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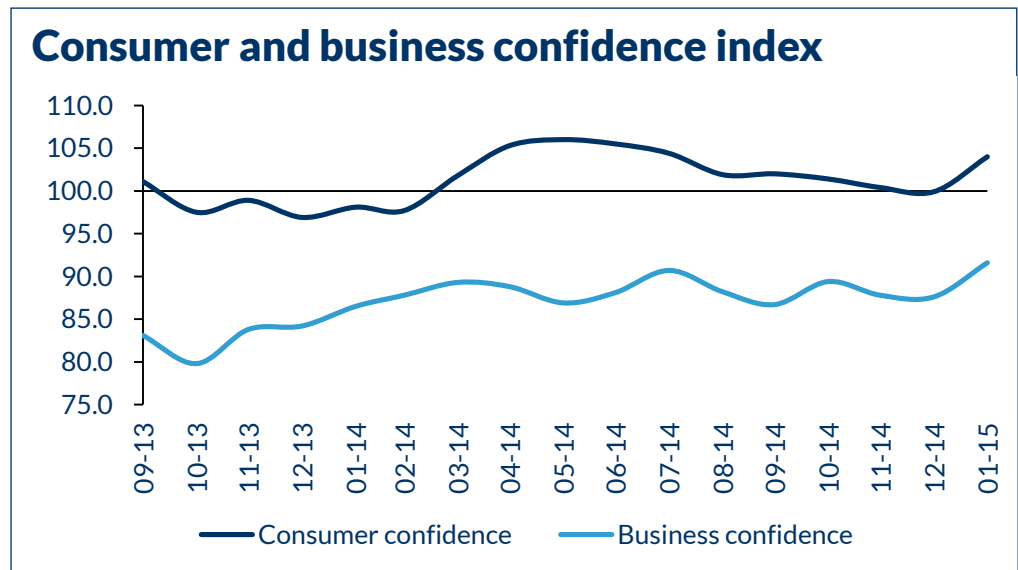
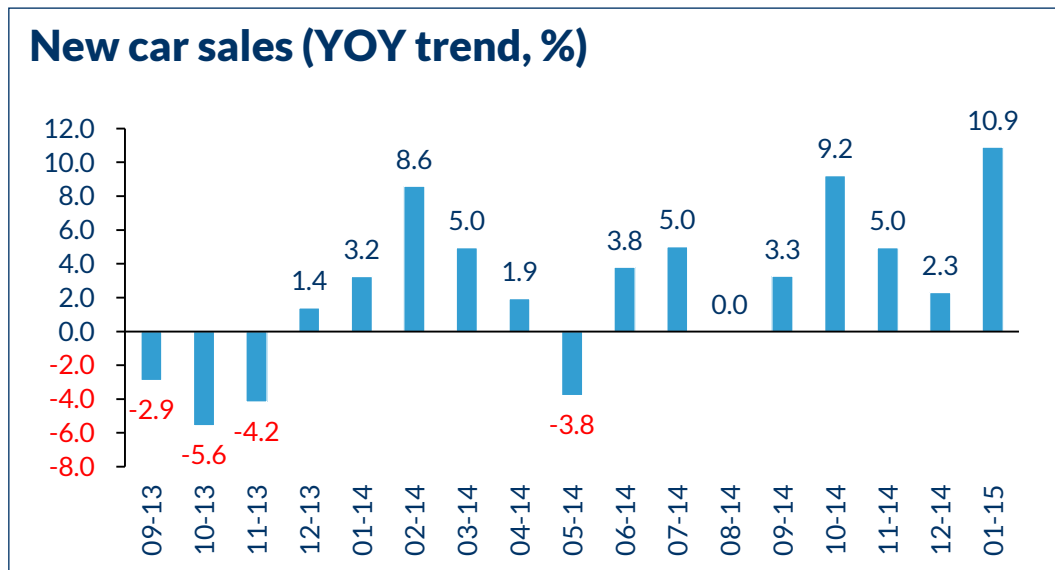
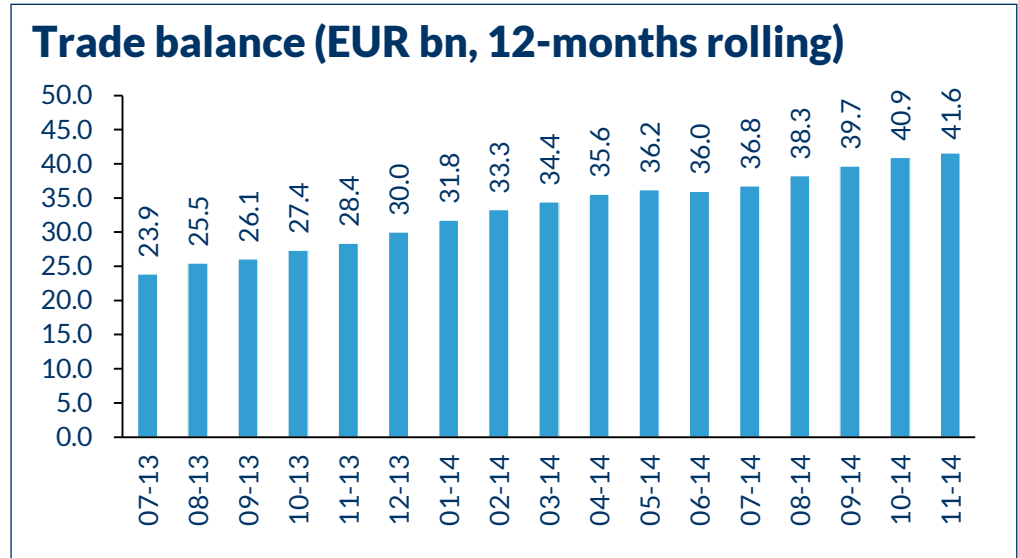
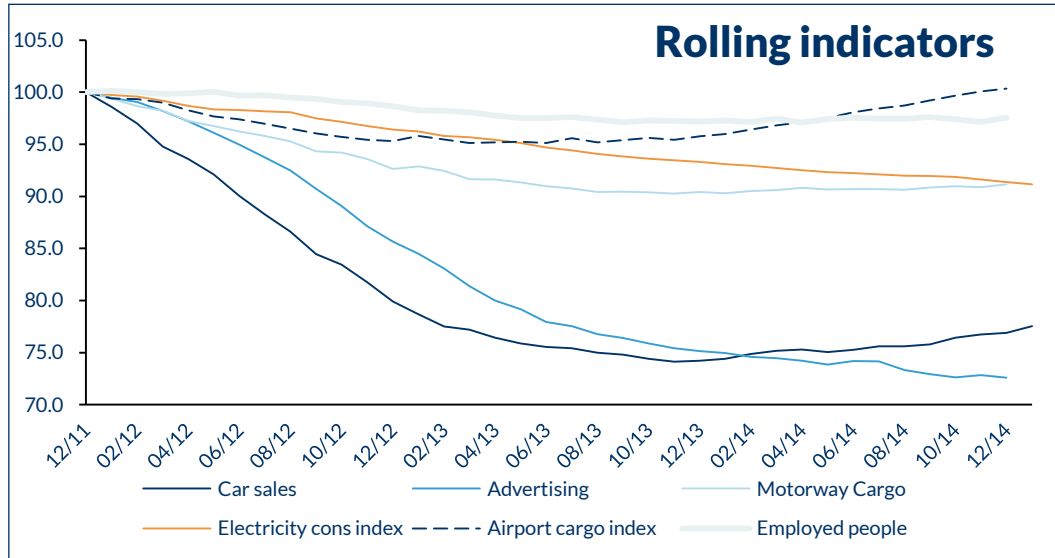
Italian market: recent investor feedback

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Agenda

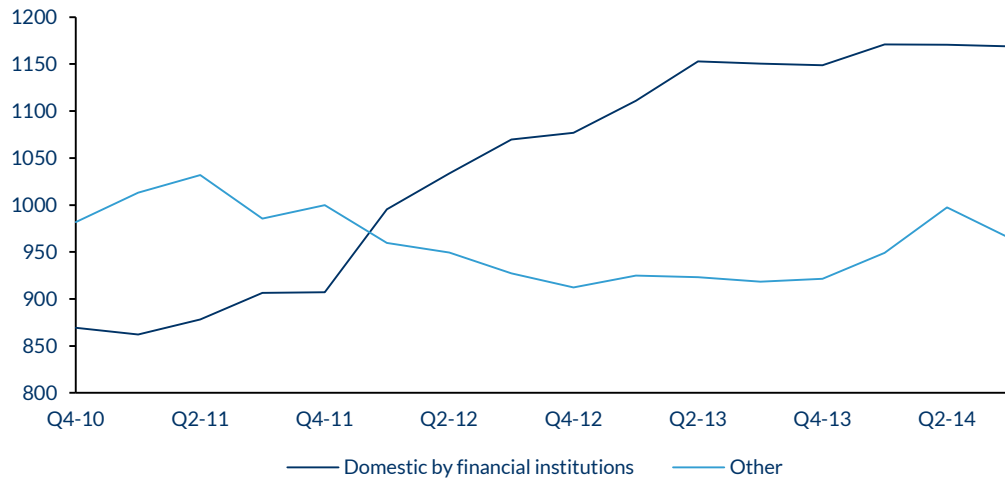
- Increasing appetite for Italy
- Renzi government & structural issues
- A narrow stock market to invest in
- Significant room for improvement

Macro: from stabilisation to recovery

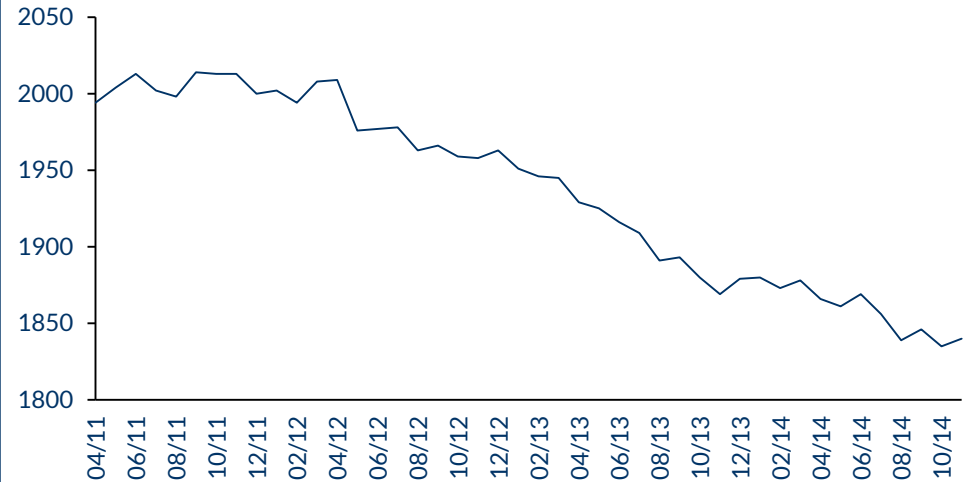


Key macro data – credit cycle

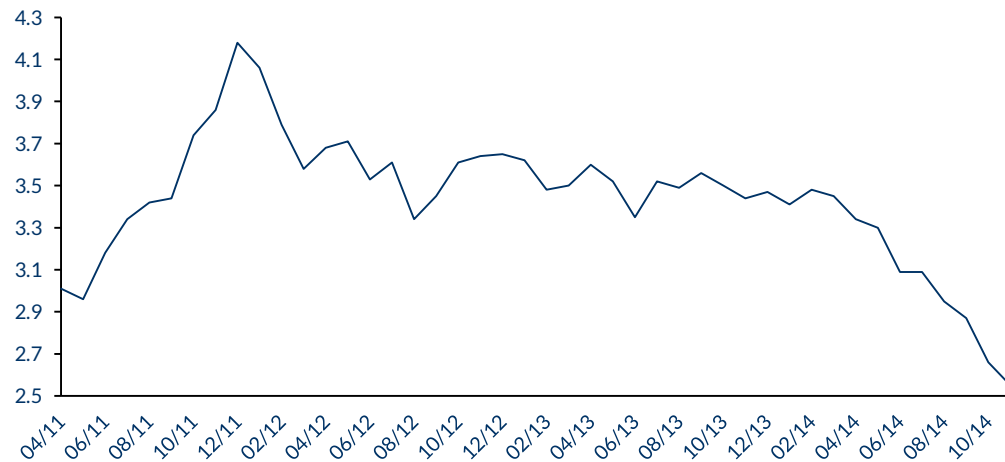
Public debt breakdown by lender (EURbn)



Banking system loans (EURbn)



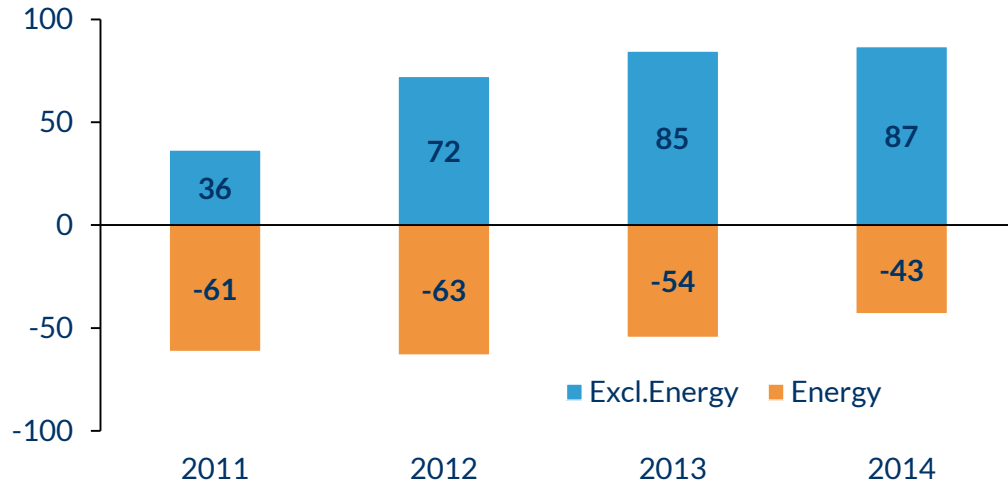
Average cost of new loans (% interest rate)



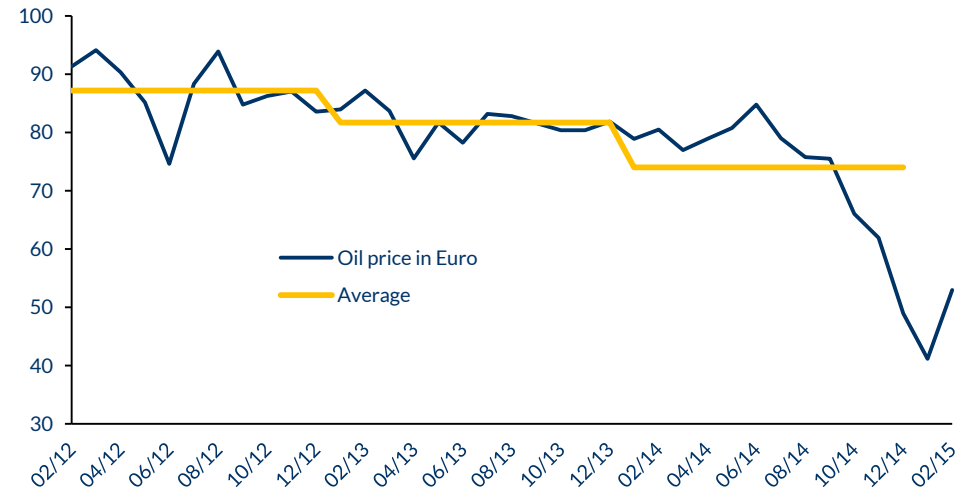
- **Gradual deceleration of loans slowdown**
- **Sharp decline of cost of new loans**
- **Low yield on treasury bonds: banks not investing additional items**

The good news: oil prices and currencies

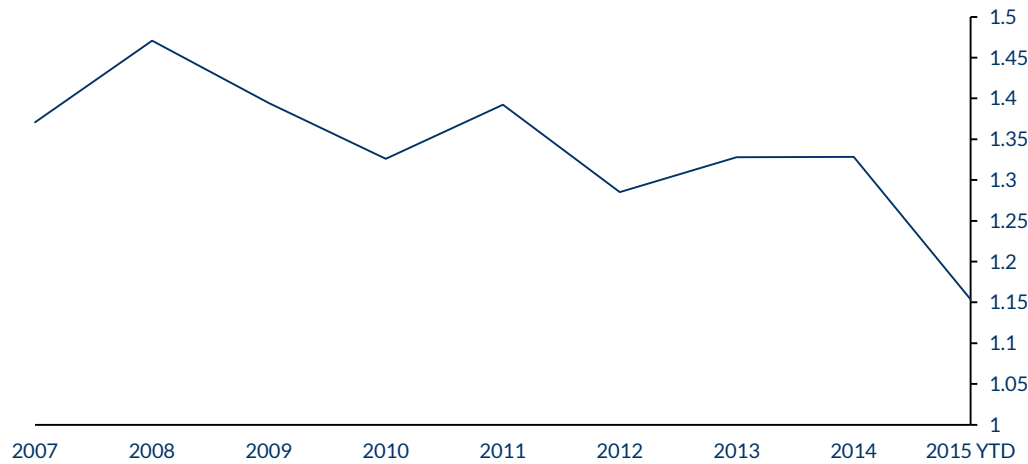
Evolution of Italian trade balance (EURbn)



Oil price in euro terms



EUR/USD exchange rate



A boost from USD and oil

- **Oil price in euros down nearly 30% in 2015**
- **This should reduce to the energy trade deficit of EUR43bn by another EUR10bn (=0.6% of GDP)**
- **Weaker euro to help future exports in non-energy goods. EUR6bn additional surplus at current FX**

Italian government budget 2014-17 – what is changing

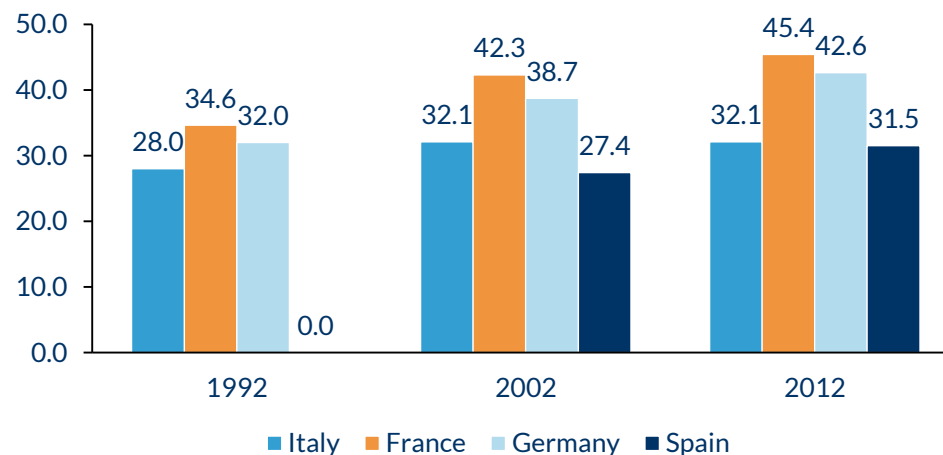
(EURbn)	Previous forecast				New forecast			
	2014E	2015E	2016E	2017E	2014E	2015E	2016E	2017E
Revenues	785	793	806	826	784	798	817	839
Tax	491	495	504	518	491	498	511	527
Social contributions	213	215	218	223	213	216	221	226
Other	74	76	76	77	74	77	77	78
Capital income	6	7	8	8	6	7	8	8
Expenditure	833	840	853	871	833	842	855	873
Opex	312	314	318	324	312	319	327	334
Social costs	330	339	348	356	330	339	348	356
Other expenses	56	56	56	57	56	56	56	57
Current expenses	698	709	722	738	698	710	722	737
Public investments	60	61	63	66	60	61	63	66
Interest payments	74	70	68	68	74	67	62	60
Primary balance	26	22	20	22	25	23	23	23
<i>Surplus/(Deficit) /GDP</i>	1.6%	1.4%	1.2%	1.3%	1.6%	1.4%	1.4%	1.4%
Total balance	(49)	(48)	(48)	(45)	(49)	(44)	(39)	(35)
<i>Surplus/(Deficit) / GDP</i>	(3.0%)	(2.9%)	(2.8%)	(2.6%)	(3.0%)	(2.6%)	(2.3%)	(2.0%)
GDP (SEC 2010)	1,621	1,633	1,669	1,720	1,621	1,645	1,688	1,738
<i>Nominal growth</i>	0.1%	0.8%	2.2%	3.0%	0.1%	1.6%	2.6%	3.0%
<i>Deflator</i>	0.3%	0.4%	1.2%	1.5%	0.3%	0.4%	1.2%	1.5%
<i>Real growth</i>	(0.2%)	0.4%	1.0%	1.5%	(0.2%)	1.2%	1.4%	1.5%
Debt (after EU aids)	2,148	2,195	2,243	2,288	2,135	2,179	2,218	2,253
<i>Debt/GDP after EU aids</i>	132.5%	134.4%	134.4%	133.1%	131.9%	132.5%	131.4%	129.6%

- **Healthy primary surplus**
- **Better GDP ahead**
- **Lower cost of debt**
- **Heavy but controlled interest payments thanks to lower yield spreads**
- **Renzi: a “new approach”, particularly in communicating results**

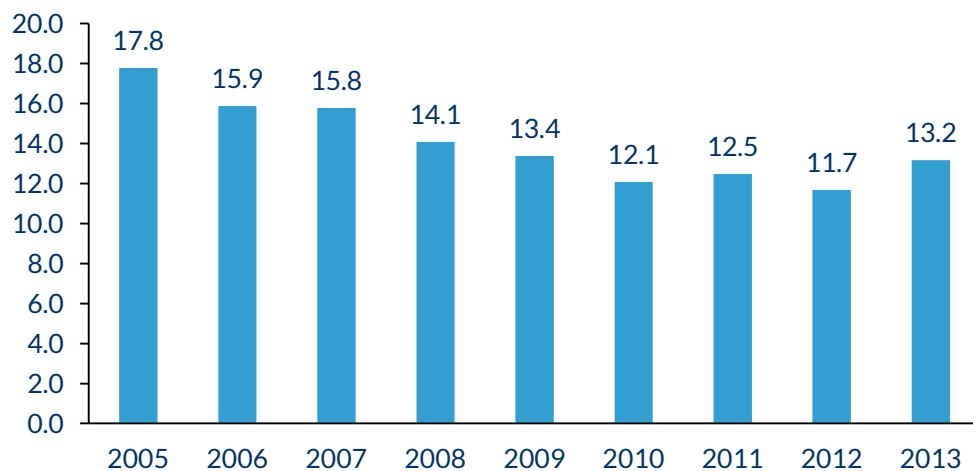
Structural issues

- **Productivity made no progress after 2002**
- **Fiscal and social policy unfair for young people and families, helping the elderly**
- **High savings ratio softened the impact of the last recession**

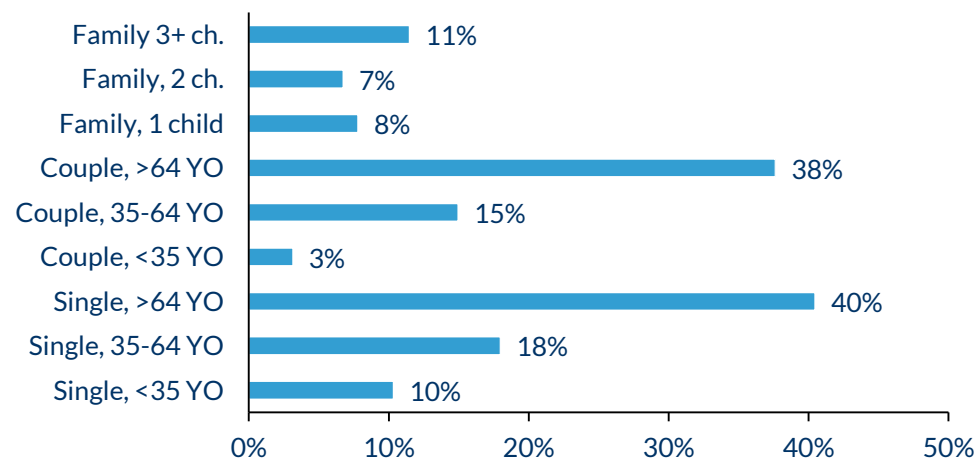
Productivity (EUR2005/hour worked)



Savings ratio (% of disp. income, year-end)

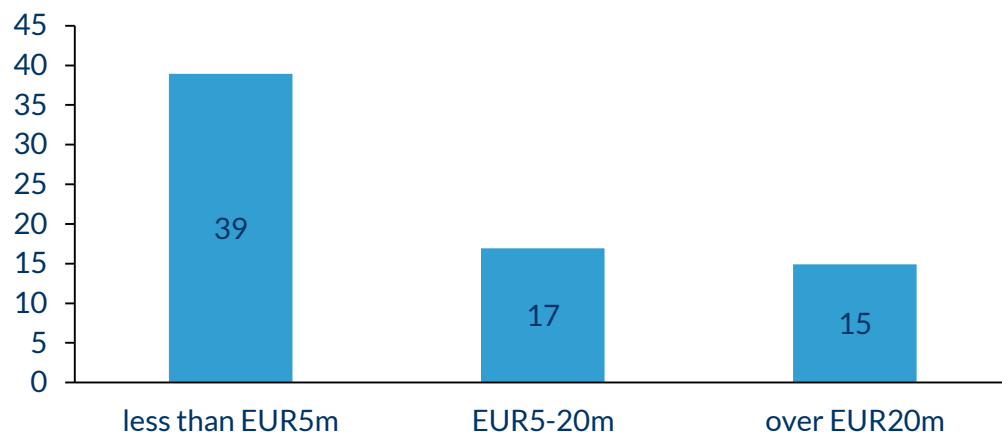


Increase of spending (nominal, 10 years)

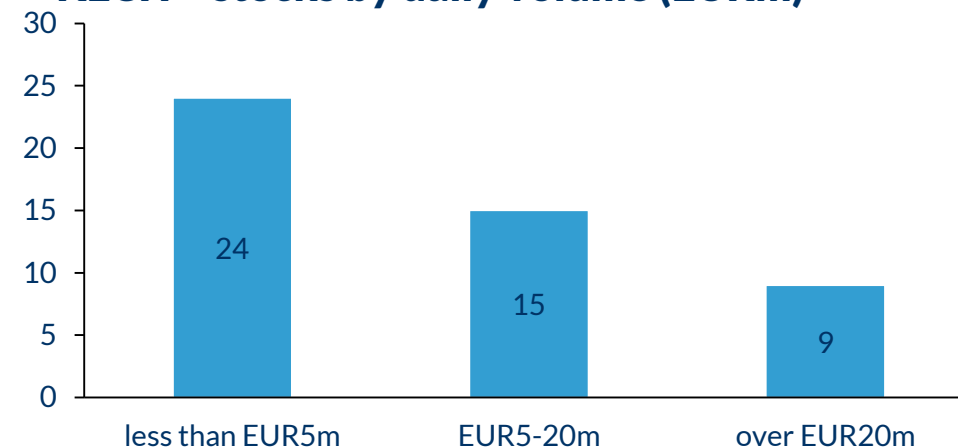


A narrow stock market, with past issues not yet forgotten

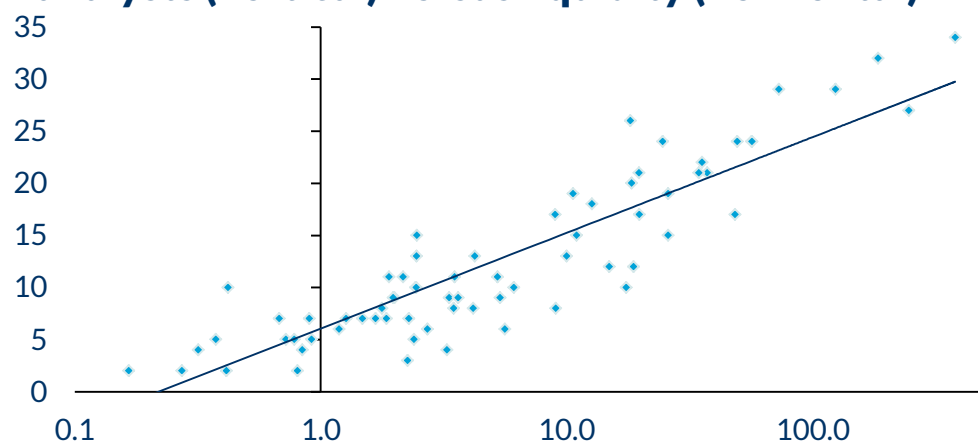
Non financial stocks covered by KECH – stocks by daily volume (EURm)



• Non financial/non utility stocks covered by KECH – stocks by daily volume (EURm)



Non financial stocks covered by KECH – coverage of analysts (vertical) versus liquidity (horizontal)



- **Lack of choices to “invest in Italy”**
- **Low liquidity of stocks implies less interest from the sell-side industry**
- **Corporate governance issues of the past are affecting today’s reaction to innovation (multiple vote)**
- **Regulatory/taxation framework still a source of discount**

A few remarks

- **Year-end results mean strategic update.** It is important to update key sector drivers once a year and set/reiterate the key strategic targets.
- **Reduce size of quarterly reports as much as possible.** Quarterly results are a source of volatility, encouraging investors to focus on the short term, taking up analysts' time with maintenance.
- **Simplify segment reporting and build standard KPIs.** Investors need a consistent and stable set of data for segment reporting (normally two sales breakdown, one of which also applicable to earnings and capital employed) and growth drivers.
- **Sensitivity analysis:** big swings in currencies, raw materials and macro (last but not least inflation). Make sure investors understand how these drivers work for your companies.
- **Cash generation and dividends** are increasingly the focus of investors in this new environment.

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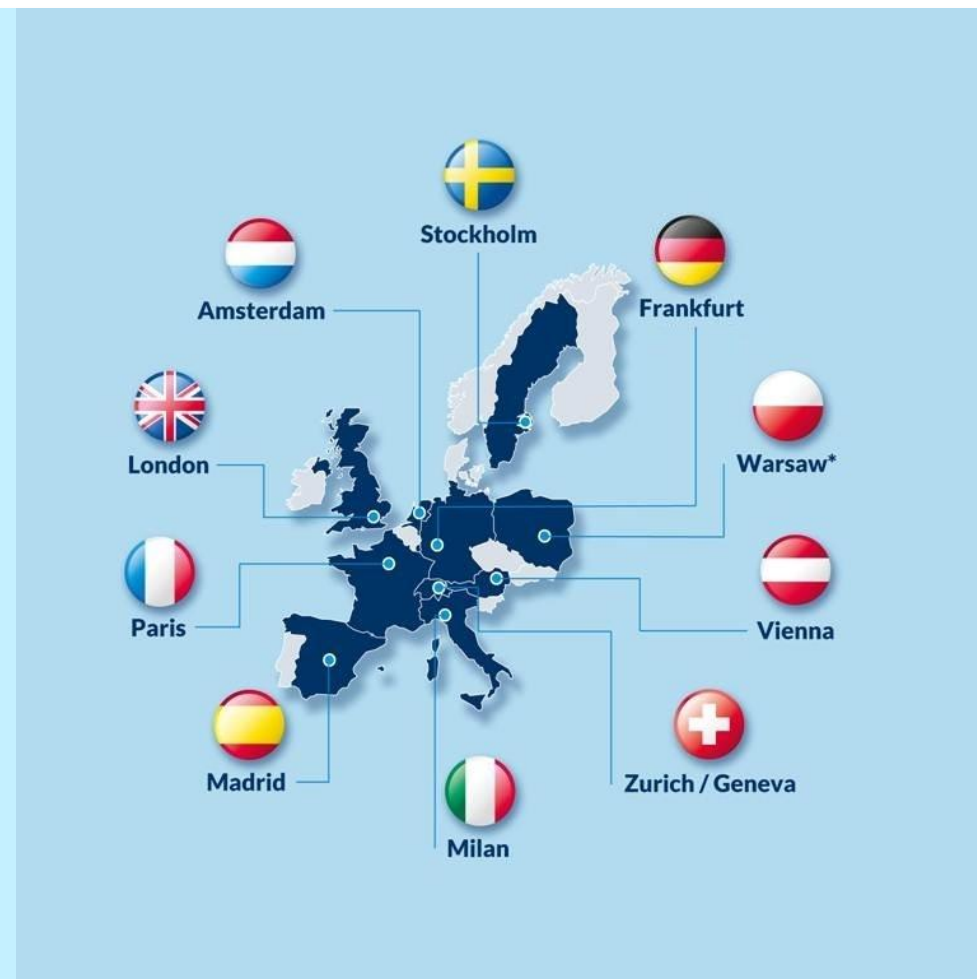
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