps as trading derivatives, whereas the derivatives are classified as hedging transactions after the restructuring. Accordingly, the fair value of the trading interest rate swaps is shown in the balance sheet among financial assets (or liabilities) held for trading, depending on their sign, whereas the changes in fair value are recognised through profit or loss as results on trading activities. The interest rate swaps classified as hedging instruments are recognised in accordance with hedge accounting procedures.

The other derivative instruments held by CDP can be classified as follows:

- the interest rate swaps related to certain series of ordinary savings bonds may be classified as hedging transactions and can therefore be recognised in accordance with hedge accounting;
- the interest rate swaps related to bond issues (covered bonds and EMTNs) and bonds subscribed may be classified as hedging transactions and can therefore be recognised in accordance with hedge accounting;
- options on the Euro Stoxx 50 stock index may be classified as derivative instruments held for trading. These options are purchased to hedge the corresponding option offered to the investors in the fixed-term indexed savings bonds, the yields of which are linked to the Euro Stoxx 50 index. Although it is not possible to classify these instruments as hedging transactions under the IFRSs, the following should also be specified:
    - in accordance with IAS 39, the fixed-term indexed bonds are to be considered hybrid instruments, in that they are made up of a debt security and an embedded derivative, which is the option linked to the Euro Stoxx 50 index. In such cases, IAS 39 states that the embedded derivative is to be separated from the hybrid instrument and recognised on its own along with the other derivative instruments (i.e. at fair value);

- o the option "sold" to investors with the indexed savings bonds is therefore covered by CDP by purchasing a similar option on the market. Although hedge accounting does not actually apply, it can be argued that the changes in fair value for these two instruments are of the same amount but opposite sign, thereby protecting the company from the risk associated with such options.

This new classification of derivative instruments had the following impact upon FTA:

- opening balance sheet 2005: the value at 1 January 2005 (i.e. FTA) of the financial liabilities held for trading, which corresponds to the fair value of non-hedging derivatives, was €340 million. These derivatives were not recognised in the balance sheet under Italian accounting standards, so the amount was also applied as a reduction to equity reserves;
- balance sheet at year-end 2005: the value at 31 December 2005 of the financial liabilities held for trading, which corresponds to the fair value of non-hedging derivatives, was €280 million. These derivatives were not recognised in the balance sheet under Italian accounting standards, so the amount was also applied as a reduction to equity reserves;
- 2005 income statement: under Italian accounting standards, the fair value of non-hedging derivatives was not recognised through profit or loss, but according to the IFRSs, the positive change in the fair value of these derivatives, totalling €60 million, is recognised as income.

E. CLASSIFICATION OF EQUITY INVESTMENTS AND SECURITIES

Under Italian accounting standards, CDP had classified all equity investments under the same "equity investments" account in the balance sheet, given that each investment met the requirements of Legislative Decree 87/1992 (long-term connection and ownership of at least 10% of the voting rights). As such, CDP's entire portfolio of equity investments was recognised at purchase cost, with dividends received from the shareholdings being recognised as income.

IAS 27 and IAS 28 call for such shareholdings to be classified as either subsidiaries or associates, based on whether or not certain conditions are met. When an equity interest does not fall under one of these two categories, it must be place in one of the other financial asset categories described above (i.e. at fair value or available for sale). Control over a subsidiary is said to be the power to govern the financial and operating policies of an enterprise, whereas an investee is considered to be an associate when there is "significant influence" over the financial and operating policy decisions, but not "control" over them. A controlling interest is assumed to exist when the majority of a company's voting rights are held, whereas significant influence is presumed to exist when at least 20% of the voting rights are held.

Subsidiaries are consolidated on a line-by-line basis, whereas associates are recognised using the equity method. This method calls for the equity investment to be initially measured at purchase cost and then adjusted to take account of variations in the equity of the shareholding based on the interest held. Under normal conditions, this entails increases in the value of the investment in the amount of the proportionate portion of earnings for the period, net of any dividends received. The difference between one measurement and the next is recognised through profit or loss as gains or losses on equity investments. Therefore, dividends received are not recognised as revenue, but are deducted from the value of the investment (in that they reduce the equity of the shareholding).

Based on these criteria, CDP's current portfolio of equity investments may be classified as follows (with the equity interest in each company indicated in parentheses):

- the interests in Europrogetti & Finanza S.p.A. (31.8%), Poste Italiane S.p.A. (35.0%), Sinloc S.p.A. (11.85%), STMicroelectronics Holding N.V. (30.0%), Terna S.p.A. (29.9%), Tunnel di Genova S.p.A. (33.3%) may be classified as investments in associates, given that CDP holds more than 20% of the voting rights, and are therefore recognised using the equity method;
- the interests in ENEL S.p.A. (10.2%) and ENI S.p.A. (10.0%) do not represent either controlling interests or significant influence, given that CDP holds less than 20% of the voting rights. As such, these investments must be recognised as financial assets held for trading (and measured at fair value through profit or loss) or as available for sale. We feel that the latter is more appropriate, in that it is an intermediate category between subsidiaries or associates and equity securities held solely for trading purposes. It should also be noted, however, that the indication "available for sale" does not imply an actual intention or need for CDP to sell the related securities in the short term. The investments in this category are measured at fair value in the balance sheet; however, changes in fair value are not recognised through profit or loss, but rather are recognised in a specific non-distributable equity reserve. The dividends reflected in income continue to be recognised as revenue, however. It should also be noted that CDP's interest in Istituto di Credito Sportivo (a public entity, not a company) is also included among available-for-sale financial assets.

The classification of equity investments as described above had the following impact at the time of FTA:

- opening balance sheet 2005: under Italian accounting standards, the value of equity investments at 31 December 2004 came €12,458 million, whereas the value for FTA at 1 January 2005 came to €4,006 million as the balance of the equity investments account and €11,912 million as available-for-sale financial assets, for a difference of €3,460 million, which went to increase equity reserves;

- balance sheet at year-end 2005: under Italian accounting standards, the value of equity investments at 31 December 2005 came €13,747 million, whereas the value for FTA at 31 December 2005 came €5,271 million as the balance of the equity investments account and €13,541 million as available-for-sale financial assets, for a difference of €5,065 million, which went to increase equity reserves;
- 2005 income statement: under Italian accounting standards, dividends totalling €926 million had been recognised. Under the new accounting standards, dividends recognised as revenue came to €886 million, plus a gain on equity investments of €65 million, for a net positive impact of €24 million.

It is also necessary for the bonds held by CDP to be allocated to one of the categories set out by IAS 39. These securities may be classified as being measured at fair value through profit or loss, as available for sale, as loans and receivables, or as held-to-maturity investments. The latter two categories can be considered alternatives: securities traded on an active, regulated market and which the company intends to hold until maturity may be classified as held-to-maturity investments; otherwise, they may be classified as loans and receivables. Accordingly, the following categorisations have been made:

- bonds purchased or subscribed by CDP as part of the activities of the Public Lending business unit are to be considered supplemental to the normal lending activities performed by this division. As such, the company intends to hold these securities until maturity. Within the scope of these activities, CDP currently holds bonds that are not traded on active, regulated markets, so these securities may be categorised as loans and receivables;
- bonds purchased or subscribed by CDP as alternative strategies for investing the company's liquidity other than in the Treasury accounts, carried out in compliance with authorisations by the Board of Directors, are considered short-term uses of funds. As such, these securities are classified as available-for-sale financial assets.

Subsequent measurement of these bonds follows the procedures for the corresponding category of financial asset (i.e. amortised cost for loans and receivables, fair value recognised through equity reserves for available-for-sale financial assets, with the recognition of amortised cost through profit or loss).

The classification of equity investments and securities as described above had the following impact at the time of FTA:

- opening balance sheet 2005: under Italian accounting standards, the value of bonds at 31 December 2004 came to €2,041 million, including accrued interest. The IFRSs, on the other hand, call for the reclassification of these securities as available-for-sale financial assets with no significant impact on reserves;
- balance sheet at year-end 2005: under Italian accounting standards, the value of bonds at 31 December 2005 came to €1,382 million, including accrued interest. According to the IFRSs, the securities subscribed as part of the activities of the

Public Lending business unit (in the amount of €364 million) are to be considered loans to customers, whereas available-for-sale financial assets include the securities purchased or subscribed as alternative investment strategies of liquidity (in the amount of €1,028 million);

- 2005 income statement: under Italian accounting standards, €41 million in interest income on securities was recognised, as was €5 million in losses on financial transactions. In accordance with the new accounting standards, interest income on the securities recognised as loans to customers came to €5 million, while interest income on the securities recognised as available-for-sale financial assets came to €32 million.

F. NEW METHOD FOR RECOGNISING LOANS TO CUSTOMERS

IAS 39 states that a financial asset must be recognised when the entity concerned becomes a party to the contractual provisions of the instrument.

The loans in CDP's Separate Account portfolio are largely loans that have been granted in accordance with public law with administrative acts and so are quite different from the loans granted by banks that normally credit 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 (or the concession, under previous administrative procedures), 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 CDP earn interest that can be treated as a reimbursement of the interest income earned by CDP on the non-disbursed portion.

Under the previous accounting standards and, in particular, the instructions of the Bank of Italy concerning banking and financial supervision of 30 July 1992 as amended, it was mandatory for the loans to be recognised in the actual amount disbursed. Thus, these loans were shown as assets on the CDP balance sheet under loans to customers in an amount that was equal to the amortisation schedule amount net of amounts to be disbursed, which were then shown under commitments.

A reassessment of the typical special-purpose loans granted by CDP in light of the IFRSs has pointed to a need for these loans to be handled differently in the balance sheet as follows: when the loan is granted, a commitment to disburse the amount is recorded. Subsequently, when the amortisation schedule begins, the commitment is eliminated and the loan is recognised at the full amount granted, with the amounts due but still to be disbursed shown as amounts due to customers. This accounting treatment, regardless of changes in measurement criteria, results in an increase in both assets and liabilities.

All other types of loans under the Separate Account (flexible loans, advances, etc.) and for all loan types under the Ordinary Account follow the same recognition criteria as under Italian accounting standards, although the measurement criteria have changed (using the amortised cost method for the recognition of transaction costs and revenues).
These new accounting policies have been implemented as appropriate in accordance with FTA with the following effects:

- opening balance sheet 2005: the balance of loans to customers at 31 December 2004 was €50,159 million, while the balance at that date after FTA came to €62,540 million, with €11,315 million in amounts to be disbursed being recognised as amounts due to customers;
- balance sheet at year-end 2005: the balance of loans to customers at 31 December 2005 was €54,055 million, while the balance at that date after FTA came to €69,976 million, with €6,166 million in amounts to be disbursed being recognised as amounts due to customers;
- there was no additional impact on the income statement beyond that which has been described in conjunction with the amortised cost method for loans.

G. RECLASSIFICATION OF THE PROVISION FOR GENERAL BANKING RISKS

The IFRSs do not provide the option of setting aside generic provisions for banking risk, whereas the Italian accounting standards do envisage a provision for general banking risks.

The provision was therefore eliminated, which had the following effects:

- opening balance sheet 2005: under Italian accounting standards, the provision for general banking risks at 31 December 2004 had a balance of €597 million, whereas after FTA of the new accounting standards, this amount was eliminated in its entirety;
- balance sheet at year-end 2005: under Italian accounting standards, the provision for general banking risks at 31 December 2005 had a balance of €1,146 million, and this amount has been eliminated in its entirety;
- 2005 income statement: under Italian accounting standards, allocations to the provision for general banking risks for 2005 came to €550 million, whereas under the new accounting standards, there were no allocations to this provision for 2005, and the amount allocated under Italian accounting standards has been transferred in its entirety to the FTA reserve.

H. RECLASSIFICATION OF EXTRAORDINARY AND RESIDUAL ITEMS TO THE CORRESPONDING ORDINARY ACCOUNTS

The IFRSs call for extraordinary and other residual items to be allocated to ordinary items, whereas Italian accounting standards envisaged dedicated accounts in both the balance sheet and income statement. For example, the income statement no longer includes separate accounts for extraordinary income and expense, and the balance sheet no longer has separate accounts for accruals and deferrals. Therefore, for example, extraordinary costs must now be allocated to the corresponding ordinary account for similar costs.

For CDP, this had no effect on net income or asset and liability totals, but did require that certain items be classified differently from their treatment under Italian accounting standards. These reclassifications include the extraordinary costs resulting from consensual early termination of employment, which are now included under employee benefit expenses, and accruals and prepayments on financial assets or liabilities, which have been reclassified to the corresponding asset or liability account.

2. THE GENERAL MACROECONOMIC SITUATION

2.1 THE MACROECONOMIC FRAMEWORK

The long period of expansion in the global economy continued at a rapid pace in 2006. GDP growth for the leading industrial areas became more balanced: the euro area and the United Kingdom posted substantial growth (at 2.5%), while in Japan the expansion consolidated (3%). In the United States (up 3.4%), the economy began slowing in the second quarter, affected by the sharp weakening of the real estate market.

Among the emerging markets, China and India in particular continued to contribute significantly to growth in the global economy, with the two leading Asian economies expanding at rates approaching 10%.

In 2006 as a whole, global output increased by about 5%, exceeding International Monetary Fund (IMF) forecasts issued in autumn of last year (4.3%).

While causing consumer price inflation to rise in the industrial countries, the effects of rising raw materials prices, which increased much more quickly than expected, and the tightening of monetary policy stances in the leading economies were offset by the continuation of highly favourable lending conditions.

In the first nine months of the year, inflation rose to 3.7% in the United States, 2.3% in the euro area and 2.2% in the United Kingdom. It turned positive in Japan (at 0.2%).

The cyclical recovery that began in the euro area in the summer of 2005 strengthened last year. In the first six months of 2006, growth accelerated to about 3% on an annualised basis with respect to the previous period, and the gap compared with the United States continued to narrow. In the third quarter, growth was an annualised 2.1%. Since the second half of 2005, in conjunction with the rapid expansion of global demand, gains in business competitiveness for the area helped boost exports, which was gradually transmitted to capital expenditure, particularly for machinery and equipment, partly as a result of a reduction in inventories and the decline in idle capacity.

In Italy, growth in the first half of the year was buoyed by the recovery under way in the rest of Europe. The 1.1% increase in GDP in the first half was sustained in particular by the revival of exports and the acceleration in investment. Labour inputs, measured in terms of full-time equivalent units, returned to growth after declining the previous year, increasing by 1.4% over the previous six months. Productivity fell by 0.5% over the same period. From the lows reached in 2005, industrial production increased by about 1% in the first half of the year and an additional 0.9% in the second.

Inflation remained stable at just over 2% in the first half of 2006, in line with the euro area average, and came to around 1.8% for the full year. The acceleration in energy prices was accompanied by a very moderate rise in the prices of non-food and non-energy goods, in line with developments in producer prices.

Furthermore, inflation as measured by the harmonised consumer price index was in line with the 2006 average at 2.1%.

In its Forecasting and Planning Report of last September, the Italian Government indicated that expected net general government borrowing requirement for 2006 would be 4.8% of GDP and forecast a further increase in the ratio of debt to GDP. The report's estimates include the costs resulting from the sentence handed down by the European Court of Justice on 14 September concerning limitations to the deductibility of VAT. Net of these effects, net borrowing for 2006 would be 3.6% of GDP, down half a percentage point from 2005 and two-tenths lower than forecast in last April's Quarterly Report on the Borrowing Requirement. The improvement reflected much more rapid revenue growth than expected, the impact of which was largely offset by an increase in spending, however.

2.2 THE FINANCIAL MARKET AND RATES

As in 2005, the global economy for 2006 demonstrated its solid foundations. Unlike in years past, European economies also contributed to this trend. The leading driver of the strong demand was Asia, benefiting from the continuing rapid growth in China. Although the United States made a substantial contribution to world economic growth during the first half of the year, in the second half, a correction in the domestic market, particularly within the real estate industry, caused a temporary downturn.

Equity markets experienced another excellent year in 2006. It was the fourth consecutive year of gains, without any significant overweighting or exaggeration. The equity markets were thereby able to recoup a large part of the losses incurred from 2000 to 2003. The favourable climate was fostered by the persistence of low interest rates and the positive performance of corporate earnings.

Conversely, 2006 was a disappointing year for the bond markets due to a slight increase in yields. Performance for May and June was particularly poor, as the bond markets incurred losses of between 1% and 2% due to fears of inflation and the consequent increase in yields.

As for monetary policy, the central banks increased their official rates at various times and to varying extents depending on the support each sought to give their respective economies.

The Federal Reserve continued the tightening begun in June 2004 through the end of June last year. Following the emergence of signs of an unexpectedly sharp slowdown in the U.S. economy and with long-term inflation forecasts slightly lower, the monetary authorities halted the rate increases at the beginning of August.

In the euro area, the European Central Bank carried out four quarter-point increases in its official rates from the beginning of June. The minimum bid rate on main refinancing operations reached 3.50% in December, up from 2% prior to the first increase decided in December 2005.

Real short-term interest rates gradually increased, but remained low in historical terms. According to the expectations implicit in the yield curve, they should rise again at the start of 2007.

On the financial markets, the yield curve has flattened significantly, with long-term yields remaining low despite the increase in short-term yields. The spreads on private securities and the implicit volatility measures of the equity and foreign exchange markets remain quite low, reflecting investor optimism with regard to risk trends and high levels of liquidity.

In October, two ratings agencies announced a revision of to their ratings of Italian public debt, which had already been discounted in part by the market. The effects on the differential between the yields of the Italian BTP and German Bund were minimal.

2.3 PUBLIC FINANCES

In 2006, according to the European Commission's year-end estimates, net general government borrowing in the euro area came to 2.0% of GDP, down from 2.4% in 2004.

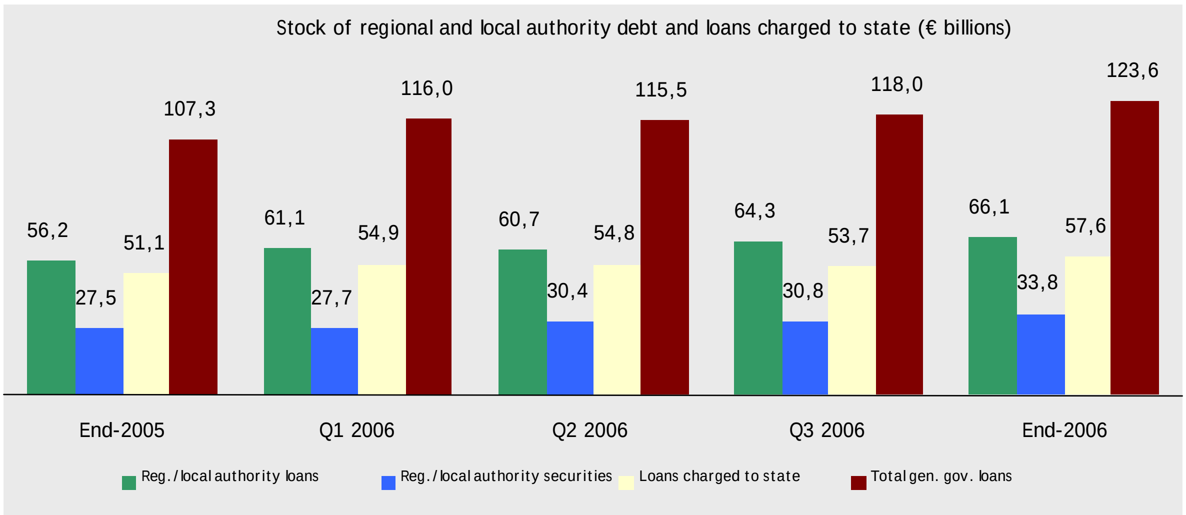
The ratio of debt to GDP is also expected to decline from the 70.8% of 2005 to 69.5% for 2006.

Based on ISTAT data at March 2007, net general government borrowing amounted to 4.4% of GDP in 2006, a slight increase over the previous year (4.1%). Excluding the extraordinary costs that impacted public spending in 2006, such as VAT refunds on company cars payable by the government following the ruling of the European Court of Justice on 14 September 2006 and the cancellation of the government's receivable from TAV authorised by the 2007 Finance Act, net borrowing would be 2.4%. The ratio of debt to GDP came to 106.8% (Bank of Italy figures of March 2007), a slight increase over 2005 (106.2%).

At 31 December 2006, the stock of loans to regional government entities reached €66.1 billion, an increase of 17.5% over 2005 (€56.2 billion).

At the same date, the stock of securities issued by regional and local governments reached €33.8 billion, an increase of 22.7% over the end of 2005 (€27.5 billion), due primarily to a number of major, non-recurring issues (including, in particular, the bond issues by the Campania region in June for a total of €1.9 billion). Issues by regional governments account for 55.3% of the total securities issued (versus 50.4% in 2005), with provinces and municipalities accounting for 44.3% (49.1% in 2005) and other local government entities 0.4% (0.5% in 2005).

Total debt for regional and other local governments therefore reached €108.1 billion, including the securitisation transactions recognised as debt in addition to the bonds and other debt and securities issued.



Source: Bank of Italy. The time series are subject to revision in conjunction with the periodic updates to the Bank of Italy figures.

A breakdown of the debt of these local authorities by financial instrument used confirms the central importance of loans issued by CDP and other monetary financial institutions (totalling 61.1% of total debt, compared with 62.6% in 2005) and the broad stability in the use of bond issues in 2006 (equal to 31.3% of all debt, compared with the 30.7% of 2005). At the same date, securitisation transactions for local authorities, which are treated as debt under Eurostat criteria, amounted to 7.6% of total debt (compared with 6.7% in 2005).

With regard to securitisation transactions concerning the receivables of suppliers of goods and services to local healthcare authorities, in September 2006 Eurostat clarified that the issuance of a new delegation of payment by the regions, together with the redefinition of the timing of payments, changes the nature of the original liability from a trade payable to a financial payable, thereby increasing the entity’s debt and, consequently, in total government debt.

The Finance Act for 2006 (Law 266 of 23 December 2005) introduced important changes in actions to contain public expenditure, altering the rules governing the domestic Stability Pact for local authorities for the 2006-2008 period. Although they indicate that spending is a factor to be looked at in order to meet Community obligations, the new Stability Pact rules do not refer to overall spending, both current and capital, as in 2005, but to the two types of spending separately. Like As in 2005, “virtuous” local governments in terms of managing current spending benefit from a lower rate of reduction in the related aggregate, compared with 2004, than for other local governments (6.5% versus 8%).

In order to monitor and control developments in the public finances, a directive of the Prime Minister of 6 June 2006 established the general criteria for coordinating government administration. In particular, the directive, as part of the procedural requirements connected with the grants provided for by Article 4.177 of Law 350 of 2003, prohibits acts, including simple collection authorisations, that result in the classification of any financial transactions undertaken to fund the related project as fully charged to the state budget.

2.4 FINANCING FOR PUBLIC-PRIVATE PARTNERSHIPS (PPPS)

In 2006, public-private partnerships (PPPs) in their various forms, particularly construction and operation concessions, once again attracted a great deal of interest in Italy within both the private and public sectors.

Last year a total of 377 tenders were held in Italy for construction and operation contracts with a total value of some €5,463 million. Of this total, 128 tenders (with total investment of about €3,708 million) were related to works proposed by a private-sector promoter (Article 37-*bis* of Law 109/94) and 249 (with total investment of about €1,755 million) were related to works proposed by the contracting authority (Article 19 of Law 109/94).[1]

During the same period, a total of 118 contracts were awarded with a total investment of some €2,313 million. Of this total, 63 awards (with a total investment of about €1,306 million) were related to works proposed by a private-sector promoter and 55 (with total investment of about €1,006 million) were related to works proposed by the contracting authority. The primary awards concerned Line 5 of the Milan underground (€503 million), the Lastra a Signa/Prato motorway link road (€243 million), the Niguarda Cà Grande hospital in Milan (€236 million), the S. Anna hospital in Como (€140 million), and the S. Anna hospital in Ferrara (€135 million).[2]

Although the number and total value of awards is substantially less than the tenders carried out during the same period and the actually execution of the works is, in a number of cases, still uncertain for both technical and financial reasons, these figures can be considered encouraging, particularly for smaller works (i.e. those with a value of less than €10 million), which make up the vast majority of the total.

However, if we exclude the few larger works mentioned above, large-scale transport infrastructure was essentially stagnant last year. In some cases, these works require both private investment and a substantial public contribution, and the Infrastructure Framework Law, the main legislation governing infrastructure construction in recent years, has proven to be less effective than expected in this regard. In particular, despite the limited public resources available, there has been a failure to prioritise the work that needs to be done. This situation, together with the difficulty in defining a unified calendar and financial plan, the persistence of localised interests and bureaucratic delays, has produced an impasse in both starting and completing works.[3]

On 30 October 2006, CIPE, the Italian inter-ministerial committee for economic planning, published the findings of a survey of the status of implementation of the Infrastructure

[1] Data from the Italian national observatory on project financing.

[2] See note 1.

[3] See, for example, the fourth report of the Osservatorio Territoriale Infrastrutture (OTI) prepared by Assolombarda, Unione Industriale di Torino, and Confindustria Genova.

Framework Law, which showed that just 1.2% of the works had been completed, with 16.8% started, 20.6% awarded or still in the tender stage, and 61.1% being planned.

The main road projects waiting to start include the new Brescia-Bergamo-Milan motorway connection, the Milan *Est Esterna* bypass, the Pedemontana Lombarda road, the completion of the Malpensa-Boffalora/A4 highway, the completion of the Asti-Cuneo road, the Pedemontana Veneta road, and the Passante di Mestre road.

3. CASSA DEPOSITI E PRESTITI

3.1 ORGANISATION

In 2006, CDP continued its renewal and development programme with:

1. further development of its organisational model;
2. the design and revision of organisational processes;
3. implementation of new technology infrastructure.

FURTHER DEVELOPMENT OF THE ORGANISATIONAL MODEL

In 2006, CDP's organisational model took another step towards full compliance with the applicable regulatory framework (Article 5(6) of the law transforming CDP as concerns supervision).

To that end, and given the need to directly follow the development and definition of supervisory regulations as they concerns Cassa Depositi e Prestiti, the Banking Supervisor Relations department was established. The task of the department is to manage relations with the Bank of Italy, both during the finalisation of the supervisory framework that will govern the CDP and, subsequently, coordinating initiatives intended to define the development of the structures, activities and processes affected by the application of the new regulations.

Organisational efforts also focused on redefining the scope of activity of certain CDP units. As a result of these efforts, the names of certain departments have been changed:

- from Communications to External Communications;
- from Sectoral Analysis and Research to Statistical Studies and Research;
- from Organisation to Organisational Development;
- from the Relations with the MEF sector of Administration and Budget to Financial and Accounting Data Disclosure Management;
- from Market Risk Management and New Product Structuring sector of the Finance division to Finance Front Office.

THE DESIGN AND REVISION OF ORGANISATIONAL PROCESSES

In designing corporate processes, emphasis was placed primarily on developing the model of operations for the divisions (organisational units with responsibility over financial performance), as well as for certain areas (organisational units that play a support role), such as Administration and Budget, Purchasing and Logistics, and Information & Communication Technology, for which analysis has been done to prepare for designing the new organisational structure.

A. PUBLIC LENDING

The activities of the Public Lending division include:

- designing new operating processes surrounding the granting and disbursement of loans, including the changes introduced with the new reporting system (SIRE) and credit risk evaluation system (CRES) and the consequent adaptation of the lending information system (SIF);
- supporting the operational change resulting from the introduction of these new processes and systems, thereby providing the input needed to design and deliver training;
- updating the analyses for the future sizing of the functions responsible for granting and disbursing loans.

B. FINANCE

The activities of the Finance division specifically include designing and running a cash management system, particularly as regards the operating procedures needed to fulfil obligations concerning the establishment and management of the reserve requirement with the Bank of Italy.

The operating procedures have also been formalised, including specific organisational procedures for the management of the Credit Support Annexes (CSAs) related to hedging transactions between CDP and financial intermediaries.

C. DEVELOPMENT POLICY MANAGEMENT AND SUPPORT

The Development Policy Management and Support division is now responsible for defining the technical and operating procedures related to granting and managing loans from the revolving fund (FRI) to support businesses and research-related investment.

In that regard, a cooperation model has been developed to structure and regulate the disclosure of data on the transactions connected with loan management.

ANALYSIS AND IMPLEMENTATION OF CORPORATE PROJECTS

In 2006, a series of complex inter-company projects were carried out, including:

- designing processes and functional specifications in order to implement the Credit Risk Evaluation System (CRES);
- designing accounting and data feed processes and specific functions for the implementation of the integrated company reporting system known as SIRE;
- defining the feasibility study and functional analysis associated with the creation of a new integrated payment and collections system (SIPA).

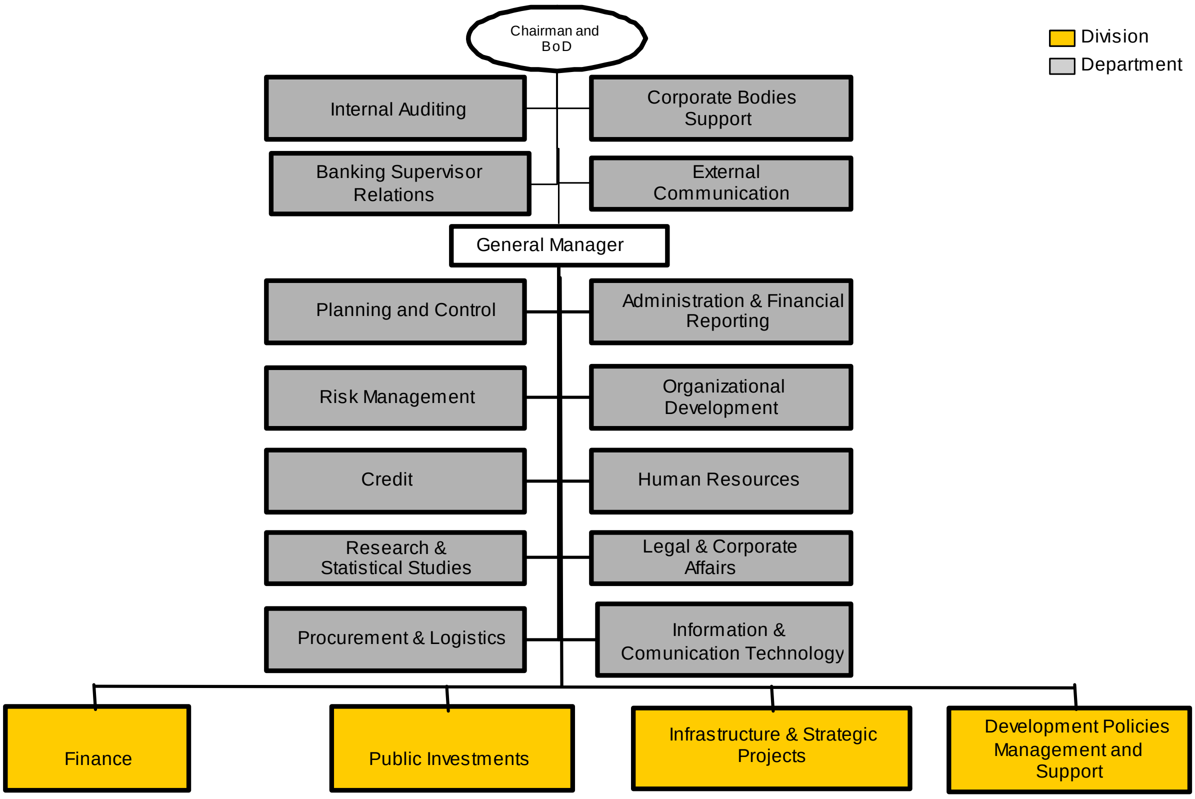
THE ORGANISATION CHART

4 *Divisions*:

- Finance
- Public Lending
- Development Policy Management and Support
- Infrastructure and Major Public Works

14 *Departments*:

- Purchasing and Logistics
- Administration and Budget
- External Communication
- Lending
- Information & Communication Technology (ICT)
- Internal Auditing
- Legal and Corporate Affairs
- Planning and Operational Control
- Banking Supervisor Relations
- Statistical Studies and Research
- Risk Management
- Human Resources
- Corporate Bodies Secretariat
- Organisational Development


Division
Department
Chairman and BoD
Internal Auditing
Corporate Bodies Support
Banking Supervisor Relations
External Communication
General Manager
Planning and Control
Administration & Financial Reporting
Risk Management
Organizational Development
Credit
Human Resources
Research & Statistical Studies
Legal & Corporate Affairs
Procurement & Logistics
Information & Comunication Technology
Finance
Public Investments
Infrastructure & Strategic Projects
Development Policies Management and Support

3.2 PERSONNEL

THE WORKFORCE

At 31 December 2006, CDP had 393 employees, including 34 executives, 112 middle managers and 247 office staff.

Compared with 31 December 2005, the workforce declined by 33 employees, the net effect of 71 terminations of employment (due primarily to retirement and early retirement plans) and 38 new hires.

During 2006, the process of changing the company's profile of skills continued, as did the gradual optimisation of the distribution of human resources within the various units through a high degree of interdepartmental mobility.

New hires involved both specialist financial and information technology positions needed for key projects and new activities in line with the corporate mission, and young high-potential university graduates, who have begun pursuing career development flanked by existing company experts.

The percentage of university graduates out of the total of all employees increased by 7 percentage points, from 33% to 40% of the total workforce, and the average age has fallen to 46 years.

In January 2006, the CDP workforce increased following the merger with Infrastrutture S.p.A..

PERSONAL TRAINING AND MANAGEMENT

In 2006, a new system of human resources management was launched that has enabled management to assess an employee's professional contribution based on objectives set the year before, as well as to formalise the tasks performed and to set targets for 2007.

This system focuses on defining individual career development paths and targeted management initiatives by role and level of responsibility and skills.

In 2006, about 4,000 hours of training courses were provided, an increase of 38% over the previous year, and involved about 72% of the workforce.

Training focused on enhancing professional skills and roles and primarily addressed the following issues:

- updates on financial and regulatory issues directly related to CDP's business;
- training targeting specific professional families;
- human resources management training;
- language and computer training.

INDUSTRIAL RELATIONS

In January 2006, with the help of the Italian Banking Association (ABI), an agreement was signed with industry trade unions in order to extend the national collective bargaining agreement for executives of banking, financial and ancillary companies to all of CDP's senior management. This agreement, which was already in effect for executives hired subsequent to CDP becoming a joint-stock company, has now been extended to all senior management, including those who were previously public-sector employees.

During the first quarter, CDP also worked with ARAN, which represents public-sector employees in matters of collective bargaining, in defining the bargaining agreement for 2002-2003 for CDP employees in service prior to the transformation.

Negotiations throughout the year led, in October, to the signing of a supplemental agreement for all non-executive personnel. The agreement established insurance coverage in line with the rest of the banking industry.

During the year, the supplemental pension plan for all employees was also activated. By agreement on 23 November, the contribution levels to fund the plan were defined (2% paid by the company and 2% paid by the employee), and SecondaPensione, managed by CAAP S.g.r., was named as the open-ended pension fund that will receive the contributions and severance pay quotas in accordance with applicable laws. About 92% (363 employees) of all potential beneficiaries have signed up for the plan.

In the second half of the year, in line with the offer for professionals and middle management, early-retirement incentives were offered to executives eligible for retirement, which resulted in the departure of 5 executives.

3.3 THE INTERNAL CONTROL SYSTEM

CDP S.p.A. has developed an internal control system consisting of a set of rules, procedures, and organisational structures designed to detect, measure, monitor, and control the risks associated with the company's activities.

In 2006, the Internal Auditing department was involved in conducting the audits envisaged in the annual plan approved by the CDP Board of Directors on 25 January 2006 and based on a consolidated method for conducting preliminary analyses of the risks inherent in the corporate processes, in line with the strategic objectives defined in the 2005-2009 Business Plan. Based on this methodology, the four-year plan for this area's activities was also prepared and submitted to the Board of Directors for approval in January 2007.

The audits performed led to the identification of a number of areas for improvement in the management of the processes analysed, as well as a series of recommended actions to be taken by the management involved.

The observations on the appropriateness of the system of controls that came out of the audits conducted during the year were also periodically reported to the company's bodies of governance and control.

During the year, the department also prepared a structured system for gathering information from the various divisions, so as to more efficiently monitor company operations. The information provided is intended both for the Internal Auditing department and the Supervisory Body (Legislative Decree 231/01).

The "data model" developed will also help Internal Auditing and the Supervisory Body to gather data automatically once the new integrated reporting system, SIRE, is rolled out.

In addition to systematic and professional monitoring to ensure the proper functioning of the company's overall internal control system, the Internal Auditing department also continued to provide support to the Supervisory Body established in 2004 in accordance with Legislative Decree 231/2001.

Following the definition and approval by the Board of Directors in January 2006 of the compliance model required by Legislative Decree 231/2001, the Supervisory Body established the internal rules for its operations and the procedures for overseeing the compliance model and keeping the model up to date in response to developments in the company's organisation and business. To that end, in addition to conducting audits of compliance, the Internal Auditing department also defined the reporting flows mentioned above.

3.4 INFORMATION SYSTEMS

Activities in 2006 focused primarily on updating the application architecture of CDP's systems. This primarily involved the following:

- creating an integrated reporting system;
- studying, designing and defining the executive plans for the new payment and collections system;
- designing and creating the CDP's application cooperation architecture;
- defining phase two of the "Postal Savings" project.

SIRE – THE INTEGRATED REPORTING SYSTEM

The SIRE project is intended to create a system that will be able to support change in operations within CDP S.p.A. in response to changing regulatory requirements – particularly the introduction of the new international accounting standards – and to changing governance needs.
The system has been designed and created based on a new reporting macro-process, i.e. an information generation and management process that takes a unified view of both accounting and financial reporting needs, as well as those of the other governance areas that base their reporting on accounting data.
The new process has been defined based on the following guidelines:

- centralisation of the rules for managing analytical reporting flows;
- centralisation of company analytical data;
- centralisation of the calculation and assessment engines;
- daily reconciliation of accounting data (both summary and detail) with operational systems;
- certification of the input to governance systems (by sharing the same analytical database);
- availability of detailed information within the integrated reporting system, as well as of dynamic, multi-dimensional analysis tools;

and it has been necessary to design and create a new application architecture and to adapt the process to operational systems.
The new architecture has been designed to support the reporting process and provide adequate performance levels based on the following criteria:

- data quality: error prevention, reduction of manual tasks, consistency of reporting data;
- flexibility: centralisation of accounting data and rules used to generate accounting flows;

- cost reduction: reduction of reporting times (both financial reporting and management control), greater emphasis on data analysis than on the time needed to generate the data.

The SIRE project began in July 2006, and development of the application components is scheduled to be completed by April 2007. About 80 people are involved in the project, 50 of whom are in-house personnel. The system entered production in January 2007, and all application and process components are expected to be rolled out for use in the internal reporting process for the first half of 2007.

The main IAS measurements for the 2006 financial statements were also carried out using the SIRE system.

SIPA – THE PAYMENT AND COLLECTIONS SYSTEM

The SIPA project was launched with the intention of replicating within CDP the application and operating structure of the payment and collections areas of other Italian banks, so as to cover the entire order cycle (acquisition, addressing, transmission, and settlement).

The project, the executive plan of which was completed in November 2006, seeks to create a new application architecture that is able to generate, centralise, normalise manage and register all payment and collection transactions with debtor and creditor counterparties through interbank channels (RNI and SWIFT) and with the Bank of Italy's provincial treasury units.

The project is also intended to make CDP's payment and collection systems compatible with the new Target2 platform.

The new application architecture has been designed on the basis of the following prerequisites:

- to be the sole receipt point for payment orders from the operational systems that generate payment and collection orders;
- to be the sole point for managing these orders;
- to make it possible to manage all of the circuits used to exchange and settle orders;
- to be comprised primarily of market-standard software solutions;
- to be integrated with the new accounting processes;
- to ensure accounting separation between the Separate Account and the Ordinary Account.

The project began in February 2007, and testing of the new system is expected to begin in October 2007.

APPLICATION COOPERATION ARCHITECTURE

In 2006, the project began to implement the Revolving Fund to support businesses (Law 311 of 31 December 2004), the management of which will require CDP to interact with the banking system.

The need to open new communication channels in addition to existing ones (e.g. with Poste Italiane S.p.A. or the national interbank network) and to create new systems to interact with existing external systems, as well as the need to integrate the new system to manage the fund with the existing accounting and payment and collection systems, has prompted the ICT department to study, design and develop an application cooperation model and architecture (ARCA) in order to define protocols and rules for communication between CDP and its network counterparties.

The new model is intended to make the systems as uniform as possible while maintaining sufficient flexibility to handle "special" cases. It will also permit management of communication security and non-repudiation of transactions, and simplify in-service management and maintenance of systems that can easily scale up the number of counterparties.

The design phase adopted a service-oriented architecture (SOA) approach in order to increase the potential for reuse of application components beginning with existing systems, as well as to define and create a service base to be used by new and existing systems and to simplify application integration issues to the greatest possible extent.

The creation of the ARCA system required investments in a number of enabling technologies to achieve these goals.

Within the Revolving Fund project, the application cooperation architecture and the service-oriented approach will make it possible to:

- standardise electronic transaction management regardless of transaction type (interactive or transmission of flows);
- accelerate the development of application services to support the counterparties;
- enable the centralised management of external users;
- enable system scalability in terms of number of counterparties without an excessive impact on system operations;
- prepare the FRI system for integration with CDP's existing systems.

FORP – THE POSTAL SAVINGS FRONT-OFFICE SYSTEM

In October 2006, after a testing and parallel running phase of about five months, the postal savings front-office system went into operation. With this system, CDP has achieved the following objectives:

- to create a data warehouse of postal savings products (postal savings bonds and passbooks) within CDP in order to analyse actual and forecast data;
- to have a secure channel of communication to receive information flows from Poste Italiane S.p.A. (from the post offices and aggregated by province branches);
- to define data control and validation procedures;
- to increase the degree of confidence in cash flow forecasts;
- to automate the generation of documents to be distributed to external entities (the Treasury, the Bank of Italy, MEF).

The system currently receives some 25,000 records a day, which update a database of 8 million records in 15 minutes (which includes the recalculation of interest).

In the fourth quarter of 2006, the feasibility study for phase two of the project began. The goal of this phase is to automate data transmission for the master data on postal savings products, which is sent to Poste Italiane S.p.A.

3.5 RATE POLICY

In 2006, the policy for determining rates continued and expanded upon the development which began in 2005 following the transformation of CDP into a joint-stock company and the decree of the Ministry for the Economy and Finance of 6 October 2004, based on which the asset and liability instruments under the Separate Account were adjusted to market conditions rapidly and flexibly, within the scope of the guidelines established for such purpose. The range of products was also broadened, both in terms of maturities and of other financial characteristics, as well as in terms of the objective and subjective scope of application of each product. In 2006, operations also continued for the assets and liabilities related to the Ordinary Account, which began in 2005.

As regards Separate Account assets, the interest rates for fixed-rate ordinary specific-purpose loans and increases for floating-rate ordinary specific-purpose loans continued to be updated weekly, in accordance with the provisions of the ministerial decree and, in any event, at lower rates than the maximums defined by law for loans to local authorities with repayment charged to the state. The method adopted involved defining a vector of spreads based on the maturity of the loan and the levels observed in the reference market. For floating-rate ordinary loans with "Italian-style" amortisation plans (constant principal/declining interest payments), this range was then applied as an increase over the arithmetic average of the 6-month Euribor rate observed one month prior to the start of the reference interest period. For fixed-rate ordinary loans with constant-payment amortisation plans, the rates were based on a pre-set algorithm used to calculate benchmark market rates financially equivalent to the 6-month Euribor rate adapted to the loan maturity, taking account of the different structure of the principal and interest payments compared with the floating-rate loans and using the official rate fixings for deposits and interest rate swaps as reported by Reuters. An increase based on the maturity and the spread vector was then applied to these benchmark rates.

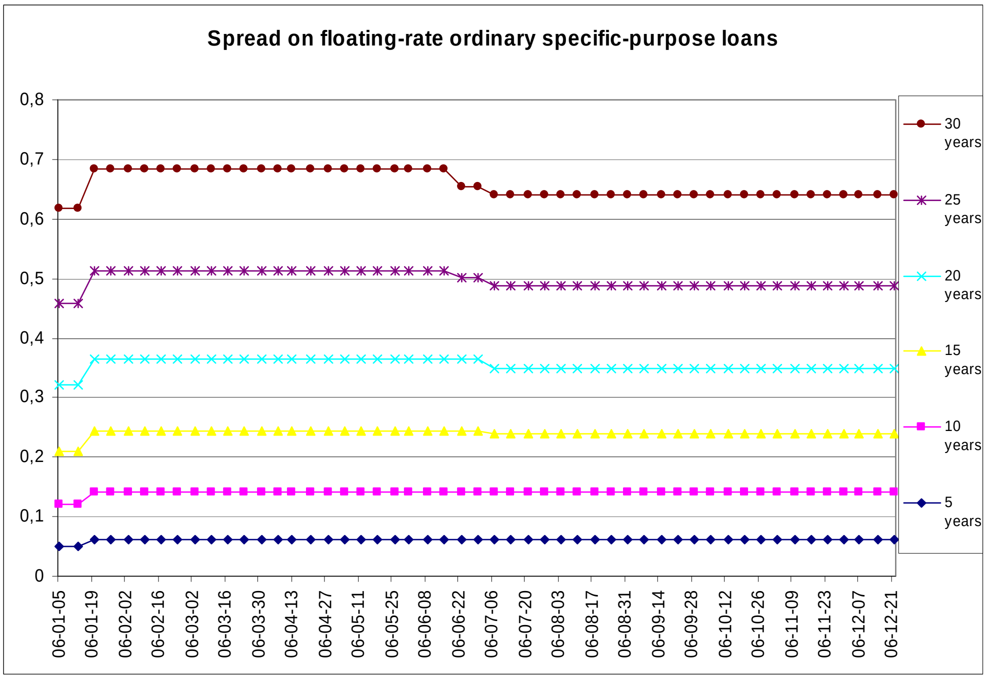


Figure 3.5.1: 6M average Euribor spread applied by CDP S.p.A. for floating-rate ordinary loans under the Separate Account (weekly chart by amortisation length: 5, 10, 15, 20, 25, 30 years).

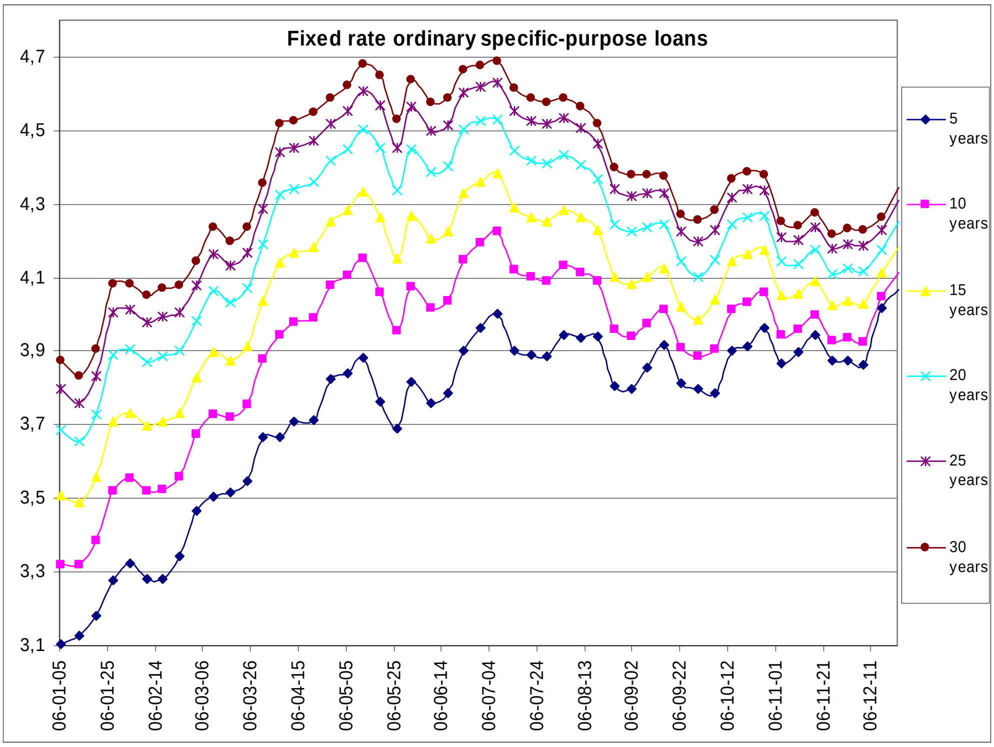


Figure 3.5.2: Terms applied by CDP S.p.A. for fixed-rate ordinary loans under the Separate Account (weekly chart by amortisation period: 5, 10, 15, 20, 25, 30 years).

In 2006, access to flexible loans was also extended to regional governments, autonomous provinces, local healthcare authorities, project firms, and other public-law bodies, and the lower limit of financing was lowered to €1 million. The flexible loan was introduced in 2005 and calls for a usage and grace period of 1 to 6 years and an amortisation period of 4 to 28 years, with floating interest rates which can then be converted to fixed rate upon the request of the borrower. The rates applied, which are also updated weekly together with the other conditions, are based on a matrix (based on the length of the grace period and amortisation) of single spreads (applicable both for floating rates based on average 6M Euribor and for fixed rates compared with the benchmark rates calculated using a pre-set algorithm based on the market curve applicable at the time).

During the year, two new loan types were also introduced, both of which are also offered and quoted on a weekly basis:

- a fixed-rate loan without grace period and with a constant-payment plan, with the exception of the first payment, based on multi-year commitment limits, which was designed for financing granted on the basis of specific laws with repayment charged to the state. Here, too, the rates are calculated weekly using a method similar to that for fixed-rate ordinary loans while taking account of the underlying credit risk of the Italian Republic;
- in November, a fixed-rate and floating-rate loan without grace period and with repayment charged to the regions and the autonomous provinces was introduced. All versions of this product, fixed rate (constant payments with the exception of the first payment) and floating rate ("Italian-style" payment plan with the exception of the first payment), with a short or long initial interest period, has been listed weekly for the various maturities. The interest rates and increases are based on a method that takes account of the underlying credit risk of the regional governments.

During the year, in addition to these regularly listed products, a number of transactions were carried out in order to optimise the debt of certain categories of local authorities, in some cases using the special features of the flexible loan. The terms of all of the transactions were determined on the basis of current market conditions and financial equivalence.

On the asset side of the Ordinary Account, in 2006, a number of contracts for new loans were signed and, in other cases, existing debt was restructured in order to adapt it to new market levels and to specific needs of the borrower, in line with applicable guidelines in terms of the profitability of the Ordinary Account. In all cases, the fixed or floating interest rates applied are in line with the market concerned and take account of the details of the financial structures of the transactions, the type and industry of the borrowers (largely companies or special-purpose vehicles that deliver and manage public services), the corresponding credit risk measured both on the basis of specific market levels for sufficiently liquid markets (or levels quoted by the market for similar parties) and on the basis of an internal rating model (depending on whether there are any underlying guarantees provided by other parties), and the cost of the related funding.

On the liabilities side of the Separate Account, in 2006, operations for the issuance of covered bonds continued, alongside postal savings, the traditional source of funding.

With regard to postal savings, which traditionally includes interest-bearing postal savings bonds and passbook savings accounts, in 2006 the conditions offered to investors continued to be updated on a monthly basis, in line with the reference market. The rates applied on passbook savings accounts were also updated during the year, in line with the evolution of short-term market rates.
The greater flexibility and timeliness in the updates to these conditions made it possible to provide investors with products that were always in line with the market. Four important changes were also introduced:

- in February, a new postal savings bond indexed to Italian inflation with a maximum maturity 10 years was launched. This is an innovative postal savings product, whose real fixed rate and an inflation-indexed component based on the Italian consumer price index for the households of blue and white-collar workers, which is published monthly by the National Statistics Institute (Istat). With a view to the prudential savings market, CDP is targeting investors looking to protect their investments from the erosion of buying power by inflation;
- in July, a new bond for minors was introduced. This bond may only be purchased for minors and, together with the passbook savings accounts for minors, completes the product range designed for children and students. Its variable maturity is one of its key characteristics, with the bond maturing on the beneficiary's eighteenth birthday regardless of when the bond was purchased;
- in October, fixed-term indexed bonds received a new financial structure, which raised the maximum premium upon maturity – which is linked to the DJ Euro Stoxx 50 index – from 18% to 30% of the face value. This feature made the product – which targets investors wanting to invest in equity markets with greater security – more competitive with other structured bonds for the retail market;
- finally, in the fourth quarter, all preparatory activities were completed for the launch on 1 January 2007 of the new mechanism for remunerating passbook savings accounts. In particular, so as to boost households' propensity to save, a new "Oro" yield class was introduced, which provides an interest rate that is 0.50% higher than the base rate to those who increase their average annual balances by at least 35% over the previous year.

With these changes introduced in 2006, the portfolio of postal savings bonds, which now numbers six instruments, has been enhanced both in terms of duration and yield types.
More specifically, in 2006, 12 series of ordinary 20-year bonds (from series B15 to B26) were issued, as were 12 series of indexed seven-year bonds (from series BC9 to 30C), 12 series of 18-month bonds (from series 18E to 18P), 11 series of ten-year inflation-indexed bonds (from series I1 to series I11), and 6 series of variable-maturity bonds for minors (from series M1 to series M6).
The following tables show the rates applied to postal savings products.

ANNUAL GROSS INTEREST RATES ON POSTAL PASSBOOK SAVINGS ACCOUNTS - 2006

	Ordinary passbooks	Special passbooks for minors
from 1 January to 30 November	1.40%	1.65%
from 1 December to 31 December	1.60%	1.85%

YIELD AT MATURITY OF POSTAL SAVINGS BONDS - 2006

	Ordinary bonds (20 years)	Indexed bonds (7 years)(*)	18-month bonds (1.5 years)	Indexed bonds (10 years) (**)	Special bonds for minors (***)
from 1 January to 31 January	2,70%	1,79%	2,27%	-	-
from 1 February to 28 February	2,90%	1,93%	2,32%	0,37%	-
from 1 March to 31 March	2,90%	1,93%	2,32%	0,45%	-
from 1 April to 30 April	3,09%	2,26%	2,48%	0,69%	-
from 1 May to 31 May	3,27%	2,37%	2,52%	0,82%	-
from 1 June to 30 June	3,10%	2,23%	2,50%	0,82%	-
from 1 July to 31 July	3,20%	2,33%	2,60%	0,82%	4,29%
from 1 August to 31 August	3,03%	2,14%	2,60%	0,72%	4,21%
from 1 September to 30 September	2,88%	2,01%	2,60%	0,59%	4,21%
from 1 October to 31 October	2,67%	1,25%	2,60%	0,59%	3,86%
from 1 November to 30 November	2,79%	1,30%	2,65%	0,59%	3,89%
from 1 December to 31 December	2,71%	1,45%	2,58%	0,58%	3,86%

(*) The yield on indexed postal savings bonds is net of any indexing premium paid at maturity. The issue of indexed bonds in October was carried out from 15 to 31 October. The maximum premium at maturity for this issue was increased from 18% to 30% of the face value of the bond.

(**) The first issue of inflation-indexed bonds was carried out from 15 to 28 February. The yield is net of the changed in Istat's consumer price index for blue and white collar workers.

(***) The first issue of bonds for minors was carried out from 18 to 31 July. The yield refers to a bond subscribed on behalf of an infant less than two months old.

The rates offered for the CDP covered bonds were established based on market conditions and in line with comparable securities, while taking account of differentiation factors such as the weight of credit risk (20%), the credit rating of the issuer's country (AA-, Aa2, A+), and the extent of diversification of the related portfolio (100% Italian public entities).

GROSS ANNUAL INTEREST RATES ON COVERED BONDS - 2006

	Issue date	Face value	Structure	Annual coupon	Effective yield (at issue)
Covered bond maturing 31 July 2009	15/02/2006	€2,000,000,000	Bullet, fixed-rate	3.00%	3.247%
Covered bond maturing 31 January 2012	08/09/2006	€2,000,000,000	Bullet, fixed-rate	3.75%	3.829%

With regard to the funding activities for the Ordinary Account, the rates offered on the series of notes issued under the EMTN programme reflect the limited volumes issued and the nature of structured products for private placement with institutional investors using a reverse enquiry mechanism.

GROSS INTEREST RATES ON ISSUES UNDER EMTN PROGRAMME - 2006

	Issue date	Face value	Structure
EMTN maturing 1 March 2016	01/03/2006	€50,000,000	Inflation linked
EMTN maturing 31 October 2029	31/10/2006	€44,000,000	Floater
EMTN maturing 30 November 2009	30/11/2006	€300,000,000	Floater

3.6 STATE OF IMPLEMENTATION OF THE PROVISIONS OF LEGISLATIVE DECREE 196 OF 27 JUNE 2003

In 2006, CDP S.p.A. progressively implemented the legislation introduced by the consolidated privacy act (i.e. Legislative Decree no 196 of 27 June 2003).
In particular, a series of training initiatives were prepared for data processors as required by Annex B of the privacy act. These initiatives initially targeted the staff of Human Resources, which handles sensitive personal information and so was a priority with specific training needs.
During this training programme, the staff was informed of the risks involved in handling information, the measures available to prevent harm, and the characteristics of personal information regulations. The main points of the privacy code were also explained, particularly as concerns the protection measures described in Annex B. Finally, a significant amount of time was dedicated to practical issues related to the daily activities of the department, i.e. the handling of personal information related to salaries, income tax returns, and time sheets.
In that regard, the training also included a discussion of all of the main decisions of the related authority concerning personnel management and the handling of employee information.
In 2006, the calendar of additional training initiatives to be conducted for all employees was also defined.
As part of the requirements of the privacy code, the staff of Human Resources also received written instructions concerning the control and storage of documents containing personal information for the entire period needed for their handling.
This is a requirement of all personnel of all areas of the company, and in that regard, internal procedures are being established in order to define the timing and practical methods of implementation.
Within the scope of the provisions of Legislative Decree 196/03, data processors have been identified by macro-area and efforts are under way to formalise their specific tasks and responsibilities.
Finally, all of the company’s contracts (related to relationships with customers, suppliers, and employees) have been updated to include specific clauses concerning the handling of personal information and, where necessary, authorisation for such handling.

RESULTS OF CASSA DEPOSITI E PRESTITI

4. FINANCIAL POSITION

In order to facilitate understanding of our results, the analysis of CDP's financial position has been conducted using schedules reclassified on the basis of operational criteria, in line with the schedules that precede the descriptive section of the report on operations.

4.1 ASSETS

The assets of CDP can be grouped into the following aggregates:

(millions of euros)

ASSETS

	31/12/2006	31/12/2005	Change (%)
A. Cash and cash equivalents	81,812	62,915	30.0%
B. Financial assets (other than loans and those held to maturity)	227	124	83.1%
C. Loans	76,778	65,537	17.2%
D. Debt securities	215	993	-78.4%
E. Equity investments in associates and shares	20,523	18,812	9.1%
F. Property, plant and equipment and intangible assets	213	209	2.0%
G. Other assets	925	944	-2.0%
Total assets	**180,692**	**149,533**	**20.8%**

Total assets increased by €31,159 million, a rise of 20.8% over 31 December 2005.

The result is attributable to the increase of €18,897 million (+30.0%) in liquidity on the treasury accounts, which went from the €62,915 million of 31 December 2005 to €81,812 million at 31 December 2006, as well as to the increase of €11,241 million (+17.2%) in receivables and the €1,711 million (+9.1%) in equity investments, which went from the €18,812 million of 31 December 2005 to €20,523 million at 31 December 2006.

The increase in liquidity is due primarily to the increase in funding. This increase was significantly affected by the refinancing, with postal savings products issued by CDP, of the postal savings bonds which reached maturity and had been transferred from CDP to the MEF based on the ministerial decree of the Ministry for the Economy and Finance of 5 December 2003.

In 2006, net postal savings funding totalled €19.8 billion, €15.3 billion of which for interest-bearing postal savings bonds (about €1.5 billion attributable to the new products issued in the second half of the year – inflation-indexed bonds and bonds for minors – and about €6.4 million for the 18-month postal savings bond issued at the end of 2005), with the remaining €4.5 billion related to the increase in passbook savings accounts.

Apart from postal savings, bond issues in 2006 contributed a further €4.4 billion in liquidity for the year.

4.1.1 Financial assets

The financial assets (i.e. loans) of CDP break down into the following categories:

(millions of euros)

LOANS

	31/12/2006	31/12/2005	Change (%)
Loans to customers	76,080	61,904	22.9%
- Financing	*75,589*	*61,539*	*22.8%*
- Securities	*491*	*364*	*34.7%*
Loans to banks	698	3,633	-80.8%
- Financing	*429*	*425*	*0.9%*
- Securities and derivatives	*269*	*3,208*	*-91.6%*
Total loans	**76,778**	**65,537**	**17.2%**

Loans to customers increased by 22.9%, or €14,176 million, largely attributable to loans in the form of financing, which increased by 22.8% or €14,050 million. This increase was also due to the launch of the Ordinary Account and the success of the portfolio renegotiation operation in December 2005, effective as of 1 January 2006, which also involved loans belonging to the MEF portfolio. Loans in the form of securities regard the subscription of securities issued by local and regional entities.

Loans to banks declined by 80.8%, or €2,935 million, mainly attributable to loans in the form of securities, which fell by 91.6%, or €2,939 million. This decrease is attributable to the collection in 2006 of a receivable in respect of repurchase agreements carried out at the end of 2005.

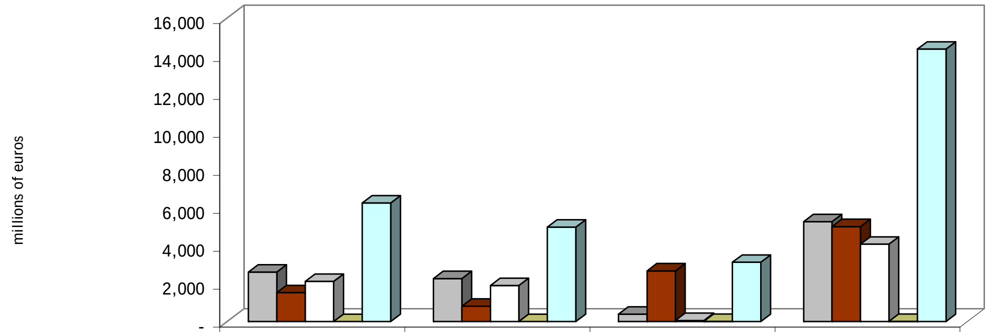
4.1.1.1 Developments in Separate Account lending

A) COMPOSITION AND CHANGES IN LOANS GRANTED

As in 2005, in 2006, for the Separate Account, CDP continued to play a decisive role as a key actor in public investment policy, despite the increasingly strict limitations being imposed upon the regional and local authorities and the virtual stagnation in the market for loans with repayment charged to the state.

CDP also continued offering local and regional authorities the option of renegotiating existing loans in order to reduce debt charges and to use these resources for new projects. With these transactions, contracts were signed which transformed about €2,049 million into new CDP loans (€417 million of which effective as of 1 January 2007). The results of these programmes were below those of 2005, given that the portfolio of loans that can potentially be involved in such transactions is gradually declining. In 2006, however, renegotiation programmes also supported new investment, which was financed by way of the flexible loan.

With the contribution of new loans resulting from the renegotiation programmes, the volume of loans granted for the entire Separate Account reached €14,360 million. Thanks in part to the contribution of the Development Policy Management and Support division, which signed contracts for some €97 million in 2006 as part of the Intermodal Fund, the results achieved surpassed those of the previous year, which were themselves all-time CDP highs.



	Local authorities	Regions and aut. prov.	Other entities	Total
North	2,607	2,267	391	5,266
Centre	1,525	813	2,671	5,009
South	2,121	1,899	59	4,079
Abroad	-	-	7	7
Total Italy + abroad	6,253	4,979	3,129	14,360

The results of the Separate Account include the contribution of the Development Policy Management and Support division (for a total of €97 million).

Of the loans granted, 43.5% were to local authorities (for a total of €6,253 million), 34.7% to regional authorities (for a total of €4,979 million), and 21.8% to other entities, including public agencies, universities, and other public-law bodies (for a total of €3,129 million).

Looking at the loans to local authorities net of renegotiations, the majority of new financing involved municipalities that are not the capitals of their respective provinces. Local authorities used these funds primarily for road and transport projects, as well as for the construction or purchase of properties for public offices and for the maintenance or construction of schools.

(millions of euros)

CDP S.P.A. LENDING TO LOCAL AUTHORITIES - (net of restructuring)

	North	Centre	South	Total
Provinces	436	101	239	777
Provincial capitals	641	550	518	1,708
Other municipalities	1,250	531	1,208	2,990
Other local authorities	18	20	12	50
Total	**2,344**	**1,203**	**1,977**	**5,524**

(millions of euros)

CDP S.P.A. LENDING TO LOCAL AUTHORITIES - 2006 (net of restructuring)

Public and social building	840
School and university building	755
Sports, recreational and lodging facilities	318
Healthcare building	2
Natural disaster repair works	8
Roads and transport	1,751
Water projects	108
Sanitation projects	256
Energy projects	122
Other public works	301
Loans for sundry projects	862
Total investments	**5,322**
Liabilities	202
Total	**5,524**

Continuing the path of innovation that CDP began when it was transformed into a joint-stock company, as well as the consolidation of important innovations introduced with Circular 1255 of January 2005, CDP has actively pursued and intensified the product diversification strategy begun 2005. This has shifted a portion of new lending from traditional ordinary loans to new types of loans without grace periods (with "spot" start dates), which are more compatible with the financial needs of the regions and the beneficiary entities of financing with repayment charged to the state.

In 2006, CDP also participated in tenders held by public entities for loans with repayment charged to the government against commitment limits and was awarded loan contracts totalling €450 million.

(millions of euros)

CDP SPA LOANS - 2006

Ordinary loans	5,388
Flexible loans	937
"Spot" loans	5,536
- charged to regions	2,800
- charged to state	2,736
Restructuring	2,049
- charged to local authorities	729
- charged to regions	1,320
Loan contracts awarded in tenders	450
Total	**14,360**

The total level of loans to customers under the Separate Account at 31 December 2006 came to €73,381 million. At 31 December 2006, €10,189 million of loans in repayment are still to be disbursed. Such loans are normally disbursed in accordance with the progress made on their respective projects.

(millions of euros)

STOCK OF LOANS TO CUSTOMERS - SEPARATE ACCOUNT

	31/12/2006	31/12/2005	Change (%)
Specific-purpose loans	72,814	58,006	25.5%
- amounts disbursed - loans in grace period	2,071	2,445	-15.3%
- residual debt - loans in grace period	70,490	55,561	26.9%
- amounts disbursed - flexible loans	253	-	
Advances	85	122	-30.3%
Securities	483	360	34.2%
Total	**73,381**	**58,487**	**25.5%**
Amounts to disburse on loans	**10,189**	**7,683**	**32.6%**

Loans include financing to the Istituto per il Credito Sportivo reclassified in the balance sheet under loans to banks

B) DISBURSEMENTS MADE DURING THE YEAR

Last year, loan disbursements came to €9,975 million. The considerable increase over 2005 (+65.3%) is primarily attributable to the new "spot" products, which are generally disbursed immediately once the amortisation period begins.

(millions of euros)

DISBURSEMENTS OF CDP S.P.A. LOANS - 2006

Local authorities	3,537
Regions and autonomous provinces	3,520
Other entities	2,917
Total	**9,975**

C) OTHER SEPARATE ACCOUNT ACTIVITIES

Advances granted on the Revolving Fund for Project Development and on the domestic Stability Pact Fund posted a decline in 2006, amounting to €134 million at the end of the year. The amounts to be disbursed from these funds as of the same date totalled €49 million.

The Separate Account loan portfolio also includes securities issued by municipalities, provinces and regions and subscribed by CDP. In 2006, CDP subscribed securities issued by the Lazio region totalling €75 million. These bonds have a fixed annual coupon of 5.695% and bullet redemption of principal on 23 June 2028. In the fourth quarter, CDP also subscribed a portion of a bond issue by the Friuli Venezia Giulia region for a total of €50 million. The bond has an amortising redemption profile with a final maturity of 2021 and semi-annual fixed-rate coupon of 4.082% annually. In order to optimise risk management and containment, both securities were purchased in conjunction with related hedging derivatives.

D) REVOLVING FUND IN SUPPORT OF BUSINESSES

Among the specific-purpose funds, the Revolving Fund to support businesses and research investment, which was established by Article 1(354) of Law 311 of 30 December 2004, was activated in 2006. This tool is a part of the broader reform of public incentives for business and replaces a portion of the grant with a subsidised loan based on CDP funding. The programme provides for banks to supplement the subsidised credit with financing at market rates after assessing the creditworthiness of the initiatives. Of the fund's resources (some €6 billion) at the end of 2006, CDP approved loans totalling €1,927 million, €1,710 million of which under Law 488/92 (development incentives) and €217 million under Law 46/82 (Research – Technological Innovation Fund).

CDP also continued with activities to develop the integrated system to manage mixed CDP/bank lending by coordinating a working group including representatives of leading Italian and international banks (operating in Italy).

4.1.1.2 Developments in Ordinary Account lending

Contributing to the increase in the stock of loans under the Ordinary Account were both the merger of Infrastrutture S.p.A. (with CDP taking over the contracts previously signed by this company) and the reacquisition of a loan portfolio from the securitisation vehicle CPG for a residual debt of about €268 million. A portion of these loans was also extinguished and then refinanced.

The total stock of approved loans at 31 December 2006 came to €1,410 million (+76% over the same figure for 2005), with total disbursements, which corresponds to the value that CDP will continue to show as an asset in accordance with the IFRSs, of €1,033 million, for an increase of 87% over 2005.

(millions of euros)

STOCK OF LOANS GRANTED

	31/12/2006	31/12/2005	Change (%)
Project finance	368	202	81.9%
Corporate finance	1,041	599	73.7%
Total	**1,410**	**802**	**75.8%**

(millions of euros)

STOCK OF LOANS DISBURSED

	31/12/2006	31/12/2005	Change (%)
Project finance	75	36	109.4%
Corporate finance	984	515	90.9%
Total	**1,059**	**551**	**92.1%**
early repayment	-27		
Total (stock of residual debt)	**1,033**	**551**	**87.3%**

During the year, disbursements continued both for residual amounts on commitments undertaken in 2005 and those in respect of contracts for 2006. Total disbursements came to €508 million on new contracts totalling €634 million. Actual disbursements posted volumes similar to new contracts for the corporate portion, whereas project financing generated lower disbursements as they typically drawn down over a longer period.

(millions of euros)

FLOWS OF NEW LOANS GRANTED - 2006

	Total
Project finance	166
Corporate finance	468
Total	**634**

Total flows of new loans granted are reported gross of amounts repaid early and principal repayments

(millions of euros)

FLOWS OF NEW LOANS DISBURSED - 2006

	Total
Project finance	39
Corporate finance	468
Total	**508**

Total flows of new loans disbursed are reported gross of amounts repaid early and principal repayments

In 2006, a total of €100 million in "underwriting letters" in respect of non-binding preliminary financing commitments were also signed. As of the balance-sheet date, the total of this type of commitment came to €239 million.

4.1.1.3 *Financial markets and equity investments*

The introduction of the new accounting standards has required both a revision of the accounting rules and the reclassification of existing operations. This process has also affected the items related to securities and equity investments.

For securities, it is necessary to distinguish between those that have been purchased by CDP as part of the activities of the Public Lending division and those that have been acquired as an alternative investment of liquidity outside the treasury account. The former have been considered to be a supplementary element of traditional lending and, as such, have been included in the loans and receivables portfolio and reported under loans to customers in the balance sheet. The latter regard uses of liquidity – normally at short term – and have been classified as available-for-sale assets.
Equity investments, which have been measured at purchase cost with dividends recognised in the income statement, have been analysed in order to determine the nature of the various holdings.

IAS 27 and IAS 28 call for investments in other companies to be classified as either subsidiaries or associates where the appropriate conditions are met. When an equity interest does not fall under one of these two categories, it must be allocated to one of the other financial asset categories (i.e. at fair value or available for sale). Subsidiaries are consolidated on a line-by-line basis, whereas associates are recognised using the equity method.

CDP's current portfolio of equity investments can be classified as follows:

- the interests in Europrogetti & Finanza S.p.A., Galaxy S.àr.l., Poste italiane S.p.A., Sinloc S.p.A., STMicroelectronics Holding N.V., Terna S.p.A., and Tunnel di Genova S.p.A. may be classified as investments in associates and are therefore recognised using the equity method;
- the interests in ENEL S.p.A. and ENI S.p.A., on the other hand, do not represent either controlling interests or significant influence and so are neither subsidiaries or associates. These shareholdings have therefore been classified as available-for-sale financial assets. It should also be noted that CDP's interest in Istituto di Credito Sportivo (a public entity, not a company) is also included among available-for-sale financial assets.

It should also be noted that the inclusion of the equity investments in ENEL S.p.A. and ENI S.p.A. in the portfolio of available-for-sale assets does not imply an actual intention for the company to sell the related securities. Indeed, this portfolio is a residual category compared with the other financial assets and is generally used for interests in neither subsidiaries or associates. Moreover, pursuant to the decree of the Ministry for the Economy and Finance of 18 June 2004, CDP must obtain the approval of the ministry for any transfer of such shareholdings.

4.1.1.4 *CDP equity investments*

(thousands of euros)

EQUITY INVESTMENTS AND FINANCIAL ASSETS AVAILABLE FOR SALE

	Number of shares	% holding	Book value
A. Listed companies			
1. Eni S.p.A.	400,288,338	9.99%	10,199,347
2. Enel S.p.A.	627,528,282	10.16%	4,904,134
3. Terna S.p.A.	599,999,999	29.99%	1,311,330
B. Unlisted companies			
1. Poste Italiane S.p.A.	896,350,000	35.00%	2,578,406
2. ST Holding N.V.	425,992	30.00%	1,506,991
3. Galaxy S.àr.l.	520,837	40.00%	13,099
4. Sinloc S.p.A.	605,727	11.85%	5,554
5. Europrogetti & Finanza S.p.A.	5,975,000	31.80%	2,125
6. Istituto per il Credito Sportivo	2,065,864	21.62%	2,066
7. Tunnel di Genova S.p.A. (*)	170,000	33.33%	-

(*) holding written down at 31/12/2006

The composition of CDP's portfolio of equity investments changed in 2006 as a result of the following two events: i) the acquisition of a 40.0% stake in Galaxy S.àr.l.; ii) the sale of an 8.15% stake in Sinloc S.p.A.

Dividends received for 2006 from these investments came to €1,037 million and were related primarily to the shares held in Eni S.p.A. and Enel S.p.A. It should be noted that Eni S.p.A., Enel S.p.A., and Terna S.p.A. follow a semi-annual dividend distribution policy. Dividends related to equity investments classified as available-for-sale financial assets totalled €907 million and were recognised in the income statement among dividends and similar revenues. Dividends received from associates (totalling some €130 million in 2006) were recognised as adjustments to the value of the individual investments. CDP's share of the earnings for the associate, on the other hand, were recognised in the income statement as "gains (losses) on equity investments".

As of 1 January 2006, CDP's portfolio of shareholdings primarily included the minority stakes in Enel S.p.A., Eni S.p.A. and Poste Italiane S.p.A., which were acquired from the Ministry for the Economy and Finance when CDP was transformed into a joint-stock company at the end of 2003, as well as an indirectly held share of about 10% in STMicroelectronics N.V. acquired in December 2004 and a 29.99% stake in Terna S.p.A., which was acquired from Enel S.p.A. in September 2005.

In September 2006, CDP acquired a 40% stake in Galaxy S.àr.l. ("Galaxy"), a Luxembourg company that invests in transportation infrastructure projects, particularly within Europe and in OECD nations. Galaxy operates in a manner typical of a private equity fund. For CDP, the investment in Galaxy represents a first step in the company's strategy to invest in companies in the infrastructure industry through investments in private equity funds. We feel that investing in infrastructure through private equity funds will promote both the creation of specific know-how within CDP and the mobilisation of a substantial pool of capital to be invested, including: i) equity committed by CDP; ii) capital subscribed by other investors; iii) debt raised in the various acquisitions.

Below is a brief description of each shareholding.

Eni S.p.A.

Eni is an integrated company operating in the oil and natural gas industry, power generation, engineering and construction, and the petrochemical industry. The company is known for the excellence of its skill base and its strong international market position. Its three primary businesses are: exploration & production, gas & power, and refining & marketing.
The company's shares are listed on the Milan stock exchange and the New York Stock Exchange.

Enel S.p.A.

Enel is Italy's leader in electricity generation, distribution, and sales. The company is also involved in the import, distribution, and sale of natural gas. These businesses are handled by the following divisions: Generation and Energy Management; Sales; Infrastructure and Networks; and International.
The company's shares are listed on the Milan stock exchange and the New York Stock Exchange.

Poste Italiane S.p.A.

This company operates the universal postal service in Italy and engages in commercial activities through its various product divisions and group companies in the two main business areas of postal services and BancoPosta (postal banking and financial services). Postal services include the Mail, Express Delivery, Logistics and Parcels and Philately Divisions. BancoPosta operations consist in the provision of payment services and financial products (including products on behalf of CDP: postal passbook savings accounts and postal savings bonds).

STMicroelectronics Holding N.V. (STH)

STH holds an equity investment of 27.5% in the Italian-French company STMicroelectronics N.V., which is active in the research and manufacture of semiconductors and advanced technologies. CDP holds a 10.07% stake in this company.
STMicroelectronics N.V. an independent global manufacturer of semiconductors and is a leader in semiconductor solutions for the full range of microelectronic applications, from development to delivery. The company is one of the world's largest semiconductor companies. The group was established in June 1987 following the merger of the Italian company SGS Microelettronica and the French firm Thomson Semiconducteurs. In May 1998, the company changed its name from SGSThomson Microelectronics to STMicroelectronics.
STMicroelectronics N.V. shares are traded on the Milan stock exchange, the New York Stock Exchange, and Euronext Paris.

Terna S.p.A.

Terna Rete Elettrica Nazionale S.p.A. is responsible for the transmission and dispatch of electricity in Italy using the high and very-high voltage networks throughout the country. It is also the primary owner of the nation's electricity transmission grid (RTN), owning more than 97% of the electricity infrastructure, which are currently comprised of some 40,000 km of power lines. As of 1 November 2005, in compliance with the provisions of the Prime Minister's Decree of 11 May 2004, Terna received the business unit of the Italian Independent System Operator (ISO) comprising electricity transmission and dispatch operations and the activities of planning and developing the RTN. Terna also provides services related to its skills in the design, construction, operation, and maintenance of high and very-high voltage electricity infrastructure, as well as services related to the development of its own assets in the telecommunications industry.
The company's shares are traded on the Milan stock exchange.

Galaxy S.àr.l.

Galaxy S.àr.l. makes equity or quasi-equity investments in transportation infrastructure projects, particularly within Europe and other OECD countries. Its main segments of investment are roads, rail, airports, and harbours. Current Galaxy shareholders are Caisse des Dépôts et Consignations ("CDC"), Kreditanstalt für Wiederaufbau ("KfW"), and CDP. Galaxy operates in a manner typical of a private equity fund. In particular, Galaxy shareholders have a financial commitment totalling €250 million, which can be called from the company's shareholders during the investment period (currently scheduled to end in July 2008, but extendable for 2 more years). CDP became a Galaxy shareholder with a maximum total financial commitment of €100 million, €13.0 million of which was paid in during 2006 in relation to investments made by Galaxy prior to CDP becoming a shareholder.

Sistema iniziative locali S.p.A. (Sinloc)

The company is a financial intermediary entered in the special section of the general register pursuant to Article 113 of the 1993 Banking Law for persons operating on a non-public basis.
Sinloc is engaged in promoting and supporting initiatives for local territorial development. It also provides financial and legal consulting services to local authorities and other government bodies, with a focus on projects for urban regeneration and socio-economic development.
In December 2006, CDP sold 416,273 Sinloc S.p.A. shares, equal to about 8.15% of the company, to Fondazaione Cassa di Risparmio di Udine e Pordenone at a price of €9.60 per share. Following this sale, CDP continues to hold an 11.85% stake in Sinloc S.p.A.

Europrogetti & Finanza S.p.A. (EPF)

EPF was established in 1995, pursuant to Decree Law 26 of 1995, ratified with Law 95 of 29 March 1995, to promote initiatives to stimulate entrepreneurial activities and develop projects eligible for European co-financing.
EPF is involved in the entire project lifecycle, from design through to the actual works, making particular use of project financing as a key means of development.

Istituto per il Credito Sportivo (ICS)

ICS, which was reformed with Presidential Decree no. 453 of 20 October 2000, is a public economic entity subject to the provisions of the 1993 Banking Law. It provides medium and long-term financing to public and private borrowers for the design and construction of sports facilities.
The 2004 Finance Act (Article 4.14) expanded the scope of ICS's activity to include financing for cultural initiatives, as well.

Tunnel di Genova S.p.A.

The company was established to coordinate activities for the design, construction and operation of underground and underwater links between the western and eastern sections of Genoa.
In 2006, the preliminary design work being handled by Tunnel di Genova S.p.A. was completed. Accordingly, CDP's role in the company, namely that of facilitating the start of the works, has been completed. Therefore, CDP has begun efforts to sell the 33.33% stake it holds in the company.

Considering the performance of the company and the contacts made with potential buyers of CDP's stake, it has been deemed appropriate to fully write down the carrying amount of the investment.

4.1.2 Property, plant and equipment and intangible assets

The CDP's non-current assets break down as follows:

(millions of euros)

NON-CURRENT ASSETS	31/12/2006	31/12/2005	Change
Property, plant and equipment	208	205	1.8%
Intangible assets	5	4	11.8%
Total non-current assets	**213**	**209**	**2.0%**

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment net of depreciation increased from the previous year by some €3.6 million, as shown in the table below, broken down by type of asset.

(thousands of euros)

PROPERTY, PLANT AND EQUIPMENT

	Opening net value	Net increases / decreases	Depreciation 2006	Change
Land	117,406	-	-	0.0%
Buildings, reconstruction, restoration and transformation of buildings	77,371	248	-2,422	-2.8%
Sundry equipment and instrumentation	34	2	-16	-42.0%
Heating and conditioning plant	2,102	270	-391	-5.7%
Alarm systems and photographic and television recording plant	690	1,116	-330	113.9%
Telephone and telecommunications plant	1,224	202	-399	-16.1%
Other plant	863	921	-226	80.6%
Furniture and furnishings	1,820	322	-343	-1.1%
Hardware and electronic office machinery	3,145	1,789	-942	26.9%
Leasehold maintenance	-	316	-22	
Other assets	14	4	-18	-98.4%
Assets under development	-	3,558	-	
Total	**204,672**	**8,749**	**-5,108**	**1.8%**

Significant investments were made during the year in order to upgrade and strengthen information systems. The most significant increase is related to hardware for the implementation of the SIRE project, which involved the revision and integration of the architecture of CDP's information systems.

It should also be noted that buildings were revalued at 1 January 2005 in line with the 2006 Finance Act, involving the subsequent recognition of a specific tax-suspended revaluation reserve, net of the related capital gains tax.

Furthermore, with the application of the IFRSs, the carrying amount of buildings has been separated from the value of land, with land being recognised separately.

This new category breaks down as follows:

(thousands of euros)

LAND	Separated value
Premises at Via Goito - Roma	60,924
Premises at Piazza Dante - Roma	55,130
Premises at Montesacro - Roma	806
Premises at Casagiove (CS)	546
Total	**117,406**

INTANGIBLE ASSETS

Intangible assets include:

(thousands of euros)

INTANGIBLE ASSETS	Opening net value	Net increases / decreases	Depreciation 2006	Change
Intellectual property usage rights	18	-	-4	-23.7%
Licences, trademarks and similar rights	4,197	1,353	-1,271	2.0%
Other intangible assets	-	470	-54	
Intangible assets under development and advances	-	2	-	
Total	**4,215**	**1,825**	**-1,329**	**11.8%**

The investment in licences is related to the implementation of the SIRE project, as of course is the hardware in property, plant and equipment. Also included is the activation of the new legacy system used for data management for the FORP postal savings system, which entered service in 2006.

4.2 LIABILITIES AND EQUITY

The liabilities and equity of CDP can be grouped into the following aggregates:

(millions of euros)

LIABILITIES AND SHAREHOLDERS' EQUITY

	31/12/2006	31/12/2005	Change (%)
Debt and payables	164,815	135,803	21.4%
Other financial liabilities	476	437	9.0%
Other liabilities	771	1,772	-56.5%
Provisions for contingencies, taxes and staff severance benefit	1,347	936	43.9%
Shareholders' equity	13,284	10,586	25.5%
Total liabilities and shareholders' equity	**180,692**	**149,533**	**20.8%**

Total liabilities and equity increased by €31,159 million (20.8%) over 31 December 2005, due primarily to the increase in debt, as described below.

4.2.1 Liabilities

Liabilities break down as follows:

(millions of euros)

DEBT AND PAYABLES

	31/12/2006	31/12/2005	Change (%)
Due to customers	10,391	7,774	33.7%
Due to banks	1,246	1,448	-14.0%
Debt securities	8,639	4,375	97.5%
Postal funding	144,540	122,206	18.3%
Total debt and payables	**164,815**	**135,803**	**21.4%**

Amounts due to customers increased significantly (33.7%) following the start of the amortisation periods of loans that were previously in their grace periods, which is in line with the accounting procedures described under section 1.5 above. Loans being repaid but still to be disbursed went from about €6 billion in 2005 to €10.2 billion in 2006, for an increase of €4.2 billion. It should be noted that during the year loans granted with non-deferred disbursement increased significantly, attributable in part to the increase in Ordinary Account activities, which do not increase amounts due to customers.

"Amounts due to customers" also include funds received from the Italian government which are still to be disbursed as of 31 December 2006, related to the approval and disbursement of grants for the purchase or lease of low environmental impact vehicles. This initiative, which was established by Article 17 of Law 166/2002 and is governed by a decree of the Minister for the Environment dated 24 May 2004, involved a state budget appropriation in the amount of €30 million each year from 2002 to 2004. As of the end of the year, out of the €56.4 million in payments received from the Ministry for the Economy and Finance, loans in the amount of €56.3 million have been approved, with €19.9 million being disbursed. This liability is not interest-bearing.

Amounts due to banks fell as a result of the decreased use of the treasury payment order for payment purposes, which involves advance payments (€339 million compared with the €542 million of 2005) by the treasury office pending the outcome of the order, which results in funds being shifted to a non-interest-bearing account. There were also fewer payables to the Bank of Italy for unpaid direct-debit transactions expiring on 31 December 2006 (€94 million compared with the €169 million of 2005), the amount of which was advanced by the Bank of Italy.

Liabilities for securities increased as a result of new bond issues in 2006 in the amount of €4.3 billion for both covered bonds and the EMTN programme.

Finally, postal funding increased by 18.3% for a total value of €22,334 million. The value of postal passbook savings accounts at 31 December 2006 totalled €70,583 million, while postal savings bonds, measured at amortised cost, came to €73,957 million.

4.2.2 Other liabilities

Other liabilities break down as follows:

(millions of euros)

OTHER LIABILITIES

	31/12/2006	31/12/2005	Change (%)
Transitory liabilities	63	872	-92.8%
Other liabilities	597	878	-32.1%
Tax liabilities	112	21	422.4%
Total other liabilities	**771**	**1,772**	**-56.5%**

The significant difference between 2005 and 2006 in transitory liabilities is connected with the renegotiation of loans at the end of 2005 and effective as of 1 January 2006.

4.2.3 Provisions

Provisions break down as follows:

(millions of euros)

PROVISIONS

	31/12/2006	31/12/2005	Change (%)
Provision for taxes and duties	1,345	926	45.3%
Provision for staff severance pay	1	0	83.1%
Provision for liabilities and contingencies	1	10	-90.8%
Total provisions	**1,347**	**936**	**43.9%**

The provision for taxes and duties is composed exclusively of current and deferred tax liabilities.

The provision for staff severance pay includes the provision of Infrastrutture S.p.A. (about €232 thousand), which was merged into CDP on 1 January 2006. Nonetheless, the balance of the provision is minor 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 reported for severance benefits is related solely to newly hired employees (under the INPS pension scheme) for amounts accrued through 2005, given that the amounts accrued for 2006 for employees opting into the pension scheme (92% of all candidates) was not applied to this provision, but to the supplementary pension provision in accordance with applicable legislation.

The decrease in the provision for other liabilities and contingencies is attributable to the reduction of about €9 million in the original provision for pending litigation at 31 December 2005, which is used to cover potential liabilities arising out of disputes with employees.

4.2.4 Shareholders' equity

CDP shareholders' equity at 31 December 2006 breaks down as follows:

(millions of euros)

SHAREHOLDERS' EQUITY

	31/12/2006	31/12/2005	Change (%)
Share capital	3,500	3,500	0.0%
Legal reserve	61	14	325.7%
FTA and other reserves	1,211	415	191.5%
Valuation reserve	6,460	5,015	28.8%
Net income for the year	2,053	1,642	25.0%
Total shareholders' equity	**13,284**	**10,586**	**25.5%**

5. PERFORMANCE

CDP's performance during the year has been analysed using an income statement reclassified on the basis of operational criteria, in line with the schedules presented above. The schedules detail CDP's margins, as follows:

(millions of euros)

INCOME DATA

	31/12/2006	31/12/2005	Change (%)
Net interest income	1,780	2,035	-12.5%
Gross income	2,716	2,180	24.6%
NET INCOME FROM FINANCIAL OPERATIONS	**2,681**	**2,178**	**23.1%**
OPERATING INCOME	**2,614**	**2,110**	**23.9%**
Income (loss) before tax on continuing operations	2,617	2,100	24.6%
NET INCOME FOR THE PERIOD	**2,053**	**1,642**	**25.0%**

5.1 OPERATING PERFORMANCE AND RESULTS

Financial year 2006 is the first financial year for CDP S.p.A. in which the International Financial Reporting Standards (IFRSs) have been applied. For a comparison with the effects that this change has had on the company's performance, see Annex 3 to the notes to the financial statements. In brief, net income at 31 December 2005 for the transition to the IFRSs increased by about €714 million due primarily to the provision for general banking risks for 2005 in the amount of €550 million, which is no longer recognised under the IFRSs.

5.2 Costs

Operating costs break down as follows:

(thousands of euros) *(%)*

OPERATING COSTS

	31/12/2006		31/12/2005	
Administrative expenses:	68,103	91.4%	69,907	93.4%
- staff costs	40,095	53.8%	43,436	58.0%
- other administrative expenses	26,897	36.1%	26,064	34.8%
- indirect taxes and duties	1,110	1.5%	406	0.5%
Depreciation and amortisation	6,437	8.6%	4,945	6.6%
Operating costs	**74,540**	**100.0%**	**74,853**	**100.0%**

The items "Other administrative expenses" and "Indirect taxes and duties", in turn, break down as follows:

(thousands of euros) *(%)*

BREAKDOWN OTHER ADMINISTRATIVE EXPENSES AND INDIRECT TAXES AND DUTIES

	31/12/2006		31/12/2005	
IT expenses (licences, maintenance and consulting)	8,126	29.0%	7,230	27.3%
Property expenses	4,359	15.6%	5,162	19.5%
leased buildings	53	0.2%	-	0.0%
owned buildings	4,306	15.4%	5,162	19.5%
- maintenance of owned buildings	*2,846*	*10.2%*	*3,629*	*13.7%*
- operating expenses	*1,461*	*5.2%*	*1,533*	*5.8%*
Utilities	1,645	5.9%	1,139	4.3%
General expenses	5,744	20.5%	4,153	15.7%
- consumables and other expenses	*716*	*2.6%*	*1,019*	*3.8%*
- services	*5,028*	*18.0%*	*3,134*	*11.8%*
Entertainment and marketing expenses	382	1.4%	475	1.8%
Professional and insurance services	5,078	18.1%	6,364	24.0%
Professional and service costs for personnel	1,118	4.0%	968	3.7%
Corporate bodies	446	1.6%	574	2.2%
Indirect taxes and duties:	1,110	4.0%	406	1.5%
Total	**28,007**	**100%**	**26,471**	**100%**

Consulting related to professional and insurance costs is a significant item here, but is to be viewed as normal in view of the costs of the new financial operations managed by CDP, in the amount of some €2.1 million, regarding the listing and rating of bond issues and related expenses.

Again this year, the most significant item is IT expenses. CDP owns all of its information systems and, in general, does not resort to outsourcing.

(thousands of euros) *(%)*

IT EXPENSES

	31/12/2006		31/12/2005	
Hardware maintenance	868	10.7%	1,282	18.6%
Licensed software maintenance and assistance and annual fees	5,455	67.1%	5,087	74.1%
IT consulting services	1,803	22.2%	860	7.3%
Total	**8,126**	**100.0%**	**7,230**	**100.0%**

IT consulting costs increased as a result of the support needed to develop the SIRE project as mentioned above, which involves a revision of the architecture of CDP's information systems.

6. PERFORMANCE INDICATORS

Given that the financial statements have been adjusted for the new accounting standards, the performance indicators related to 2005 have also been recalculated based on the figures adjusted in accordance with the IFRSs. As such, these indicators differ from those shown in the 2005 annual report, and in some cases we have revised the calculation methods due to changes in the corresponding financial statement items.

6.1 OPERATING PERFORMANCE

The financial year ended 31 December 2006 saw a marked improvement in performance in absolute terms over the previous year, which itself registered excellent profit figures. However, net income, in the amount of €2,053 million, was boosted by certain non-recurring revenues, particularly income on trading activities and the gain on the repurchase of receivables.

(% or euros per share)

PERFORMANCE RATIOS (RECLASSIFIED DATA)

	2006	2005
Net income / Opening shareholders' equity (ROE)	19.4%	20.9%
Net income / Average shareholders' equity (ROAE)	17.2%	17.8%
Income tax/Income before taxes (tax rate)	21.6%	21.8%
Net income / Total average assets (ROAA)	1.2%	1.2%
EPS (euros per share)	5.86	4.69

In relative terms, return on equity (ROE) came to 19.4%, which is essentially in line with that of 2005. As a result, earnings per share came to €5.86.

The average tax rate, at 21.6% of pre-tax income, was slightly lower than the previous year due to the higher percentage of tax-exempt or partially tax-exempt revenues (such as dividends on equity investments).

6.2 NET INTEREST INCOME

Net interest income, in the amount of €1,780 million for 2006, fell significantly from 2005.

(%)

NET INTEREST INCOME (RECLASSIFIED DATA)

	2006	2005
Interest income / Average interest-bearing assets (excluding equity investment	3.9%	4.1%
Interest income, dividends and income from equity investments / Average inte	4.2%	4.3%
Interest expense / Average interest-bearing liabilities	2.3%	2.1%
Spread interest-bearing assets - interest-bearing liabilities	1.6%	2.1%
Net interest income/Average interest-bearing assets (excluding equity investm	1.2%	1.7%
Interest on loans to customers as percentage of interest income	60.1%	68.8%

The decline in net interest income is due both to the reduction in the average yield on assets as a result of the progressive maturity or renegotiation of loans to customers that have above-market rates, as well as to an increase in the cost of funds due to rising market interest rates at the end of the year. These effects combined to reduce the overall spread by about 50 basis points.

During the year, the relative weight of interest income on loans to customers also declined due to the higher level of cash and cash equivalents.

6.3 GROSS INCOME

Gross income (including gains on equity investments) reached €2,716 million for the year. An analysis of the breakdown of gross income shows the increasing weight of dividends and gains on equity investments and the decreasing percentage of commission expense from 2005.

(%)

COMPOSITION OF REVENUES (RECLASSIFIED DATA)

	2006	2005
Net interest income/Gross income	65.6%	93.4%
Dividends and gains on equity investments / Gross income	44.9%	43.7%
Commission expense / Postal funding	0.50%	0.55%

Specifically, the percentage of commission expense paid to Poste Italiane S.p.A. for the management of postal savings fell by about 50 basis points, which is measured based on the average stock of debt. Under the IFRSs, distribution commissions on postal savings bonds continue to be amortised across the expected life of these instruments and are therefore included in the calculation of amortised cost.

6.4 OPERATING EFFICIENCY

The cost-to-income ratio for 2006 came to 2.8%, a decline from the 3.4% of the previous year, as revenues increased by more than costs.

(thousands of euros or %)

OPERATING EFFICIENCY (RECLASSIFIED DATA)

	2006	2005
Loans to customers / No. of employees	187,897	145,557
Total revenues/No. of employees	6,640	5,069
Income on ordinary operations / No. of employees	6,392	4,906
Operating expenses/No. of employees	182	174
Staff costs / No. of employees	98	101
Cost/income ratio	2.8%	3.4%
Cost/income ratio (including cost of postal funding)	23.5%	26.2%

The increase in revenues also resulted in greater operating leverage due to a higher level of assets managed while the workforce declined during the year, with average staff costs also decreasing slightly.

Even reclassifying commissions on postal savings services among operating costs, the cost-to-income ratio remains well below 25%, placing CDP at best-practice levels with respect to market benchmarks.

6.5 CAPITAL STRUCTURE

Postal savings funding in 2006 once again exceeded the disbursements made on the asset side, leading to a further increase in the liquidity held by CDP, although this phenomenon was significantly less substantial than in 2005.

(%)

CAPITAL STRUCTURE

	2006	2005
Loans to customers / Total assets	42.5%	41.9%
Loans to customers / Due to customers	94.8%	84.5%
Equity investments/Shareholders' equity	1.5x	1.8x
Net bad debts / Net loans to customers	0.191%	0.103%
Net writedowns/ Net loans to customers	0.045%	0.003%

The positive financial performance and the efforts to strengthen capital, which began when the organisation was transformed into a joint-stock company, are continuing to reduce the size of the equity portfolio in relation to the company's shareholders' equity.

CDP's loan portfolio continues to have virtually no non-performing loans or other problem positions, although in relative terms writedowns of loans in 2006 point to a certain deterioration in the credit quality of counterparties in the public sector, which, however, is so far limited to certain specific cases.

7. MONITORING RISK

On 22 February 2006, the Board of Directors approved the updated risk rules.

DEVELOPMENTS IN INTEREST RATE RISK

In 2006, CDP was exposed to an increase in interest rates. The hedging of interest rate risk offset the combined effects of greater growth in fixed-rate assets compared with fixed-rate liabilities and the general rising trend in rates during the year.
Following the renegotiation of loans with repayment charged to the state completed in 2005 and effective as from the start of 2006, the existing swaps on a sub-portfolio of these loans no longer matched the cash flow profile of the underlying loans and so could no longer be considered effective hedging instruments under the IFRSs. Therefore, it was decided to unwind and replace them in order to reduce aggregate risk.
This programme, which began in May 2006, was completed in October and involved a total notional value of €11.2 billion. The swap structure mirrored that of the loan hedging programme for 2004.
The risk management activities of the Finance division made it possible to reduce the normal limit of the VaR of the banking book. The Board approved this reduction it its meeting of 25 October 2006.
In 2006, CDP adopted a dynamic ALM (DALM) system, which simulates the impact of alternative scenarios concerning (a) balance-sheet aggregates, (b) market variables and (c) ALM policies on (I) future net interest income and (II) future sensitivity and fair values.

CREDIT RISK INITIATIVES

Within the scope of lending policies, in 2006 CDP developed a new system for granting loans to regional and other local authorities under the Separate Account which is able to track each individual loan within uniform risk categories. The new system will be operational as of 1 January 2007.
A portfolio model has also been developed to measure the credit risk of the Ordinary Account, which will be adopted during 2007.

DEVELOPMENTS IN LIQUIDITY RISK

With regard to liquidity risk, in 2006 CDP increased the amount of funds deposited in the treasury current account.

In 2006, the ESCB subjected CDP to the reserve requirement. The first maintenance period ran from 8 November to 12 December 2006.

INSTRUMENTS FOR MITIGATING COUNTERPARTY RISK (CREDIT SUPPORT ANNEXES)

In 2006, following a decision by the Board of Directors to contain the credit risk resulting from transactions in hedging derivatives, steps were taken to enter into guarantee agreements with banks, known as credit support annexes (CSAs), which are governed by ISDA regulations. At 31 December 2006, six such agreement had been signed.

These guarantees call for the party without credit exposure, i.e. the party whose derivatives portfolio has a negative market value, to pay this market value to the counterparty with credit exposure as an interest-bearing deposit on preset dates. The liquidation period for the cash flows is currently monthly.

In compliance with the principle of accounting separation, CDP has adopted an internal system for managing the CSAs so as to allocate them properly to either the Separate Account or the Ordinary Account. Specifically, each CSA is assumed to belong to the Separate Account, while at the same time an internal CSA is established for offsetting between the two accounts.

For more information on risks and the related hedging policies, see "Part E – Information on risks and related hedging policies" in the notes to the financial statements.

8. THE INVESTMENT STRATEGY FOR FINANCIAL RESOURCES

RESERVE REQUIREMENT AND LIQUIDITY MANAGEMENT

In 2006, following an official Bank of Italy notice, CDP was required to establish the minimum reserve requirement for credit institutions as required by European Central Bank (ECB) regulation 1745/2003 of 12 September 2003. In its notice, the Bank of Italy established that CDP is to be classified as a credit institution subject to the minimum reserve requirement.

The reserve requirement is to be maintained in a Bank of Italy management account with an average balance in each maintenance period equal to a given percentage (which is set by the ECB) of total customer deposits and securities with an original maturity of less than two years, as measured on the last day of the penultimate month prior to the start of the maintenance period. The reserve rate is current set at 2%.

Each maintenance period starts on the settlement date of the first ECB main refinancing operation following the monthly meeting of the Governing Council and ends on the day prior to the start of the next maintenance period. The maintenance period therefore lasts about one month. Amounts deposited into the management account for the minimum reserve earn interest at the average marginal interest rate for main refinancing operations during the maintenance period.

ECB regulation 1745/2003 states that the amount subject to the mandatory reserve is to include:

- deposits with an agreed maturity of two years or less;
- deposits redeemable at notice of two years or less;
- debt securities issued with an agreed maturity of two years or less

as defined in ECB regulation 2423/2001 of 22 November 2001.

The CDP liabilities that are currently subject to the reserve requirement are postal passbook savings accounts and savings bonds.

In terms of liquidity management, which as mentioned above is partially restricted by the reserve requirement, no new investments in bonds or structured securities were made in 2006 beyond. CDP therefore continues to hold asset-backed securities (ABSs) totalling

€200 million maturing in July 2011 and securities issued by public entities totalling €13 million maturing in December 2015.

As discussed previously, these investments have been classified as available-for-sale assets, which means that they are measured at full fair value with a specific equity reserve being established for such measurement.

9. RELATIONS WITH POSTE ITALIANE AND FUNDING STRATEGY

9.1 POSTAL SAVINGS

9.1.1 Postal savings in numbers

CDP S.p.A. continues to carry out its funding activity primarily through passbook savings accounts and postal savings bonds, which are offered to investors in various types of sub-products.

At 31 December 2006, CDP S.p.A.'s postal funding totalled €145 billion, up 18.3% from the €122 billion of 2005.

(millions of euros)

POSTAL SAVINGS

	31/12/2006	31/12/2005	Change %
Postal passbook savings accounts	70,583	65,403	7.9%
Postal savings bonds	73,957	56,803	30.2%
Total	**144,540**	**122,206**	**18.3%**

Passbooks recorded a net inflow of €4,480 million, which contributed to fully achieving the targets set out in the agreement with Poste Italiane S.p.A. Gross capitalised interest totalled €959 million, with 27% being withheld in accordance with Article 26(2) of Presidential Decree 600/73.

Registered passbook savings accounts remained the predominant type of account in 2006, representing more than 99% of the total (up 8% in 2006), while bearer passbooks are still only a marginal component, with a year-end balance of €0.581 billion.

(millions of euros)

PASSBOOK SAVINGS ACCOUNTS

	31/12/2005	Net funding	Reclassifications and adjustments	Interest 01/01/2006-31/12/2006	Withholdings	31/12/2006
Registered passbooks	64,837	4,472	0	951	257	70,002
Bearer passbooks	567	8	0	8	2	581
Total	**65,403**	**4,480**	**0**	**959**	**259**	**70,583**

The table below shows the amounts of net funding from registered passbooks for the year and the related interest. Of particular note is the increase of about 23% in the level of passbooks for minors, despite the €111 million reclassification for beneficiaries who are no longer minors.

(millions of euros)

REGISTERED PASSBOOK ACCOUNTS - STOCK

	31/12/2005	Net funding	Reclassifications and adjustments	Interest 01/01/2006-31/12/2006	Withholdings	31/12/2006
Ordinary	62,226	4,162	111	910	246	67,163
Time deposits	13	-1	0	0	0	12
Minors	874	295	-111	17	5	1,071
Judicial	1,723	16	0	24	6	1,756
Total	**64,837**	**4,472**	**0**	**951**	**257**	**70,002**

Ordinary bearer passbooks posted a 2.7% increase as a result of net funding inflows and the capitalisation of interest at the end of the year. Time-deposits on bearer passbooks remain insignificant.

(millions of euros)

BEARER PASSBOOK ACCOUNTS - STOCK

	31/12/2005	Net funding	Reclassifications and adjustments	Interest 01/01/2006-31/12/2006	Withholdings	31/12/2006
Ordinary	565	8	0	8	2	580
Time deposits	2	0	0	0	0	1
Total	**567**	**8**	**0**	**8**	**2**	**581**

The volumes of deposits and withdrawals were also higher for the ordinary registered passbooks component, with a marked gain over 2005 in net flows in respect of passbooks for minors.

(millions of euros)

REGISTERED PASSBOOK ACCOUNTS - NET FUNDING

	Deposits	Withdrawals	Net funding
Ordinary	46,989	42,827	4,162
Time deposits	-	1	-1
Minors	479	184	295
Judicial	902	887	16
Total	**48,371**	**43,899**	**4,472**

Net flows for bearer passbooks remained stable at a low level.

(millions of euros)

BEARER PASSBOOK ACCOUNTS - NET FUNDING

	Deposits	Withdrawals	Net funding
Ordinary	213	204	8
Time deposits	-	0	0
Total	**213**	**205**	**8**

There was a 30% increase in the balance of postal savings bonds over 2005 due primarily to the high volumes of new investments, as well as to the interest accrued for the year and the transaction costs resulting from the application of the IFRSs (distribution commissions and the separated value of the option embedded in the fixed-term indexed bond). The carrying amount at 31 December 2006 reached about €74 billion.

(millions of euros)

POSTAL SAVINGS BONDS - CDP STOCK

	31/12/2005	Net funding	Withholdings	Transaction costs	Interest	31/12/2006
20-year bonds	49,343	6,922	-27	-367	1,997	57,869
Fixed-term bonds	4,119	-148	-3	0	176	4,144
Indexed bonds	1,465	731	0	-64	60	2,192
Inflation-indexed bonds	0	1,274	0	-35	20	1,259
Bonds for minors	0	194	0	-3	1	192
18-month bonds	1,875	6,368	-1	-50	110	8,301
Total	**56,803**	**15,340**	**-31**	**-520**	**2,364**	**73,957**

Investments in postal savings bonds totalled €23,593 million and were largely supported by redemptions of matured fixed-term bonds owned by the MEF.

Investor interest in 18-month notes was particularly high, with subscriptions for the year totalling €7,209 million.

Introduced in the second half of 2006, bonds for minors also attracted a great deal of interest, with investments of €195 million.

Redemptions of postal savings bonds increased significantly over 2005. In particular, redemptions of 20-year bonds went from the €3,799 million of 2005 to €7,024 million in 2006.

Overall net funding with postal savings bonds amounted to €15,340 million, for a decline of 6.73% from the previous year.

The table below shows a breakdown of the changes by type of instrument.

(millions of euros)

POSTAL SAVINGS BONDS - CDP NET FUNDING

	Subscriptions	Redemptions	Net funding
20-year bonds	13,945	7,024	6,922
Fixed-term bonds	0	148	-148
Indexed bonds	900	169	731
Inflation-indexed bonds	1,344	70	1,274
Bonds for minors	195	0	194
18-month bonds	7,209	841	6,368
Total	**23,593**	**8,252**	**15,340**

Redemptions of MEF bonds totalled about €18 billion, a slight decline from 2005. Overall net funding with postal savings bonds (CDP + MEF) amounted to a negative €2.6 billion.

(millions of euros)

POSTAL SAVINGS BONDS

	CDP subscriptions	CDP redemptions	MEF redemptions	Net funding (CDP+MEF)
20-year bonds	13,945	7,024	4,048	2,873
Fixed-term bonds	0	148	13,846	-13,994
Indexed bonds	900	169	0	731
Inflation-indexed bonds	1,344	70	0	1,274
Bonds for minors	195	0	0	194
18-month bonds	7,209	841	0	6,368
Total	**23,593**	**8,252**	**17,894**	**-2,554**

Net funding for 2006 (bonds + passbooks), both CDP and MEF, reached €1.9 billion and made it possible to fully achieve the funding target set forth in the agreement with Poste Italiane for 2006.

(millions of euros)

TOTAL NET POSTAL SAVINGS FUNDING (CDP+MEF)

	Net funding (CDP+MEF)
Postal savings bonds	-2,554
Postal passbook savings accounts	4,480
Total	**1,926**

9.1.2 The agreement with Poste Italiane S.p.A.

The agreement with Poste Italiane S.p.A. signed on 27 October 2003 expired on 31 December 2005 and was formally renewed in the first part of 2006. The purpose of this three-year agreement is to define both the criteria for remunerating the placement and management services associated with postal savings products and the funding targets that Poste Italiane S.p.A. must achieve.

As regards placement activity, the criteria adopted in the agreement links the funding within a framework of specified objectives.

As for the administrative and accounting costs, remuneration is based on average outstanding principal for postal savings bonds and average daily stock for passbook savings accounts.

With the renewal of the agreement, the remuneration parameters, the targets for each instrument, and the criteria for developing the portfolio of products CDP offers to investors through Poste Italiane S.p.A. were all defined.
At the end of 2006, a new passbook remuneration mechanism was also adopted and will show its effects in 2007. Specifically, the following remuneration ranges were defined:

- *Giallo*, for ordinary registered passbooks (the base product);
- *Oro*, ordinary registered passbooks with a gross rate that is 0.5% higher than that for the Giallo passbooks;
- special passbooks for minors, with their own gross yield;
- bearer passbooks and judicial passbooks, which are currently remunerated at the same rate as the Giallo passbooks.

In line with the conception of postal savings as a service of general economic interest and with the company's strategic mission of promoting savings regardless of individual wealth or investment capacity, CDP has chosen not to segment passbooks based on the absolute value of the balance deposited, but rather on annual changes in balance. In particular, an investor enters the Oro range the year after an average increase in deposit balance of more than 35%.

9.2 OTHER FUNDING INSTRUMENTS

9.2.1 Covered bonds

In 2006, CDP S.p.A. continued its funding activities for the Separate Account on the capital markets. The company executed two new issues within the covered bond programme totalling €4 billion. The issues, of €2 billion each, have an annual fixed-rate coupon and bullet principal redemption upon maturity. As with the issues in 2005, the new issues in 2006 are also hedged against interest rate risk using derivatives.

The segregated assets used to back the issues, established pursuant to Article 5.18 of Decree Law 269/2003, and the debt covered by these assets are shown separately in the CDP financial statements.
The table below shows the financial characteristics of these new issues.

(millions of euros)

COVERED BOND ISSUES - 2006

	Issue date	Total
issue no. 3 (maturing 31Jul-2009)	15/2/06	2,000
issue no.4 (maturing 31-Jan-2012)	8/9/06	2,000
Total		**4,000**

9.2.2 EMTN Programme

During the year, funding to meet the needs of the Ordinary Account focused primarily on new issues of Euro Medium Term Notes (EMTNs).

Accordingly, three new issues were executed for a total of €394 million, the characteristics of which are shown in the table below.

(millions of euros)

EMTN ISSUES - 2006

	Issue date	Total
issue no.4 (maturing 01-Mar-2016)	1/3/06	50
issue no.5 (maturing 31-Oct-2029)	31/10/06	44
issue no.6 (maturing 30-Nov-2009)	30/11/06	300
Total		**394**

9.2.3 EIB credit line

In 2006, CDP S.p.A. obtained €50 million in financing from the European Investment Bank (EIB) out of the €430 million credit line granted to the company. This disbursement, which has a maturity of 2026, is intended for infrastructure projects within the Ordinary Account.

10. RELATIONS WITH THE MEF

RELATIONS WITH THE CENTRAL STATE TREASURY

CDP S.p.A. has an interest-bearing current account, no. 29814 denominated "Cassa DP SPA – Gestione Separata", with the Central State Treasury on which it deposits its liquidity.

Pursuant to Article 6.2 of the decree of the Minister for the Economy and Finance (MEF) of 5 December 2003, interest on the funds is paid half-yearly at a floating six-month rate equal to the simple arithmetic average of the gross yield on six-month treasury bills and the monthly Rendistato index.

As of 1 January 2006, following the merger of Infrastrutture S.p.A. into Cassa Depositi e Prestiti S.p.A. (pursuant to Article 1.79 et seq. of Law 266 of 23 December 2005), the interest-bearing current account no. 20347, in the name of ISPA, was renamed "Cassa DP SPA – Gest. Patrimonio TAV".

The Ministry for the Economy and Finance (MEF) pays semiannual interest on the balance of this account at a rate equal to the average yield on the ordinary six-month treasury bills issued during the previous six-month period.

In order to use the treasury and disbursement services performed by the Bank of Italy, CDP S.p.A. continues to use the non-interest-bearing current account no. 29815 denominated "CDP S.p.A. – pagamenti". With the increasing use of interbank payment systems, the use of the national treasury channel for payments and collections is declining considerably.

AGREEMENTS WITH THE MEF

In accordance with Article 4.4 of the MEF decree of 5 December 2003, CDP S.p.A. has signed three agreements with the MEF.

The first, defined in 2004, concerned the management of deposit services, in the course of being transferred to the MEF (Article 2 of the aforementioned decree), and also governed the methods for such transfer and the related personnel training activities to be provided.

The second, which was signed on 16 September 2005, governed the methods by which CDP S.p.A. manages existing relations as of the transformation date, resulting from the postal savings bonds transferred to the MEF (Article 3.4(c) of the aforementioned decree).
Based on this second agreement, in addition to settling cash flows and managing relations with Poste Italiane S.p.A., CDP S.p.A. provides the following services to the MEF:

- financial reporting;
- the periodic provision of information, both actual and forecasts, on bond redemptions;
- monitoring and management of the treasury accounts established for the purpose.

The last agreement, which was signed on 25 July 2006, concerned the management of the loans and relations transferred to the MEF pursuant to Article 3.4, points (a), (b), (e), (g), (h) and (i) of the decree of 5 December 2003. Here, too, guidelines were provided to help with the management activities by surveying such activities.
In line with Article 4.2 of the aforementioned decree, CDP's role as defined by this agreement includes carrying out disbursement, payment, and credit collection transactions, to represent the MEF in legal and other matters, to fulfil obligations, and to exercise powers and rights in the management of relations connected with the activities transferred.
CDP S.p.A. also provides the MEF with the following services:

- a detailed report on the activities performed;
- the periodic provision of information on developments in the transferred loans and relationships, both actual and forecasts;
- monitoring and management of the treasury accounts established for this purpose.

The MEF pays CDP €3 million annually for the performance of these services.

MANAGEMENT ON BEHALF OF THE MEF

With the procedures defined in these agreements, and in line with the provision of the MEF decree of 5 December 2003, in 2006, CDP S.p.A. continued to conduct the activities of disbursement, collection and reporting for the assets and liabilities transferred to the MEF.

On the asset side, one of the most important activities is managing the loans and other financing granted by Cassa Depositi e Prestiti and transferred to the MEF, the residual debt of which came to €24,738 million as at 31 December 2006.

The liability side includes the management of postal savings bonds assigned to the MEF, which at year-end totalled €100,534 million.

Pursuant to the aforementioned decree, CDP continues to handle a number of activities related to specific legislative provisions, most of which are financed with state funds.

The funds appropriated for these activities are deposited in non-interest-bearing treasury accounts held in the name of the MEF, although CDP S.p.A. is authorised to use them for the purposes envisaged in the laws establishing the programmes.

Major programmes include the following: residential building, which had funds amounting to €4,187 million at 31 December 2006; the natural gas infrastructure programme for the South, which had resources totalling €358 million; and resources for territorial agreements and area contracts, which came to €269 million.

11. OUTLOOK FOR 2007

Last year was characterised by double-digit rates of growth in the company's main balance-sheet accounts, exceeding initial targets and expectations, and financial performance far surpassed the already strong results posted the previous year.

This growth should continue into the current year. The area to experience the greatest rate of growth should again be the lending activities of the Infrastructure and Major Public Works business unit, although the activities of the Separate Account (Public Lending and Development Policy Management and Support) will remain predominant in absolute terms.

As concerns the profit outlook for 2007, the non-recurring revenues that affected the previous year should no longer be a factor, which will presumably result in a decline in income in absolute terms for the year, although the high levels of efficiency and operating leverage should remain unchanged.

SIGNIFICANT POST-PERIOD EVENTS

The following offers a description of the events occurring after 31 December 2006 with a significant impact on operations.

CDP has joined the PPP Italia fund, a closed-ended specialised investment in public-private partnership (PPP) projects, with a financial commitment of €17.5 million. The total value of the fund is €120 million. The purpose of PPP Italia is to make equity or quasi-equity investments, through significant (20-40%) and active (with representation on the boards of directors of the companies held) minority interests, in the following sectors: i) civil construction (schools, hospitals, public office buildings, etc.); ii) environment and urban requalification; iii) transportation and public utilities.
In 2006, CDP made no payments into the fund. The first payment was made on 10 January 2007 in the amount of €188,125.

On 12 January 2007, the Italian Council of State partially upheld CDP's appeal of the ruling of the regional administrative court of 8 February 2006 rejecting the company's appeal of the Italian Competition Authority's measure concerning the conditional authorisation to purchase a 29.99% stake in Terna S.p.A. In particular, the Council of State overturned the provision concerning the appointment of 6 independent directors to the Terna S.p.A. board of the 7 that CDP could appoint (or an equivalent proportion in the event the number of members of the board should change).

On 23 January 2007, CDP, together with Unicredit, Banca Intesa Infrastrutture e Sviluppo, some of the leading foundations, and Cassa Previdenziale Geometri, established the company F2i SGR S.p.A., which will be responsible for promoting and managing the closed-ended investment fund “Fondo Italiano per le Infrastrutture (F2i)”. As of the end of March 2007, CDP holds a 40% stake in F2i SGR S.p.A., which should fall to 14.3% during the year as new partners are added.

On 7 March 2007, CDP acquired a €20 million share in Fondo Abitare Sociale 1, a closed-ended ethical real estate fund being promoted by Fondazione Cariplo. The financial resources of the fund are to be used for the construction of housing and services in the Lombardy region, so as to contribute to solving the housing problem with a particular emphasis on the socially or economically disadvantaged and by collaborating with the service and public sectors. This will also include rent control for the properties built using the assets of the fund.

12. PROPOSED ALLOCATION OF NET INCOME FOR THE YEAR

We hereby submit for shareholder approval the financial statements for 2006, consisting of the balance sheet, the income statement, the statement of changes in equity, the cash flow statement, and the notes to the financial statements with related annexes, specifically the accounts for the segregated TAV assets (Annex 2) and the FTA statements (Annex 3). The financial statements are accompanied by the directors' report on operations.

We also submit for shareholder approval the following proposal for the allocation of 2006 earnings, which total €2,052,661,308.

In conformity with the provisions of Article 30 of the articles of association, we must first deduct the amount to be allocated to the legal reserve and quantify the amount due as a preferential dividend on the preference shares.

The latter amount has been calculated by applying a rate of 3%, increased by the annual change in the consumer price index, which was 2.1% (for an overall rate of 5.1%), to the par value of the preference shares; therefore, the preferential dividend totals €53,550,000.00.

Furthermore, we propose allocating €176,604,734 to a non-distributable equity reserve (*) pursuant to Article 6.2 of Legislative Decree 38/2005 and distributing a dividend of €124,950,000 to ordinary shares along with the preferential dividend to be distributed to the preference shares.

(euros)

ALLOCATION OF NET INCOME FOR THE YEAR

Net income	2,052,661,308
Legal reserve	102,633,065
Non-distributable reserve pursuant to Leg. Decree 38/2005 Art. 6 paragraph 2 (*)	176,604,734
Income available for distribution	***1,773,423,509***
Income attributable to preference shares	53,550,000
Income attributable to ordinary shares (**)	124,950,000
Residual income available for distribution	**1,594,923,509**

(*) Non-distributable gains from net income of associates, net of dividends received and tax effects.

(**) Up to preference yield (5.1%) attributed to preference shares (Art. 30 Bylaws)

The remainder, €1,594,923,509, shall be allocated as decided by the shareholders.

Rome, 26 April 2007

The Chairman
Alfonso Iozzo

ALLOCATION OF NET INCOME

1) AUTHORISATION FOR THE ALLOCATION OF NET INCOME (EXTRACT OF THE MINUTES OF THE MEETING OF SHAREHOLDERS OF 26 APRIL 2007)

[…]

The shareholders […] unanimously

resolve

- […]

- to approve the allocation of distributable earnings proposed by the Board of Directors as follows: €53,550,000 to be distributed as a preferential dividend to preference shares in accordance with the Bylaws; a further €124,950,000 to be distributed as a dividend to ordinary shares in addition to the dividend distributed to the preference shares.

The Chairman then invites the shareholders to authorise the allocation of the remainder of distributable earnings in the amount of €1,594,923,509.

[…] the shareholders unanimously

resolve

to allocate the remainder of €1,594,923,509 as follows: a further €82,950,000 as a preferential dividend for the preference shares; a further €193,550,000 as an dividend for the ordinary shares; the remaining €1,318,423,509 to be carried forward.

2) SUMMARY OF APPROVED DIVIDENDS

Following shareholder approval, the total dividends to be distributed to ordinary and preference shares are as follows:

Summary of distribution of dividends	*(euros)*	*(%)*
Preference shares	136,500,000	30.0%
Ordinary shares	318,500,000	70.0%
Total dividends	**455,000,000**	**100.0%**
DIVIDEND PER SHARE	**1.300**	
DIVIDEND YIELD ON PAR VALUE		**13.00%**

REPORT
OF THE
BOARD OF AUDITORS

Shareholders,

In the course of the financial year ending 31 December 2006, we carried out our statutory supervisory activity in accordance with the standards recommended by the National Councils of the Italian accounting profession, taking account of the recommendations of CONSOB in its communications, to the extent compatible with the status of CDP S.p.A., and in particular Communication no. 1025564 of 6 April 2001 and subsequent updates.

We preface our remarks as follows:

A) after beginning the transition to the IFRSs with gap analysis, the financial statements for 2006, the third financial year since the transformation of the organisation into a joint-stock company, have been prepared in accordance with these international accounting standards. In particular, in line with the Bank of Italy circular 262 of 22 December 2005, the formats of the balance sheet and income statement have moved away from the traditional classification by type of "instrument" prescribed by Italian accounting standards and has adopted a classification by "portfolio" as prescribed by the IFRSs issued by the International Accounting Standards Board (IASB), adopted with Regulation EC no. 1606 on 19 July 2002, and transposed into Italian legislation with Legislative Decree 38 of 28 February 2005;
B) for the purposes of comparison with the previous financial year, the figures for 2005 have been restated and adjusted in line with the IFRSs;
C) the balancing of the existing accounts, the determination of the exact balances and related accuracy of the imputation of the accounts, the adjustment of the 2005 financial statements in line with the IFRSs, and the 2006 financial statements have been audited by KPMG in the performance of its monitoring of the accounts pursuant to Article 2409 *bis* of the Italian Civil Code;
D) in the course of its examination, the Board of Auditors also took account of the business plan for 2005-2009 approved by the Board of Directors on 22 June 2005 and the annual plan approved by the Board of Directors on 25 January 2006;
E) the financial statements include the activity of the Ordinary Account, which began in 2005 and which, although its cash flows are segregated from those of the Separate Account, contributes to the formation of a single set of accounts.
   The separation of these two accounts, pursuant to Article 16, paragraphs 5 and 6, of the MEF decree of 6 October 2004, involves the preparation of separate accounting statements for the sole use of the MEF and the Bank of Italy. At the end of the year, shared costs incurred by the Separate Account are computed and reimbursed on a pro-rated basis by the Ordinary Account;

F) for the purposes of recognition and in noting that the value of the preference shares is unchanged in that they are included under "Capital", below is a description of the main differences between accounting figures under the Italian generally accepted accounting principles (IT GAAP) and the figures according to the IFRSs:

ITEM	IT GAAP	IFRSs
Loans	The value recognised under loans is related solely to the amount of the loan that has actually been disbursed.	The entire amount granted and being repaid is shown as an asset under loans, while amounts to be disbursed are shown as a liability.
Savings bonds	The amount recognised refers to the amount calculated based on the effective interest rate upon maturity for each bond series.	The amount recognised as a liability for securities in circulation is calculated at amortised cost based on the internal rate of return of the estimated cash flows throughout the expected life of each bond series. In accordance with the IFRSs, the estimated cash flows include the commissions paid by CDP for the placement of the bonds.
Derivatives	The nominal value of the contracts is shown in the off-balance sheet memorandum accounts under guarantees and commitments.	Indicated separately in the balance sheet at fair (i.e. market) value. Derivatives with a positive fair value are shown as assets, while those with a negative value are shown as liabilities.
Equity investments	Measured at purchase cost including incidental expenses	a) Measured at market value if classified as available-for-sale financial assets. Changes in this value are allocated to an equity reserve. b) Investments in associates are consolidated using the equity method, with gains/losses for the period recognised through profit or loss. Dividends received are

		not recognised through the income statement but are deducted from the value of the investment.
Property	Measured at purchase cost, including incidental expenses, and increased for revaluations carried out in application of specific laws, less depreciation.	With the transition to the IFRSs, land has been separated from the value of buildings. CDP has selected the option of measuring land and buildings at the IFRS transition date at fair value as deemed cost. Land is not depreciated.

Given the above, we report that the Board of Auditors:

- participated in the Shareholders' Meetings, as well as all meetings of the Board of Directors held during the year, and received periodic information from the directors on the activities carried out and the most significant operations conducted by the company;

- continued our monitoring of the activities undertaken by CDP S.p.A. to achieve the objectives of the business plan, which were directed at attaining adequate profitability and capital strength through the organisational changes described by the Board of Directors in its report on operations. In addition to attending the meetings of the Board of Directors, our monitoring activity also included specific examinations, periodic meetings with the Chairman and the General Manager, information gathering with the heads of the main company departments, as well as the exchange of data and information with the independent auditors, KPMG, whose audit records we examined;

- monitored the operation of the internal control and administrative/accounting systems with a view to assessing their appropriateness to company needs, as well as their reliability in representing operational facts and events;

- verified compliance with statutory requirements concerning the preparation of the financial statements and the report on operations, while also obtaining specific information from the independent auditors for this purpose.

In addition, with reference to the CONSOB communication and subsequent updates cited earlier, we report the following information:

1. The most significant economic, financial and capital operations undertaken by the company were conducted in conformity with applicable law and the company's articles of association. In particular, the following are to be noted:
   a) for the Separate Account, the issue of covered bonds amounting to €4 billion;
   b) for the Ordinary Account, the issue of Euro Medium Term Notes amounting to €394 million and the EIB loan of €50 million. The sectors involved were primarily the treatment of urban solid waste, specialised hospital construction, and the management of integrated water services.
2. No atypical or unusual transactions were conducted with third parties, related parties or group companies.

   The report on operations and the notes to the financial statements, which accompany the financial statements themselves, describe the main transactions conducted with third parties, outlining their characteristics and their economic impact. We also noted the existence of appropriate operating procedures for ensuring that commercial transactions are conducted on market terms and conditions and that they are reported in full to the Board of Directors.
3. The information provided by the Directors in their report on operations is felt to be adequate.
4. The report of the independent auditors was prepared by KPMG in accordance with Article 2409 *ter* of the Civil Code. The auditors had made no specific observations as of the date of approval of the draft financial statements by the Board of Directors.
5. The Board of Auditors received no complaints pursuant to Article 2408 of the Civil Code.
6. The Board of Auditors received no reports or complaints of alleged irregularities.
7. No other engagements were awarded to KPMG in 2006 other than those reported in points C) and 4 above.
8. During the period, no engagements were awarded to persons with ongoing relationships with KPMG.
9. The Board of Auditors was not asked to give its consent pursuant to Article of 136 Legislative Decree 385/1993 (the 1993 Banking Law).
10. In 2006, there were a total of 12 meetings of the Board of Directors, all of which were attended by the Board of Auditors, and 1 Shareholders' Meeting, at which the Board of Auditors was also present. The Board of Auditors held 16 meetings. All of the meetings were attended by the judge assigned by the State Audit Court, who participated actively with comments that were always much appreciated by the Board.

    During the meetings, the Board examined the minutes prepared by both the Support Committee and the Steering Committee, while also preparing our own minutes, which were sent to the Chairman of the company, the MEF, and the State Audit Court.

11. We have no comments on compliance with the principles of good administration, which appear to have been respected at all times.
12. In 2006, the CDP S.p.A. organisational structure was expanded with the creation of the Banking Supervisor Relations department and changes to the organisation chart with the creation of additional services in the Finance division. The company regulations have also been updated as a result. The creation of the new structure also involved the designation of new corporate functions, which were filled with highly qualified new employees.
    In 2006 71 persons left the company and 38 were hired, reducing the work force to 393 people, of which 34 executives, 112 middle managers and 247 office staff, with a consequent reduction in related costs of €3.3 million. More than 4,000 hours of corporate training courses were also provided.
    The national collective bargaining agreement for executives of banks, financial companies and ancillary companies was extended to all company executives. Finally, the supplemental company agreement for non-executive personnel was also signed, which established insurance coverage and a supplemental pension plan, of which 92% of all potential candidates are now beneficiaries. With regard to staff severance pay, it should also be noted that, despite the fact that the international accounting standards require an actuarial calculation of the amount to be paid to employees upon termination of employment, due to the limited number of employees that are beneficiaries of this plan, CDP S.p.A. maintained the value for this provision based on Italian civil law.
13. During the first part of the year, the agreement with Poste Italiane S.p.A., which expired on 31 December 2005, was extended for a further three years.
    The new agreement defines additional criteria for the development of the portfolio of products offered by CDP S.p.A., and a new mechanism for remunerating postal passbook savings accounts was adopted.
14. The Internal Auditing department performed the audits for a preliminary analysis of the risks involved in the business processes, while also defining a structured data gathering system, known as the “data model”, so as to monitor business events constantly. This area also provides support to the Supervisory Body envisaged by Legislative Decree 231/01, with which the Board of Auditors had specific meetings to examine the compliance model provided for by the decree and subsequently approved by the Board of Directors of Cassa Depositi e Prestiti S.p.A. on 25 January 2006.
15. The administrative/accounting system appears sufficiently reliable in presenting operational facts, including in the light of the statements in that regard by KPMG, although there is room for improvement and initiatives are already being studied

by the appropriate CDP departments, with a particular emphasis on information technology processes. It should also be noted that CDP owns all of its information systems and does not resort to outsourcing.

16. As of 1 January 2006, pursuant to the 2006 Finance Act, ISPA was merged with CDP S.p.A., which assumed all of its assets, rights and legal relationships, including the segregated TAV assets at year-end as shown in Annex 2 to the financial statements.
17. No significant matters emerged during the course of the periodic exchanges of information between the Board of Auditors and the independent auditing firm that would require comment here.
18. As it is not listed on an exchange, the company has not applied the Corporate Governance Code for listed companies.
19. The excellent financial performance achieved in 2005 improved further in 2006, with a 25% increase in net income, as calculated on the basis of the new international accounting standards for both years.
20. We also note that the considerable liquidity reported at year-end, in the amount of €81.8 billion including the reserve requirement, is in line with the role played by CDP S.p.A., as indicated in Article 5.7 of Decree Law 269 of 30 September 2003.

    In that regard, it should be noted that, again this year, liquidity exceeded "Loans to customers", which totalled €76.8 billion.
21. It should be noted that the provision for general banking risks, which was shown in the 2005 financial statements, was absorbed within equity upon first-time application of the IFRSs.
22. The deferred tax assets and liabilities resulting from first-time application of the IFRSs gave rise to a decrease in equity at 31 December 2005 in the amount of €292.5 million, with a negative impact on 2005 earnings of €82.4 million.
23. Finally, we hereby acknowledge that the shareholders were also informed of the outlook on operations for 2007.

We affirm that, within the scope of our functions, our supervisory activities did not reveal any omissions, censurable facts or irregularities that would need to be reported to the shareholders and, therefore, there are no impediments to approving the financial statements for the 2006 financial year together with the report on operations submitted by the Board of Directors.

Rome, 5 April 2007

THE BOARD OF AUDITORS

REPORT OF THE INDEPENDENT AUDITORS

KPMG

KPMG S.p.A.
Revisione e organizzazione contabile
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Relazione della società di revisione ai sensi dell'art. 2409-ter del Codice Civile

Agli Azionisti della
Cassa Depositi e Prestiti S.p.A.

1 Abbiamo svolto la revisione contabile del bilancio d'esercizio, costituito dallo stato patrimoniale, dal conto economico, dal prospetto dei movimenti del patrimonio netto, dal rendiconto finanziario e dalla relativa nota integrativa, della Cassa Depositi e Prestiti S.p.A. chiuso al 31 dicembre 2006. La responsabilità della redazione del bilancio compete agli amministratori della Cassa Depositi e Prestiti S.p.A.. E' nostra la responsabilità del giudizio professionale espresso sul bilancio e basato sulla revisione contabile. Il suddetto bilancio d'esercizio è stato preparato per la prima volta in conformità agli International Financial Reporting Standards adottati dall'Unione Europea.

2 Il nostro esame è stato condotto secondo gli statuiti principi di revisione. In conformità ai predetti principi, la revisione è stata pianificata e svolta al fine di acquisire ogni elemento necessario per accertare se il bilancio d'esercizio sia viziato da errori significativi e se risulti, nel suo complesso, attendibile. Il procedimento di revisione comprende l'esame, sulla base di verifiche a campione, degli elementi probativi a supporto dei saldi e delle informazioni contenuti nel bilancio, nonché la valutazione dell'adeguatezza e della correttezza dei criteri contabili utilizzati e della ragionevolezza delle stime effettuate dagli amministratori. Riteniamo che il lavoro svolto fornisca una ragionevole base per l'espressione del nostro giudizio professionale. La responsabilità del lavoro di revisione contabile del bilancio di alcune società collegate, il cui valore rappresenta il 75% della voce partecipazioni ed il 2% del totale attivo, è di altri revisori.

Il bilancio d'esercizio presenta ai fini comparativi i dati corrispondenti dell'esercizio precedente predisposti in conformità ai medesimi principi contabili. Per il giudizio sul bilancio d'esercizio della Cassa Depositi e Prestiti S.p.A. chiuso al 31 dicembre 2005, predisposto in conformità alle previgenti norme di legge e dal quale i dati comparativi sono derivati, si fa riferimento alla relazione da noi emessa in data 10 aprile 2006. Inoltre, nella nota integrativa sono illustrati gli effetti della transizione agli International Financial Reporting Standards adottati dall'Unione Europea. L'informativa presentata nella suddetta nota integrativa è stata da noi esaminata ai fini dell'espressione del giudizio sul bilancio d'esercizio chiuso al 31 dicembre 2006.

3 A nostro giudizio, il bilancio d'esercizio della Cassa Depositi e Prestiti S.p.A. al 31 dicembre 2006 è conforme agli International Financial Reporting Standards adottati dall'Unione Europea, nonché ai provvedimenti emanati in attuazione dell'art. 9 del D.Lgs. n. 38 del 28 febbraio 2005; esso pertanto è redatto con chiarezza e rappresenta in modo veritiero e corretto la situazione patrimoniale e finanziaria, il risultato economico, le variazioni del patrimonio netto ed i flussi di cassa della Cassa Depositi e Prestiti S.p.A. per l'esercizio chiuso a tale data.

Roma, 11 aprile 2007

KPMG S.p.A.

Giuseppe Scimone
Socio

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2006

FINANCIAL STATEMENTS

AT 31 DECEMBER 2006

Balance sheet

Income statement

Statement of changes in shareholders' equity

Cash flow statement

FORM AND CONTENT OF THE FINANCIAL STATEMENTS AT 31 DECEMBER 2006

The financial statements at 31 December 2006 have been prepared in conformity with the applicable regulations and are composed of:

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

Schedules presenting a comparison with the balance sheet and the income statement at 31 December 2005 have also been prepared.

The notes to the financial statements are composed of:

INTRODUCTION

PART A – Accounting policies

PART B – Information on the balance sheet

PART C – Information on the income statement

PART D – Segment information

PART E – Information on risks and related hedging policies

PART F– - Capital

PART G – Business combinations

PART H – Transactions with related parties

The following documents, which are an integral part of the notes to the financial statements, are contained in the annexes:

1. **LIST OF EQUITY INVESTMENTS**
2. **ACCOUNTS AT 31 DECEMBER 2006 OF THE SEGREGATED TAV ASSETS**
3. **FIRST-TIME ADOPTION OF THE IAS/IFRS BY THE CASSA DEPOSITI E PRESTITI**

FINANCIAL STATEMENTS

AT 31 DECEMBER 2006

Balance sheet

Income statement

Statement of changes in shareholders' equity

Cash flow statement

(units of euros)

BALANCE SHEET

	Assets	31/12/2006	31/12/2005
10.	Cash and cash equivalents	78,622,451,330	62,466,564,146
20.	Financial assets held for trading	135,870,808	75,702,136
40.	Financial assets available for sale	15,320,237,987	14,559,774,407
60.	Loans to banks	3,465,309,210	3,633,791,241
70.	Loans to customers	76,849,708,099	62,589,338,785
	of which securing covered bonds	*19,118,126,232*	*16,564,637,535*
80.	Hedging derivatives	91,266,701	48,327,259
100.	Equity investments	5,417,505,207	5,270,575,447
110.	Property, plant and equipment	208,312,922	204,671,663
120.	Intangible assets	4,710,635	4,215,301
	of which:		
	goodwill	-	-
130.	Tax assets	556,200,838	435,302,434
	a) current	*310,442,816*	*296,433,742*
	b) deferred	*245,758,022*	*138,868,692*
150.	Other assets	20,785,527	244,943,509
	Total assets	**180,692,359,264**	**149,533,206,327**

Head of the Administration
& Financial Reporting Department
Angelo Mariano

General Manager
Antonino Turicchi

(units of euros)

BALANCE SHEET

	Liabilities and shareholders' equity	31/12/2006	31/12/2005
10.	Due to banks	1,248,753,618	1,448,098,522
20.	Due to customers	81,033,749,912	74,035,099,941
	of which amounts to be disbursed on loans securing covered bonds	*2,909,458,028*	*1,098,175,297*
30.	Securities issued	82,595,438,688	61,177,605,807
	of which covered bonds	*7,852,806,566*	*3,959,362,536*
40.	Financial liabilities held for trading	137,391,641	369,128,207
60.	Hedging derivatives	657,294,199	48,786,826
70.	Adjustment of financial liabilities hedged generically (+/-)	(319,043,740)	18,640,266
80.	Tax liabilities	1,344,880,592	925,510,525
	a) current	*529,680,000*	*332,109,608*
	b) deferred	*815,200,592*	*593,400,917*
100.	Other liabilities	708,419,680	913,769,635
110.	Staff severance pay	725,849	396,468
120.	Provisions	903,670	9,829,300
	a) pensions and similar commitments	-	-
	b) other provisions	*903,670*	*9,829,300*
130.	Valuation reserves	6,459,775,615	5,014,832,597
160.	Reserves	1,271,408,234	429,568,648
180.	Share capital	3,500,000,000	3,500,000,000
200.	Net income for the period (+/-)	2,052,661,308	1,641,939,586
	Total liabilities and shareholders' equity	**180,692,359,264**	**149,533,206,327**

Head of the Administration
& Financial Reporting Department
Angelo Mariano

General Manager
Antonino Turicchi

(units of euros)

INCOME STATEMENT

		31/12/2006	31/12/2005
10.	Interest income and similar revenues	5,641,560,984	4,874,351,015
20.	Interest expense and similar charges	(3,861,166,776)	(2,839,111,751)
30.	**Net interest income**	**1,780,394,208**	**2,035,239,264**
40.	Commission income	11,492,748	1,930,851
50.	Commission expense	(725,207,033)	(672,917,412)
60.	**Net commission income**	**(713,714,285)**	**(670,986,561)**
70.	Dividends and similar revenues	907,199,204	885,715,736
80.	Net gain (loss) on trading activities	230,664,877	(180,537,533)
90.	Net gain (loss) on hedging activities	(1,456,124)	(27,043,354)
100.	Gains (losses) on disposal or repurchase of:	200,397,839	71,389,515
	a) loans	*200,397,839*	*71,389,515*
120.	**Gross income**	**2,403,485,719**	**2,113,777,067**
130.	Net impairment adjustments of:	(34,525,558)	(2,026,243)
	a) loans	*(34,525,558)*	*(2,026,243)*
140.	**Financial income (expense), net**	**2,368,960,161**	**2,111,750,824**
150.	Administrative expenses:	(68,102,667)	(69,907,107)
	a) staff costs	(40,095,419)	(43,436,277)
	b) other administrative expenses	(28,007,248)	(26,470,830)
160.	Net provisions	8,925,630	(4,393,900)
170.	Net adjustments of property, plant and equipment	(5,108,088)	(4,348,120)
180.	Net adjustments of intangible assets	(1,329,200)	(597,321)
190.	Other operating income (costs)	1,370,017	1,976,281
200.	**Operating costs**	**(64,244,308)**	**(77,270,167)**
210.	Gains (losses) on equity investments	312,230,620	65,970,551
240.	Gains (losses) on disposal of investments	(1,665)	0
250.	**Income (loss) before tax from continuing operations**	**2,616,944,808**	**2,100,451,208**
260.	Income tax for the period on continuing operations	(564,283,500)	(458,511,622)
270.	**Income (loss) after tax on continuing operations**	**2,052,661,308**	**1,641,939,586**
290.	**Income (loss) for the period**	**2,052,661,308**	**1,641,939,586**

Head of the Administration
& Financial Reporting Department
Angelo Mariano

General Manager
Antonino Turicchi

(thousands of euros)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

				Allocation of net income for previous year		Changes for the year								
							Equity transactions							
	Balance at 31.12.05 (Leg. Decree 87/92)	Changes in opening balance	Balance at 1.1.06	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	Net income (loss) for the period ended 31.12.06	Shareholders' equity at 31.12.06
Share capital:														
a) ordinary shares	2,450,000		2,450,000											**2,450,000**
b) other shares	1,050,000		1,050,000											**1,050,000**
Share premium reserve														
Reserves:														
a) income	1,159,887 (*)	(730,318)	429,569	841,840	-									**1,271,408**
b) other														**-**
Valuation reserves:														
a) available for sale		4,799,205	4,799,205			1,481,797								**6,281,002**
b) cash flow hedges														
c) other reserves														
- revaluation of property	167,572		167,572											**167,572**
- exchange rate differences		48,055	48,055			(36,854)								**11,201**
Equity instruments														**-**
Treasury shares														**-**
Net income (loss) for the period	927,642	714,298	1,641,940	(841,840)	(800,100)								2,052,661	**2,052,661**
Shareholders' equity	**5,755,101**	**4,831,240**	**10,586,341**	**-**	**(800,100)**	**1,444,943**							**2,052,661**	**13,283,845**

(*) Income reserves include the provision for general banking risks in the amount of €1,145,595,589

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CASH FLOW STATEMENT (indirect method)

A. OPERATING ACTIVITIES	31/12/2006	31/12/2005
1. Operations	**1,761,617**	**1,835,079**
- Net income for the year (+/-)	2,052,661	1,641,940
- Gains (losses) on financial assets held for trading and on financial assets recognised at fair value (-/+)	(230,665)	180,538
-Gains (losses) on hedging activities (-/+)	1,456	27,043
-Net impairment adjustments (+/-)	34,526	2,026
- Net value adjustments to property, plant and equipment and intangible assets (+/-)	6,437	4,945
- Net provisions and other costs/revenues (+/-)	(8,596)	2,533
-Unpaid taxes and duties (+)	217,849	143,531
- Writedowns/writebacks of equity investments (+/-)	(312,051)	(167,478)
2. Cash generated by/used in financial assets	**(13,360,903)**	**(8,455,222)**
- Financial assets held for trading	(60,169)	(60,004)
- Financial assets available for sale	804,011	802,319
- Loans to banks: other	167,879	(1,602,874)
- Loans to customers	(14,272,624)	(7,594,663)
3. Cash generated by/used in financial liabilities	**28,416,878**	**31,297,896**
- Due to banks: other	(221,496)	(145,332)
- Due to customers	6,998,651	9,286,090
- Securities issued	21,647,778	22,101,582
- Trading financial liabilities	(1,072)	6,343
- Other liabilities	(6,983)	49,213
Cash generated by/used in operating activities	**16,817,592**	**24,677,753**
B. INVESTING ACTIVITIES		
1. Cash generated by	**139,312**	**39,842**
- Sale of equity investments	9,696	-
- Dividends from equity investments	129,616	39,842
2. Cash used in	**(23,673)**	**(1,325,984)**
- Purchase of equity investments	(13,099)	(1,315,200)
- Purchase of property, plant and equipment	(8,749)	(6,779)
- Purchase of intangible assets	(1,825)	(4,005)
Cash generated by/used in investing activities	**115,639**	**(1,286,142)**
C. FINANCING ACTIVITIES		
- Dividend distribution and other allocations	(800,100)	(271,250)
Net cash generated by/used in financing activities	**(800,100)**	**(271,250)**
NET CASH GENERATED/USED DURING THE YEAR	**16,133,131**	**23,120,361**

RECONCILIATION

Cash and cash equivalents at beginning of year	**62,417,713**	**39,297,352**
Total cash generated/used during the year	**16,133,131**	**23,120,361**
Cash and cash equivalents: effects of changes in exchange rates	**-**	**-**
Cash and cash equivalents at end of year	**78,550,844**	**62,417,713**

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COMPARATIVE STATEMENTS

(thousands of euros)

BALANCE SHEET

	Assets	31/12/2006	31/12/2005	change (+/-)	%
10.	Cash and cash equivalents	78,622,451	62,466,564	16,155,887	25.9%
20.	Financial assets held for trading	135,871	75,702	60,169	79.5%
40.	Financial assets available for sale	15,320,238	14,559,774	760,464	5.2%
60.	Loans to banks	3,465,309	3,633,791	(168,482)	-4.6%
70.	Loans to customers	76,849,708	62,589,339	14,260,369	22.8%
	of which securing covered bonds	*19,118,126*	*16,564,638*	2,553,489	15.4%
80.	Hedging derivatives	91,267	48,327	42,939	88.9%
100.	Equity investments	5,417,505	5,270,575	146,930	2.8%
110.	Property, plant and equipment	208,313	204,672	3,641	1.8%
120.	Intangible assets	4,711	4,215	495	11.8%
	of which:				
	- goodwill	-	-	-	
130.	Intangible assets	556,201	435,302	120,898	27.8%
	a) current	*310,443*	*296,434*	14,009	*4.7%*
	b) deferred	*245,758*	*138,869*	106,889	*77.0%*
150.	Other assets	20,786	244,944	(224,158)	-91.5%
	Total assets	**180,692,359**	**149,533,206**	**31,159,153**	**20.8%**

(thousands of euros)

BALANCE SHEET

	Total liabilities and shareholders' equity	31/12/2006	31/12/2005	change (+/-)	%
10.	Due to banks	1,248,754	1,448,099	(199,345)	-13.8%
20.	Due to customers	81,033,750	74,035,100	6,998,650	9.5%
	of which amounts to be disbursed on loans securing covered bonds	*2,909,458*	*1,098,175*	*1,811,283*	*164.9%*
30.	Securities issued	82,595,439	61,177,606	21,417,833	35.0%
	of which covered bonds	*7,852,807*	*3,959,363*	*3,893,444*	*98.3%*
40.	Financial liabilities held for trading	137,392	369,128	(231,737)	-62.8%
60.	Hedging derivatives	657,294	48,787	608,507	1247.3%
70.	Adjustment of financial liabilities hedged generically (+/-)	(319,044)	18,640	(337,684)	-1811.6%
80.	Tax liabilities	1,344,881	925,511	419,370	45.3%
	a) current	*529,680*	*332,110*	*197,570*	*59.5%*
	b) deferred	*815,201*	*593,401*	*221,800*	*37.4%*
100.	Other liabilities	708,420	913,770	(205,350)	-22.5%
110.	Staff severance pay	726	396	329	83.1%
120.	Provisions	904	9,829	(8,926)	-90.8%
	a) pensions and similar commitments	-	-	*0*	
	b) other provisions	*904*	*9,829*	*(8,926)*	*-90.8%*
130.	Valuation reserves	6,459,776	5,014,833	1,444,943	28.8%
160.	Reserves	1,271,408	429,569	841,840	196.0%
180.	Share capital	3,500,000	3,500,000	0	0.0%
200.	Net income for the period (+/-)	2,052,661	1,641,940	410,722	25.0%
	Total liabilities and shareholders' equity	**180,692,359**	**149,533,206**	**31,159,153**	**20.8%**

(thousands of euros)

INCOME STATEMENT

		31/12/2006	31/12/2005	change (+/-)	%
10.	Interest income and similar revenues	5,641,561	4,874,351	767,210	15.7%
20.	Interest expense and similar charges	(3,861,167)	(2,839,112)	(1,022,055)	36.0%
30.	**Net interest income**	**1,780,394**	**2,035,239**	**(254,845)**	**-12.5%**
40.	Commission income	11,493	1,931	9,562	495.2%
50.	Commission expense	(725,207)	(672,917)	(52,290)	7.8%
60.	**Net commission income**	**(713,714)**	**(670,987)**	**(42,728)**	**6.4%**
70.	Dividends and similar revenues	907,199	885,716	21,483	2.4%
80.	Net gain (loss) on trading activities	230,665	(180,538)	411,202	-227.8%
90.	Net gain (loss) on hedging activities	(1,456)	(27,043)	25,587	-94.6%
100.	Gains (losses) on disposal or repurchase of:	200,398	71,390	129,008	180.7%
	a) loans	*200,398*	*71,390*	*129,008*	*180.7%*
120.	**Gross income**	**2,403,486**	**2,113,777**	**289,709**	**13.7%**
130.	Net impairment adjustments of:	(34,526)	(2,026)	(32,499)	1603.9%
	a) loans	*(34,526)*	*(2,026)*	*(32,499)*	*1603.9%*
140.	**Financial income (expense), net**	**2,368,960**	**2,111,751**	**257,209**	**12.2%**
150.	Administrative expenses:	(68,103)	(69,907)	1,804	-2.6%
	a) staff costs	(40,095)	(43,436)	3,341	-7.7%
	b) other administrative expenses	(28,007)	(26,471)	(1,536)	5.8%
160.	Net provisions	8,926	(4,394)	13,320	-303.1%
170.	Net adjustments of property, plant and equipment	(5,108)	(4,348)	(760)	17.5%
180.	Net adjustments of intangible assets	(1,329)	(597)	(732)	122.5%
190.	Other operating income (costs)	1,370	1,976	(606)	-30.7%
200.	**Operating costs**	**(64,244)**	**(77,270)**	**13,026**	**-16.9%**
210.	Gains (losses) on equity investments	312,231	65,971	246,260	373.3%
240.	Gains (losses) on disposal of investments	(2)	0	(2)	
250.	**Income (loss) before tax from continuing operations**	**2,616,945**	**2,100,451**	**516,494**	**24.6%**
260.	Income tax for the period on continuing operations	(564,284)	(458,512)	(105,772)	23.1%
270.	**Income (loss) after tax on continuing**	**2,052,661**	**1,641,940**	**410,722**	**25.0%**
290.	**Net income for the period**	**2,052,661**	**1,641,940**	**410,722**	**25.0%**

NOTES TO THE

FINANCIAL STATEMENTS

(FINANCIAL STATEMENTS AT 31/12/2006)

NOTES TO THE FINANCIAL STATEMENTS

INTRODUCTION

STRUCTURE AND CONTENT OF THE FINANCIAL STATEMENTS

As in previous years, the CDP S.p.A. financial statements have been prepared in accordance with the regulations of the Bank of Italy, which are currently set out in its circular concerning banking and financial service supervision of 22 December 2005 as updated, 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 Community.

Legislative Decree 38 of 20 February 2006 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 balance sheet, the income statement, the cash flow statement, the statement of changes in equity, and these notes to the financial statements and related annexes, as well as the directors' report on operations.

The financial statements present a clear, true, and accurate 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.

FIRST-TIME ADOPTION OF THE IFRSS

The IFRSs, which CDP S.p.A. has adopted for the first time for these financial statements, differ in certain significant respect from the Italian accounting standards that had been applied until 2005. A discussion of the impact of first-time adoption of the international accounting standards, as required by IFRS 1 concerning such first-time adoption, may be found in the reconciliation for first-time adoption of the IFRSs and related notes included among the annexes below.

BASIS OF PRESENTATION

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

Accounts with zero balances for both the current and prior year have been excluded. In the income statement, revenues are indicated as positive numbers, while costs are shown as negative numbers (in parentheses).

The figures in the 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.

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.

For the purposes of comparison, the tables in the notes to the financial statements present the figures for both the 2006 and 2005 financial years. However, it should be noted that, in many cases, such comparison is not particularly significant given the differences in measurement policies and the consequent difficulty in converting the data for the purposes of comparison. For this reason, in certain cases, the figures for 2005 in some of the tables only show the total of each item.

Tables with no amounts for either 2006 or 2005 have been excluded.

CDP SEGREGATED ASSETS

CDP holds two sets of segregated assets as follows:

A. THE COVERED BOND SEGREGATED ASSETS

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

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

The assets are in the accounts with an "of which" indication on the financial statements, and the transaction is described in the notes to the financial statements under Part B – INFORMATION ON THE BALANCE SHEET.

B. THE TAV SEGREGATED ASSETS

Acquired following the merger of Infrastrutture S.p.A. on 1 January 2006, these segregated assets were established in order to fund the investments related to the high-speed/high-capacity railway infrastructure in accordance with Article 75 of Law 289 of 27 December 2002. On 27 December 2006, by decree of the Ministry for the Economy and Finance, it was established that the assets were to be liquidated according to procedures defined by Article 2447-*novies* of the Civil Code, with the Italian government taking over responsibility for the costs related to the assets.

Even after the adoption of the IFRSs, CDP has shown this fund as an off-balance-sheet item, in line with the accounting treatment adopted by Infrastrutture S.p.A.

The financial situation of the TAV segregated assets at 31 December 2006, prepared in accordance with strictly financial criteria following the liquidation of the assets and their absorption by the state with the 2007 Finance Act, is reported in the document annexed to these notes.

AUDITING OF THE FINANCIAL STATEMENTS

The CDP financial statements have been submitted to KPMG S.p.A. for audit in execution of the shareholder resolution of 23 March 2004, which engaged this firm to audit the financial statements and accounts for the period 2004-2006.

CONSOLIDATED FINANCIAL STATEMENTS

As defined by IAS 27 and SIC 12, CDP controls (albeit without a direct equity interest) the special-purpose vehicle CPG – Società di cartolarizzazione a r.l. However, CDP S.p.A. has not prepared consolidated financial statements given that the balances of the financial statement accounts of said vehicle would have an insignificant impact on the consolidated accounts. CDP S.p.A. also holds equity investments in which it exercises a significant influence, in view of the fact that such investments provide the company with at least 20% of the voting rights in the investees. These investments have been accounted for using the equity method.

ANNEXES

In order to enhance disclosure, the following documents are annexed to this report:

1 List of equity investments;

2 Accounts at 31 December 2006 of the segregated TAV assets;
3 First-time adoption of the IAS/IFRS by Cassa Depositi e Prestiti

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 2006 and with the Bank of Italy circular of 22 December 2005, which established 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. IFRS 7 has also been applied beginning with the 2006 financial year.

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.

SECTION 3 – EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

No significant events have occurred between the balance sheet date and the date of preparation of these financial statements that could alter the assessments and information contained herein.
Events other than those with accounting significance that could have an appreciable impact on operations or on future financial performance are described in Section 11 – OUTLOOK FOR 2007 of the report on operations.

A.2 – THE MAIN FINANCIAL STATEMENT ACCOUNTS

With the introduction of the IFRSs, two new measurement criteria, in addition to that of historical cost upon which the international accounting standards were based, have been introduced, particularly as concerns financial instruments, namely fair value and amortised cost. The following is a description of these two methods of measuring financial assets:

FAIR VALUE

Fair value is represented by the official price of a financial instrument on an active market. If the market for a financial instrument is not active, fair value has been determined using measurement techniques that are commonly used in the financial markets, such as discounted cash flows and option pricing models. Where applicable, fair value also includes accrued financial income. In the event a price on an active market is not available for an equity investment and the fair value cannot be reliably measured, the financial asset is measured at cost.

For financial assets and liabilities that are not recognized at fair value, the information concerning fair value provided in these notes is not to be considered the amount that could be realised if all of the financial assets and liabilities were sold or liquidated immediately.

In the absence of an active market, the fair value of the assets categorised as "loans and receivables" has primarily been measured by discounting the expected cash flows at the market rates on the balance sheet date. For all other floating-rate financial assets and unlisted capital instruments and receivables, it is felt that their carrying amount approximates their fair value as of the balance sheet date.

AMORTISED COST

The amortised cost of a financial asset or liability is the value at which the asset or liability was measured at initial recognition minus principal repayments, plus or minus cumulative amortisation using the effective interest rate of any differences between the initial amount and maturity amount, and minus any reductions (either directly or through a specific provision) for impairment or uncollectibility.

The effective interest method is a method of calculating the amortised cost of a financial asset or liability (or group of financial assets or liabilities) and of allocating the interest income or expense over the relevant period. The effective interest rate (EIR, or internal rate of return, IRR) is the rate that exactly discounts expected future cash flows through the expected life of the financial instrument or, where appropriate, a time period to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, an entity needs to estimate the cash flows considering all contractual terms of the financial instrument (for example prepayment, call and similar options), but without considering future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see IAS 18), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

USE OF ESTIMATES

When preparing the financial statements, management has had to make estimates and assumptions that have an impact on the application of accounting standards and on the amounts recognised for assets, liabilities, costs and revenues. However, it should be borne in mind that, as estimates, the realisable value of the items measured may not necessarily coincide with the related carrying amount.
These estimates and assumptions are revised on a regular basis. Any changes resulting from the revision of these estimates are recognised in the period in which the revision is carried out as well as in future periods.

The main accounting policies applied in the preparation of the financial statements are described below.

2.1– 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.

2.2–FINANCIAL ASSETS AVAILABLE FOR SALE

Available-for-sale financial assets (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 an available-for-sale security is impaired, the cumulative, unrealized 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.
Where the reasons for the impairment should cease to obtain subsequent to the recognition of the impairment loss, the writeback is recognised in the income statement for loans or debt securities and in an equity reserve in the case of equity instruments. 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 are retained, the asset remains on the balance sheet even if official title has been transferred.

2.4 - 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 in CDP's Separate Account portfolio are largely loans that have been granted in accordance with public law with administrative acts and so are quite different from the loans granted by banks that 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 CDP earn interest that can be treated as a reimbursement of the interest income earned by CDP on the non-disbursed portion. CDP'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. CDP'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 by CDP and with certain exceptions, equals cost), and the payable is a demand liability that decreases as the amounts are actually disbursed.

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 CDP'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 (as the reserve requirement).

2.6 - 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%.

CDP has fair value hedges in place to neutralise the carrying amount of individual assets and liabilities or groups of similar assets and liabilities, as well as macro-hedging of the interest rate risk of portfolios of liabilities in respect of medium/long-term fixed-rate postal funding.

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.

2.7 - 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 and IAS 31.

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.

In the absence of control, equity investments are measured using the equity method. This method calls for the equity investment to be initially measured at purchase cost and then adjusted to take account of variations in the equity of the shareholding based on the share held. Under normal conditions, this entails an increase in the value of the investment in proportion to earnings for the period, net of any dividends received from the shareholding.

The difference from one measurement to the other is recognised through profit or loss as gains or losses on equity investments. Dividends received are therefore not recognised as revenue, but are deducted from the value of the investment (in that they reduce the equity of the shareholding).
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.

2.8 - 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. Therefore, with the transition to the IFRSs, we have separated the value of land from the value of buildings based on appraisals that were previously used in 2005 for the purpose of revaluing company properties that had been recognised in the 2004 financial statements, pursuant to the provisions of the 2006 Finance Act. Land is considered to have an indefinite life and, as such, is not depreciated.
Buildings are depreciated over a 33-year period, which is considered to be the useful life of the buildings themselves.
CDP has elected the option of measuring land (the value of which has been separated from buildings) and buildings at the IFRS transition date at fair value as deemed cost.
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.
"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.

2.9 - INTANGIBLE ASSETS

"Intangible assets" include goodwill and other intangibles governed by IAS 38, which includes assets 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 company;
(b) the cost of the asset can be measured reliably.
Intangible assets are therefore derecognised when sold or when future economic benefits are no longer expected.
CDP's intangible assets essentially consist of software.
Costs incurred for the purchase and development of software by third parties are amortised, usually on a straight-line basis, over the residual useful lives of the assets, which is no greater than 5 years.
Costs incurred for software development before the year in which the project is completed are capitalised when the development/implementation of the project is likely to be successful and the utility of the product extends over more than one year. In this case, the costs are amortised over a period of no more than 5 years. In the year in which the software is completed, the costs incurred and not yet amortised are imputed to the asset and the cost is amortised over five years.
Intangible assets under development and advances include advances or costs incurred for intangible assets that have not yet been completed or are undergoing testing before entering service. Since they have not yet entered the company's production cycle, amortisation is suspended.

2.11– Current and deferred taxation

Income tax and the regional tax on business activities are recognised on an accruals basis using a realistic estimate of the tax liability for the year under applicable tax law. In particular, we have taken account of the changes introduced with Legislative Decree 38/2005, which governs the tax effects resulting from the application of the international accounting standards, so as to maintain the tax burden essentially the same as that of the financial statements prepared under Italian GAAP (i.e. the principle of neutrality), as well as to conserve the principle of taxable income coming through the income statement by ensuring the fiscal materiality of components that, under the international accounting standards, are allocated directly to equity.

Deferred tax items regard the recognition of the effects of possible 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.

2.12 - 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.

CDP has no “provisions for retirement and similar obligations”, while “other provisions” includes the provisions for liabilities and contingencies established in observance of international accounting standards, with the exception of writedowns due to the impairment of guarantees issued and credit derivatives treated as such in accordance with IAS 39, which, where applicable, are recognised under “other liabilities”. In particular, CDP’s provision for contingencies only includes estimates related to pending litigation, which includes allocations for revocatory actions and suits filed by third parties (including employees and former employees).
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.

2.13– 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. In particular, CDP includes in these items the amounts still to be disbursed for loans being repaid (see the description of CDP Separate Account loans under section 2.4 above).
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.
Securities issued include the postal savings bonds issued by CDP. These bonds are zero-coupon securities (where the interest accrued is paid when the principal is redeemed) with a step-up interest structure (the interest rate increases as the period for which the bond is held increases) and with principal and interest redeemed in a single payment upon maturity, although the bonds may be redeemed at any time prior to the bond’s contractual maturity, with principal and interest paid in accordance with the period for which the bond was held. For financial instruments such as postal savings bonds, IAS 39 calls for the adoption of the amortised cost method and states that the effective interest rate to be used in calculating

amortised cost must be equal to the internal rate of return of the estimated (not contractual) cash flows throughout the expected (and not contractual) life of the instrument. Given the aforementioned option of early redemption, the expected life of postal savings bonds is, on average, less than their contractual life. CDP has therefore developed a statistical model for forecasting early redemption of savings bonds based on a time series of redemptions, which is used to price the new issues. The forecasting model used at the time of the bond issue is also used to determine the initial estimated amortisation plan for each series of savings bonds. Based on these estimated flows, the effective interest rate and the amortised cost to be recognised in the balance sheet are then calculated. Differences between the actual early redemptions and these estimates result in an adjustment to the remaining amortisation schedule. In such cases, the IFRSs state that the amortised cost of the instrument being measured is to be equal to the present value of the new estimated future cash flows using the unchanging effective interest rate calculated upon issuing each series of savings bonds as the discount rate. It is also necessary to recognise distribution commissions paid to Poste Italiane S.p.A. as transaction costs. These fees are therefore considered along with the other cash flows for the savings bonds for the purpose of determining the effective interest rate and are no longer amortised at a constant annual rate.

2.14 - 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.

2.16– 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 exchange rate in prevailing on the date of the transaction.
Assets and liabilities denominated in foreign currencies or indexed to foreign currencies, as well as financial assets with funding denominated in or indexed to foreign currencies, are translated at the spot exchange rates prevailing at the end of the period.
Costs and revenues in foreign currencies are recognised at the exchange rate prevailing at the time of the transactions.
The effects of this measurement are recognised in the income statement in the period in which they emerge.
Positive and negative foreign exchange differences related to financial assets and liabilities denominated in a foreign currency, other than those that are recognised at fair value or those that are subject to fair value or cash flow hedging and their related hedging instruments, are recognised under "Net gain (loss) on trading activities" (item 80).
The effects of foreign exchange differences related to the equity of investments measured using the equity method are recognised in an equity reserve.

2.17 - 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 PROVISION

This provision covers the entire entitlement accrued by employees at the end of the financial year, in conformity with the provisions of law (Article 2120 of the Civil Code) and applicable employment contracts. In accordance with IAS 19, the staff severance pay scheme (TFR) is considered a defined-benefit plan and, therefore, is recognised as the present value of the accumulating obligation (both the present value of the expected future payments related to benefits accrued during the current year and the present value of future payments resulting from amounts accrued in previous years).

It should also be noted that the balance of provisions for staff severance pay is minor 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 is related solely to newly hired employees (under the INPS pension scheme) for amounts accrued through 2005, given that the amounts accrued for 2006 for employees opting in to the pension scheme (92% of all candidates) was not applied to this provision, but to the supplemental pension provision in accordance with the applicable legislation.

Therefore, the effects of the application of IAS 19 are not significant.

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.

PART B – INFORMATION ON THE BALANCE SHEET

ASSETS

SECTION 1 – CASH AND CASH EQUIVALENTS – ITEM 10

The liquid assets of CDP S.p.A. are mainly held the treasury current accounts it has at the Bank of Italy:

- the interest-bearing account no. 29814 denominated "*Cassa DP SPA-separate account*" holds all liquid balances associated with the operations conducted by CDP in its activities under the Separate Account. At end-2006 the balance on the account was €76.919 million.

- the non-interest-bearing current account no. 29815 denominated "*CDP SPA-pagamenti*" is used to deposit funds in respect of payment instructions issued by CDP to extinguish liabilities with the provincial state treasury sections of the Bank of Italy. At end-2006 the balance on the account was €339.4 million.

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

Interest accrued and not yet paid on account no. 29814 amounted to €1,364 million.

1.1 Cash and cash equivalents: composition

The following table summarises liquidity at 31 December 2006, including interest accrued and not yet credited on amounts deposited in interest-bearing accounts.

(thousands of euros)

1.1 CASH AND CASH EQUIVALENTS: COMPOSITION

	31/12/2006	31/12/2005
a) Cash	78,622,451	62,466,564
b) Free deposits with central banks	-	-
Total	**78,622,451**	**62,466,564**

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

	31/12/2006		31/12/2005	
	Listed	Unlisted	Listed	Unlisted
A On-balance-sheet assets				
1. Debt securities				
1.1 Structured securities				
1.2 Structured securities				
2. Equity securities				
3. Units in collective investment undertakings				
4. Loans				
4.1 Repurchase agreements				
4.2 Other				
5. Impaired assets				
6. Assets assigned but not derecognized				
Total (A)				
B Derivatives				
1. Financial derivatives:		**135,871**		**75,702**
1.1 trading		135,871		75,702
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)		**135,871**		**75,702**
Total (A+B)		**135,871**		**75,702**

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.

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

	31/12/2006	31/12/2005
A. On-balance-sheet financial assets		
1. Debt securities		
a) Governments and central banks		
b) Other government agencies		
c) Banks		
d) Other issuers		
2. Equity securities		
a) Banks		
b) Other issuers:		
- insurance undertakings		
- financial companies		
- non-financial companies		
- other		
3. Units in collective investment undertakings		
4. Loans		
a) Governments and central banks		
b) Other government agencies		
c) Banks		
d) Other		
5. Impaired assets		
a) Governments and central banks		
b) Other government agencies		
c) Banks		
d) Other		
6. Assets assigned but not derecognized		
a) Governments and central banks		
b) Other government agencies		
c) Banks		
d) Other		
Total A		
B. Derivatives		
a) Banks	131,673	75,702
b) Customers	4,198	
Total (B)	**135,871**	**75,702**
Total (A+B)	**135,871**	**75,702**

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

2.3 Financial assets held for trading: derivatives

(thousands of euros)

2.3 FINANCIAL ASSETS HELD FOR TRADING: DERIVATIVES

	Interest rates	Foreign currencies and gold	Equity securities	Loans	Other	31/12/2006	31/12/2005
A) Listed							
1. Financial derivatives:							
• with exchange of principal							
- options purchased							
- other derivatives							
• without exchange of principal							
- options purchased							
- other derivatives							
2. Credit derivatives:							
• with exchange of principal							
• without exchange of principal							
Total (A)							
B) Unlisted							
1. Financial derivatives:			***135,871***			***135,871***	***75,702***
• with exchange of principal							
- options purchased							
- other derivatives							
• without exchange of principal							
- options purchased			135,871			135,871	75,702
- other derivatives							
2. Credit derivatives:							
• with exchange of principal							
• without exchange of principal							
Total (B)			**135,871**			**135,871**	**75,702**
Total (A+B)			**135,871**			**135,871**	**75,702**

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

	31/12/2006		31/12/2005	
	Listed	**Unlisted**	**Listed**	**Unlisted**
1. Debt securities	**214,692**		**1,018,440**	
1.1 Structured securities				
1.2 Other debt securities	214,692		1,018,440	
2. Equity securities	**15,103,480**	**2,066**	**13,539,268**	**2,066**
2.1 Recognised at fair value	15,103,480		13,539,268	
2.2 Recognised at cost		2,066		2,066
3. Units in collective investment undertakings				
4. Loans				
5. Impaired assets				
6. Assets assigned but not derecognized				
Total	**15,318,172**	**2,066**	**14,557,708**	**2,066**

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

(thousands of euros)

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

	31/12/2006	31/12/2005
1. Debt securities	**214,692**	**1,018,440**
a) Governments and central banks		805,050
b) Other government agencies	11,434	13,008
c) Banks		
d) Other issuers	203,258	200,382
2. Equity securities	**15,105,546**	**13,541,334**
a) Banks	2,066	2,066
b) Other issuers		
- insurance undertakings		
- financial companies		
- non financial companies	15,103,480	13,539,268
- other		
3. Units in collective investment undertakings		
4. Loans		
a) Governments and central banks		
b) Other government agencies		
c) Banks		
d) Other		
5. Impaired assets		
a) Governments and central banks		
b) Other government agencies		
c) Banks		
d) Other		
6. Assets assigned but not derecognized		
a) Governments and central banks		
b) Other government agencies		
c) Banks		
d) Other		
Total	**15,320,238**	**14,559,774**

4.5 Financial assets available for sale other than those assigned and not derecognized and impaired assets: annual change

(thousands of euros)

4.5 FINANCIAL ASSETS AVAILABLE FOR SALE OTHER THAN THOSE ASSIGNED AND NOT DERECOGNIZED AND IMPAIRED ASSETS: ANNUAL CHANGE

	Debt securities	Equity securities	Units in collective investment undertakings	Loans	Total
A. Opening balance	**1,018,440**	**13,541,334**			**14,559,775**
B. Increases	**2,875**	**1,564,212**			**1,567,086**
B1. Purchases					**-**
B2. Fair value gains	275	1,564,212			1,564,487
B3. Writebacks					-
- recognised through income statement					-
- recognised through equity					-
B4. Transfers from other portfolios					-
B5. Other changes	2,600				2,600
C. Decreases	**806,623**	**-**			**806,623**
C1. Sales					
C2. Redemptions	800,191				800,191
C3. Fair value losses	382				382
C4. Writedowns for impairment					-
- recognised through income statement					-
- recognised through equity					-
C5. Transfers to other portfolios					-
C6. Other changes	6,050				6,050
D. Closing balance	**214,692**	**15,105,546**			**15,320,238**

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

	31/12/2006	31/12/2005
A. Claims on central banks	**2,766,513**	**-**
1. Fixed-term deposits		
2. Reserve requirement	2,766,513	-
3. Repurchase agreements		
4. Other		
B. Loans to banks	**698,797**	**3,633,791**
1. Current accounts and free deposits	384	973
2. Fixed-term deposits	268,937	-
3. Other financing	429,476	3,632,818
3.1 repurchase agreements	-	3,188,795
3.2 finance leases		
3.3 Other	429,476	444,023
4. Debt securities	-	-
4.1 structured		
4.2 other debt securities		
5. Impaired assets	-	-
6. Assets assigned but not derecognized	-	-
Total (book value)	**3,465,309**	**3,633,791**
Total (fair value)	**3,448,704**	

Loans to banks are primarily attributable to financing transactions (about €429.5 million), the balance on the management account for the reserve requirement (about €2,766.5 million) and cash collateral deposited with banks for to secure the credit risk on derivatives transactions (about €268.9 million).

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 municipal and regional governments. The following table provides a breakdown of the positions by technical form.

(thousands of euros)

7.1 LOANS TO CUSTOMERS: COMPOSITION BY TYPE

	31/12/2006	31/12/2005
1. Current accounts	3	7
2. Repurchase agreements		
3. Loans	75,636,527	61,518,099
4. Credit cards, personal loans and loans repaid by automatic deductions from wages		
5. Finance leases		
6. Factoring		
7. Other	586,424	648,618
8. Debt securities	491,009	364,458
8.1 structured		
8.2 Other debt securities	491,009	364,458
9. Impaired assets	135,744	58,157
10. Assets assigned but not derecognized		
Total (book value)	**76,849,708**	**62,589,339**
Total (fair value)	**78,121,028**	**n.a.**

On the basis of the quality of the borrowers, the guarantees securing such loans and the regular payment of instalments, as well as the experience of CDP in this area, writedowns of loans to customers amounts to €40.8 million.

The types of specific-purpose loans granted by CDP S.p.A. under the Separate Account include:

a) **ordinary specific-purpose loans**, with normal maturity of between 5 and 30 years, with disbursements made on the basis of the stage of completion of the investment. Repayment normally begins on 1 January of the year following the date the loan is approved. During the pre-repayment grace period, the borrower pays interest on amounts disbursed (simple capitalisation) at the rate for the loan. During amortisation, CDP pays variable interest on a six-months' basis on amounts not yet disbursed. Ordinary loans are divided in the following categories:

- **fixed-rate loans**, which envisage equal semi-annual post-paid instalments, with interest rates varying as a function of the term of the loan;
- **floating-rate loans,** which envisage a constant principal component and interest tied to 6-month Euribor and varying as a function of the term of the loan;
- **fixed-rate loans with option for partial early repayment at par,** which allow borrowers, at the cost of a higher interest rate, to prepay part of the loan with no penalty at the date and in the amount established at the time the loan is granted;
- **inflation-indexed loans,** granted as part of the restructuring of loans to local authorities in 2005. Instalments (principal and interest) are indexed using a coefficient linked to Italian inflation.

b) **"flexible" loans**, which are structured as credit lines that can be drawn (subject to presentation of status reports on the stage of completion of the works) during a pre-repayment grace period of between 1 and 6 years. Repayment is made on the amounts actually drawn and borrowers have the option of switching from floating-rate to fixed-rate at a higher rate determined on the basis of the length of the repayment period and the pre-repayment grace period.

"Loans" also includes financing granted under the Ordinary Account of the CDP for works, plant, networks and other assets intended for the provision of public services and reclamation projects.

Loans also include €19,118.1 million pledged as collateral for covered bonds, as described in the section *Assets pledged as collateral for own debts*.

7.2 Loans to customers: composition by debtor/issuer

(thousands of euros)

7.2 LOANS TO CUSTOMERS: COMPOSITION BY TYPE OF BORROWER/ISSUER

	31/12/2006	31/12/2005
1. Debt securities:	**491,009**	**364,458**
a) Governments		
b) Other government agencies	491,009	364,458
c) Other issuers		
- non-financial companies		
- financial companies		
- insurance undertakings		
- other		
2. Loans to:	**76,222,955**	**62,166,724**
a) Governments	34,236,134	30,461,747
b) Other government agencies	36,584,141	28,440,472
c) Other	5,402,680	3,264,504
- non-financial companies	5,379,943	3,264,504
- financial companies		
- insurance undertakings		
- other	22,737	
3. Impaired assets:	**135,744**	**58,157**
a) Governments		
b) Other government agencies	120,206	58,157
c) Other	15,538	
- non-financial companies	14,819	
- financial companies		
- insurance undertakings		
- other	719	
4. Assets assigned but not derecognized	**-**	**-**
a) Governments		
b) Other government agencies		
c) Other	-	-
- non-financial companies		
- finanzial companies		
- insurance undertakings		
- other		
Total	**76,849,708**	**62,589,339**

7.3 Loans to customers: assets hedged specifically

(thousands of euros)

7.3 LOANS TO CUSTOMERS: ASSETS HEDGED SPECIFICALLY

	31/12/2006	31/12/2005
1. Loans with specific fair value hedges:	12,076,217	-
a) interest rate risk	12,076,217	
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	**12,076,217**	**-**

SECTION 8 – HEDGING DERIVATIVES – ITEM 80

8.1 Hedging derivatives: composition by type of contract and underlying

(thousands of euros)

8.1 HEDGING DERIVATIVES: COMPOSITION BY TYPE OF CONTRACT AND UNDERLYING

	Interest rates	Foreign currencies and gold	Equity securities	Loans	Other	Total
A) Listed						
1. Financial derivatives						
• with exchange of principal						
- purchased options						
- other derivatives						
• without exchange of principal						
- purchased options						
- other derivatives						
2. Credit derivatives						
• with exchange of principal						
• without exchange of principal						
Total A						
B) Unlisted						
1. Financial derivatives	**91,267**					**91,267**
• with exchange of principal						
- purchased options						
- other derivatives						
• without exchange of principal	91,267					**91,267**
- purchased options						
- other derivatives	91,267					**91,267**
2. Credit derivatives						
• with exchange of principal						
• without exchange of principal						
Total (B)	91,267					91,267
Total (A+B) 2006	**91,267**					**91,267**
Total (A+B) 2005	**48,327**					**48,327**

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

(thousands of euros)

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

	Fair value						Cash flow	
	Specific					Generic	Specific	Generic
	interest rate risk	exchange rate risk	credit risk	price risk	multiple risks			
1. Available-for-sale financial assets								
2. Loans	91,267							
3. Held-to-maturity financial assets								
4. Portfolio								
Total assets	**91,267**							
1. Financial liabilities								
2. Portfolio								
Total liabilities								

SECTION 10 – EQUITY INVESTMENTS – ITEM 100

10.1 Equity investments in subsidiaries, joint ventures and in companies subject to significant influence: information on investments

10.1 EQUITY INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE: INFORMATION ON INVESTMENTS

Name	Registered office	% holding	% of votes
A. Wholly-owned subsidiaries			
B. Joint ventures			
C. Companies under significant influence			
1. Poste Italiane S.p.A.	Rome	35.00%	35.00%
2. Terna S.p.A.	Rome	30.00%	30.00%
3. ST Holding N.V.	Amsterdam	30.00%	30.00%
4. Galaxy S.àr.l.	Luxembourg	40.00%	40.00%
5. Europrogetti & Finanza S.p.A.	Rome	31.80%	31.80%
6. Tunnel di Genova	Genoa	33.33%	33.33%
7. Sinloc S.p.A. (*)	Turin	11.85%	

(*) At end-December 2006 8.15% of the company was sold. CDP representation on the Sinloc board (two directors) constituted significant influence at end-2006.

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

(thousands of euros)

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

Name	Total assets	Total revenues	Income (loss)	Shareholders' equity	Carrying value	Fair value
A. Wholly-owned subsidiaries						
B. Joint ventures						
C. Companies under significant influence	**76,060,626**	**18,782,267**	**712,531**	**4,730,672**	**5,417,505**	**n.a.**
1. Poste Italiane S.p.A. (1)	68,549,251	17,694,026	348,910	1,935,223	2,578,406	n.a.
2. Terna S.p.A. (2)	6,637,800	1,010,200	299,400	1,953,300	1,311,330	1,542,000
3. ST Holding N.V.	767,664	63,687	63,665	767,673	1,506,991	1,288,894
4. Galaxy S.àr.l. (3)	35,478	4,864	1,011	20,015	13,099	n.a.
5. Europrogetti & Finanza S.p.A. (3)	17,748	7,880	(1,278)	6,683	2,125	n.a.
6. Tunnel di Genova (3)	4,885	29	(50)	371	-	n.a.
7. Sinloc S.p.A. (3)	47,800	1,581	873	47,407	5,554	n.a.
Total	**76,060,626**	**18,782,267**	**712,531**	**4,730,672**	**5,417,505**	**n.a.**

(1) Figures from consolidated financial statements at 31/12/05
(2) Figure from consolidated quarterly report at 30/09/06
(3) Figures from financial statements at 31/12/05

10.3 Equity investments: change for the year

(thousands of euros)

10.3 EQUITY INVESTMENTS: CHANGE FOR THE YEAR

	31/12/2006	31/12/2005
A. Opening balance	**5,270,575**	**4,002,106**
B. Increases	**325,454**	**1,435,616**
B.1 Purchases	13,099	1,315,200
B.2 Writebacks		
B.3 Revaluations	312,175	119,808
B.4 Other changes	180	608
C. Decreases	**178,524**	**167,146**
C.1 Sales	9,875	21,479
C.2 Writedowns	124	105,899
C.3 Other changes	168,525	39,768
D. Closing balance	**5,417,505**	**5,270,575**
E. Total revaluations	431,983	119,808
F. Total writedowns	**106,023**	**105,899**

10.6 Obligations relating to companies subject to significant influence

In 2006, CDP purchased a 40% interest in the share capital of Galaxy S.àr.l., a Luxembourg company that makes equity or quasi-equity investments in projects and infrastructure in the transportation sector.

CDP's total investment amounted to €100 million, of which €13.0 million was paid during the year for investments made by Galaxy prior to CDP becoming a shareholder.

SECTION 11 – PROPERTY, PLANT AND EQUIPMENT – ITEM 110

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

Property, plant and equipment includes all of the movable and immovable property of Cassa Depositi e Prestiti, net of depreciation, and at year-end break down as follows:

(thousands of euros)

11.1 PROPERTY, PLANT AND EQUIPMENT: COMPOSITION OF ASSETS RECOGNIZED AT COST

	31/12/2006	31/12/2005
A. Operating assets		
1.1 owned	**208,312**	**204,672**
a) land	117,406	117,406
b) buildings	75,197	77,371
c) movables	1,800	1,820
d) electrical plant	5,468	3,835
e) other	8,441	4,238
1.2 acquired under finance leases		
a) land		
b) buildings		
c) movables		
d) electrical plant		
e) other		
Total (A)	**208,312**	**204,672**
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)	**208,312**	**204,672**

11.3 Operating property, plant and equipment: changes for the year

(thousands of euros)

11.3 OPERATING PROPERTY, PLANT AND EQUIPMENT: CHANGE FOR THE YEAR

	Land	Buildings	Movables	Electrical plant	Other	Total
A. Opening gross balance	**117,406**	**80,650**	**8,554**	**16,349**	**14,518**	**237,477**
A.1 Total net writedowns	-	- 3,279	- 6,733	- 12,514	- 10,280	- 32,806
A.2 Opening net balance	**117,406**	**77,371**	**1,821**	**3,835**	**4,238**	**204,671**
B. Increases	**-**	**248**	**322**	**2,905**	**5,308**	**8,783**
B.1 Purchases			322	2,905	5,308	**8,535**
B.2 Capitalised improvement costs		248				**248**
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						**-**
B.8 Merger						**-**
C. Decreases	**-**	**2,422**	**343**	**1,271**	**1,105**	**5,142**
C.1 Sales			0		2	**3**
C.2 Depreciation		2,422	343	1,271	1,072	**5,108**
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) discontinuing operations						**-**
C.7 Other changes					31	**31**
D. Closing net balance	**117,406**	**75,197**	**1,800**	**5,469**	**8,441**	**208,312**
D.1 Total net writedowns	-	5,701	7,026	10,512	11,149	34,389
D.2 Closing gross balance	**117,406**	**80,898**	**8,826**	**15,981**	**19,590**	**242,701**
E. Measurement at cost						

SECTION 12 – INTANGIBLE ASSETS – ITEM 120

12.1 Intangible assets: composition by category

Intangible assets break down as follows:

(thousands of euros)

12.1 INTANGIBLE ASSETS: COMPOSITION BY CATEGORY

	31/12/2006		31/12/2005	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	-	-	-	-
A.2 Other intangible assets	**4,711**	-	**4,215**	-
A.2.1 Assets carried at cost	4,711	-	4,215	-
a) internally-generated intangible assets	-	-	-	-
b) other assets	4,711	-	4,215	-
A.2.2 Assets recognised at fair value:	-	-	-	-
a) internally-generated intangible assets	-	-	-	-
b) other assets	-	-	-	-
Total	**4,711**	-	**4,215**	-

12.2 Intangible assets: change in the year

(thousands of euros)

12.2 INTANGIBLE ASSETS: CHANGE IN THE YEAR

	Goodwill	Other internally-generated intangible assets		Other intangible assets: other		Total
		Finite	Indefinite	Finite	Indefinite	
A. Opening balance				**4,824**		**4,824**
A.1 Total net writedowns				609		**609**
A.2 Opening net balance				**4,215**		**4,215**
B. Increases				**1,825**		**1,825**
B.1 Purchases				1,825		**1,825**
B.2 Increases in internally generated intangible assets						-
B.3 Writebacks						-
B.4 Fair value gains						-
- equity						-
- income statement						-
B.5 Positive exchange rate differences						-
B.6 Other changes						-
B.6 Merger						-
C. Decreases				**1,329**		**1,329**
C.1 Sales						-
C.2 Writedowns						-
- Amortisation				1,329		**1,329**
- Amortisation						-
+ equity						-
+ income statement						-
C.3 Fair value losses						-
- equity						-
- income statement						-
C.4 Transfer to discontinuing operations						-
C.5 Negative exchange rate differences						-
C.6 Other changes						-
D. Closing net balance				**4,711**		**4,711**
D.1 Total net writedowns				2,187		**2,187**
E. Closing gross balance				**6,898**		**6,898**
F. Measurement at cost						

12.3 Other information

With regard to the disclosures required under international accounting standards, it should be noted that:

a) intangible assets were not revalued;

b) no intangible assets acquired by way of government grants are held (IAS 38, paragraph 122, letter c);

c) no intangible assets are pledged as security for liabilities (IAS 38, paragraph 122, letter d);
d) there are no contractual commitments for the purchase of intangible assets (IAS 38, paragraph 122, letter e);
e) no intangible assets are the object of leasing transactions.

SECTION 13 – TAX ASSETS AND LIABILITIES – ITEM 130 OF ASSETS AND ITEM 80 OF LIABILITIES

13.1 Deferred tax assets: composition

Deferred tax assets mainly regard provisions for future charges, unpaid remuneration of directors, depreciation and amortisation charges, entertainment expenses and other components as well as accounting for hedging activities at fair value, performed in application of international accounting standards, that comprise components of income deductible in years subsequent to that in which they are recognised in the income statement.

13.2 Deferred tax liabilities: composition

Deferred tax liabilities regard taxable temporary timing differences mainly relating to the allocation to the loan-loss provision deducted in accordance with tax rules, to changes in the fair value of debt securities issued and to the valuation of assets in the AFS portfolio.

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

(thousands of euros)

13.3 CHANGES IN DEFERRED TAX ASSETS (RECOGNIZED IN INCOME STATEMENT)

	31/12/2006	31/12/2005
1. Opening balance	**138,755**	**146,680**
2. Increases	**221,338**	**14,710**
2.1 Deferred tax assets recognised during the year		
a) in respect of previous periods		
b) due to changes in accounting policies		
c) writebacks		
d) other	221,338	14,710
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases	**114,363**	**22,635**
3.1 Deferred tax assets derecognised during the year		
a) reversals	1,627	22,635
b) writedowns for supervening non-recoverability		
c) due to change in accounting policies		
3.2 Reduction in tax rates		
3.3 Other decreases	112,736	
4. Closing balance	**245,730**	**138,755**

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

(thousands of euros)

13.4 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNIZED IN INCOME STATEMENT)

	31/12/2006	31/12/2005
1. Opening balance	**323,186**	**181,859**
2. Increases	**296,827**	**143,932**
2.1 Deferred tax liabilities recognised during the year		
a) in respect of previous periods		
b) due to changes in accounting policies		
c) other	292,884	71,016
2.2 New taxes or increases in tax rates		
2.3 Other increases	3,943	72,916
3. Decreases	**155,562**	**2,605**
3.1 Deferred tax liabilities derecognised during the year		
a) reversals	331	
b) due to change in accounting policies		
c) other		
3.2 Reduction in tax rates		
3.3 Other decreases	155,231	2,605
4. Closing balance	**464,451**	**323,186**

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

(thousands of euros)

13.5 CHANGES IN DEFERRED TAX ASSETS (RECOGNIZED IN SHAREHOLDERS' EQUITY)

	31/12/2006	31/12/2005
1. Opening balance	**114**	**-**
2. Increases		**114**
2.1 Deferred tax assets recognised during the year		
a) in respect of previous periods		
b) due to changes in accounting policies		
c) other		
2.2 New taxes or increases in tax rates		
2.3 Other increases		114
3. Decreases	**86**	
3.1 Deferred tax assets derecognised during the year		
a) reversals		
b) writedowns for supervening non-recoverability		
c) due to changes in accounting policies		
3.2 Reduction in tax rates		
3.3 Other decreases	86	
4. Closing balance	**28**	**114**

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

(thousands of euros)

13.6 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNIZED IN SHAREHOLDER'S EQUITY)

	31/12/2006	31/12/2005
1. Opening balance	**270,215**	**72,996**
2. Increases	**82,589**	**270,135**
2.1 Deferred tax liabilities recognised during the year		
a) in respect of previous periods		
b) due to changes in accounting policies		
c) other		
2.2 New taxes or increases in tax rates		
2.3 Other increases	82,589	270,135
3. Decreases	**2,054**	**72,916**
3.1 Deferred tax liabilities derecognised during the year		
a) reversals		
b) due to change in accounting policies		
c) other		
3.2 Reduction in tax rates		
3.3 Other decreases	2,054	72,916
4. Closing balance	**350,750**	**270,215**

13.7 Other information

There is no information other than that provided under the individual sub-items of this section.

SECTION 15 – OTHER ASSETS – ITEM 150

15.1 Other assets: composition

(thousands of euros)

15.1 OTHER ASSETS: COMPOSITION

	31/12/2006	31/12/2005
1. Items being processed	665	233,220
2. Tax receivables:	0	10,168
2.1 advances on taxes for the year		
2.2 deferred tax assets		
2.3 other receivables	0	10,168
3. Receivables from Min. Univ. and Research	4,913	-
4. Receivables from MEF	9,200	36
5. Receivables from MIT	87	-
6. Other	5,920	1,519
Total	**20,785**	**244,943**

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

The main items under this heading are:

- items being processed: the amount regards transit account transactions that will be allocated in 2007;
- receivables from Ministry of Universities and Research: this item relates mainly to advances paid to the ministry pursuant to Article 1 of Law 338/2000;
- receivables from MEF: this item primarily relates to amounts owed under the agreement signed on 25 July 2006 in respect of assets and liabilities transferred to the Ministry for the Economy and Finance pursuant to Article 3 of the ministerial decree of 5 December 2003 that will be received in 2007;
- other: this item mainly includes the receivable from INPDAP for advances paid on employee pensions for the years 1985 -1992 of about €3.8 million.

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

	31/12/2006	31/12/2005
1. Due to central banks	**433,571**	**711,000**
2. Due to banks	**815,183**	**737,099**
2.1 Current accounts and demand deposits	74,997	49,831
2.2 Fixed-term deposits		
2.3 Borrowings	473,579	418,933
2.3.1 finance leases		
2.3.2 other	473,579	418,933
2.4 Liabilities in respect of commitments to repurchase own equity instruments	-	-
2.5 Liabilities in respect of assets assigned but not derecognized	-	-
2.5.1 repurchase agreements	-	-
2.5.2 other	-	-
2.6 Other payables	266,606	268,335
Total	**1,248,754**	**1,448,099**
Fair value	**1,248,754**	**1,448,099**

The item "Due to central banks" includes:

- the payable to the Bank of Italy for unpaid direct debits equal to €94.2 million;
- the liability of about €339.4 million to the Bank of Italy in respect of payment instructions issued by CDP and executed by the provincial state treasury sections on behalf of CDP. The amounts were reimbursed to the MEF in early 2007 on the basis of the monthly accounts produced by the Bank of Italy, which acts as the Central State Treasurer.

Amounts due to other banks include the payable to banks for interest rate swaps and the payable for options with deferred premiums.

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

	31/12/2006	31/12/2005
1. Current accounts and demand deposits	70,580,226	65,403,474
2. Fixed-term deposits		
3. Third-party funds under administration	36,480	55,197
4. Borrowings		
4.1 finance leases		
4.2 other		
5. Liabilities in respect of commitments to repurchase own equity instruments		
6. Liabilities in respect of assets assigned but not derecognized		
6.1 repurchase agreements		
6.2 other		
7. Other payables	10,417,043	8,576,429
Total	**81,033,749**	**74,035,100**
Fair value	**81,033,749**	**74,035,100**

SECTION 3 – SECURITIES ISSUED – ITEM 30

3.1 Securities issued: composition by type

(thousands of euros)

3.1 SECURITIES ISSUED: COMPOSITION BY TYPE

	31/12/2006		31/12/2005	
	carrying amount	fair value	carrying amount	fair value
A. Listed	**7,852,807**	**7,918,040**	**3,977,116**	**3,973,977**
1. bonds	7,852,807	7,918,040	3,977,116	3,973,977
1.1 structured				
1.2 other	7,852,807	7,918,040	3,977,116	3,973,977
2. other				
2.1 structured				
2.2 other				
B. Unlisted	**74,742,632**	**75,601,265**	**57,200,490**	**n.a.**
1. bonds	785,919	783,128	397,915	396,074
1.1 structured				
1.2 other	785,919	783,128	397,915	396,074
2. other	73,956,713	74,818,137	56,802,575	n.a.
2.1 structured	2,192,382	2,286,123	1,465,251	
2.2 other	71,764,331	72,532,014	55,337,324	
Total	**82,595,439**	**83,519,305**	**61,177,606**	**n.a.**

3.3 Securities issued: securities hedged specifically

(thousands of euros)

3.3 SECURITIES ISSUED: SECURITIES HEDGED SPECIFICALLY

	31/12/2006	31/12/2005
1. Securities covered by specific fair value hedge	**8,293,488**	**397,915**
a) interest rate risk	8,293,488	397,915
b) exchange rate risk		
c) multiple risks		
2. Liabilities 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

	31/12/2006				31/12/2005			
	NV	FV		FV *	NV	FV		FV *
		L	UL			L	UL	
A. On-balance-sheet liabilities								
1. Due to banks								
2. Due to customers								
3. Debt securities								
3.1 Bonds								
3.1.1 structured								
3.1.2 other bonds								
3.2 Other securities								
3.2.1 structured								
3.2.2 other								
Total A								
B. Derivatives								
1. Financial derivatives			**137,392**				**369,128**	
1.1 trading							287,627	
1.2 associated with fair value option								
1.3 other			137,392				81,501	
2. Credit derivatives								
2.1 trading								
2.2 associated with fair value option								
2.3 other								
Total B			**137,392**				**369,128**	
Total (A+B)			**137,392**				**369,128**	

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

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

4.4 Financial liabilities held for trading: derivatives

(thousands of euros)

4.4 FINANCIAL LIABILITIES HELD FOR TRADING: DERIVATIVES

	Interest rates	Foreign currencies and gold	Equity securities	Loans	Other	31/12/2006	31/12/2005
A) Listed							
1. Financial derivatives							
• with exchange of principal							
- options written							
- other derivatives							
• without exchange of principal							
- options written							
- other derivatives							
2. Credit derivatives							
• with exchange of principal							
• without exchange of principal							
Total A							
B) Unlisted							
1. Financial derivatives			**137,392**			**137,392**	**369,128**
• with exchange of principal							
- options written							
- other derivatives							
• without exchange of principal			137,392			137,392	369,128
- options written			137,392			137,392	81,501
- other derivatives							287,627
2. Credit derivatives							
• with exchange of principal							
• without exchange of principal							
Total B			**137,392**			**137,392**	**369,128**
Total (A+B)			**137,392**			**137,392**	**369,128**

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

SECTION 6 – HEDGING DERIVATIVES – ITEM 60

6.1 Hedging derivatives: composition by type of contract and underlyings

(thousands of euros)

6.1 HEDGING DERIVATIVES: COMPOSITION BY TYPE OF CONTRACT AND UNDERLYINGS

	Interest rates	Foreign currencies and gold	Equity securities	Loans	Other	Total
A) Listed						
1. Financial derivatives						
• with exchange of principal						
- options written						
- other derivatives						
• without exchange of principal						
- options written						
- other derivatives						
2. Credit derivatives						
• with exchange of principal						
• without exchange of principal						
Total (A)						
B) Unlisted						
1. Financial derivatives	**657,294**					**657,294**
• with exchange of principal						
- options written						
- other derivatives						
• without exchange of principal	657,294					657,294
- options written						
- other derivatives	657,294					**657,294**
2. Credit derivatives						
• with exchange of principal						
• without exchange of principal						
Total (B)	**657,294**					**657,294**
Total (A+B) 2006	**657,294**					**657,294**
Total (A+B) 2005	**48,787**					**48,787**

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	
	specific					generic	specific	generic
	interest rate risk	exchange rate risk	credit risk	price risk	multiple risks			
1. Available-for-sale financial assets								
2. Loans	129,072							
3. Held-to-maturity financial assets								
4. Portfolio								
Total assets	**129,072**							
1. Financial liabilities	265,780							
2. Portfolio						262,442		
Total liabilities	**265,780**					**262,442**		

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

7.1 Value adjustments of hedged liabilities: composition by hedged portfolio

(thousands of euros)

7.1 VALUE ADJUSTMENTS OF HEDGED LIABILITIES: COMPOSITION BY HEDGED PORTFOLIO

	31/12/2006	31/12/2005
1. Positive adjustments of financial liabilities	319,044	
2. Negative adjustment financial liabilities		18,640
Total	**319,044**	**18,640**

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

This item contains recognition of 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 13 of “Assets”.

SECTION 10 – OTHER LIABILITIES – ITEM 100

10.1 Other liabilities: composition

(thousands of euros)

10.1 OTHER LIABILITIES: COMPOSITION

	31/12/2006	31/12/2005
1. Items being processed	8	88,573
2. Amounts due to employees	1,352	1,211
3. Charges for postal funding service	579,986	790,386
4. Tax payables	107,196	17,945
5. Due to Bank of Italy	-	-
6. Other	19,878	15,655
Total	**708,420**	**913,770**

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

The main items under this heading are:

- the payable to Poste Italiane S.p.A. of about €580.0 million, in respect of accrued commission expense for the management and placement of postal savings products;
- tax payables totalling about €107.2 million, mainly regarding the tax on interest paid on postal savings bonds, withholdings on interest paid on postal passbook savings accounts and other withholdings;
- other items, mainly composed of trade payables, the payable to the MEF for the collection and payment service performed by the Bank of Italy and sundry amounts due to employees.

SECTION 11 – STAFF SEVERANCE PAY – ITEM 110

11.1 Staff severance pay: changes for year

(thousands of euros)

11.1 STAFF SEVERANCE PAY: CHANGES FOR YEAR

	31/12/2006	31/12/2005
A. Opening balance	**396**	**59**
B. Increases	**822**	**381**
B.1 Provision for the year	590	320
B.2 Other increases	232	61
C. Decreases	**492**	**44**
C.1 Severance payments	126	17
C.2 Other decreases	366	27
D. Closing balance	**726**	**396**

Other increases includes the value of the provision for staff severance pay of Infrastrutture S.p.A., formed on 1 January 2006, as a result of CDP taking over the existing employment contracts of that company.

Other decreases relate almost entirely to the payment of staff severance pay accrued in 2006 into an open-end fund, in accordance with new pension legislation, for employees who chose this option.

SECTION 12 – PROVISIONS – ITEM 120

12.1 Provisions: composition

(thousands of euros)

12.1 PROVISIONS: COMPOSITION

	31/12/2006	31/12/2005
1 Company pension plans	-	-
2. Other provisions	904	9,829
2.1 legal disputes	904	9,829
2.2 staff costs	-	-
2.3 other	-	-
Total	**904**	**9,829**

12.2 Provisions: changes for year

(thousands of euros)

12.2 PROVISIONS: CHANGES FOR YEAR

	Pensions	Other provisions	Total
A. Opening balance	**-**	**9,829**	**9,829**
B. Increases	**-**	**109**	**109**
B.1 Provision for the year		109	109
B.2 Changes due to passage of time		-	-
B.3 Changes due to changes in discount rate		-	-
B.4 Other increases		-	-
C. Decreases	-	**9,034**	**9,034**
C.1 Use during the year		-	-
C.2 Changes due the changes in discount rate		-	-
C.3 Other decreases		9,034	9,034
D. Closing balance	**-**	**904**	**904**

The decrease in provisions is attributable to an approximately €9 million adjustment of the original provision for pending litigation at 31 December 2005, which is used to cover potential liabilities arising out of disputes with employees.

12.4 Provisions – other provisions

Almost the entire €904,000 amount of other provisions relates to the provision for pending litigation.

SECTION 14 – SHAREHOLDERS' EQUITY – ITEMS 130, 150, 160, 170, 180, 190 AND 200

14.1 Shareholders' equity: composition

(thousands of euros)

14.1 SHAREHOLDERS' EQUITY: COMPOSITION

	31/12/2006	31/12/2005
1. Share capital	3,500,000	3,500,000
2. Share premium reserve		
3. Reserves	1,271,408	429,569
4. (Treasury shares)		
5. Valuation reserves	6,459,776	5,014,832
6. Equity instruments		
7. Net income (loss) for the year	2,052,661	1,641,940
Total	**13,283,845**	**10,586,341**

14.2 "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 shareholders have indicated their intention to convert the preference shares into ordinary shares in 2007 subject to approval of the necessary amendments to the Bylaws by the Shareholders' Meeting.

The company does not hold treasury shares.

14.3 Share capital – Number of shares: change for the year

14.3 SHARE CAPITAL - NUMBER OF SHARES: CHANGE FOR THE YEAR

	Ordinary	Other
A. Shares at start of 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		

14.5 Income reserves: additional information

(thousands of euros)

14.5 INCOME RESERVES: ADDITIONAL INFORMATION

	31/12/2006
Income reserves	**1,271,408**
Legal reserve	60,833
Extraordinary reserve	81,000
FTA reserve	1,129,575

14.7 Valuation reserves: composition

(thousands of euros)

14.7 VALUATION RESERVE: COMPOSITION

	31/12/2006	31/12/2005
1. Financial assets available for sale	6,281,002	4,799,205
2. Property, plant and equipment	167,572	167,572
3. Intangible assets		
4. Hedging of foreign investments		
5. Cash flow hedges		
6. Exchange rate differences	11,201	48,055
7. Non-current assets included in discontinuing operations		
8. Special revaluation laws	-	-
Total	**6,459,775**	**5,014,832**

14.8 Valuation reserves: change for the year

(thousands of euros)

14.8 VALUATION RESERVES: CHANGE FOR THE YEAR

	Financial assets available for sale	Property, plant and equipment	Intangible assets	Hedging of foreign investments	Cash flow hedges	Exchange rate differences	Non-current assets included in discontinuing operations	Special revaluation laws
A. Opening balance	**4,799,205**					**48,055**		**167,572**
B. Increases								
B1. Fair value gains	1,481,806							
B2. Other changes	247							
C. Decreases								
C1. Fair value losses	256							
C2. Other changes						36,854		
D. Closing balance	**6,281,002**					**11,201**		**167,572**

14.9 Valuation reserves for financial assets available for sale: composition

(thousands of euros)

14.9 VALUATION RESERVES FOR FINANCIAL ASSETS AVAILABLE FOR SALE: COMPOSITION

	31/12/2006		31/12/2005	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	201	(256)	17	(247)
2. Equity securities	6,281,057		4,799,435	
3. Units in collective investment undertakings				
4. Loans				
Total	**6,281,258**	**(256)**	**4,799,452**	**(247)**

14.10 Valuation reserves for financial assets available for sale: annual changes

(thousands of euros)

14.10 VALUATION RESERVES FOR FINANCIAL ASSETS AVAILABLE FOR SALE: ANNUAL CHANGES

	Debt securities	Equity securities	Units in collective investment undertakings	Loans
1. Opening balance	**(230)**	**4,799,435**		
2. Increases				
2.1 Fair value gains	184	1,481,622		
2.2 Reversal to income statement of negative reserves				
- for impairment				
- for realization				
2.3 Other changes	247			
3. Decreases				
3.1 Fair value losses	256			
3.2 Reversal to income statement of positive reserves: due to realization				
3.3 Other changes				
4. Closing balance	**(55)**	**6,281,057**		

OTHER INFORMATION

1. Guarantees issued and commitments

(thousands of euros)

1. GUARANTEES ISSUED AND COMMITMENTS

	31/12/2006	31/12/2005
1) Financial guarantees issued		
a) Banks		
b) Customers		
2) Commercial guarantees issued		
a) Banks		
b) Customers		
3) Irrevocable commitments to disburse funds	8,356,099	9,920,372
a) Banks		
i) certain use		
ii) uncertain use		
b) Customers	8,356,099	9,920,372
i) certain use	8,116,967	9,714,867
ii) uncertain use	239,131	205,506
4) Commitments underlying credit derivatives: sales of protection		
5) Assets pledged as collateral for third-party debts		
6) Other commitments	104,479	-
Total	**8,460,578**	**9,920,372**

2. Assets pledged as collateral for own debts and commitments

(thousands of euros)

2. ASSETS PLEDGED AS COLLATERAL FOR OWN DEBTS AND COMMITMENTS

Portfolio	31/12/2006	31/12/2005
1. Financial assets held for trading		
2. Financial assets recognised at fair value		
3. Financial assets available for sale		
4. Financial assets held to maturity		
5. Loans to banks		
6. Loans to customers	19,118,126	16,564,638
7. Property, plant and equipment		

During the year CDP continued to issue 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 by way of a directive of the General Manger or a resolution of the Board of Directors.

CDP's balance sheet reports the 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 loans 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 Civil Code be kept for the segregated portfolio.

PART C – INFORMATION ON THE 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

	Performing financial assets		Impaired financial assets	Other assets	31/12/2006	31/12/2005
	Debt securities	Loans				
1 Financial assets held for trading						
2 Financial assets available for sale	12,206				12,206	31,879
3 Financial assets held to maturity						
4 Loans to banks				6,882	6,882	8,697
5 Loans to customers	20,778	3,360,419	10,604		3,391,801	3,377,104
6 Financial assets recognised at fair value						
7 Hedging derivatives					-	79,828
8 Financial assets assigned but not derecognized						
9 Other assets				2,230,672	2,230,672	1,376,844
Total	32,984	3,360,419	10,604	2,237,554	5,641,561	4,874,352

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

- loans to customers: interest income on loans to customers, equal to about €3,371.0 million, represents the revenues on CDP lending activities;

- debt securities: interest income on debt securities, equal to about €20.8 million, mainly regards interest accrued on municipal and regional bonds subscribed by CDP;

- other interest income: this is primarily composed of interest income on treasury account no. 29814, equal to about €2,212.5 million.

1.2 Interest income and similar revenues: differences on hedging transactions

(thousands of euros)

1.2 INTEREST INCOME AND SIMILAR REVENUES: DIFFERENCES ON HEDGING TRANSACTIONS

	31/12/2006	31/12/2005
A. Positive differences on:		
A.1 Specific fair value hedges of assets		
A.2 Specific fair value hedges of liabilities		21,183
A.3 Generic hedges of interest rate risk		58,644
A.4 Specific cash flow hedges of assets		
A.5 Specific cash flow hedges of liabilities		
A.6 Generic cash flow hedges		
Total positive differences (A)		79,827
B. Negatives differences on:		
B.1 Specific fair value hedges of assets		
B.2 Specific fair value hedges of liabilities		
B.3 Generic hedges of interest rate risk		
B.4 Specific cash flow hedges of assets		
B.5 Specific cash flow hedges of liabilities		
B.6 Generic cash flow hedges		
Total negative differences (B)		
C. Balance (A-B)		

1.4 Interest expense and similar charges: composition (IAS 30/10, 16, 17; IAS 32/94.h.i; ED 7/21.a.i.v, b, c; applicable regulations)

(thousands of euros)

1.4 INTEREST EXPENSE AND SIMILAR CHARGES: COMPOSITION

	Debt	Securities	Other liabilities	31/12/2006	31/12/2005
1 Due to banks	4,796	-	554	5,350	734
2 Due to customers	1,267,807	-	-	1,267,807	950,033
3 Securities issued	-	2,569,793	-	2,569,793	1,802,409
4 Financial liabilities held for trading	-	-	-	-	-
5 Financial liabilities at fair value	-	-	-	-	-
6 Financial liabilities in respect of assets assigned but not derecognized	-	-	-	-	-
7 Other liabilities	-	-	0	0	78,055
8 Hedging derivatives	-	-	18,217	18,217	7,881
Total	**1,272,604**	**2,569,793**	**18,771**	**3,861,167**	**2,839,112**

Interest expense on amounts owed to customers regard the remuneration of postal savings products and interest expense on loans being repaid but not yet disbursed by CDP. More specifically, interest on passbook savings accounts totalled about €958.4 million and interest on funds to be disbursed to about €306.5 million.

Interest on debt securities regarded bond issues for about €221.1 million and postal savings bonds for about €2,348.7 million.

The negative differences on hedges, reported under “Other liabilities”, regard interest rate swaps in the amount of about €18.2 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

	31/12/2006	31/12/2005
A. Positive differences on:		
A.1 Specific fair value hedges of assets	3	
A.2 Specific fair value hedges of liabilities	18,682	
A.3 Generic hedges of interest rate risk	38,969	
A.4 Specific cash flow hedges of assets		
A.5 Specific cash flow hedges of liabilities		
A.6 Generic cash flow hedges		
Total positive differences (A)	**57,654**	**-**
B. Negatives differences on:		
B.1 Specific fair value hedges of assets	69,585	
B.2 Specific fair value hedges of liabilities	6,286	
B.3 Generic hedges of interest rate risk		
B.4 Specific cash flow hedges of assets		
B.5 Specific cash flow hedges of liabilities		
B.6 Generic cash flow hedges		
Total negative differences (B)	**75,871**	**-**
C. Balance (A-B)	**(18,217)**	**-**

SECTION 2 – COMMISSIONS - ITEMS 40 AND 50

2.1 Commission income: composition

CDP earned commission income on lending operations amounting to €2.3 million and commission income of about €9.2 million relating to the agreement signed with the Ministry for the Economy and Finance in respect of assets and liabilities transferred to the MEF pursuant to Article 3 of the ministerial decree of 5 December 2003.

(thousands of euros)

2.1 COMMISSION INCOME: COMPOSITION

	31/12/2006	31/12/2005
a) guarantees issued		
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		
8. advisory services		
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) other	11,493	1,931
Total	**11,493**	**1,931**

2.3 Commission expense: composition

Commission expense mainly regards the charge for the year, equal to about €725.1 million, of the remuneration paid to Poste Italiane S.p.A. for managing and placing postal funding products.

(thousands of euros)

2.3 COMMISSION EXPENSE: COMPOSITION

	31/12/2006	31/12/2005
a) guarantees received		
b) credit derivatives		
c) management and intermediation services:		
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	725,052	672,047
6. off-premises distribution of securities, products and services		
d) collection and payment services	155	870
e) other services		
Total	**725,207**	**672,917**

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

	31/12/2006		31/12/2005	
	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 C Financial assets recognised at fair value D Equity investments	907,199		885,716	
Total	**907,199**		**885,716**	

Dividends regard the share of net income attributable to CDP S.p.A. from its equity investments in Istituto per il Credito Sportivo (about €5.2 million), ENI S.p.A. (about €500.4 million) and ENEL S.p.A. (about €401.7 million).

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					
1.4 Loans					
1.5 Other					
2. Financial liabilities held for trading					
2.1 Debt securities					
2.2 Other					
3. Other financial assets and liabilities: exchange rate differences					
4. Derivatives	**15,840**	**230,544**	**15,719**	**-**	**230,665**
4.1 Financial derivatives	**15,840**	**230,544**	**15,719**		**230,665**
- on debt securities and interest rates		230,544			230,544
- on equity securities and equity indices	15,840		15,719		121
- on foreign currencies and gold					
- other					
4.2 Credit derivatives					
Total	**15,840**	**230,544**	**15,719**	**-**	**230,665**

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) IN HEDGING ACTIVITIES: COMPOSITION

	31/12/2006	31/12/2005
A. Income on:		
A.1 Fair value hedges	92,100	
A.2 Hedged financial assets (fair value)	22,759	
A.3 Hedged financial liabilities (fair value)	567,629	22,036
A.4 Cash flow hedges		
A.5 Assets and liabilities in foreign currencies		
Total income on hedging activities (A)	**682,488**	**22,036**
B. Expense on:		
B.1 Fair value hedges	683,458	30,439
B.2 Hedged financial assets (fair value)	486	
B.3 Hedged financial liabilities (fair value)		18,640
B.4 Cash flow hedges		
B.5 Assets and liabilities in foreign currencies		
Total expense on hedging activities (B)	**683,944**	**49,079**
C. Net gain (loss) on hedging activities (A-B)	**(1,456)**	**(27,043)**

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

	31/12/2006			31/12/2005		
	Gains	Losses	Net gain (loss)	Gains	Losses	Net gain (loss)
Financial assets						
1. Loans to banks						
2. Loans to customers	200,398		200,398	71,390		71,390
3. Financial assets available for sale						
3.1 Debt securities						
3.2 Equity securities						
3.3 Units in collective investment undertakings						
3.4 Loans						
4. Financial assets held to maturity						
Total assets	**200,398**		**200,398**	**71,390**	**-**	**71,390**
Financial liabilities						
1. Due to banks						
2. Due to customers						
3. Securities in issue						
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**

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				31/12/2006	31/12/2005
	Specific		Portfolio	Specific		Portfolio			
	Writeoffs	Other		Interest	Other writebacks	Interest	Other writebacks		
A. Loan to banks									
B. Loan to customers		34,526						34,526	2,026
C. Total		**34,526**						**34,526**	**2,026**

SECTION 9 – GENERAL AND ADMINISTRATIVE EXPENSES – ITEM 150

9.1 Staff costs: composition

(thousands of euros)

9.1 STAFF COSTS: COMPOSITION

	31/12/2006	31/12/2005
1) Employees	**39,085**	**42,285**
a) wages and salaries	29,129	32,643
b) social security contributions	205	108
c) severance pay	-	-
d) pensions	7,706	8,412
e) allocation to staff severance pay provision	590	320
f) allocation to provision for pensions and similar liabilities		
- defined contribution	-	-
- defined benefit	-	-
g) payments to external pension funds		
- defined contribution	578	-
- defined benefit		
h) costs in respect of agreements to make payments in own equity instruments		
i) other employee benefits	877	801
2) Other personnel	**460**	**389**
3) Board of Directors	**550**	**763**
Total	**40,095**	**43,436**

9.2 Average number of employees by category

9.2 AVERAGE NUMBER OF EMPLOYEES BY CATEGORY

Employees	**409**
a) Senior management	32
b) Middle management	119
of which grade 3 and 4	119
c) Other employees	258
Other personnel	**3**

9.4 Other employee benefits

(thousands of euros)

9.4 OTHER EMPLOYEE BENEFITS

	31/12/2006	31/12/2005
Lunch vouchers	480	523
Staff health insurance	397	278
Total	**877**	**801**

9.5 Other administrative expenses: composition

(thousands of euros)

9.5 OTHER ADMINISTRATIVE EXPENSES: COMPOSITION

	31/12/2006	31/12/2005
IT costs (licences, maintenance and consulting)	8,126	7,230
Property expenses	4,359	5,162
Leased land and buildings	53	-
Owned land and buildings	4,306	5,162
- maintenance of owned land and buildings	*2,846*	*3,629*
- operating expenses	*1,461*	*1,533*
Utilities	1,645	1,139
General expenses	5,744	4,153
- consumables and other	*716*	*1,019*
- services	*5,028*	*3,134*
Entertainment and marketing	382	475
Professional and insurance expenses	5,078	6,364
Professional and service costs for personnel	1,118	968
Corporate bodies other than BoD	446	574
Indirect taxes and duties	1,110	406
Total	**28,007**	**26,471**

SECTION 10 – PROVISIONS (NET) – ITEM 160

10.1 Provisions (net): composition

(thousands of euros)

10.1 PROVISIONS (NET): COMPOSITION

	31/12/2006	31/12/2005
Review of existing provision and discounting	9,034	-
Provision for disputes arising in the year	(109)	(4,394)
Total	**8,925**	**(4,394)**

The revision of the provision for pending litigation is the result of an adjustment of about €9 million of the provision at 31 December 2005, which is used to cover potential liabilities arising out of disputes with employees.

SECTION 11 – NET ADJUSTMENTS OF PROPERTY, PLANT AND EQUIPMENT – ITEM 170

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

(thousands of euros)

11.1 NET ADJUSTMENTS OF PROPERTY, PLANT AND EQUIPMENT: COMPOSITION

	Depreciation (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustments (a + b - c)
A. Property, plant and equipment	5,108	-	-	5,108
A.1 owned	5,108	-	-	5,108
- operating assets	5,108	-	-	5,108
- investment property	-	-	-	-
A.2 acquired under finance leases	-	-	-	-
- operating assets	-	-	-	-
- investment property	-	-	-	-
Total	**5,108**	**-**	**-**	**5,108**

SECTION 12 – NET ADJUSTMENTS OF INTANGIBLE ASSETS – ITEM 180

12.1 Net adjustments of intangible assets: composition

(thousands of euros)

12.1 NET ADJUSTMENTS OF INTANGIBLE ASSETS: COMPOSITION

	Depreciation (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustments (a + b - c)
A. Intangible assets	1,329	-	-	1,329
A.1 Owned	1,329	-	-	1,329
- generated internally by the Bank	-	-	-	-
- other	1,329	-	-	1,329
A.2 Acquired under finance leases	-	-	-	-
Total	**1,329**	**-**	**-**	**1,329**

SECTION 13 – OTHER OPERATING COSTS AND INCOME– ITEM 190

13.1 Other operating costs: composition

(thousands of euros)

13.1 OTHER OPERATING COSTS: COMPOSITION

	31/12/2006	31/12/2005
Operating costs in respect of supply chain	1	-
Total	**1**	**-**

13.2 Other operating income: composition

(thousands of euros)

13.2 OTHER OPERATING INCOME: COMPOSITION

	31/12/2006	31/12/2005
Income from adjustment of liability items	72	778
Income for corporate offices paid to employees	196	102
Sundry reimbursements	392	49
Reimbursement of expenses incurred for Min. Univ. and Research agreement	641	-
Other income for services rendered	70	1,047
Total	**1,371**	**1,976**

SECTION 14 – GAINS (LOSSES) ON EQUITY INVESTMENTS – ITEM 210

14.1 Gains (losses) on equity investments: composition

(thousands of euros)

14.1 GAINS (LOSSES) ON EQUITY INVESTMENTS: COMPOSITION

	31/12/2006	31/12/2005
A. Gains	**312,354**	**69,755**
1. Revaluations	312,175	69,147
2. Gains on disposals	180	608
3. Writebacks		
4. Other increases		
B. Losses	**124**	**3,784**
1. Writedowns	124	3,784
2. Impairments		
3. Losses on disposals		
4. Other decreases		
Net gain (loss)	**312,231**	**65,971**

SECTION 17 – GAINS (LOSSES) ON DISPOSAL OF INVESTMENTS – ITEM 240

Section 17 – Gains (losses) on disposal of investments – Item 240

(thousands of euros)

17.1 GAINS (LOSSES) ON DISPOSAL OF INVESTMENTS: COMPOSITION

	31/12/2006	31/12/2005
A. Land and buildings		
- Gains on disposal		
- Losses on disposal		
B. Other assets	(2)	-
- Gains on disposal	1	
- Losses on disposal	(3)	
Net gain (loss)	**(2)**	-

SECTION 18 – INCOME TAX FOR THE PERIOD ON CONTINUING OPERATIONS – ITEM 260

18.1 Income tax for the period on continuing operations: composition

(thousands of euros)

18.1 INCOME TAX FOR THE PERIOD ON CONTINUING OPERATIONS: COMPOSITION

	31/12/2006	31/12/2005
1. Current taxes (-)	(529,680)	(310,395)
2. Changes in current taxes from previous periods (+/-)	(315)	
3. Reduction of current taxes for the year (+)		1,135
4. Change in deferred tax assets (+/-)	106,976	(7,925)
5. Change in deferred tax liabilities (+/-)	(141,265)	(141,327)
6. Taxes for the year (-) (-1+/-2+3+/-4+/-5)	(564,284)	(458,512)

Current taxation regards IRES and IRAP for the year.

The changes in current taxes from previous years represent the taxes calculated at time of payment in excess of the best estimates made in the financial statements.

The change in deferred tax assets corresponds to the balance of increases and decreases in deferred tax assets, reported in Table 13.3, while the change in deferred tax liabilities corresponds to the balance of increases and decreases in deferred tax liabilities.

18.2 Reconciliation of theoretical tax liability and actual tax liability recognized

(thousands of euros)

18.2 Reconciliation of theoretical tax liability and actual tax liability recognized

Income (loss) before taxes	**2,606,953**
IRES theoretical tax liability (33% rate)	**860,294**
dividends excluded 95%	(284,407)
dividends in shareholders' equity	2,139
valuation of equity investments	(103,072)
non-deductible costs	883
non-deductible writedowns	41
IRES Actual tax liability	**475,878**

PART D – SEGMENT INFORMATION

A. PRIMARY BASIS OF REPORTING

CDP is subject to a system of organizational and accounting separation under Article 5.8 of Decree Law 269 of 30 September 2003, ratified with amendments by Law 326 of 24 November 2003.

In order to create an accounting separation system, the organisational structure of the company was therefore divided into three operating units called, respectively, Separate Account, Ordinary Account and Joint Services, within which CDP's existing organisational units have been re-grouped.

Separate Account
The role of the Separate Account is to pursue the mission of general economic interest entrusted to CDP by law.
The bylaws of CDP, in accordance with law, allocate the following activities to the Separate Account:

- financing in any form for the state, regional governments, local authorities, public bodies and public-law entities using repayable funds raised from postal savings bonds and passbook savings accounts that benefit from state guarantees and are distributed through Poste Italiane S.p.A. or its subsidiaries, and funds raised from the issue of securities, borrowing and other financial operations with state guarantees;
- the acquisition of equity investments transferred or contributed to CDP by one or more decrees of the Minister for the Economy and Finance pursuant to Article 5.3(b) of Decree Law 269, the management of which complies with the criteria provided for in the decree of the Minister for the Economy and Finance referred to in Article 5.11(d) of Decree Law 269;
- the management, where assigned by the Minister for the Economy and Finance, of the functions, assets and liabilities of CDP, prior to its transformation, transferred to the MEF pursuant to Article 5.3(a) of Decree Law 269, as well as the management of any other public function and activities of general interest assigned by act of law, administrative regulations or contract;
- the provision of assistance and consulting to the parties listed in the first point.

As regards the organisational structure of CDP, divisions falling under the Separate Account include the Public Lending division, the Development Policy & Management Support division, the Postal Savings section of the Finance division, as well as the Parliamentary Supervisory Committee.

Ordinary Account

All CDP's other business activities that are not specifically attributed to the Separate Account are carried out by the Ordinary Account. Therefore, the Ordinary Account represents the range of activities carried out by CDP that are not assigned under statute to the Separate Account.

Specifically, CDP's Bylaws include among the activities designed to achieve its mission that are not assigned to the Separate Account:

- financing in any form of works, plant, networks, and other resources intended for the delivery of public services and for reclamation projects using funds raised through the issue of securities, borrowing and other financial operations, without state guarantees and excluding demand funding and with funding exclusively from institutional investors. For this purpose, CDP may issue securities of any kind and may obtain financing from shareholders or third parties. CDP also obtains funding using grants provided in any form by the state, public or private entities or international bodies and any other of its own resources and financial revenues compatible with its mission;
- providing consulting services and conducting studies, research and analysis of economic and financial matters.

From an organisational standpoint, the activities of the Infrastructure and Major Public Works division are included in the Ordinary Account.

Joint Services

Joint Services include the support departments, the corporate bodies and bodies provided for in the Bylaws (except for the Parliamentary Supervisory Committee, which regards the Separate Account), the offices of the Chairman and the Deputy Chairman, Corporate and the Finance division. The latter acts as an internal counterparty for all the other divisions and thus provides support for all CDP's activities.

For more information on CDP's system of accounting separation, please refer to the report on operations.

A.1 Distribution by sector: income statement

(thousands of euros)

	Separate Account	Ordinary Account	Joint Services	Eliminations	Total CDP
Interest income and similar revenues	5,616,072	25,605	-	(116)	**5,641,561**
- of which in respect of internal transactions	*89*	*27*	-	*(116)*	-
Interest expense and similar charges	(3,836,150)	(25,133)	-	116	**(3,861,167)**
- of which in respect of internal transactions	*(27)*	*(89)*	-	*116*	-
Net interest income	**1,779,922**	**472**	**-**	**-**	**1,780,394**
Net commissions	**(715,787)**	**2,219**	**(146)**		**(713,714)**
Dividends and similar revenues	907,199	-	-		**907,199**
Gains (losses) on equity investments	312,231	-	-		**312,231**
Net gain (loss) on trading activities	230,665	-	-		**230,665**
Net gain (loss) on hedging activities	(1,856)	399	-		**(1,457)**
Gains (losses) on disposal or repurchase of loans	200,327	71	-		**200,398**
Gross income	**2,712,701**	**3,161**	**(146)**		**2,715,716**
Net impairment adjustments of loans	(34,526)	-	-		**(34,526)**
Administrative expenses	(18,464)	(2,499)	(47,140)		**(68,103)**
Other operating income (costs)	664	286	420		**1,370**
OPERATING INCOME	**2,660,376**	**948**	**(46,866)**		**2,614,458**

A.2 Distribution by segment: balance sheet

(thousands of euros)

	Separate Account	Ordinary Account	Joint Services	Total CDP
Loans to customers	75,836,085	1,013,613	10	76,849,708
Due to customers	81,033,143	607	-	81,033,750
Securities issued	81,809,520	785,919	-	82,595,439
Cash and cash equivalents and net interbank position	84,277,969	(240,822)	(3,198,140)	80,839,007

PART E – INFORMATION ON RISKS AND RELATED HEDGING POLICIES

Organisational aspects and guidelines for risk management

The guidelines governing CDP's risk management policies are summarised in the Risk Management Rules prepared by the Risk Management department in March 2005 and revised in February 2006:

- 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.

The Risk Management Rules define:

- the scope of application of the Rules;
- the governance of the Rules within CDP;
- the evaluation metrics (measurement and mapping of risks);
- the system of limits;
- the risk control processes;
- reporting;
- management of CDP's proprietary information systems.

The approval, issue and revision of the Risk Management Rules are the responsibility of the Board of Directors, acting on a proposal of the General Manager.

The Asset & Liability Management Committee is a consultation and coordination body responsible for verifying the consistency of operational ALM strategies and the guidelines issued by the Board of Directors.
The Committee is made up of a group of key CDP managers, who at a minimum include:

- the General Manager;
- the head of the Finance division;
- the head of the Public Financing division;
- the head of the Infrastructure and Major Public Works division;
- the head of the Risk Management department;
- the head of the Planning and Operational Control department.

The Board of Directors of CDP delegates the power to establish the amount of risk that CDP can take on to the General Manager. This level is specified in terms of the reference risk measures, for which a ceiling is established. These limits are reviewed by the Board in relation to operational developments and at the recommendation of the General Manager and in any case on a quarterly basis.

The Risk Management department is responsible for controlling actual and prospective exposures to market, credit, liquidity and operational risks as well as enforcing compliance with the limits approved by the Board of Directors.

SECTION 1 – CREDIT RISK

QUALITATIVE DISCLOSURES

1. 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 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.

2. Credit risk management policies

2.1 Organisational aspects

The Lending department primarily focuses on preliminary assessments of applications, while Risk Management is responsible for monitoring 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.

2.2 Management, measurement and control systems

As part of its lending policies, in 2006 CDP developed a new system for lending to regional and local governments, under which each loan is allocated to a uniform risk category. In order to define the level of risk associated with individual authorities appropriately, the quantitative parameters used by the system differ in relation to the type of authority and its size.

The new lending system, which will take effect as from 1 January 2007, will make it possible to identify cases in which a more extensive assessment of the borrower's creditworthiness is advisable, using qualitative as well as quantitative criteria.

The creditworthiness assessment of counterparties does not conflict with the principles of "uniformity of treatment" and "non-discrimination" established by Decree Law 269 of 30 September 2003 for the CDP's operations under the Separate Account. On the contrary, it reinforces respect for these principles by dividing loans into uniform risk categories, as required by Article 11.3 of the decree of the Minister for the Economy and Finance of 6 October 2004.

As regards credit risk management and control policies, CDP has adopted an internal rating model (the "International Municipal Model") developed by Standard & Poor's. At CDP the model will only be used for larger local governments since it requires data for financial variables that smaller entities might not measure adequately.

The information potential of the new risk management tools adopted by CDP is significant. Despite the present of common risk factors in the financing granted to local governments, which are mitigated by the payment delegations that traditionally secure individual loans, greater knowledge about the specific risk characteristics of borrowers will enable CDP to monitor developments in the risk profile of the portfolio of loans to regions, provinces and municipalities, preventing the emergence of distressed positions among borrowers.

At the end of 2006 an initial version of the proprietary portfolio credit risk calculation model was developed. The model will be applied in 2007 to the loan portfolio of the Ordinary Account.

The model is a bottom-up actuarial model that:

- uses different probabilities of default for different rating grades and maturities and different recovery amounts for different guarantees;
- manages exposures that vary over time;
- operates with a long-term perspective;

- manages the dependence structure;
- calculates the risk contribution of the various obligors;
- manages both uniform and diverse portfolios;
- manages idiosyncratic factors in portfolios that are not fully diversified.

The model uses a relatively spare input structure. The main inputs are probabilities of default, their volatility, recovery rates and exposures. Probabilities of default and their volatility are derived from the outputs of the "Credit Risk Tracker" provided by Standard & Poor's.

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 relative limits based on the gross nominal amounts of transactions and net exposures.
The exposures are calculated on the basis of replacement cost plus add-ons.

In view of the ISDA contracts signed, netting arrangements are also used. The contracts are based on the 2002 ISDA agreement.
CDP signed a Credit Support Annex with a subset of counterparties in order to mitigate credit risk. The arrangement is based on the standard format recommended by ISDA and adopted by major banks.

2.4 Impaired assets
In 2006 CDP stepped up its monitoring and administration of problem loans in order to optimise it operational processes for recovering bad debts or substandard loans.
In particular, the process for managing problem positions is supported by a constantly updated database on the status of borrowers. Each month summary reports are generated for senior management and the units involved in controlling credit quality that specify the type of loans involved and the aging of the past due amounts.

CDP's approach to writedowns 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 past due positions (over 180 days), restructured loans and substandard loans is carried out on the basis of supervisory instructions using prudent materiality thresholds.
Positions are classified as substandard when at least three semiannual payments are past due (for loans) or repayment is in arrears by more than 12 months (for advances).
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 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)

	Bad debts	Substandard loans	Restructured positions	Past due positions	Country risk	Other assets	Total
1. Financial assets held for trading						135,871	135,871
2. Financial assets available for sale						15,320,238	15,320,238
3. Financial assets held to maturity							-
4. Loans to banks						3,465,309	3,465,309
5. Loans to customers	31,275	74,798		29,671		76,713,964	76,849,708
6. Financial assets designated at fair value							-
7. Financial assets being divested							-
8. Hedging derivatives						91,267	91,267
Total 2006	**31,275**	**74,798**	**-**	**29,671**	**-**	**95,726,649**	**95,862,393**
Total 2005	**-**	**15,601**	**-**	**-**	**-**	**80,891,333**	**80,906,934**

(thousands of euros)

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

	Impaired assets				Other assets			Total
	Gross exposure	Specific adjustments	Portfolio adjustments	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	
1. Financial assets held for trading							135,871	135,871
2. Financial assets available for sale					15,320,238		15,320,238	15,320,238
3. Financial assets held to maturity								-
4. Loans to banks					3,465,309		3,465,309	3,465,309
5. Loans to customers	176,594	(40,850)		135,744	76,713,964		76,713,964	76,849,708
6. Financial assets designated at fair value								-
7. Financial assets being divested								-
8. Hedging derivatives							91,267	91,267
Total 2006	**176,594**	**(40,850)**	**-**	**135,744**	**95,499,511**	**-**	**95,726,649**	**95,862,393**
Total 2005	**64,482**	**(6,325)**	**-**	**58,157**	**80,724,747**	**-**	**80,848,777**	**80,906,934**

(thousands of euros)

A.1.3 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET EXPOSURE TO BANKS: GROSS AND NET VALUES

	Gross exposure	Specific writedowns	Portfolio writedowns	Net exposure
A. ON-BALANCE-SHEET EXPOSURES				
a) Bad debts				
b) Substandard loans				
c) Restructured positions				
d) Past due positions				
e) Country risk				
f) Other assets	3,467,375		-	3,467,375
TOTAL A	**3,467,375**	**-**	**-**	**3,467,375**
B. OFF-BALANCE-SHEET EXPOSURES				
a) Impaired				
b) Impaired	**201,592**		-	201,592
TOTAL B	**201,592**	**-**	**-**	**201,592**

(thousands of euros)

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

	Gross exposure	Specific writedowns	Portfolio writedowns	Net exposure
A. ON-BALANCE-SHEET EXPOSURES				
a) Bad debts	70,107	(38,832)		31,275
b) Substandard loans	76,816	(2,018)		74,798
c) Restructured positions				
d) Past due positions	29,671	-		29,671
e) Country risk				
f) Other assets	92,032,136			92,032,136
TOTAL A	**92,208,731**	**(40,850)**	**-**	**92,167,880**
B. OFF-BALANCE-SHEET EXPOSURES				
a) Impaired	3,949	-	-	3,949
b) Other	8,482,173			8,482,173
TOTAL B	**8,486,123**	**-**	**-**	**8,486,123**

(thousands of euros)

A.1.7 ON-BALANCE-SHEET EXPOSURES TO CUSTOMERS: CHANGES IN GROSS IMPAIRED POSITIONS EXPOSED TO COUNTRY RISK

	Bad debts	Substandard loans	Restructured positions	Past due positions	Country risk
A. Opening gross exposure	**46,931**	**17,552**		**-**	
- of which: exposures assigned but not derecognized					
B. Increases	**23,177**	**64,072**		**29,671**	
B.1. from performing loans	20,366	63,846		29,671	
B.2 transfers from other categories of impaired positions	2,807				
B.3 other increases	3	226			
C. Decreases	**-**	**(4,808)**		**-**	
C.1. to performing loans					
C.2. writeoffs					
C.3. collections		(2,001)			
C.4. assignments					
C.5. transfers to other categories of impaired positions		(2,807)			
C.6. other decreases					
D. Closing gross exposure	**70,107**	**76,816**		**29,671**	
- of which: exposures assigned but not derecognized					

(thousands of euros)

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

	Bad debts	Substandard loans	Restructured position	Past due positions	Country risk
A. Total opening adjustments	**4,374**	**1,951**		**-**	
- of which: exposures assigned but not derecognized					
B. Increases	**34,458**	**2,874**		**-**	
B.1 writedowns	20,366	2,874			
B.2 transfers from other categories of impaired positions	2,807				
B.3 other increases	11,285				
C. Decreases	**-**	**(2,807)**		**-**	
C.1 writebacks from valuations					
C. 2writebacks from valuations					
C.3 writeoffs					
C.4 transfers to other categories of impaired positions		(2,807)			
C.5 other decreases					
D. Total closing adjustments	**38,832**	**2,018**		**-**	
- which: exposures assigned but not derecognized					

A.2 CLASSIFICATION OF EXPOSURES ON THE BASIS OF EXTERNAL RATINGS

(thousands of euros)

A.2.1 DISTRIBUTION OF ON-BALANCE-SHEET EXPOSURES AND OFF-BALANCE-SHEET EXPOSURE BY EXTERNAL RATING GRADES (CARRYING AMOUNTS)

	External rating grades						Not rated	Total
	AAA/AA-	A+/A-	BBB+/BBB-	BB+/BB-	B+/B-	Below B		
A. On-balance-sheet exposu	**49,120,087**	**16,063,155**	**385,319**			**46,884**	**30,019,810**	**95,635,255**
B. Derivatives	**204,695**	**22,443**					**-**	**227,138**
B.1 Financial derivatives	204,695	22,443					-	227,138
B.2 Credit derivatives								
C. Guarantees issued								
D. Commitments to disburs	**1,226,684**	**1,706,216**	**15,040**			**1**	**5,512,637**	**8,460,578**
Total	**50,551,466**	**17,791,813**	**400,360**			**46,885**	**35,532,447**	**104,322,971**

A.3 DISTRIBUTION OF SECURED EXPOSURES BY TYPE OF GUARANTEE

(thousands of euros)

A.3.1 SECURED ON-BALANCE-SHEET EXPOSURES TO BANKS AND CUSTOMERS

	Value of exposure	Collateral			Unsecured guarantees								Total 31/12/2006
					Credit derivatives				Guarantees				
		Land and buildings	Securities	Other assets	Governments	Other government agencies	Banks	Other	Governments	Other government agencies	Banks	Other	
1. Secured exposures to banks													
1.1 fully secured													
1.2 partially secured													
2. Secured exposures to customers													
2.1 fully secured	561,966	30,208	26,769							76,018		428,971	**561,966**
2.2 partially secured	67,828,463			10,189,389									**10,189,389**

(thousands of euros)

A.3.2 SECURED OFF-BALANCE-SHEET EXPOSURES TO BANKS AND CUSTOMERS

	Value of exposure	Collateral			Unsecured guarantees								Total 31/12/2006
					Credit derivatives				Guarantees				
		Land and buildings	Securities	Other assets	Governments	Other government agencies	Banks	Other	Governments	Other government agencies	Banks	Other	
1. Secured exposures to banks													
1.1 fully secured													
1.2 partially secured													
2. Secured exposures to customers													
2.1 fully secured	376,957	22,553	234,534							84,000		35,870	**376,957**
2.2 partially secured													

(thousands of euros)

A.3.3 IMPAIRED SECURED ON-BALANCE-SHEET EXPOSURES TO BANKS AND CUSTOMERS

	Value of exposure	Amount secured	Guarantees (fair value)																	Total	Excess fair value of guarantees
			Collateral			Unsecured guarantees															
						Credit derivatives							Guarantees								
			Land and buildings	Securities	Other assets	Governments and central banks	Other government agencies	Banks	Financial companies	Insurance undertakings	Non-financial companies	Other	Governments and central banks	Other government agencies	Banks	Financial companies	Insurance undertakings	Non-financial companies	Other		
1. Secured exposures to banks																					
1.1. more than 150%																					
1.2. from 100% to 150%																					
1.3. from 50% and 100%																					
1.4. up to 50%																					
2. Secured exposures to customers																					
2.1. more than 150%																					
2.2. from 100% to 150%																					
2.3. from 50% and 100%	49,479	33,037			33,037															**33,037**	**-**
2.4. up to 50%	127,085	12,169			12,169															**12,169**	**-**

B. DISTRIBUTION AND CONCENTRATION OF LENDING

B.1 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET EXPOSURES TO CUSTOMERS BY SECTOR

(thousands of euros)

B.1 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET EXPOSURES TO CUSTOMERS BY SECTOR

	Governments and central banks				Other government agencies				Financial companies			
	Gross exposure	Specific writedowns	Portfolio writedowns	Net exposure	Gross exposure	Specific writedowns	Portfolio writedowns	Net exposure	Gross exposure	Specific writedowns	Portfolio writedowns	Net exposure
A. On-balance-sheet exposures												
A.1 Bad debts					46,885	(15,610)		31,275				
A.2 Substandard loans					61,016	(1,737)		59,279				
A.3 Restructured positions												
A.4 Past due positions					29,652			29,652				
A.5 Other	34,236,134			34,236,134	37,086,859			37,086,859	202,983			202,983
Total A	**34,236,134**	**-**	**-**	**34,236,134**	**37,224,412**	**(17,348)**	**-**	**37,207,064**	**202,983**	**-**	**-**	**202,983**
B. Off-balance-sheet exposures												
B.1 Bad debts												
B.2 Substandard loans					1,899			1,899				
B.3 Other impaired assets					2,050			2,050				
B.4 Other	627,030			627,030	7,055,429			7,055,429	25,545			25,545
Total B	**627,030**	**-**	**-**	**627,030**	**7,059,378**	**-**	**-**	**7,059,378**	**25,545**	**-**	**-**	**25,545**
Total (A+B) 31/12/2006	**34,863,164**	**-**	**-**	**34,863,164**	**44,283,790**	**(17,348)**	**-**	**44,266,443**	**228,528**	**-**	**-**	**228,528**
Total (A+B) 31/12/2005	**32,592,853**	**-**	**-**	**32,592,853**	**36,609,500**	**(6,325)**	**-**	**36,603,175**	**200,382**	**-**	**-**	**200,382**

(thousands of euros)

B.1 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET EXPOSURES TO CUSTOMERS BY SECTOR

	Insurance undertakings				Non-financial companies				Other			
	Gross exposure	Specific writedowns	Portfolio writedowns	Net exposure	Gross exposure	Specific writedowns	Portfolio writedowns	Net exposure	Gross exposure	Specific writedowns	Portfolio writedowns	Net exposure
A. On-balance-sheet exposures												
A.1 Bad debts					23,222	(23,222)		-				
A.2 Substandard loans					15,005	(205)		14,800	795	(75)		719
A.3 Restructured positions												
A.4 Past due positions					19			19				
A.5 Other					20,483,424			20,483,424	22,737			22,737
Total A	**-**	**-**	**-**	**-**	**20,521,670**	**(23,427)**	**-**	**20,498,243**	**23,531**	**(75)**	**-**	**23,456**
B. Off-balance-sheet exposures												
B.1 Bad debts												
B.2 Substandard loans												
B.3 Other impaired assets												
B.4 Other					773,550			773,550	620			620
Total B	**-**	**-**	**-**	**-**	**773,550**	**-**	**-**	**773,550**	**620**	**-**	**-**	**620**
Total (A+B) 31/12/2006	**-**	**-**	**-**	**-**	**21,295,220**	**(23,427)**	**-**	**21,271,793**	**24,151**	**(75)**	**-**	**24,076**
Total (A+B) 31/12/2005	**-**	**-**	**-**	**-**	**17,671,009**	**-**	**-**	**17,671,009**	**-**	**-**	**-**	**-**

B.3 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET EXPOSURES TO CUSTOMERS BY GEOGRAPHICAL AREA

(thousands of euros)

B.3 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET EXPOSURES TO CUSTOMERS BY GEOGRAPHICAL AREA

	Italy		Other European countries		Americas		Asia		Rest of world	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. On-balance-sheet exposures										
A.1 Bad debts	70,107	31,275								
A.2 Substandard loans	76,816	74,798								
A.3 Restructured positions	-	-								
A.4 Past due positions	29,671	29,671								
A.5 Other	92,032,136	92,032,136								
Total A	**92,208,731**	**92,167,880**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Off-balance-sheet exposures										
B.1 Bad debts										
B.2 Substandard loans	1,899	1,899								
B.3 Other impaired assets	2,050	2,050								
B.4 Other	8,456,628	8,456,628	25,075	25,075	470	470				
Total B	**8,460,578**	**8,460,578**	**25,075**	**25,075**	**470**	**470**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2006	**100,669,308**	**100,628,458**	**25,075**	**25,075**	**470**	**470**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2005	**87,073,745**	**87,067,420**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

B.4 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET EXPOSURES TO BANKS BY GEOGRAPHICAL AREA

(thousands of euros)

B.4 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET EXPOSURES TO BANKS BY GEOGRAPHICAL AREA

	Italy		Other European countries		Americas		Asia		Rest of world	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
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	3,198,438	3,198,438	268,937	268,937						
Total A	**3,198,438**	**3,198,438**	**268,937**	**268,937**	**-**	**-**	**-**	**-**	**-**	**-**
B. Off-balance-sheet exposures										
B.1 Bad debts										
B.2 Substandard loans										
B.3 Other impaired assets										
B.4 Other	33,325	33,325	168,268	168,268						
Total B	**33,325**	**33,325**	**168,268**	**168,268**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2006	**3,231,763**	**3,231,763**	**437,204**	**437,204**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2005	**3,720,512**	**3,720,512**	**39,375**	**39,375**	**-**	**-**	**-**	**-**	**-**	**-**

C. SECURITISATIONS AND ASSET DISPOSALS

C.1 SECURITISATIONS

QUALITATIVE DISCLOSURES

At the end of 2002, the Cassa Depositi e Prestiti 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;
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.;
5. TAV S.p.A.;
6. Poste Italiane S.p.A.

A receivable was created with the assignment of the portfolios to the special purpose vehicle "CPG – Società di cartolarizzazione a r.l." owing to the fact that the price paid was less than the nominal value of the claims.
The amount of the receivables from CPG regards the deferred price that CDP will receive for the assigned portfolios. The price is determined by the difference between the positive and negative income components of the securitized portfolio.
The amount of payables to CPG regards the portfolios for which CDP continues to collect instalments on the securitised loans. By agreement, these sums are settled at the start of the following year.

As regard the obligations of CDP, which are defined in the assignment contract, under which CDP has made certain representations and guarantees to CPG, taking on specified costs, expenses and liabilities associated with the portfolios, please note that the operation and the flows linked to all the securitised portfolios are proceeding regularly.
The loans underlying the transaction were fully derecognised, since CDP applied the provisions of paragraph 27 of IFRS 1, which requires first-time adopters to apply the derecognition rules for financial assets prospectively for transactions carried out as from 1 January 2004.

As regards securitizations conducted by third parties, in 2005 CDP acquired a bond issued by the INPS - S.C.C.I. S.p.A. securitisation vehicle.

QUANTITATIVE DISCLOSURES

(thousands of euros)

C.1.1 EXPOSURES IN RESPECT OF SECURITIZATIONS BY QUALITY OF SECURITIZED 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:					**164,724**	**164,724**												
a) impaired																		
b) other					164,724	164,724												
B. With third-party underlying assets:	**203,258**	**203,258**																
a) impaired																		
b) other	203,258	203,258																

(thousands of euros)

C.1.2 EXPOSURES IN RESPECT OF MAIN OWN SECURITIZATIONS BY TYPE OF SECURITIZED ASSETS AND TYPE OF EXPOSURE

	On-balance-sheet exposures						Guarantees issued						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book value	Writedowns/writebacks	Book value	Writedowns/writebacks	Book value	Writedowns/writebacks	Net exposure	Writedowns/writebacks	Net exposure	Writedowns/writebacks	Net exposure	Writedowns/writebacks	Net exposure	Writedowns/writebacks	Net exposure	Writedowns/writebacks	Net exposure	Writedowns/writebacks
A. Fully derecognised																		
A.1 CPG - Società di cartolarizzazione a r.l.					164,724	-												
- 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 EXPOSURES IN RESPECT OF MAIN THIRD-PARTY SECURITIZATIONS BY TYPE OF SECURITIZED ASSETS AND TYPE OF EXPOSURE

	On-balance-sheet exposures						Guarantees issued						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book value	Writedowns/writebacks	Book value	Writedowns/writebacks	Book value	Writedowns/writebacks	Net exposure	Writedowns/writebacks	Net exposure	Writedowns/writebacks	Net exposure	Writedowns/writebacks	Net exposure	Writedowns/writebacks	Net exposure	Writedowns/writebacks	Net exposure	Writedowns/writebacks
A.1 - S.C.C.I																		
- Pension receivables	203,258																	

(thousands of euros)

C.1.4 EXPOSURES IN RESPECT OF SECURITIZATIONS BY PORTFOLIO OF FINANCIAL ASSETS AND TYPE

	Financial assets held for trading	Financial assets recognised at fair value	Financial assets available for sale	Financial assets held to maturity	Loans	31/12/2006	31/12/2005
1. On-balance-sheet exposures					**367,982**	**367,982**	**351,725**
- senior					203,258	203,258	203,258
- mezzanine							
- junior					164,724	164,724	148,467
2. Off-balance-sheet exposures							
- senior							
- mezzanine							
- junior							

(thousands of euros)

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

	Securitized 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
CPG - Società di cartolarizzazione a r.l.	367	1,041,428		340,700						

SECTION 2 – MARKET RISKS

2.1 INTEREST RATE RISK – SUPERVISORY TRADING BOOK

QUALITATIVE DISCLOSURES

A. General aspects

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

2.2 INTEREST RATE RISK – BANKING BOOK

QUALITATIVE DISCLOSURES

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

Interest rate risk, i.e. CDP's exposures to adverse changes in interest rates, is mainly associated with the maturity mismatch between fixed-rate assets and liabilities (rate revision risk and yield curve risk) and the embedded option element in loans on the asset side and postal savings bonds on the liability side.

CDP has also adopted fair value for "structural" exposures, subject (on the asset side) both to renegotiations/restructurings that repeatedly measure fair value and fair value hedging transactions (for which hedge accounting is used).

The Risk Management Rules establish that CDP's interest rate risk management strategy is to protect net interest income both at long term (in the form of net present value - NPV) and at short term. Initially, emphasis was placed on the enterprise's economic value, i.e. stabilising the present value of margins over the long term. This strategy was implemented with a constant focus on net interest income, given the exposure limits proposed to the Board of Directors.
In view of the fact that the majority of exposures material to the calculation of risk are carried as non-current items and the potential losses would not impact the income statement in the short term but would rather have a deferred long-term impact, CDP has worked to quantify

the effects on net interest income of different rate scenarios and varying developments in balance-sheet aggregates, a key element of transforming the focus on the margin into a quantitative target to safeguard with risk limits. This requires a dynamic ALM system that can combine the accrual and fair value approaches to define explicit objectives for stabilising net interest income in the short and medium term that can be reconciled with the long-term objectives.

In 2006 CDP developed a system – DALM – that meets this need. It makes it possible to simulate the impact of alternative scenarios for (a) balance-sheet aggregates, (b) market variables and (c) ALM policies on (I) future net interest income and (II) future sensitivities and fair values.

CDP keeps the exposure to interest rate risk within VaR limits that are reviewed periodically by the Board of Directors using PV01 as an additional indicator in a fair value and NPV approach and exploiting natural hedges for structural positions.

Measurement and monitoring of interest rate risk is carried out by the Risk Management department.

Within the system of delegated authority defined and approved by the Board of Directors, operational responsibility for managing interest rate risk (and market risks in general) lies with the Finance division.

CDP uses market standard methodologies implemented within its proprietary system to monitor interest rate risk:

- Value-at-Risk (VaR) over a ten business day holding period (calculated daily);
- sensitivity to market variables (calculated daily);
- results of market variable stress tests (calculated quarterly).

VaR is calculated using a "filtered" historical simulation methodology using daily observations, with full revaluation on 750 scenarios, which is also effective with non-linear exposures. In historical simulation, correlations are implicit in the multivariate time series of risk factors, As full revaluation is used, no simplifying assumptions are needed for risk mapping.

Measurement covers all financial asset and liability classes with a duration of more than one year and a significant minimum aggregate amount.

The fair value model for postal savings bonds captures the risk of early redemption, combining derivatives pricing techniques (for non-arbitrage) with an econometrics approach based on CDP's information resources.

The VaR calculation method uses a 99% confidence interval with a 1-day holding period, while a scaling method is used to obtain the 10-day value.

With specific reference to interest rates, the following indicators are estimated to obtain the sensitivity metrics:

- Delta, or the first derivative of the market value of the position with respect to the zero-coupon yield curve;
- Gamma, or the second derivative of the market value of the position with respect to the zero-coupon yield curve;
- Vega, as a measure of sensitivity to a parallel shift in the volatility structure of interest rates.

In order to assess the impact of significant perturbations in market parameters, a stress testing system has been developed, using a grid of specified scenarios for classes of risk drivers. In particular:

- a parallel shift in the zero-coupon yield curve (+/- 200 b.p.)
- a change in the slope of the zero-coupon curve (+/- 100 b.p.)
- a shift in the level of the ATM volatility surface of the swaptions market, to an extent consistent with the perturbations applied to the zero-coupon yield curve in the parallel shift test.

Limits

The Rules set two VaR limits, one for the banking book, the other for the trading book.
The limit for the banking book is interpreted within the scope of the ALM approach described above.

Reporting

VaR and sensitivity reporting is conducted on a daily basis and is transmitted to the members of the ALM Committee, which meets weekly.
The Board of Directors receives a quarterly report on the same variables on the occasion of its review of limits. The Board of Directors also receives the stress test report on a quarterly basis.

B. Fair value hedges

The strategy underlying fair value hedging can be summarised as follows:

- the Ordinary Account is hedged against interest rate risk at the origination stage;
- in view of the discussion in the section "General aspects", hedging programmes seek to reduce interest rate risk measures of the banking book.

As regards the liability side of the Ordinary Account, structured floating-rate issues were hedged with swaps transforming them into 6-month euribor plus a spread.
On the asset side of the Ordinary Account, fixed-rate loans were hedged with IRSs in which CDP pays fixed and receives floating. The IRSs are amortising.
All the hedges under the Ordinary Account are micro fair value hedges. In the case of issues, the hedges are specific to the issue; for loans, some cases regard hedges of a uniform aggregate of loans.

Issues of fixed-rate covered bonds under the Separate Account were systematically transformed into floating rates using IRSs. In this case the hedges were specific micro fair value hedges.

In 2005, with a negative exposure to a reduction in rates, CDP undertook a programme of hedging interest rate risk on a portfolio of postal savings bonds (fair value hedges of a portfolio of financial liabilities exposed to changes in interest rates). The programme was implemented using roller-coaster IRSs in which CDP receives fixed and pays 12-month euribor plus a spread.

At the start of 2006, following the renegotiation of 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 uniform portfolios of fixed-rate loans charged to the state.
The programme was implemented using amortising IRSs in which CDP pays fixed and receives 6-month euribor plus a spread.

C. Cash flow hedges

CDP did not engage in cash flow hedging

QUANTITATIVE DISCLOSURES

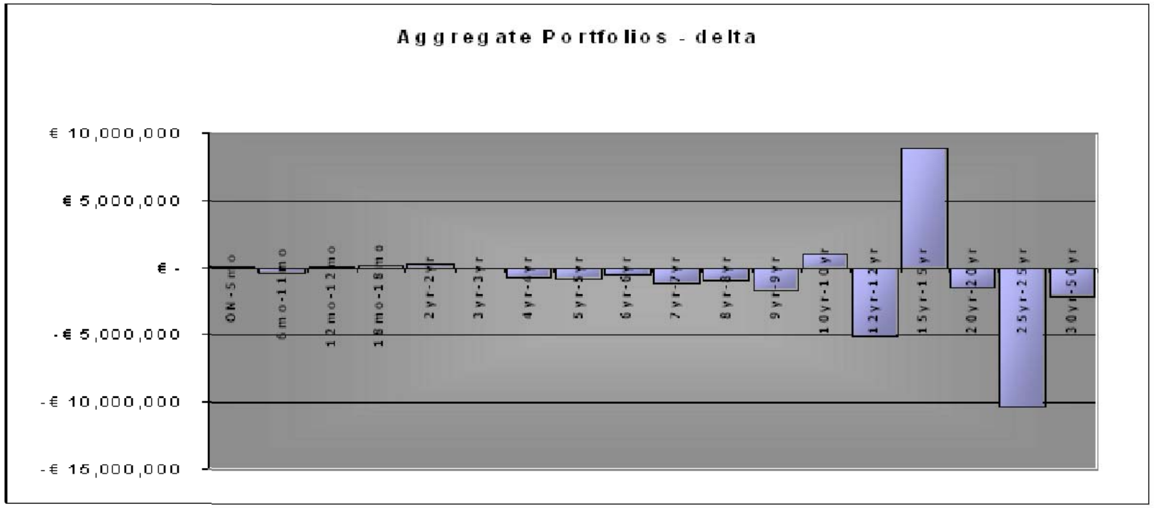
As discussed above, in 2006 CDP implemented a DALM system that simulates the impact of alternative scenarios.

CDP keeps the exposure to interest rate risk within VaR limits that are reviewed periodically by the Board of Directors using PV01 as an additional indicator in a fair value and NPV approach and exploiting natural hedges for structural positions.
The following figure shows an analysis of the interest rate sensitivity of CDP's banking book.

Sensitivity to euro zero-coupon rates by maturity

(al 2006-12-29)

Maturity ladder	PV01
ON-5mo	114,111
6mo-11mo	- 370,315
12mo-12mo	111,483
18mo-18mo	150,081
2yr-2yr	242,702
3yr-3yr	- 69,254
4yr-4yr	- 647,926
5yr-5yr	- 794,680
6yr-6yr	- 530,258
7yr-7yr	- 1,117,476
8yr-8yr	- 877,803
9yr-9yr	- 1,664,791
10yr-10yr	1,087,324
12yr-12yr	- 5,132,508
15yr-15yr	8,857,897
20yr-20yr	- 1,463,419
25yr-25yr	- 10,358,450
30yr-50yr	- 2,113,274
Total	- 14,576,555



2.3 PRICE RISK – SUPERVISORY TRADING BOOK

QUALITATIVE DISCLOSURES

A. General aspects

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

2.4 PRICE RISK – BANKING BOOK

QUALITATIVE DISCLOSURES

A. General aspects, management and measurement of price risk

The components of equity risk associated with large listed equity investments regard adverse movements in stock prices. This could produce 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 issue of bonds linked to the Euro Stoxx 50 index.

CDP uses an innovative approach to protect its portfolio against the equity risk in respect of listed equity investments (both in associates and other companies).
The monitoring tools include VaR calculated using the same methodology as that applied to interest rate risk.

The price risk associated with issues of indexed savings bonds is systematically hedged using options that match those embedded in the bonds.
The notional acquired for each issue is determined on the basis of the proprietary redemption model.

QUANTITATIVE DISCLOSURES

(thousands of euros)

1. BANKING BOOK: ON-BALANCE-SHEET EXPOSURES IN EQUITY SECURITIES AND UNITS OF COLLECTIVE INVESTMENT UNDERTAKINGS

	Book value	
	Listed	**Unlisted**
A. Equity securities		
A.1 Shares	15,103,480	2,066
A.2 Innovative capital instruments		
A.3 Other equities		
B. Units in collective investment undertakings		
B.1 Italian		
- harmonized open		
- non harmonized open		
- closed		
- restricted		
- speculative		
B.2 Other EU		
- harmonized		
- non harmonized open		
- non harmonized closed		
B.2 Non-EU		
- open		
- closed		
Total	**15,103,480**	**2,066**

2.5 EXCHANGE RATE RISK

QUALITATIVE DISCLOSURES

The transactions carried out by CDP have no material exposure to exchange rate risk.

2.6 DERIVATIVES

A. FINANCIAL DERIVATIVES

(thousands of euros)

A.2.1 HEDGING

	Debt securities and interest rates		Equity securities and equity indices		Exchange rates and gold		Other		31/12/2006		31/12/2005	
	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted
1. Forward rate agreement												
2. Interest rate swap		24,569,215								24,569,215		8,620,070
3. Domestic currency swap												
4. Currency i.r.s.												
5. Basis swap		450,000								450,000		400,000
6. Equity index swaps												
7. Real index swaps												
8. Futures												
9. Cap options												
- purchased												
- written												
10. Floor options												
- purchased												
- written												
11. Other options												
- purchased												
- plain vanilla												
- exotic												
- written												
- plain vanilla												
- exotic												
12. Forward contracts												
- purchases												
- sales												
- foreign currency vs foreign currency												
13. Other derivatives contracts												
Total		**25,019,215**								**25,019,215**		**9,020,070**

(thousands of euros)

A.2.2 OTHER DERIVATIVES

	Debt securities and interest rates		Equity securities and equity indices		Exchange rates and gold		Other		31/12/2006		31/12/2005	
	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted
1. Forward rate agreement												
2. Interest rate swap												
3. Domestic currency swap												
4. Currency i.r.s.												
5. Basis swap												
6. Equity index swaps												
7. Real index swaps												
8. Futures												
9. Cap options												
- purchased												
- written												
10. Floor options												
- purchased												
- written												
11. Other options												
- purchased				3,824,596								2,596,925
- plain vanilla				3,824,596								2,596,925
- exotic												
- written				3,824,596								2,596,925
- plain vanilla				3,824,596								2,596,925
- exotic												
12. Forward contracts												
- purchases												
- sales												
- foreign currency vs foreign currency												
13. Other derivatives contracts												
Total				**7,649,192**								**5,193,850**

(thousands of euros)

A.3 FINANCIAL DERIVATIVES: PURCHASES AND SALES OF UNDERLYINGS

	Debt securities and interest rates		Equity securities and equity indices		Exchange rates and gold		Other assets		31/12/2006		31/12/2005	
	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted
A. Supervisory trading book:												
1. Transactions with exchange of principal												
- purchases												
- sales												
- foreign currency vs foreign currency												
2. Transactions without exchange of principal												
- purchases												
- sales												
- foreign currency vs foreign currency												
B. Banking:												
B.1 Hedging												
1. Transactions with exchange of principal												
- purchases												
- sales												
- foreign currency vs foreign currency												
2. Transactions without exchange of principal		25,469,215								25,469,215		9,420,069
- purchases		5,159,007								5,159,007		9,020,069
- sales		20,310,208								20,310,208		400,000
- foreign currency vs foreign currency												
B.2 Other derivatives												
1. Transactions with exchange of principal												
- purchases												
- sales												
- foreign currency vs foreign currency												
2. Transactions without exchange of principal				7,649,192						7,649,192		5,193,850
- purchases				3,824,596						3,824,596		*2,596,925*
- sales				3,824,596						3,824,596		2,596,925
- foreign currency vs foreign currency												

(thousands of euros)

A.4 OVER-THE-COUNTER FINANCIAL DERIVATIVES: POSITIVE FAIR VALUE- COUNTERPARTY RISK

	Debt securities and interest rates			Equity securities and equity indices			Exchange rates and gold			Other assets			Different underlyings	
	Gross not netted	Gross netted	Future exposure	Gross not netted	Gross netted	Future exposure	Gross not netted	Gross netted	Future exposure	Gross not netted	Gross netted	Future exposure	Gross netted	Future exposure
A. Supervisory trading book														
A.1 Governments and central banks														
A.2 Government agencies														
A.3 Banks														
A.4 Financial companies														
A.5 Insurance undertakings														
A.6 Non-financial companies														
A.7 Other														
Total A 31/12/2006														
B. Banking book														
B.1 Governments and central banks														
B.2 Government agencies														
B.3 Banks	84,386		61,571	131,673		181,060								
B.4 Financial companies	6,881		5,889	4,198		6,000								
B.5 Insurance undertakings														
B.6 Non-financial companies														
B.7 Other														
Total B 31/12/2006	**91,267**		**67,460**	**135,871**		**187,060**								

(thousands of euros)

A.5 OVER-THE-COUNTER FINANCIAL DERIVATIVES: NEGATIVE FAIR VALUE - FINANCIAL RISK

	Debt securities and interest rates			Equity securities and equity indices			Exchange rates and gold			Other assets			Different underlyings	
	Gross not netted	Gross netted	Future exposure	Gross not netted	Gross netted	Future exposure	Gross not netted	Gross netted	Future exposure	Gross not netted	Gross netted	Future exposure	Gross netted	Future exposure
A. Supervisory trading book														
A.1 Governments and central banks														
A.2 Government agencies														
A.3 Banks														
A.4 Financial companies														
A.5 Insurance undertakings														
A.6 Non-financial companies														
A.7 Other														
Total A 31/12/2006														
B. Banking book														
B.1 Governments and central banks														
B.2 Government agencies														
B.3 Banks	508,204		172,851											
B.4 Financial companies	149,090		83,112											
B.5 Insurance undertakings														
B.6 Non-financial companies														
B.7 Other				137,392		189,360								
Total B 31/12/2006	**657,294**		**255,963**	**137,392**		**189,360**								

(thousands of euros)

A.6 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	119,020	6,041,311	18,858,884	25,019,215
B.2 Financial derivatives on equity securities and equity indices	240,172	916,602	6,492,418	7,649,192
B.3 Financial derivatives on exchange rates and gold				
B.4 Financial derivatives on other assets				
Total 31/12/2006	**359,192**	**6,957,913**	**25,351,302**	**32,668,407**

SECTION 3 – 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 liquid assets. Considering the nature of postal savings, it is nevertheless a priority for CDP 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.

QUANTITATIVE DISCLOSURES

(thousands of euros)

1. DISTRIBUTION OF FINANCIAL ASSETS AND LIABILITIES ASSETS BY RESIDUAL MATURITY

	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
On-balance-sheet assets									
A.1 Government securities									
A.2 Listed debt securities							2,060	4,372	208,260
A.3 Other debt securities									
A.4 Units in collective investment undertakings									
A.5 Loans									
- banks	2,779,080			268,937		3,974	4,049	35,241	374,028
- customers	2,119,835	2,071,083			77	1,177,457	1,545,266	11,719,101	57,725,879
On-balance-sheet liabilities									
B.1 Deposits									
- banks	414,405	669,319				667		13,320	151,043
- customers	81,033,750								
B.2 Debt securities						149,472		7,019,719	1,469,534
B.3 Other liabilities	73,956,713				677,784	84,185			
Off-balance-sheet transactions									
C.1 Financial derivatives with exchange of principal									
- long positions									
- short positions									
C.2 Deposits and loans to receive									
- long positions									
- short positions									
commitments to disburse funds									
- long positions	8,221,446					239,131			
- short positions									

(thousands of euros)

2. SECTORAL DISTRIBUTION OF FINANCIAL LIABILITIES

	Governments and central banks	Other government agencies	Financial companies	Insurance undertakings	Non-financial companies	Other
1. Due to customers	4,683,356	5,659,094	62,789		45,250	70,583,261
2. Securities issued						82,595,439
3. Financial liabilities held for trading						137,392
4. Financial liabilities recognised at fair value						
Total 31/12/2006	**4,683,356**	**5,659,094**	**62,789**	**-**	**45,250**	**153,316,091**
Total 31/12/2005	**3,408,548**	**5,104,538**	**94,436**	**-**	**24,103**	**126,950,208**

(thousands of euros)

3. GEOGRAPHICAL DISTRIBUTION OF FINANCIAL LIABILITIES

	Italy	Other European countries	Americas	Asia	Rest of world
1. Due to customers	81,033,750				
2. Due to banks	684,123	564,630			
3. Securities issued	73,956,713	8,638,725			
4. Financial liabilities held for trading	137,392				
5. Financial liabilities recognised at fair value					
Total 31/12/2006	**155,811,978**	**9,203,355**	**-**	**-**	**-**
Total 31/12/2005	**137,029,932**	**5,240,626**			

SECTION 4 – OPERATIONAL RISKS

QUALITATIVE DISCLOSURES

General aspects, management and measurement of operational risks

To date CDP has not implemented systems for tracking events that could generate operating losses.
However, CDP has taken measures to mitigate operational risks in specific areas of its business.
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 market risks and execute 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:

- ensuring an adequate "gestation" period for the architecture for acquiring identification information and position data;
- periodic integrity checks with the departments/divisions providing the data;
- redundant providers and control algorithms for market data;
- use of alternative models;
- independent control of model using external experts;
- extensive testing;
- detailed documentation of processes, models and codes.

PART F – CAPITAL

SECTION 1 – CAPITAL

QUALITATIVE DISCLOSURES

Pending the issuance of specific measures in this area by the Bank of Italy, CDP is subject to "informational" monitoring only.

Accordingly, in 2006, in agreement with the Bank of Italy, CDP did not calculate supervisory capital or the related supervisory capital requirements.

PART G – BUSINESS COMBINATIONS

SECTION 1 – OPERATIONS CARRIED OUT DURING THE YEAR

1.1 BUSINESS COMBINATIONS

Effective as of 1 January 2006, based on Article 1.79 of Law 266 of 23 December 2005, Infrastrutture S.p.A. was merged into CDP, which then assumed control of all property, rights, and legal relations of Infrastrutture S.p.A. (of which CDP was the sole shareholders), including litigation. As established by Article 1.83 of Law 266, the publication of the law in the *Gazzetta Ufficiale* took the place of the instruments and related registrations envisaged in Article 2504 of the Civil Code, with all other formalities omitted.

1.2 OTHER INFORMATION ON BUSINESS COMBINATIONS

1.2.2 Other

The assets and liabilities of Infrastrutture S.p.A. at the time of the merger are reported below, with separate indication of transactions with CDP.

Infrastrutture SpA

Balance sheet at 31/12/2005

(thousands of euros)

Assets		31/12/2005	of which in respect of CDP
Cash and cash equivalents		0	
Loans to banks		6,565,798	
a) demand	454,402		
b) other	6,111,396		
Loans to financial institutions		71,462	71,462
b) other	71,462		
Loans to customers		37,151,800	
Intangible assets		0	
Tangible assets		0	
Other assets		405,786	
Accrued income and prepaid expenses:		318,922	
(a) accrued income	234,795		
(b) prepaid expenses	84,127		
Total assets		**44,513,768**	**71,462**

Liabilities and shareholders' equity		31/12/2005	of which in respect of CDP
Due to financial institutions		36,093,615	36,093,615
b) term or notice	36,093,615		
Other liabilities		2,251,747	
Staff severance pay		231,739	
Provisions:		56,871	
(b) taxes and duties	56,871		
Share capital		10,000,000	10,000,000
Reserves		6,905	
a) legal reserve	6,905		
Retain earnings (loss carried forward)		(765,728)	(4,120,204)
Net income (loss) for the period		(3,361,381)	
Total liabilities and shareholders' equity		**44,513,768**	**41,973,411**

Carrying amount of equity investment		**5,879,796**
Share capital subscribed	10,000,000	
Writedown of investment	(4,120,204)	

In application of paragraph 72 of IFRS 3, we report that:

(a) there were no gains or losses recognised in 2006 that relate to the identifiable assets acquired or the liabilities or contingent liabilities assumed in the business combination in question;

(b) should it prove necessary, including in future periods, to report error corrections required to be disclosed by IAS 8 for any of the assets, liabilities or contingent liabilities, or changes in the values assigned to those items, adequate information will be provided in the notes to the financial statements..

PART H – TRANSACTIONS WITH RELATED PARTIES

1. Information on the compensation of directors and management

(thousands of euros)

REMUNERATION OF DIRECTORS AND STATUTORY AUDITORS

	31/12/2006
a) Directors	532
b) Statutory auditors	111
Total	**643**

(thousands of euros)

REMUNERATION OF RELATED PARTIES (1)

	31/12/2006
(a) short-term benefits	3,344
(b) post-employment benefits	55
(c) other long-term benefits	-
(d) severance benefits	119
(e) share-based payments	-
Total	**3,518**

(1) Includes gross compensation and related social security contributions of directors and senior management

(thousands of euros)

REMUNERATION PAID TO DIRECTORS AND STATUTORY AUDITORS

Name	Position	Period in office	End of term (*)	Compensation and bonuses
Board of Directors				
Alfonso Iozzo	Chairman (1)	15/12/06-31/12/06	2009	-
Salvatore Rebecchini	Chairman (2)	01/01/06-16/11/06	2006	(***)
Luigi Roth	Deputy Chairman	01/01/06-31/12/06	2006	135
Luigi Fausti	Director	01/01/06-31/12/06	2006	35
Gianluca Galletti	Director (3)	01/01/06-20/06/06	2006	17
Ettore Gotti Tedeschi	Director	01/01/06-31/12/06	2006	35
Vittorio Grilli	Director	01/01/06-31/12/06	2006	(**)
Nunzio Guglielmino	Director	01/01/06-31/12/06	2006	35
Mario Sarcinelli	Director	01/01/06-31/12/06	2006	35
Luisa Torchia	Director	01/01/06-31/12/06	2006	35
Supplementary members for administration of Separate Account (Art. 5.8, Decree Law 269/2003)				
Edoardo Grisolia	Director (4)	01/01/06-31/12/06	2006	(**)
Maria Cannata	Director (5)	01/01/06-31/12/06	2006	(**)
Lucio D'Ubaldo	Director	01/01/06-31/12/06	2006	35
Donato Robilotta	Director	01/01/06-31/12/06	2006	35
Sergio Vedovato	Director	01/01/06-31/12/06	2006	35
Board of Auditors				
Alberto Sabatini	Chairman	01/01/06-31/12/06	2006	27
Paolo Asso	Auditor	01/01/06-31/12/06	2006	20
Mario Basili	Auditor	01/01/06-31/12/06	2006	(**)
Piergiorgio Benvenuti	Auditor	01/01/06-31/12/06	2006	20
Antonio Finotti	Auditor	01/01/06-31/12/06	2006	20
Ignazio Cardone	Alternate	01/01/06-31/12/06	2006	-
Biagio Mazzotta	Alternate	01/01/06-31/12/06	2006	-

(*) Date of Shareholders' Meeting called to approve financial statements for the year.
(**) The remuneration is paid to the Ministry for the Economy and Finance.
(***) Waived remuneration.

(1) Prime Minister's Decree of 5 December 2006
(2) Resigned on 16/11/2006
(3) Resigned on 20/06/2006
(2) Delegate of State Accountant General
(3) Delegate of Director General of the Treasury

2. Information on transactions with related parties

With the exception of transactions with Poste Italiane S.p.A., which places postal savings products on behalf of CDP, 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 2006 CDP had the following transactions with the parent 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 treasury service performed by the MEF and lending transactions.

Pursuant to Article 6.2 of the decree of the Minister for the Economy and Finance (MEF) of 5 December 2003, interest on the funds is paid half-yearly at a floating six-month rate equal to the simple arithmetic average of the gross yield on six-month treasury bills and the level of the monthly Rendistato index.

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

As regards receivables in respect of loans, it should be noted that nearly half 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 agreed in 2006.

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

(thousands of euros)

Transactions with Ministry for the Economy and Finance	**2006**
Current account balances	78,622,445
Loans to customers	34,226,142
Other assets	18,018
Due to customers	4,564,459
Other liabilities	1,078
Interest income	3,347,186
Commission income for services rendered	9,164
Interest expense	(146,562)

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 associates	**2006**
Loans to customers	1,592,368
Due to customers	579,986
Interest income	52,091
Commission expense for services received	(1,188,978)
of which: subject to amortisation	*(463,926)*

ANNEXES

ANNEX 1

LIST OF EQUITY INVESTMENTS

ANNEX 2

ACCOUNTS AT 31 DECEMBER 2006 OF THE SEGREGATED TAV ASSETS

ANNEX 3

FIRST-TIME ADOPTION OF THE IASS/IFRSS BY CASSA DEPOSITI E PRESTITI

Annex 1

(thousands of euros)

LIST OF EQUITY INVESTMENTS

	Registered office	% holding	Book value
A. Listed companies			
1. Eni S.p.A.	Rome	9.99%	10,199,347
2. Enel S.p.A.	Rome	10.16%	4,904,134
3. Terna S.p.A.	Rome	29.99%	1,311,330
B. Unlisted companies			
1. Poste Italiane S.p.A.	Roma	35.00%	2,578,406
2. ST Holding N.V.	Amsterdam	30.00%	1,506,991
3. Galaxy S.àr.l.	Luxembourg	40.00%	13,099
4. Sinloc S.p.A.	Turin	11.85%	5,554
5. Europrogetti & Finanza S.p.A.	Rome	31.80%	2,125
6. Istituto per il Credito Sportivo	Rome	21.62%	2,066
7. Tunnel di Genova S.p.A.	Genoa	33.33%	-

Annex 2

ACCOUNTS AT 31 DECEMBER 2006 OF THE SEGREGATED TAV ASSETS

This Annex describes the status at 31 December 2006 of the segregated asset account established by the Board of Directors of Infrastrutture S.p.A. with the resolution of 23 December 2003, pursuant to Article 8 of Decree Law 63 of 15 April 2002. These segregated assets were formed for the purpose of financing investments relating to high-speed/high-capacity rail infrastructure pursuant to Article 75 of Law 289 of 27 December 2002. Decree Law 63/2002 had stated that Infrastrutture S.p.A. could use its own assets and legal relations to satisfy the rights of holders of its own securities and those of other lenders.

Article 1, paragraph 79 of Law 266 of 23 December 2005 provided for the merger of Infrastrutture S.p.A. into CDP with effect from 1 January 2006, involving the assumption by CDP of all assets and legal rights and relationships, including court proceedings, and liabilities relating to the acquired company. CDP was therefore required, maintaining continuity with Infrastrutture S.p.A., to undertake the activities relating to the financing of high-speed/high-capacity rail infrastructure through the corresponding segregated assets, in accordance with the procedures set forth in Article 75 of Law 289/2002. In line with previous Infrastrutture S.p.A. financial statements, the segregated assets are not directly reported in the company's financial statements. CDP keeps separate books and accounting records for the segregated assets.

INTRODUCTION

Paragraphs 966, 967, 968 and 969 of the 2007 Finance Act, which entered into force with the publication of the law on 27 December 2006, repealed Article 75 of Law 289 of 27 December 2002, paragraph 1 last sentence, paragraph 2 last sentence, and paragraph 4, and specified the criteria and procedures for the liquidation of the TAV segregated assets and the assumption of the corresponding charges by the state.

In enacting the above provisions, the Ministry for the Economy and Finance issued a decree which at Article 1, paragraph 2, states that, with effect on the date of the ministerial decree (27 December 2006), the liabilities in respect of the bond, loans and hedge swaps shall be charged directly to the state budget. Article 2 of the same decree also establishes the liquidation of the segregated assets in accordance with the procedures set forth in Article 2447-novies of the Civil Code, following which the separate asset account shall be terminated together with the use restriction on receivables and revenues and guarantees and all other associated legal relationships.

The state has therefore taken direct responsibility for charges in respect of the segregated assets, thereby superseding both the state guarantee as provided for by paragraph 81, Article 1 of the 2006 Finance Act and the mechanism for supplementary payments by the state provided for by Article 75 of Law 289/2002, which was intended to make up for any shortfall in proceeds deriving from the economic exploitation of the financed work. For these reasons, in this report on the accounts at 31 December 2006, CDP shows the state as the obligor in respect of the entire exposure relating to the segregated assets.

At the same time, CDP has undertaken the actions specified in the 2007 Finance Act, as well as in the decree of the Minister for the Economy and Finance of 27 December 2006 intended to release the amounts in question. In any event the use restriction on the receivables and revenues referred to in paragraph 4 of Article 75 of Law 289/2002 may only be removed after agreement of the creditors has been secured, as indicated in the ministerial decree.

STATUS OF THE OPERATION AT 31 DECEMBER 2006

The following table shows a summary of the segregated assets and debt:

euros

CODE		AT 31 December 2006	AT 31 December 2005
A.	**SEGREGATED ASSETS**	**12,950,000,000**	**12,499,314,880**
A1	Receivables	12,950,000,000	12,204,000,000
A1 1	Accrued income	-	351,399,746
A1 2	Balance premium/discount to amortise	-	(56,084,866)
B.	**INVESTMENT OF LIQUIDITY GENERATED BY MANAGEMENT OF RECEIVABLES**	**7,435,204**	**38,646,950**
B3	Other:		
B3 1	Balances with state central treasury	6,633,245	37,806,206
B3 2	Balances on JP Morgan current accts 985 and 986	801,959	840,744
B3 3	Other receivables	-	-
	TOTAL ASSETS	**12,957,435,204**	**12,537,961,830**

C.	**SECURITIES ISSUED**	**9,450,000,000**	**9,643,083,154**
C1	Limited recourse securities	9,450,000,000	9,450,000,000
C1 1	Accrued expenses (including negative differences)	-	249,168,020
C1 2	Balance premium/discount to amortise	-	(56,084,866)
D.	**FINANCING RECEIVED**	**3,500,000,000**	**2,847,753,279**
D1	Financing received	3,500,000,000	2,754,000,000
D1 1	Accrued expenses (including negative differences)	-	93,753,279
E.	**OTHER LIABILITIES**	**7,435,204**	**47,125,397**
E1	Payables for negative carry	-	8,478,445
E2	Payables for interest on current and treasury accounts	6,382,115	21,849,772
E3	Payables for accrued interest - coupon	-	15,756,713
E4	Payables for invoices to be received	-	541,762
E5	Other payables	1,053,089	498,705
	TOTAL LIABILITIES	**12,957,435,204**	**12,537,961,830**

ACCOUNTING POLICIES USED IN DRAWING UP THE SUMMARY TABLE

Only a balance sheet has been prepared, without applying accrual basis accounting (and therefore without recording accrued income or expense) and as a result the income statement is not represented. The latter would not be representative since the structure of the TAV segregated assets requires posting an operating result of zero, in view of the fact that cost and revenue items must offset each other through debits and/or credits of the entities involved in the operation.

The format of the summary table is consistent with that used for the accounts of the TAV segregated assets previously attached to the financial statements of Infrastrutture S.p.A. (with the exception of the income statement, as noted above).

All values and items shown are based on the accounting records and the corporate information system. The following section summarises the measurement criteria adopted.

Cash and cash equivalents

These are recognised at nominal value.

Receivables and other assets

This item is posted at estimated realisable value, which corresponds to nominal value.

Accruals and deferrals/ premiums and discounts

In accordance with the decision not to recognise costs and revenues on an accrual basis, but rather on a cash basis, the table does not include accruals and deferrals for the 2006 financial year, with accruals and deferrals/premiums and discounts being eliminated from the assets and liabilities on the balance sheet.

Payables and other liabilities

These are recognised at nominal value.

Off-balance-sheet transactions

In financing the high-speed/high-capacity rail system, off-balance-sheet transactions are used exclusively to hedge the risk of adverse variations in interest rates, exchange rates and market prices.

Derivatives contracts used to hedge specific on- or off-balance-sheet assets or liabilities are measured in line with the assets or liabilities being hedged.

Differentials and margins that had a financial impact in 2006, correlated with the derivatives used to hedge assets, were measured, while accruals for 2006 were not.

Recognition of costs and revenues

Unlike the accounting procedures adopted by Infrastrutture S.p.A. in previous periods, costs and revenues were not accounted for on an accrual basis, and therefore the income statement for the segregated assets is not presented. Only economic elements have been recognised, connected with cash flows in 2006, and the following table shows a result of zero, in line with the nature of the operation.

ECONOMIC ELEMENTS IN RESPECT OF CASH FLOWS COMPARED WITH THE 2005 INCOME STATEMENT.

euros

CODE		SITUATION FROM FLOWS AT 31 December 2006	INCOME STATEMENT AT 31 December 2005
F.	**INTEREST EXPENSE ON SECURITIES ISSUED AND FINANCING RECEIVED (INCLUDING NEGATIVE DIFFERENCES)**	**277,348,483**	**494,364,892**
F1	Securities issued	202,959,836	400,611,613
F2	Financing received	74,388,647	93,753,279
G.	**COMMISSIONS AND FEES CHARGED TO THE OPERATION**	**282,938**	**6,130,487**
G1	Placement commissions	-	3,940,000
G2	Legal expenses	82,698	646,845
G3	Rating fees	-	1,164,360
G4	Commissions for Project Facility Manager	200,000	200,000
G5	Sundry commissions (listing, representative of noteholders, etc.)	240	169,307
G6	Notary fees	-	9,975
H.	**OTHER EXPENSES**	**209,021**	**6,291,345**
H1	Interest expenses on current and treasury accounts	209,021	5,627,649
H2	Balance discount/premium on notes	-	663,696
I .	**INTEREST GENERATED BY THE SEGREGATED ASSETS**	**277,348,483**	**494,364,892**
L.	**OTHER REVENUES**	**491,959**	**12,421,832**
L 1	Interest on cash and cash equivalents	209,021	5,627,649
L 2	Balance discount/premium on loans granted	-	663,696
L 3	Expense reimbursements	282,938	6,130,487
	RESULT (I + L - F - G- H)	**-**	**-**

QUALITATIVE INFORMATION

Description of the operation and developments

Pursuant to Article 75 of Law 289 of 27 December 2002, Infrastrutture S.p.A., and therefore the surviving entity CDP S.p.A., "primarily finances, including through the formation of segregated assets, investments for the construction of rail infrastructure for the high-speed/high-capacity system, partly with a view to reducing the share charged to the state. The resources necessary for the financing shall be raised on the banking and capital markets, in accordance with the criteria of transparency and economy. In order to maintain the financial equilibrium of the debt held by Infrastrutture S.p.A., the state shall be responsible for paying the balance of debt servicing costs that cannot be met solely using forecast cash flows for the period of economic exploitation of the high-speed/high-capacity system".

In implementation of these provisions, Infrastrutture S.p.A. had entered into a series of interrelated contracts that constitute a framework for additional agreements governing each loan and the corresponding funding. In particular, the following agreements were entered into: (i) on 23 December 2003 the Credit Facility Agreement was signed with RFI Rete Ferroviaria Italiana S.p.A. and TAV Treno Alta Velocità S.p.A. (the debtors); (ii) on 29 January 2004 the offering circular for the securities issue programme and the assumption of loans for a maximum of €25,000,000,000, known as "Euro 25,000,000,000 ISPA High Speed Railway Funding Note Programme" (the "Issue Programme"); (iii) also on 29 January 2004, the Dealer Agreement, Intercreditor Agreement, Intercompany Agreement, Cash Allocation Management and Payment Agreement and the Transfer Agreement.

On the basis of these contracts, the Company could grant a series of loans to the debtors for a total of €25 billion with a maximum maturity coinciding with the end of the concession for the management of the rail infrastructure (which currently expires in 2060), except, where necessary, the granting of a grace period to the debtors of not more than one year. The loans were disbursed on the basis of the debtors' financial requirements and the periods necessary for the construction of the rail infrastructure (which is currently due to be completed in 2009).

The payment of the interest accrued on each loan and the repayment of the corresponding principal should take place, prior to the liquidation of the segregated assets, using (i) the revenues from the economic exploitation of the rail infrastructure, once operational, and (ii) the supplementary payments from the state referred to under Article 75. In particular, the amount paid by the state until 2006 was determined each year in advance and was equal to the difference between the total liabilities maturing the following year and forecast revenues for that year. The amount of the supplementary payments (as adapted in accordance with forecast flows) was periodically determined the year prior to that in which the loan instalment came due. This was so that the state could make appropriate provision in the budget to transfer the funds to the debtors necessary to meet commitments in respect of the Company.

The funds that were periodically necessary to grant loans to the debtors were raised on the capital market through the issue of securities or through interbank loans in accordance with the Issue Programme. Each series of securities and each interbank loan benefited from the asset segregation referred to in Article 8 of Decree Law 63/2002 and in particular the receivables and revenues of the Company generated in respect of each loan granted to the debtors within the framework of the Credit Facility Agreement.

The loans (known as PLT – Project Loan Tranches) granted and disbursed at 31/12/2006 are as follows:

PLT	Funding	Date agreed	Total amount (euro)	Disbursed at 31/12/2006 (euros)	Expiry refinancing
1	Series 1	05/02/2004	1,000,000,000	1,000,000,000	09/09/2013
2	Series 2	05/02/2004	750,000,000	750,000,000	09/09/2018
3	Series 3	05/02/2004	3,250,000,000	3,250,000,000	09/09/2023
4	Series 4	05/07/2004	1,000,000,000	1,000,000,000	09/09/2033
5	EIB Funding Loan	29/09/2004	1,000,000,000	1,000,000,000	09/09/2023
6	Series 4-2	11/11/2004	500,000,000	500,000,000	09/09/2033
7,8,9	Series 5	03/03/2005	850,000,000	850,000,000	09/09/2044
10	OPI Floating Loan	03/03/2005	500,000,000	500,000,000	09/09/2020
11	Series 4-3	18/04/2005	700,000,000	700,000,000	09/09/2033
12	Series 6	22/04/2005	1,000,000,000	1,000,000,000	09/09/2044
13	Series 7	29/06/2005	100,000,000	100,000,000	09/09/2034
14	Series 8	29/06/2005	300,000,000	300,000,000	09/09/2034
15	MT Funding Loan	10/08/2005	2,000,000,000	2,000,000,000	09/09/2007
			12,950,000,000	**12,950,000,000**	

The amounts owed by the debtors at the Facility Payment Date of 20 July 2006 in respect of the loans were all duly paid.

Parties involved

In addition to the Italian state, which took on the debt originally contracted by TAV and RFI following the decree of the Minister for the Economy and Finance of 27 December 2006, and to CDP S.p.A., which acted on one hand as lender in respect of the Italian state and on the other as the issuer of securities and borrower under interbank loans, the main parties involved in the operation are as follows:

Project Facility Manager	Cassa Depositi e Prestiti S.p.A
Principal Paying Agent	JPMorgan Chase Bank, Milan
Luxembourg Paying agent	JPMorgan Chase Bank, Luxembourg
Transaction Account Bank	JPMorgan Chase Bank, Milan
Programme Calculation Agent	JPMorgan Chase Bank, London
Noteholders' representative	JPMorgan Corporate Trustees Services Ltd
Collection Account Bank	State Treasury Department
Listing Agent	JPMorgan Chase Bank, Luxembourg

A number of reports are periodically drawn up in support of the operation, of which the most important is the Investors Report produced in the 10 business days following each specified payment date. It is available upon request at JP Morgan Chase Bank, London.

Characteristics of the debt

Interest and principal on the securities issued and the loans contracted within the framework of the Programme are paid exclusively within the limits of the amounts collected in respect of the receivables from the debtors and in the order of priority for payments indicated in the Programme rules. These receivables form a single segregated portfolio securing the specifically indicated lenders and all noteholders of securities issued as part of the Programme, independently of the date they were entered into or issued.

The securities issued to date are as follows:

Series	Isin code	Description	Rate	Issue date	Final maturity	First coupon	Issue price	Redemption
1	IT0003621445	ISPA/4.50 20140731 S1 HSRFN	4.500%	06-feb-04	31-lug-14	31-lug-04	99.387	at maturity
2	IT0003621452	ISPA/2.25 TV 20190731 S2 HSRFN	inflation	06-feb-04	31-lug-19	31-lug-04	97.368	at maturity
3	IT0003621460	ISPA/5.125 20240731 S3 HSRFN	5.125%	06-feb-04	31-lug-24	31-lug-04	98.934	at maturity
4	IT0003685093	ISPA/5,20% 20340731 S4 HSRFN	5.200%	06-lug-04	31-lug-34	31-lug-05	99.466	at maturity
4-2	IT0003746341	ISPA/5.20% 20340731 S4-2 HSRFN	5.200%	12-nov-04	31-lug-34	31-lug-06	104.952	at maturity
4-3	IT0003746341	ISPA/5.20% 20340731 S4-3 HSRFN	5.200%	19-apr-05	31-lug-34	31-lug-06	113.334	at maturity
5	IT0003805295	ISPA/TV 20450731 S5 HSRFN	EU 12M	04-mar-05	31-lug-45	31-lug-06	100	amortising
6	IT0003838031	ISPA/TV5.20% 20450731 S6 HSRFN	EU 12M	25-apr-05	31-lug-45	31-lug-06	100	amortising
7	IT0003874523	ISPA/TV 20350731 S7 HSRFN	CMS10A	30-giu-05	31-lug-35	31-lug-06	100	at maturity
8	IT0003877310	ISPA/TV 20350731 S4-2 HSRFN	CMS10A	30-giu-05	31-lug-35	31-lug-06	100	at maturity

ISPA SERIES 5

	date	Principal repayment
1	31/07/2031	56,667,000.00
2	31/07/2032	56,667,000.00
3	31/07/2033	56,666,000.00
4	31/07/2034	56,667,000.00
5	31/07/2035	56,667,000.00
6	31/07/2036	56,666,000.00
7	31/07/2037	56,667,000.00
8	31/07/2038	56,667,000.00
9	31/07/2039	56,666,000.00
10	31/07/2040	56,667,000.00
11	31/07/2041	56,667,000.00
12	31/07/2042	56,666,000.00
13	31/07/2043	56,667,000.00
14	31/07/2044	56,667,000.00
15	31/07/2045	56,666,000.00
		850,000,000.00

ISPA SERIES 6

	date	Principal repayment
1	31/07/2031	66,667,000.00
2	31/07/2032	66,667,000.00
3	31/07/2033	66,666,000.00
4	31/07/2034	66,667,000.00
5	31/07/2035	66,667,000.00
6	31/07/2036	66,666,000.00
7	31/07/2037	66,667,000.00
8	31/07/2038	66,667,000.00
9	31/07/2039	66,666,000.00
10	31/07/2040	66,667,000.00
11	31/07/2041	66,667,000.00
12	31/07/2042	66,666,000.00
13	31/07/2043	66,667,000.00
14	31/07/2044	66,667,000.00
15	31/07/2045	66,666,000.00
		1,000,000,000.00

The securities are listed on the Luxembourg Stock Exchange.

All the main rating agencies were asked to issue a credit assessment for the securities issued within the Programme.

The ratings currently assigned are as follows:

Agency	Rating
Fitch Ratings Limited	AA-
Moody s Investors Service	Aa
Standard & Poor s Ratings Services	A+

In addition to the above securities, at 31 December 2006 debt included the following interbank loans granted within the scope of the Issue Programme:

Counterparty		Rate	Date agreed	Final maturity	Nominal value (euros)
European Investment Bank	EIB Funding Loan	4.773%	29-set-04	31-lug-24	1,000,000,000
OPI Bank	OPI Funding Loan	Euribor 12m	03-mar-05	31-lug-35	500,000,000
Sogen	Sogen MT Funding Loan	Euribor 6m	10-ago-05	31-lug-08	2,000,000,000
				Total	**3,500,000,000**

OPI LOAN

	date	Principal repayment
1	31/07/2021	33,333,334.00
2	31/07/2022	33,333,333.00
3	31/07/2023	33,333,333.00
4	31/07/2024	33,333,334.00
5	31/07/2025	33,333,333.00
6	31/07/2026	33,333,333.00
7	31/07/2027	33,333,334.00
8	31/07/2028	33,333,333.00
9	31/07/2029	33,333,333.00
10	31/07/2030	33,333,334.00
11	31/07/2031	33,333,333.00
12	31/07/2032	33,333,333.00
13	31/07/2033	33,333,334.00
14	31/07/2034	33,333,333.00
15	31/07/2035	33,333,333.00
		500,000,000.00

Ancillary financial transactions

All funds raised as part of the Issue Programme that have not yet been invested in financing the infrastructure works are deposited in an account held with the Central State Treasury, which serves as a collection account.

Within the Company's accounting records the Treasury account is divided into a series of sub-accounts, in accordance with the terms of the contractual documents governing the operation. The Programme also makes use of two accounts held with JPMorgan Chase Bank Milan: the Payment Account, which is used to process funds raised and any related repayments, and the Expenses Account for payments of expenses associated with the Programme.

In addition, during 2004-2005 Infrastrutture S.p.A. had carried out transactions to hedge interest rate risk in order to fix the refinancing rates for the securities issued. The following table shows the characteristics of the open interest rate swap contracts at 31 December 2006:

Counterparty	Nominal (euros)	Date agreed	Start interest accrual	Final maturity	Fixed rate to pay	Rate to receive	Connected loan
UBS Limited	500,000,000	27-apr-04	09-set-13	31-lug-24	5.7550%	Not set	ISPA SERIES 1
Morgan Stanley & Co.	500,000,000	28-apr-04	09-set-13	31-lug-24	5.7670%	Not set	ISPA SERIES 1
Morgan Stanley & Co.	350,000,000	03-mar-05	04-mar-05	31-lug-45	5.0240%	2.7050%	ISPA SERIES 5
UBS Limited	250,000,000	03-mar-05	04-mar-05	31-lug-20	4.8000%	2.7050%	ISPA SERIES 5
Morgan Stanley & Co.	250,000,000	03-mar-05	31-lug-20	31-lug-45	5.0900%	Not set	ISPA SERIES 5
Morgan Stanley & Co.	250,000,000	03-mar-05	04-mar-05	31-lug-45	5.0240%	2.7050%	ISPA SERIES 5
Jp Morgan Chase Bank	500,000,000	03-mar-05	04-mar-05	31-lug-35	4.8825%	2.6500%	Loan OPI
Morgan Stanley & Co.	1,000,000,000	24-apr-05	25-apr-05	31-lug-26	5.4800%	2.5325%	ISPA SERIES 6
Depfa Bank	1,000,000,000	24-apr-05	31-lug-26	31-lug-45	4.8375%	Not set	ISPA SERIES 6
Lehman Brothers	300,000,000	29-giu-05	30-giu-05	31-lug-35	4.0720%	3.5000%	ISPA SERIES 7
Lehman Brothers	100,000,000	29-giu-05	30-giu-05	31-lug-35	4.1470%	3.5000%	ISPA SERIES 8
HEDGING SWAP	**5,000,000,000**						

Quantitative information

Changes in receivables

The following table shows changes in the portfolio of receivables included in the segregated assets during the period:

euros

	Final situation at 31/12/2006	Final situation at 31/12/2005
a) Opening situation	**12,204,000,000**	**-**
b) Increases	**1,363,528,738**	**12,488,445,700**
b.1 Disbursements (nominal value)	746,000,000	12,204,000,000
b.2 Interest to receive	617,528,738	284,445,700
c) Decreases	**617,528,738**	**284,445,700**
c.1 Collections	617,528,738	284,445,700
d) Closing situation	**12,950,000,000**	**12,204,000,000**

Developments in past due positions

At the date of the financial statements, the segregated assets do not include any past due positions.

Cash flows

The following table summarises the cash flows for the period associated with the operation:

euros

Opening cash	**38,646,950**
Collections	**1,364,546,965**
Additional borrowing	746,000,000
Interest on liquidity	730,227
Supplementary transfer from MEF for July 2006	617,816,738
Payments	**1,395,758,711**
Payments to debtors (disbursements)	746,000,000
Payment coupons, interest expense and hedges	649,222,850
Expenses and commissions	535,861
Closing liquidity	**7,435,204**

Status of the guarantees and credit lines

The overall operation was supported by the guarantee mechanism established by Article 75 of Law 289/2002. All of the original exposures in respect of TAV were also guaranteed by RFI and in any event have been taken on by the Italian state pursuant to the provisions

of the ministerial decree of 27 December 2006.
At present the Programme does not have a credit line.

Breakdown by residual maturity

The maturity date for all loans granted to date is 2061, which may be extended for a year, in accordance with a flexible repayment plan that will be drawn up on the basis of the project's requirements. The debt contracted has a shorter term and must therefore be refinanced. According to the terms and conditions of the operation refinancing shall take place by 9 September of the year prior to expiry. The following table shows the breakdown of the contracted debt by residual maturity:

Date	Nominal values (euros)
31/07/2008	2,000,000,000
31/07/2014	1,000,000,000
31/07/2019	750,000,000
31/07/2021	33,333,334
31/07/2022	33,333,333
31/07/2023	33,333,333
31/07/2024	4,283,333,334
31/07/2025	33,333,333
31/07/2026	33,333,333
31/07/2027	33,333,334
31/07/2028	33,333,333
31/07/2029	33,333,333
31/07/2030	33,333,334
31/07/2031	33,333,333
31/07/2032	33,333,333
31/07/2033	33,333,334
31/07/2034	2,233,333,333
31/07/2035	433,333,333
31/07/2045	1,850,000,000
Total	**12,950,000,000**

Breakdown by debtor

At 31 December 2006 the receivable in respect of the loans granted is due from the Italian state, which as a result of the provisions discussed above is the obligor for the entire position relating to the segregated assets.

euros

Debtor	Nominal value at 31/12/2006
Italian government	12,950,000,000

Annex 3

FIRST-TIME ADOPTION OF THE IASs/IFRSs BY CASSA DEPOSITI E PRESTITI

1 Adoption of the new international accounting standards

1.1 Rules for first-time adoption and choices made by Cassa Depositi e Prestiti S.p.A.

In accordance with the provisions of IFRS 1, CDP has drawn up an opening balance sheet applying IASs/IFRSs at 1 January 2005; this constitutes the starting point for application of the new international accounting standards.
The balance sheet shows:

- the recognition of all assets and liabilities contemplated under the IASs/IFRSs;
- the reversal of all assets and liabilities which no longer qualify for recognition in the balance sheet under the IASs/IFRSs;
- the reclassification and measurement of balance sheet items based on the IASs/IFRSs and calculation of the effects as though such standards had always been applied.

The adjustments arising from first-time adoption of IASs/IFRSs have been charged directly to a specific reserve under shareholders' equity net of the related deferred tax assets and liabilities.

For the purposes of first-time adoption of IASs/IFRSs, CDP has availed itself of the exemption envisaged by IFRS 1 which allows first-time adopters to used fair value as deemed cost. More particularly, CDP has elected to measure its land and buildings at the date of transition to IFRS at their fair value, carrying out a revaluation equal to the difference between cost and their fair value and using such value as deemed cost at such date.

CDP has also elected to apply the exemption on retrospective application of the new standards, as set forth by paragraph 27 of IFRS 1, which allows first-time adopters to apply the rules for derecognition of financial assets and liabilities prospectively for transactions that took place after 1 January 2004.
Basically, if a first-time adopter derecognised financial assets and liabilities, other than derivatives based on previous accounting standards, as the result of a transaction that took place prior to 1 January 2004, it shall not recognise those assets and liabilities under the IASs/IFRSs.
This exemption enabled CDP to not reinstate assets previously derecognised following a securitisation of its receivables carried out in 2002, in respect of which the requirements for derecognition laid down by IAS 39 are not met.

1.2 Reconciliation schedules for first-time adoption of IASs/IFRSs and explanatory notes

The following tables set out the reconciliations of shareholders' equity between IAS/IFRS values and those calculated based on Legislative Decree 87/92 at 1 January 2005, the date of transition to IAS, and at 31 December 2005 and the reconciliation of the income statement for the 2005 financial period.
The items have been classified in accordance with the formats established by the Bank of Italy with circular no. 262 of 22 December 2005.

Reconciliation of shareholders' equity under Legislative Decree 87/92 and IAS/IFRS shareholders' equity at 1 January 2005 – ASSETS

BALANCE SHEET CDP S.p.A. 01/01/2005

(euros)

ASSETS

IAS financial statement accounts	Total IT GAAP	IAS adjustments	Total IAS
10 . Cash and cash equivalents	39,297,351,563	-	39,297,351,563
20 . Financial assets held for trading	-	15,983,044	15,983,044
40 . Financial assets available for sale	10,514,847,805	3,438,191,338	13,953,039,143
60 . Loans to banks	2,030,916,762	-	2,030,916,762
70 . Loans to customers	62,526,909,346	12,963,240	62,539,872,586
100 . Equity investments	3,983,432,847	18,673,489	4,002,106,336
110 . Property, plant and equipment	11,818,489	190,422,730	202,241,219
120 . Intangible assets	807,681	-	807,681
130 . Tax assets	2,382,377	146,156,356	148,538,733
150 . Other assets	277,702,747	-	277,702,747
Total assets	**118,646,169,617**	**3,822,390,197**	**122,468,559,814**

Reconciliation of shareholders' equity under Legislative Decree 87/92 and IAS/IFRS shareholders' equity at 1 January 2005 – LIABILITIES

BALANCE SHEET CDP S.p.A. 01/01/2005

(euros)

LIABILITIES

IAS financial statement accounts	Total IT GAAP	IAS adjustments	Total IAS
10 . Due to banks	1,490,954,950	53,624,190	1,544,579,140
20 . Due to customers	72,122,545,752	8,659	72,122,554,411
30 . Securities issued	39,304,736,509	(228,713,032)	39,076,023,477
40 . Financial liabilities held for trading		360,816,634	360,816,634
80 . Tax liabilities	386,136,948	159,064,347	545,201,295
100 . Other liabilities	952,966,285		952,966,285
110 . Staff severance pay	59,377		59,377
120 . Provisions	7,633,022		7,633,022
130 . Valuation reserves		3,438,206,538	3,438,206,538
160 . Reserves	881,136,773	39,382,861	920,519,634
180 . Share capital	3,500,000,000		3,500,000,000
200 . Net income for the period			-
Total liabilities and shareholders' equity	**118,646,169,617**	**3,822,390,197**	**122,468,559,814**

Reconciliation of shareholders' equity under Legislative Decree 87/92 and IAS/IFRS shareholders' equity at 1 January 2005 – BREAKDOWN

FTA reconciliation of shareholders' equity at IAS transition date 01/01/05

euros

Shareholders' equity under Italian GAAP at 1/1/2005 (*)	**4,381,136,773**
Amortised cost other payables	(493,316)
Amortised cost postal savings bonds	210,569,618
Amortised cost loans	12,954,581
Amortised cost securities holdings	(95,119)
Recognition of property at fair value	190,422,730
Valuation of reclassified trading securities	(340,011,985)
Valuation of equity investments accounted for using equity method	18,673,489
Restoration of financial liabilities	(39,809,065)
Revaluation of financial assets available for sale	3,438,286,457
Deferred taxation	(12,907,990)
Shareholders' equity under IAS/IFRS at 1/1/2005	**7,858,726,172**

(*) Shareholders' equity includes provision for general banking risks in the amount of €595,595,289

Reconciliation of shareholders' equity under Legislative Decree 87/92 and IAS/IFRS shareholders' equity at 31 December 2005 – ASSETS

BALANCE SHEET CDP S.p.A. 31/12/2005

(euros)

ASSETS

IAS financial statement accounts	Total IT GAAP	IAS adjustments	Total IAS
10 . Cash and cash equivalents	62,466,564,146		62,466,564,146
20 . Financial assets held for trading	-	75,702,136	75,702,136
40 . Financial assets available for sale	9,492,777,545	5,066,996,862	14,559,774,407
60 . Loans to banks	3,633,791,241		3,633,791,241
70 . Loans to customers	62,523,099,439	66,239,346	62,589,338,785
80 . Hedging derivatives	112,614,448	(64,287,189)	48,327,259
100 . Equity investments	5,272,504,068	(1,928,621)	5,270,575,447
110 . Property, plant and equipment	200,773,131	3,898,532	204,671,663
120 . Intangible assets	4,215,301		4,215,301
130 . Tax assets	301,161,612	134,140,822	435,302,435
150 . Other assets	244,226,865	716,643	244,943,508
Total assets	**144,251,727,795**	**5,281,478,532**	**149,533,206,327**

Reconciliation of shareholders' equity under Legislative Decree 87/92 and IAS/IFRS shareholders' equity at 31 December 2005 – LIABILITIES

BALANCE SHEET CDP S.p.A. 31/12/2005

(euros)

LIABILITIES

IAS financial statement accounts	Total IT GAAP	IAS adjustments	Total IAS
10 . Due to banks	1,399,790,977	48,307,544	1,448,098,522
20 . Due to customers	72,412,612,520	1,622,487,420	74,035,099,940
30 . Securities issued	63,221,760,813	(2,044,155,006)	61,177,605,807
40 . Financial liabilities held for trading		369,128,207	369,128,207
60 . Hedging derivatives	39,630,111	9,156,715	48,786,826
70 . Adjustment of financial liabilities hedged generically (+/-)		18,640,266	18,640,266
80 . Tax liabilities	498,837,171	426,673,354	925,510,524
100 . Other liabilities	913,769,636		913,769,636
110 . Staff severance pay	396,468		396,468
120 . Provisions	9,829,300		9,829,300
130 . Valuation reserves	167,572,002	4,847,260,595	5,014,832,597
160 . Reserves	1,159,886,773	(730,318,125)	429,568,648
180 . Share capital	3,500,000,000		3,500,000,000
200 . Net income for the period	927,642,024	714,297,562	1,641,939,586
Total liabilities and shareholders' equity	**144,251,727,795**	**5,281,478,532**	**149,533,206,327**

Reconciliation of the economic result under Legislative Decree 87/92 and IAS/IFRS economic result at 31 December 2005

INCOME STATEMENT CDP S.p.A. 31/12/2005

(thousands of euros)

IAS financial statement accounts	Total IT GAAP	IAS adjustments	Total IAS
10 . Interest income and similar revenues	5,039,475,858	(165,124,843)	4,874,351,015
20 . Interest expense and similar charges	(3,417,095,546)	577,983,796	(2,839,111,751)
30 . Net interest income	**1,622,380,312**	**412,858,952**	**2,035,239,264**
40 . Commission income	1,930,851	-	1,930,851
50 . Commission expense	(672,917,412)	-	(672,917,412)
60 . Net commission income	**(670,986,561)**	**-**	**(670,986,561)**
70 . Dividends and similar revenues	925,557,777	(39,842,041)	885,715,736
80 . Net gain (loss) on trading activities		(180,537,533)	(180,537,533)
90 . Net gain (loss) on hedging activities		(27,043,354)	(27,043,354)
100 . Gains (losses) on disposal or repurchase of:	68,355,938	3,033,577	71,389,515
a) loans	*70,747,618*	*641,897*	*71,389,515*
b) financial assets available for sale	*(2,391,680)*	*2,391,680*	
120 . Gross income	**1,945,307,465**	**168,469,602**	**2,113,777,067**
130 . Net impairment adjustments	(4,980,463)	2,954,220	(2,026,243)
140 . Financial income (expense), net	**1,940,327,002**	**171,423,822**	**2,111,750,824**
150 . Administrative expenses:	(69,907,107)	-	(69,907,107)
a) staff costs	*(43,436,277)*	-	*(43,436,277)*
b) other administrative expenses	*(26,470,830)*	-	*(26,470,830)*
160 . Net provisions	(4,393,900)	-	(4,393,900)
170 . Net adjustments of property, plant and equipment	(8,246,651)	3,898,531	(4,348,120)
180 . Net adjustments of intangible assets	(597,321)	-	(597,321)
190 . Other operating income (costs)	(548,818,187)	550,794,468	1,976,281
200 . Operating costs	**(631,963,166)**	**554,693,000**	**(77,270,167)**
210 . Gains (losses) on equity investments	(4,650,068)	70,620,619	65,970,551
250 . Income (loss) before tax from continuing operations	**1,303,713,767**	**796,737,441**	**2,100,451,208**
260 . Income tax for the period on continuing operations	(376,071,743)	(82,439,879)	(458,511,622)
270 . Income (loss) after tax on continuing operations	**927,642,024**	**714,297,562**	**1,641,939,586**
290 . Net income for the period	**927,642,024**	**714,297,562**	**1,641,939,586**

Reconciliation of shareholders' equity under Legislative Decree 87/92 and IAS/IFRS shareholders' equity at 31 December 2005 – BREAKDOWN

Reconciliation of 2005 shareholders' equity IAS/IFRS - IT GAAP

(euros)

Shareholders' equity under IT GAAP at 31/12/2005 (*)	**5,755,100,800**
Amortised cost other payables	(638,282)
Revaluation of financial assets available for sale	5,066,627,607
Amortised cost postal savings bonds	377,160,808
Amortised cost loans	25,032,649
Amortised cost securities holdings	616,712
Exchange rate differences	50,734,262
Hedge accounting	(27,043,354)
Reversal of depreciation of land	3,898,532
Reversal of dividends received on equity investments	(39,842,041)
Valuation of reclassified trading derivatives	(280,144,423)
Valuation of equity investments accounted for using equity method	89,294,108
Change to equity of associates	(102,114,950)
Revaluation of financial assets available for sale	(39,809,065)
Deferred taxation	(292,532,531)
Total shareholders' equity under IAS at 31/12/05	**10,586,340,832**

(*) Shareholders' equity includes provision for general banking risks in the amount of €1,145,595,589

Reconciliation of the economic result under Legislative Decree 87/92 and IAS/IFRS economic result at 31 December 2005 - BREAKDOWN

Reconciliation of 2005 net income IAS/IFRS - IT GAAP

(euros)

Net income under IT GAAP 31/12/05	**927,642,024**
Amortised cost other payables	(144,967)
Amortised cost postal savings bonds	166,591,190
Amortised cost loans	12,078,068
Amortised cost securities holdings	711,831
Hedge accounting	(27,043,354)
Reversal of depreciation of land	3,898,532
Reversal of dividends received on equity investments	(39,842,041)
Valuation of reclassified trading derivatives	59,867,563
Valuation of equity investments accounted for using equity method	70,620,619
Deferred taxation	(82,439,879)
Reversal of accrual to provision for general banking risks	550,000,000
Net income under IAS/IFRS at 31/12/05	**1,641,939,586**

Financial assets and liabilities held for trading

This portfolio includes trading derivatives and derivatives hedging assets and liabilities classified as held for trading.
The IASs/IFRSs require derivative contracts to be measured at fair value. Where internal measurement models are used, this value must be determined taking account of all relevant risk factors and utilising market-observable parameters.
More specifically, the item includes the options hedging the embedded options in the postal savings bonds indexed to the Euro Stoxx 50 index: the latter options have been separated from the host contract and classified as trading liabilities.
The portfolio also includes interest rate swap transactions previously classified as hedging transactions that, based on the more stringent rules for hedge accounting established by IAS 39, have been reclassified to the trading portfolio.
The measurement of trading derivatives had an overall negative effect on equity as at 31 December 2005 of €280 million.

Available-for-sale financial assets

The IASs/IFRSs require the fair value measurement of financial instruments classified as available-for-sale financial assets. The effect of such measurement must be charged directly to a reserve under shareholders' equity until the moment of realisation.
This aggregate includes owned securities listed in active markets that cannot be classified under receivables, as well as equity interests in companies other than associates.
Fair value measurement gave rise overall to gains totalling €3,438 million at 1 January 2005 and €5,066 million at 31 December 2005 which, in accordance with IAS 39, were directly recognised in an equity reserve.

Postal savings bonds

Postal savings bonds are registered non-transferable long-term debt securities, redeemable on demand. They are essentially a one-coupon bond, incorporating an American-style put option that gives investors the right to request repayment at a set price, at any time during the life of the bond. Interest rates on postal savings bonds have a step-up structure.
Indexed postal savings bonds, first introduced in October 2003, pay an annual fixed rate

determined at issue plus a premium at maturity linked to the performance of the Dow Jones Euro Stoxx 50 equity index.
Postal savings bonds were recorded at their amortised cost, calculated taking into account both the transaction costs and the forecast repayment flows determined using statistical models prepared on the basis of the historical trend in repayments.
Overall, the application of the different measurement method generated a gain at the transition date of €210.5 million and boosted 2005 net income by €166.6 million.

Hedging derivatives

The hedging transactions undertaken by CDP are intended to cover the risk of a change in the market value of another financial instrument (fair value hedges).
In this type of hedging, derivatives are measured at fair value, with recognition in the income statement of the effects of changes in their value and, consistently, of the changes in the fair value of the hedged items caused by the risk for which the hedging relationship was established.
Such consistency in measurement can be maintained only in the presence of effective hedging contracts, for which the changes in fair value offset, within a range of well-defined limits, the opposite changes in value of the hedged instrument.
The new and more stringent rules for accounting for hedging transactions made it necessary to review earlier transactions and, in the case of inconsistency with the IASs/IFRSs standards, reclassify the derivatives contracts to the trading book.
At 31 December 2005 the new treatment of hedging transactions generated an overall negative effect on shareholders' equity of €27 million.

Equity investments in associated companies

Equity investments in associated companies, previously recorded at cost, are new accounted for using the equity method, under which the value of the investment is therefore adjusted by an amount corresponding to the relevant portion of the associate's net income (loss).
Writedowns of equity that did not pass through the income statement of the investee company are recognised directly in CDP's shareholders' equity.
Dividends received are deducted from the carrying amount of the equity investment.
Any foreign exchange differences arising from translation of the financial statements of associated companies are charged to a specific reserve under shareholders' equity and maintained until realisation.

At 31 December 2005, the changeover from cost to the equity method produced a negative effect of €1.9 million on 2005 equity and a positive effect of €49.5 million on 2005 net income.

Provisions

Provisions for unrecognised liabilities and contingencies and discounting of allocations

International accounting standards only allow provisions to be recognised in the financial statements for liabilities in respect of a past event where the company considers an outflow of economic resources to settle the obligation probable and the obligation can be reliably estimated. As a result, the provision for general banking risks has been eliminated since it was not compatible with the stringent rules of the international accounting standards.

The IASs/IFRSs also require that when calculating the allocation to a provision account shall be taken not only of the size of the obligation but also, if significant, of the effect of discounting the cash flows that will be required to settle the obligation.

The provisions made by CDP to cover contractual commitments vis-à-vis staff and in connection with pending litigation have been maintained at the value previously recorded since the effect of discounting was not considered material.

In 2005, the income statement benefited in the amount of €550 million due to the reversal of the provision for general banking risks.

Staff severance pay

International accounting standards require defined benefit pension plans to be measured based on the actuarial estimate of the amount that the company will be required to pay to the employee upon termination of the employment relationship.

The Italian staff severance pay mechanism (*trattamento di fine rapporto* – TFR), which falls within the scope of such benefit plans, has been maintained at the value calculated based on statutory regulations in view of the small number of employees affected (staff hired as from 12 December 2003, the date on which CDP was transformed into a joint stock company) and considering the supplementary pension reform, which will lead to the almost total transfer of TFR entitlements to the defined contribution pension fund selected by CDP at the end of 2006.

Tax effects

The impact on shareholders' equity arising from first-time adoption of the IASs/IFRSs has been calculated net of the related deferred tax assets and liabilities, determined on the basis of the applicable legislation (including Legislative Decree 38/2005). More specifically:

- IRES (corporate income tax) was calculated at the rate of 33%;
- IRAP (regional tax on business activities) was calculated at the rate of 5.25%.

Overall, the recognition of deferred tax assets and liabilities involved a negative adjustment of equity amounting to €292.5 million, with a negative effect of €82.4 million on 2005 net income.