

KDB Conference, 2011

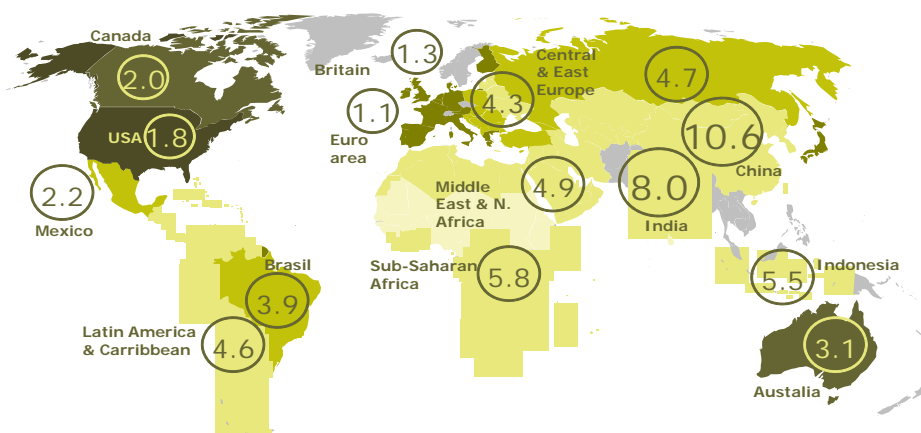
PROMOTING INVESTMENTS FOR MODERNIZATION OF THE ECONOMY: NEW REALITIES

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As you all know great transformations are expected in the future of the world economy. Countries such as Brazil, China, India, Indonesia, Southern Korea and the Russian Federation are becoming major contributors to global growth, alongside the advanced economies.

GDP growth (2010-11)



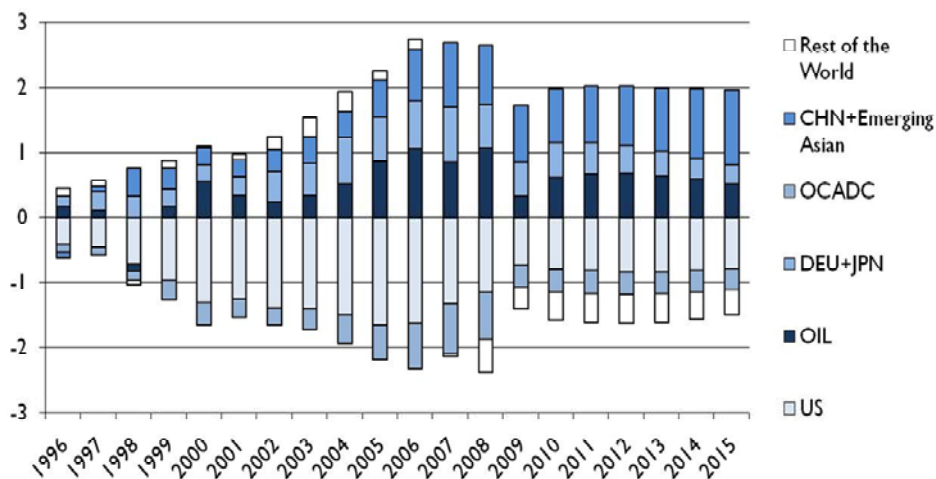
GDP per person, 2010, PPP \$ '000



Note: 2011 forecast. Source: IMF, UN, The Economist.

Corporations based in emerging markets are playing an increasing role in global business and cross border investments. Global imbalances will take new forms. If properly directed, they may move capitals where they are mostly needed, contributing to a more stable global growth.

The evolution of global imbalances (% World GDP)



Note: CHN+Emerging Asian: China, Hong Kong SAR, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan Province of China, and Thailand; DEU+JPN: Germany and Japan; OCADC: Bulgaria, Croatia, Czech Republic, Estonia, Greece, Hungary, Ireland, Latvia, Lithuania, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Turkey, and United Kingdom; OIL: Oil exporters; ROW: rest of the world. % GDP. Source: World Economic Outlook Database (2011).



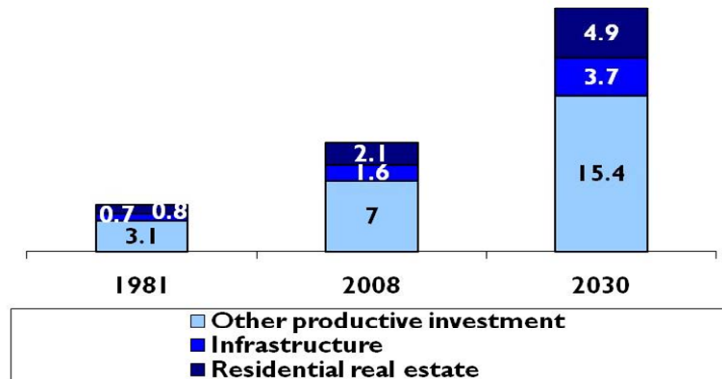
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However, they may also become sources of conflicts. The international monetary system will move from a single currency to a multiple currency system.

In the next decades, we expect a huge increase of demand for capital investment.



Expected global investment (trillion USD)



Source: McKinsey Global Institute (2011).

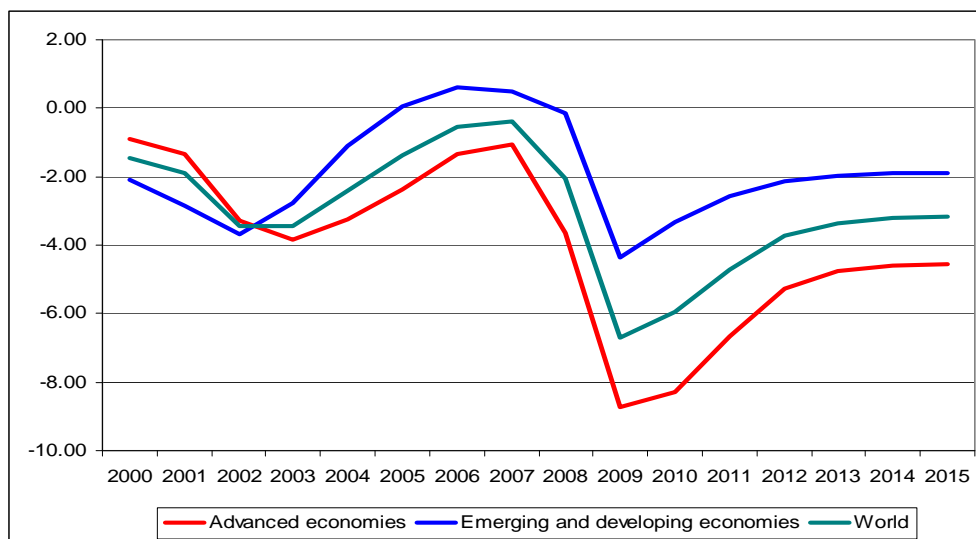


All these transformations are changing the way we understand and represent the evolution of world economy.

Advanced economies have been strongly affected by the rapid increase of public deficits and public debt during the crisis.



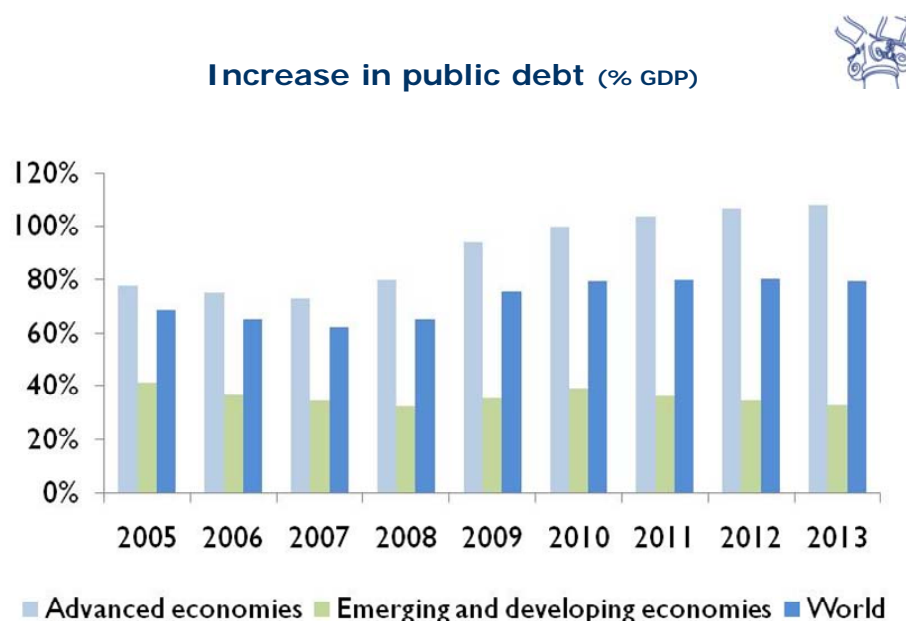
Fiscal balance (% GDP)



Source: IMF (2010).



The debt's growth was huge: from 78% of GDP in 2005 to 94% in 2009; it is expected to increase even more in the next years, so as to reach a peak of 108% of GDP in 2013. The opposite is true for emerging economies. During the crisis, the public debt remained more or less constant at 35% of GDP.



 Source: IFM (2011).
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Very tight fiscal consolidation processes are expected for advanced economies. With low growth rates this will make it quite challenging from a political point of view. To foster growth – needed for fiscal consolidation – Europe is working on plans to attract global private capital to finance infrastructure. To do this it is necessary to develop a framework of new rules (regulatory, accounting and fiscal) and create new long term financial instruments as so make European long term investment attractive to global investors and savings.

In particular, accounting rules that are appropriate for investment banks and trading activities are sometimes penalizing for long term investors and investments. The new Basel III capital requirements and liquidity will probably discourage long term banking and financial initiatives. Moreover, the IASB mark-to-market philosophy is particularly damaging for long term investment, attributing instant market values to

assets the value of which is by essence based on several years; and the Solvency II Directive in Europe, as recently recognized also by the IMF, will discourage insurance companies and pension funds from holding infrastructural assets, not allowing for a proper matching of long term liabilities and assets on their balance sheets.

The need for a new regulatory framework, more favorable to long term investment, meets today a broad worldwide consensus in the scientific community, among the practitioners, the industry and the policy makers.

At the EU political level has been strongly emphasized by the European Commission – following the de Larosière and Monti reports - in the communications on the *New Single Market Act*, on the *European Investment Policy and on the Budget Review*. Nevertheless, no concrete policy initiative has been launched to correct the pro-cyclical and pro-short-term effects of the current regulatory framework.

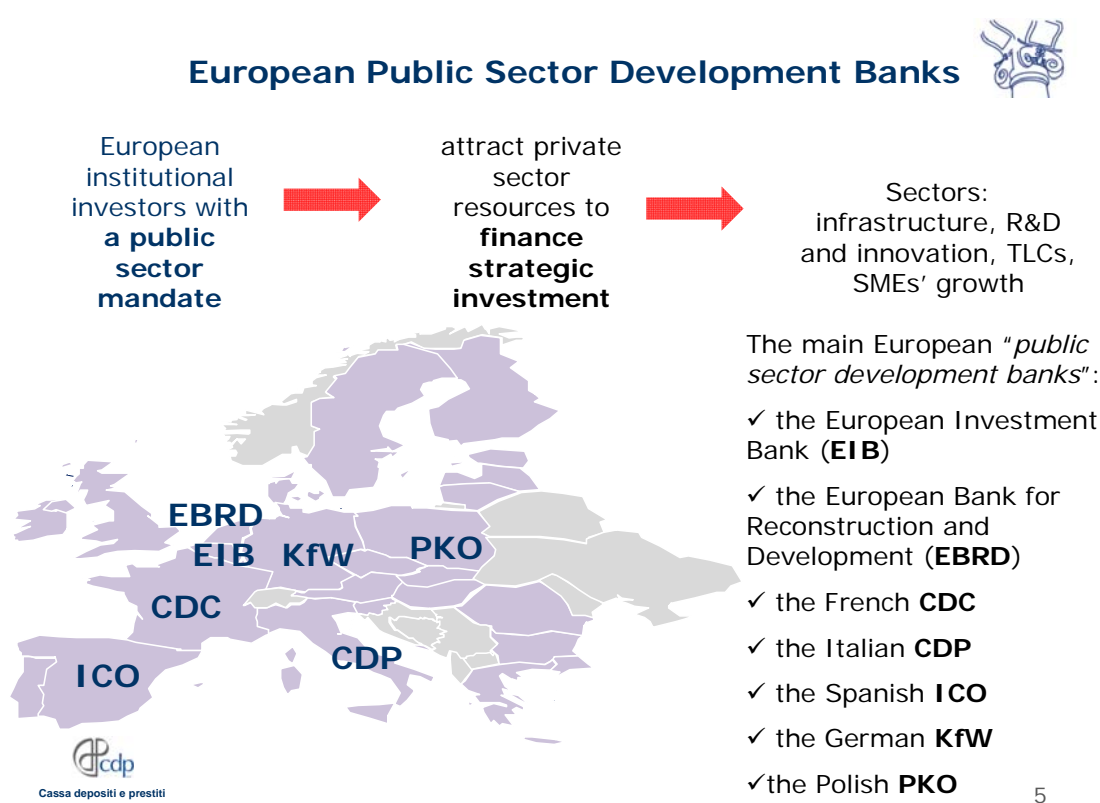
In Europe operate a number of large long term institutional investors with a public sector mandate which act principally as development bank.

They are catalyst in attracting private sector financing for strategic long term investment, in the fields of infrastructure, R&D and innovation, TLCs and supporting medium and large strategic firms, SMEs' growth, and social development.

This is crucial to guarantee a sustainable and balanced economic growth since the difficulties to fund investments of this size solely from public resources, particularly in many industrialized economies with structural budget constraints on public finance. The issue of the forms and instruments required to channel such capital into long-term investments in infrastructure is a key element of recovering from the recession. New long-term financial instruments capable of attracting private capital would present an enormous benefit in lightening the burden on public finance and future generations maintaining direct public investment in fixed and human capital.

Thus, during the crisis these long term institutional investors have enacted a number of initiatives to **support the economy**: by providing liquidity to the banking system; by providing longer duration to project financing initiatives through the creating of long term equity funds; by providing guarantee schemes for the debt of project financing initiatives; by supporting SMEs through private equity funds and guarantees; by creating Governments' owned private equity funds to medium and large firms in strategic sectors of the economy.

The main “European Development Banks” are: the European Investment Bank (**EIB**), the European Bank for Reconstruction and Development (**EBRD**), the French **CDC**, the Italian **CDP**, the Spanish **ICO**, the German **KfW** and the Polish **PKO**. Since they have a public mandate, although profit makers, they are considered to be more “policy oriented” than purely business oriented. One of the core activities of these institutions is in the **financing of infrastructure**. In this sector they have been particularly important in the post crisis market conditions, especially in supporting the market while traditional sources of senior debt for infrastructure investments were severely constrained.



During and after the crisis the capital markets is in fact providing very little senior debt due to a shrinking number of new transactions being underwritten by the monolines and low investor appetite for non-guaranteed project bonds. Also obtaining bank funding is still particularly challenging due to significant liquidity and capital constraints of the major banking groups, low volume of syndications and continuous reduction of the average amount each bank is able to commit for each transaction. These factors together have been making and still are making it significantly challenging to get some of the larger projects financed, and therefore

delays can be expected even for projects that are ready to proceed unless additional sources of funding can be identified.

The support against “**credit crunch**” and to the **lack of supply of equity** for infrastructure have been one of the main objective of these institutions during and after the crisis. Action to overcome this situation, in fact, has been taken by European Development Banks to re-animate the equity, the debt and the capital market for infrastructure. They are traditionally thought of as Long-Term Investors (LTIs) since they can hold assets in their long-dated portfolios over potential financial crisis, thus substantially enhancing market stability by providing a counter-cyclical buffer. Due to their long-term perspective and return targets, these institutions have contributed in smoothing short-term volatility which is reflected in their substantial presence in the long-term and/or illiquid segment of the market.

In fact, these investors have a robust capital base, which relies mainly on reserve accumulation and enables them to absorb short-term fluctuations in financial markets (i.e. by drawing on reserves in bad years and feeding them in good years). Moreover, are characterized by a low reliance on short-term market liquidity, due to stable resources, often made of regulated or guaranteed deposits, long-term savings products or long-term borrowing. They generate stable cash flows over longer periods and financially sustainable long-term risk-adjusted rates of return. The investors.

Moreover, they are complementary and not in competition with other market participants. They offer to the market institutional sponsoring and economic and financial patronage.

Finally, they mitigate risk-perception/aversion of other participants by bearing specific risks and potentially absorbing first losses (obviously ring-fenced and limited to certain amounts). Their intervention in terms of stretching duration and lowering overall pricing assures projects bankability and debt sustainability.

These institutions have indeed emerged as new driver of the EU economic and industrial policy. They do not only have a crucial role in the financing of infrastructure, but also in the support of enterprises. They have developed effective instruments both for medium and large strategic firms and SMEs. On the front of large and medium enterprises some European countries, such as France and Italy, have recently created large Private Equity Funds owned by their large national public sector development banks (and eventually, by the Governments and other national

institutional investors), such as the French Fonds Strategique d’Investissement (owned 49% by the French Government and 51% by CDC) and the Italian Fondo Strategico Italiano (owned 90% by CDP).

Fondo Strategico Italiano (FSI) “Italian Strategic Fund”



Acquisition of equity holdings in companies of significant national interest, to support growth, improve operational efficiency and international competitiveness

| SECTORS | COMPANIES SIZE | COMPANIES KEY REQUIREMENTS |
|---|--|--|
| <ul style="list-style-type: none"> • Defense • Security • Infrastructure and public services • Transport • Communications • Energy • Insurance and financial services • Research and high technology | <ul style="list-style-type: none"> • Net annual turnover of at least \$ 413.2 million • Average staffing of at least 250 employees | <ul style="list-style-type: none"> • Financial stability • Adequate expected profitability • Significant growth prospects |
| <ul style="list-style-type: none"> ✓ Established: end of July 2011 ✓ Initial capital : \$ 1.38 bln (\$ 1239.6 mln CDP, \$ 137.7 mln Fintecna) ✓ CDP engagement : up to a maximum of \$ 5.5 bln - Control stake. ✓ Fund total size: up to \$ 9.6 bln. ✓ Other shareholders: public entities, bank foundations, banks, insurance companies, pension funds, other domestic and foreign institutional investors | | |



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The Italian FSI with maximum size up to about 9.6 billion US dollars (7 billion Euro) is one of the largest European private equity fund. Thanks to CDP “institutional endorsement”, to its high reputation and to its strong knowledge of the national context, it may then become important attractive “pole” for global investors.

Its objective is the acquisition of equity (minority) holdings in companies of significant national interest for their country, to support growth, contribute to the creation of “**national champions**” also through the consolidation of small and medium enterprises in larger ones, improve operational efficiency and international competitiveness. They are new “market conform instruments” of **industrial policy**. In particular they could represent a vehicle through which a new and different industrial policy can be designed. An industrial policy based not only on subsidies, grants and fiscal incentives, but also and above on the support of the industrial sector

in terms of equity and strategic view. Strategic private equity funds alongside with their sponsors, the development banks, will become key allies of policymakers in their effort to restore real economic activities and to create general conditions needed to stimulate competitiveness and growth.

On the front of the support of SMEs most of the European Development Banks have created: private equity funds (designed also to incentivize corporate consolidation and/or internationalization); venture capital funds; guarantee schemes; and funds to provide liquidity to banks. They have also developed products both for equity and for debt.

On the debt side, different innovative financial instruments are being developed and designed by European Development Banks, such as The Loan Guarantee Instrument for Trans-European Transport Network Projects (LGTT), Risk Sharing Financing Facility (RSFF), Project Bonds, etc.

As an example, the principal idea behind the Europe 2020 Project Bond Initiative is to provide EU support to project companies issuing bonds to finance large-scale infrastructure projects. The Initiative aims to attract additional private sector financing of individual infrastructure projects by improving the rating of the senior debt of project companies, thereby ensuring that this can be placed as bonds with institutional investors. The Commission's key role will be risk-sharing with the EIB (or other financing partners), enabling them to provide guarantees or loans to support such bonds.

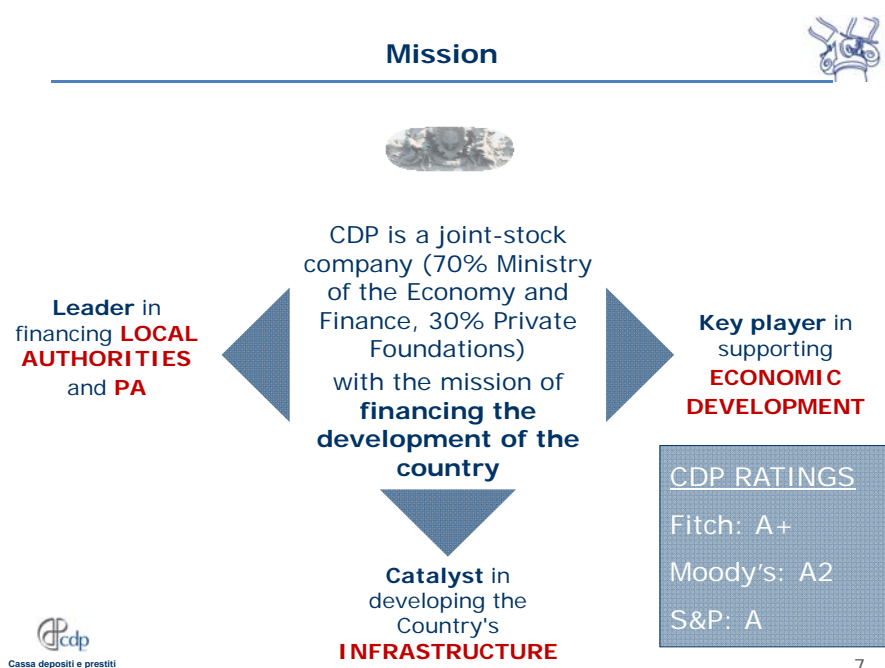
The EU-supported credit enhancement would allow the senior project debt to be issued in the capital markets in the form of a new class of project bonds (“EU Project Bonds”), resulting in reduced funding costs for longer maturities for project entities, while meeting the demand of institutional investors (such as pension funds and life insurance companies) for stable, long term assets.

The Initiative would be available to those projects that are economically and technically sound and cost-effective and that have a real prospect of financial viability.

The European Commission and the EIB's estimated targets for EU Project Bonds' issues are in the range of about 1.4 – 6.9 billion dollars per annum (1-5 billion Euro) at the beginning of the Initiative and in the range of about 14 – 27.5 billion dollars by 2020 (10-20 billion Euro). This should lead to the creation of an European EU Project Bonds' market up to 138 billion dollars within 7 years (100 billion Euro).

Let me conclude with a few words on CDP.

CDP is the largest development bank in Italy. It is 70% owned by the Government and 30% by a group of Private Banking Foundations.



Catalyst in developing the Country's INFRASTRUCTURE

CDP RATINGS
 Fitch: A+
 Moody's: A2
 S&P: A

With almost 343 billion dollars (250 billion Euro) of total asset is one the largest long term financial institution focused mostly on financing infrastructure building and on

the support of SMEs. CDP's main areas of activity are: transportation networks and local public services; public building and social housing; energy and TLC; SMEs and export-finance; research and innovation.

2010: Balance sheet and performance indicators



| Balance sheet (\$ mln) | 2010 | 2009 |
|--|---------|---------|
| Total Assets | 343,200 | 312,721 |
| Cash and cash equivalents and interbank deposits | 176,144 | 163,045 |
| Loans to customers and Banks | 126,647 | 117,316 |
| Equity investments and shares | 25,689 | 25,165 |
| Postal funding | 285,547 | 262,768 |
| Other direct funding | 22,568 | 23,960 |
| Shareholders' equity | 18,905 | 16,762 |
| | | |
| Performance indicators(\$ mln) | 2010 | 2009 |
| Net interest income | 2,285 | 2,746 |
| Gross income | 3,164 | 2,978 |
| Operating income | 3,056 | 2,880 |
| Net income | 3,778 | 2,376 |

Note: Spot exchange rate €/€ 1.3773. Close rate 11/4/2011. Source: ECB

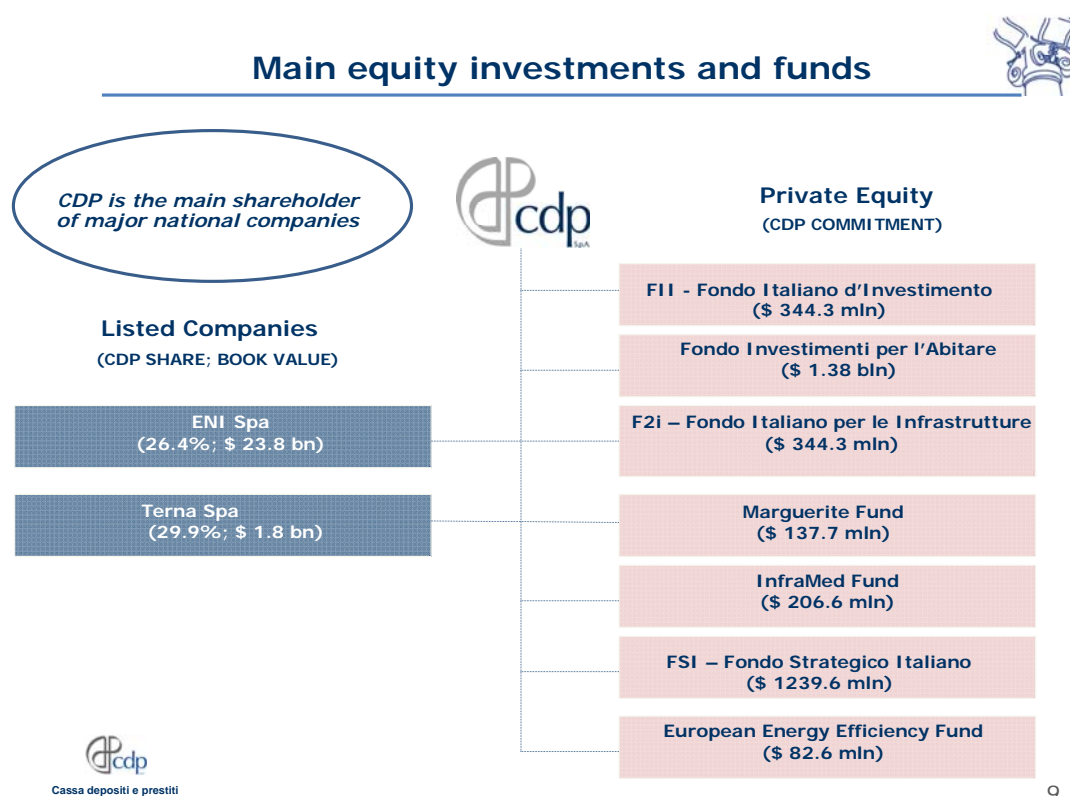


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CDP operates by providing both debt and equity.

On the corporate equity side CDP is the main shareholder of major national companies, including listed companies such as ENI and Terna, the national transmission grid.



Special type of long term equity funds - which I would like to mention briefly – the “Marguerite Fund” for the EU area and the “InfraMed Fund” for the UME area have been recently launched by CDP together with European Development Banks , the EU Commission, and other financial institutions.

They are long term equity fund for infrastructure, energy and climate change, with the following characteristics: (1) a duration normally longer than the market operators are willing to take; (2) non speculative IRR; and (3) a general “policy oriented” philosophy.

They are designed in order to support market funds, by taking longer positions and by lowering the overall cost of capital.

Marguerite Fund



Marguerite
www.marguerite.com

Sponsors: CDP, BEI, CDC (France), KfW (Germany),
ICO (Spain) and PKO (Poland)

Total resources: \$ 977.9 mln (\$ 137.7 mln subscribed by CDP). Target \$ 2.1 bln

First Closing: March 2010

Sectors: EU27 Countries. Transport sector (Trans European Transport Networks - TEN-T); Energy (Trans European Energy Networks - TEN-E); renewable energies

Fund raising and investment phases in progress



- ✓ over 75 investment opportunities screened
- ✓ 14 preliminary memos
- ✓ 8 preliminary investment proposals
- ✓ 2 final investment proposals (renewable energy)



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InfraMed Infrastructure Fund



INFRAMED
www.inframed.com

Sponsors: CDP, BEI, CDC (Fr), CdG (Marocco), EFG Hermes (Egypt)

First closing: May 2010

Total resources: \$ 530.3 mln (\$ 206.6 mln from CDP), target \$ 1.38 bln

Sectors: mainly greenfield infrastructural projects within the South-East Mediterranean Region in the sector of Energy, Transport and Logistics.

Fund raising and investment phases in progress



- ✓ Marocco: renewable energy
- ✓ Egypt: highways, energy, wastewater
- ✓ Turkey: hospitals, transport, energy (wind farms, hydropower, gas)
- ✓ Jordan: renewables



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To conclude.

CDP together with the network of large development banks and the EU Commission is very interested in the process of internationalization.

It is active in creating a friendlier regulatory framework for long term investment and in structuring and promoting financial products to attract global capital to finance investment in Europe.

But CDP and the other European Development Banks are also very keen in evaluating potential investment opportunities abroad by structuring, and co-financing initiatives in high growth emerging economies.

Thank you.