The Securitised Derivatives *Market*

The year 2004 was important for the SeDeX both as regards its organisational structure and from a market performance standpoint. The innovations concerning it began with a change in name, from Covered Warrants Market to Securitised Derivatives Market, to then proceed with a far-reaching restyling project designed to adapt the regulatory framework to the evolution of financial instruments.

The definition of covered warrants alone was not enough to represent all the new securitised derivative instruments being offered on the market by issuers, for which investors were showing their appreciation. In order to reflect the wider category of securitised derivatives and the different risk and yield profiles associated with their structures, the change of name was accompanied by a new market segmentation, effective as from April 19th, 2004.

The segmentation, which came into effect on April 19th, 2004, facilitates investors in recognising the particular characteristics of the securitised derivatives

The existing segmentation divides the securitised derivatives into homogeneous categories according to product type and investment objectives:

- plain vanilla covered warrants, including covered warrants consisting in a call or put option;
- structured/exotic covered warrants, including covered warrants which are combinations of call and/or put options and/or which incorporate exotic options;
- leverage certificates, for certificates with leverage effect.
- investment certificates, in turn divided into:
  - class A, certificates that replicate, without a leverage effect, the performance of the underlying assets;
  - class B, certificates that replicate the performance of the underlying and incorporate one or more options of an accessory nature.

The market responded positively to the innovations introduced and the renewed interest of issuers and investors led to substantial signs of an upturn. The number of instruments listed rose from 2,594 at 2003 year-end to 3,021 at the end of 2004 and turnover increased by 52%. Of the instruments, the market confirmed its preference for certificates, different to covered warrants which - with or without leverage effect - replicate the performance of an underlying asset and have the characteristics of zero strike call instruments.
In order to enable a comparison between the 2003 and 2004 results, the 2003 securities have been allocated to the new 2004 segments.

THE LISTED INSTRUMENTS

As a result of 4,478 admissions and 4,051 delistings, 2004 closed with 3,021 instruments listed on the market (chart 9). The highest number of instruments listed was reached at the end of November (3,217), the lowest at the end of March (2,330). As regards market segments, the instruments at the end of December were distributed as follows:

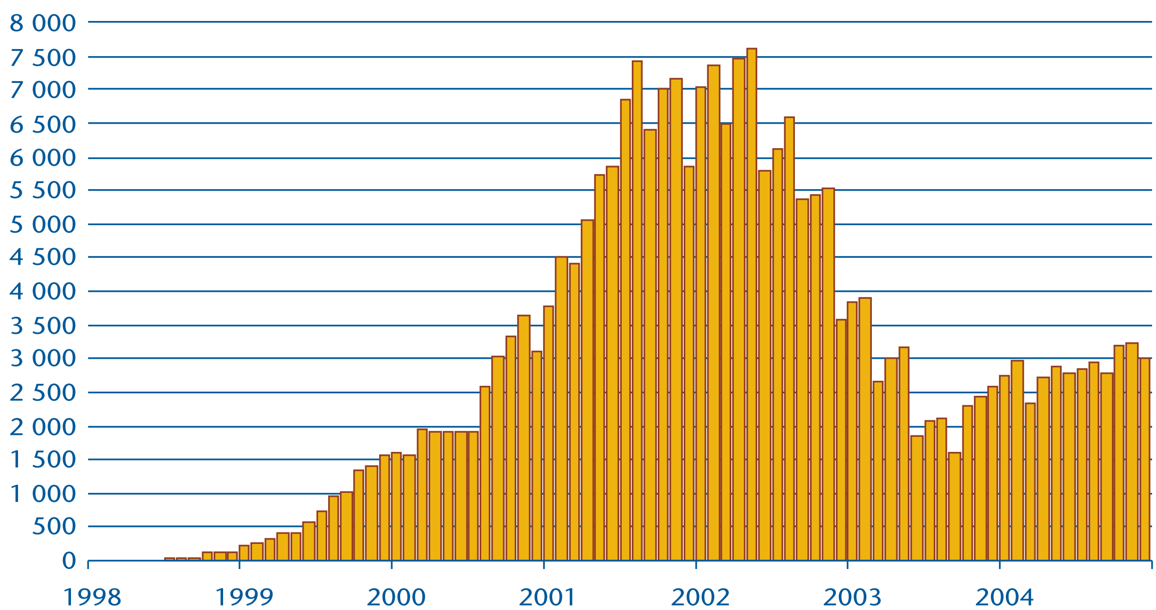
- 2,284 in the plain vanilla covered warrants segment;
- 15 in the structured/exotic covered warrants segment;
- 225 in the leverage certificates segment;
- 497 in the investment certificates segment.

The growth in the number of listed instruments received a strong boost from the issuers' interest in certificates with and without leverage effect. Leverage certificates rose by 77.2%, while investment certificates increased by 65.1%. It should be mentioned that, with the launch of the new segmentation, the certificates incorporating accessory options flowed into the new investment certificates segment and, continuing the growth trend already seen in 2003, helped towards the excellent result achieved.

The plain vanilla covered warrant segment held onto its record as regards the number of instruments listed (2,284 instruments of 2004 year-end), posting an increase of 5.4% compared to 2003 year-end.

In 2004 the underlying financial instruments on which the securitised derivatives were constructed numbered 193 (158 in 2003). The breakdown of the underlyings by category

CHART 9 - SEDEX: TREND OF THE LISTED INSTRUMENTS



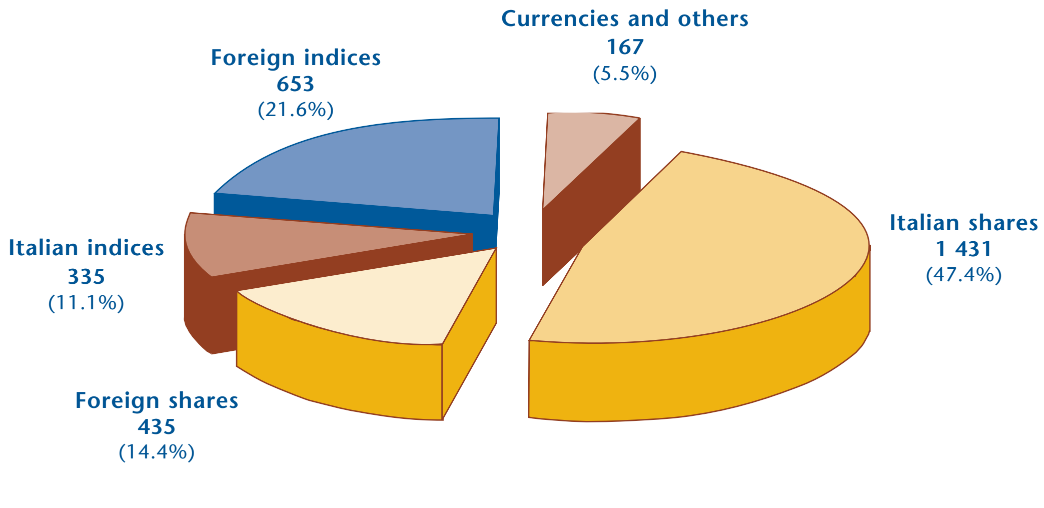
showed a predominance of indices, with 80 different underlyings (the most represented were S&P/MIB, DAX and NASDAQ100). Next came the foreign equities with 45 underlyings (STMicroelectronics, Nokia, Microsoft and Cisco were the most represented securities), the Italian equities with 39 underlyings (with special reference to Eni, Telecom Italia, Tim and Generali) and the other underlyings (exchange rates, commodities, baskets and futures).

As regards the breakdown of listed instruments based on the type of underlying (chart 10), at the end of 2004, 47.4% had as underlying Italian shares, 14.4% foreign shares, 11.1% Italian indices, 21.6% foreign indices and 5.5% other underlyings. With reference to the breakdown based on exercise option, for the plain vanilla covered warrants 70.5% of the instruments listed at year-end was represented by call covered warrants, 29.5% by put covered warrants.

The issuer structure saw the return to the market of Deutsche Bank which during the previous year had not placed any new securitised derivatives. Of the 15 issuers present on the market, as many as 11 were of foreign origin, further confirming the high international standing that has now been achieved by the market.

The distribution of the number of listed instruments by issuer shows a lower concentration compared to 2003: the top 3 issuers at the end of 2004 (Unicredito Italiano, Goldman Sachs and Banca Caboto) represented 59.2% of the securitised derivatives listed compared to 62.1% for the top 3 issuers at 2003 year-end; if the top 5 issuers are considered (adding for 2004 Société Générale and Banca Imi), the result rises to 80.3% with respect to 78.5% at the end of 2003.

CHART 10 - SEDEX: BREAKDOWN OF THE NUMBER OF INSTRUMENTS BY UNDERLYING



Update: 30 December 2004

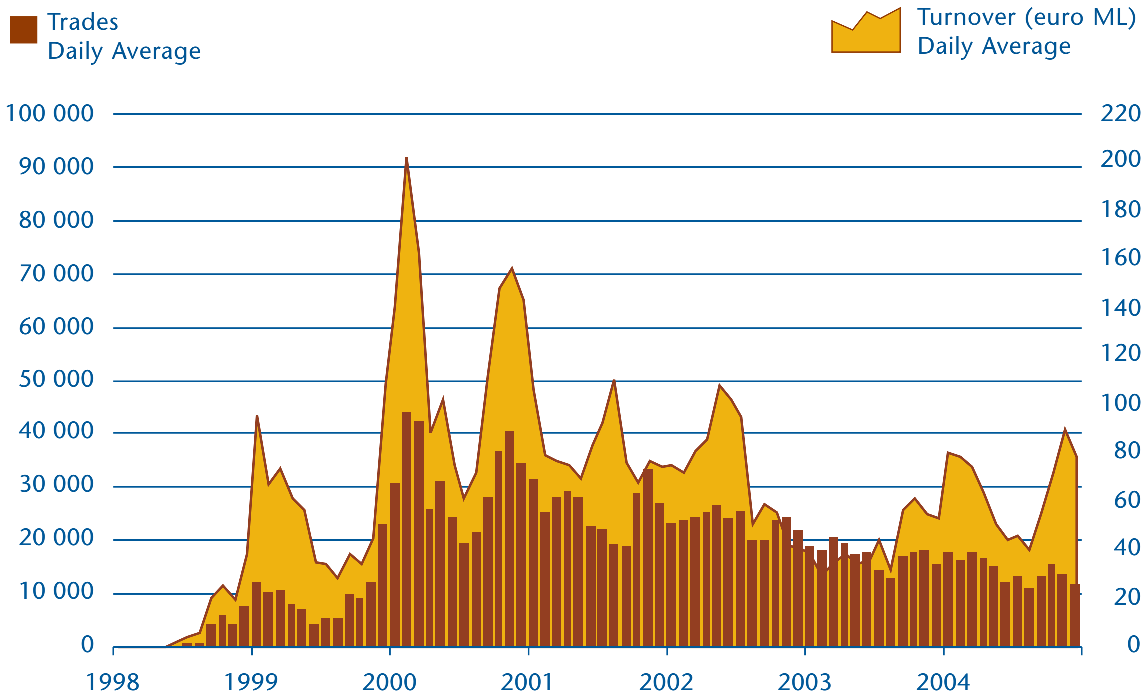
THE TREND OF TRADES

Compared to 2003, there was a significant rise in trades (chart 11) of around 52%. Turnover - calculated in reference to the price paid by the buyers and therefore assimilable to the premium on options - amounted to 16.5 billion euro (daily average of 64.0 million euro) compared to 10.8 in 2003 (daily average 43.0 million euro). There were 3.7 million trades executed, to give a daily average of 14,587. With reference to the entire electronic trading system (which apart from the SeDeX also includes the MTA, Nuovo Mercato and Mercato Expandi), in 2004 the Securitised Derivatives Market represented 9.5% of trades, positioning itself above the levels recorded by the Nuovo Mercato.

In November, the highest daily average turnover was recorded (90 million euro); in terms of trades, the most liquid month was March with a daily average of 17,889 trades.

The average size of trades has always been an indication of the retail nature of the market. Starting from the second half of 2004 a progressive rise was seen in this parameter (from 2,558 euro in 2003 to 4,615 in 2004) which, whilst on the one hand confirming a smaller size with respect to the equity instruments, on the other must be appropriately analysed. More specifically, the highest levels were achieved in the months of November and December which, as regards the daytime market, reached values of over 6,700 euro. In the evening session, the average size rose from 991 euro in 2003 to 1,758 euro in 2004; here again, the temporal profile showed a distinct growth during the second half of the year.
Analysis by individual instrument category confirms yet again the importance of having acted on a timely basis in defining the new segmentation of the SeDeX. The average trade size in

CHART 11 - SEDEX: TRADES AND TURNOVER



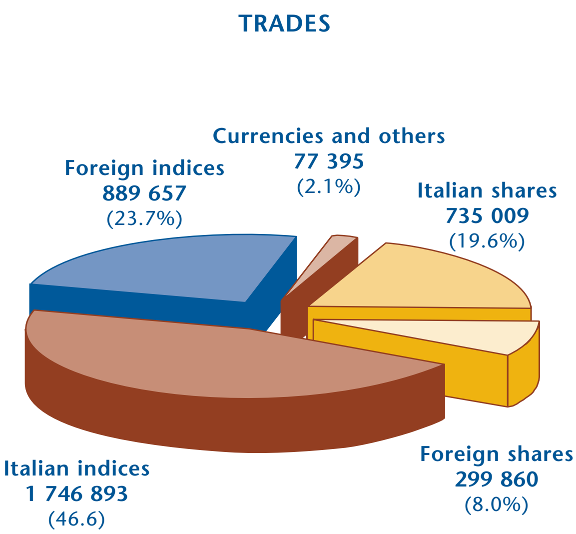
fact shows the different nature of the instruments and the investors attracted by them. While investment certificates showed an average size of 42,800 euro and structured/exotic covered warrants of 23,000, trading in plain vanilla covered warrants and leverage certificates takes place for average amounts respectively of 3,200 and 4,000 euro.

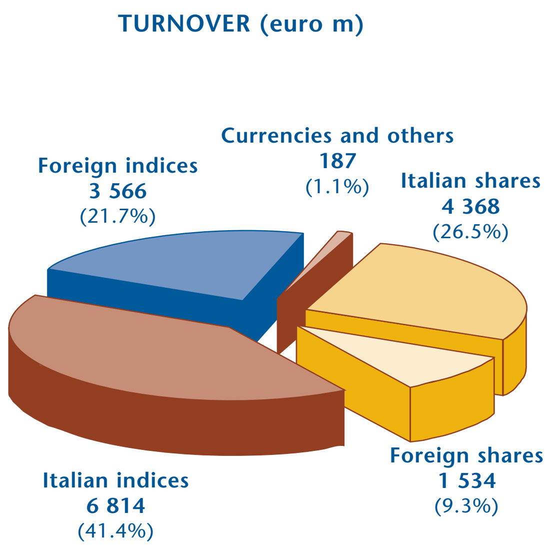
During the days when, although national holidays, the Stock Exchange still remained open for trading, the daily turnover fell on average by 34.8% (32.6% in 2003) with respect to the normal trading sessions and the average size of trades in euro dropped by 6,7%.

Overall trading in securitised derivatives during 2004 amounted to 3.7 million trades, with a turnover of 16.5 billion euro

Securitised derivatives with Italian shares as underlying represented 26.5% of overall turnover during 2004 and 19.6% of the total number of trades, those with foreign shares represented 9.3% of turnover and 8.0% of trades, those with Italian indices amounted to 41.4% of turnover and 46.6% of trades, those with foreign indices, 21.7% of turnover and 23.7% of trades. The instruments which had as their underlying foreign currencies, commodities, baskets or futures represented the remaining 1.1% and 2.1% of turnover and trades (chart 12). Trading was therefore heavily concentrated on domestic instruments, in particular the S&P/MIB index, which was the most traded underlying in terms of turnover (4.2 billion euro, with a daily average of 16.3 million euro) and second in terms of trades (over 600,000 trades concluded, with a daily average of 2,447). On the other hand, the MIB30 came first in terms of trades (almost 1.1 million trades, with a daily average of 4,340) and second in terms of turnover (2.6 billion euro, with a daily average of 10.1 million euro). The third most traded underlying was the DAX index with a turnover amounting to 2.0 billion euro (daily average of 7.7 million euro) and 350,572 trades (daily average of 1,364). Of the main Italian shares used as underlying for securitised derivatives, Eni, Telecom Italia and TIM together represented 14.7% of turnover

CHART 12 - SEDEX: BREAKDOWN OF TRADING BY UNDERLYING 2004





and 6.5% of trades executed. A Nuovo Mercato company (Tiscali) also ranked among the twenty most traded underlyings, in terms of both number of trades and turnover.

Plain vanilla call covered warrants represented 47.0% of overall turnover and 62.5% of trades, put warrants represented 16.2% of turnover and 25.0% of trades. Leverage certificates represented 8.7% of turnover and 9.5% of trades, while investment certificates represented 28.1% of turnover and 3.0% of trades and the remaining percentage is ascribable to structured/exotic covered warrants. The growth in the percentage of certificates, which rose during the year from 16.5% to 36.8% of turnover, was driven mainly by the certificates with leverage (Turbo & Short, MiniLong & MiniShort) and by investment certificates (capital protected instruments).