Simmons & Simmons

Insight Italy: the seven capital virtues of the "Beautiful Country"

Beyond common beliefs

Why not Italy?

Strictly private and confidential

Contents

Introduction

The Why not Italy? Group and the players involved

This paper has been developed by Simmons & Simmons Italy, drawing on research made by the Why Not Italy? Group. This Group, formed by a number of top-class Italian private equity fund managers, is intended to lead the international community of investors to consider the positive aspects of the Italian entrepreneurial system with a view to attracting funds to the Italian platform.

As of June 2012, the members of the Why Not Italy? Group are: Andrea Bonomi (Chairman and Founder, Investindustrial); Stefano Caselli (Professor of Banking and Finance, Università Bocconi), Guido Corbetta (Professor of Corporate Strategy, Università Bocconi), Mario De Benedetti (CEO and Founding Partner of J. Hirsch & Co.); Edoardo Lanzavecchia (CEO and Founding Partner of Alpha), Raffaele Legnani (CEO and Founding Partner of Atlantis Capital), Andrea Montanino (Director General at the Ministry of Economy and Finance, Republic of Italy), Eugenio Morpurgo (CEO of Fineurop), Luca Peyrano (Head of Continental Europe, Primary Markets, Borsa Italiana - London Stock Exchange Group), Dante Roscini (Professor at Harvard Business School), Fabio Sattin (Chairman and Founding Partner of Private Equity Partners), Claudio Sposito (Chairman and Founding Partner of Clessidra), Nino Tronchetti Provera (CEO e Founding Partner of Ambienta).

The Why Not Italy? research

On May 2012 the Group published an independent report on the Italian economic system, titled "Why not Italy?" which begins with a clear analysis of Italian competitiveness, moves on to Italy as an attractive target for the inflow of capital and then focuses more generally the positive value of a civil service to the "Beautiful Country".

"Why not Italy?" is the question addressed to those international investors who focus only on the country's high level of public debt, the downgrading of credit rating agencies, and its annual rate of economic growth which is the worst after Japan in developed countries over the past 20 years.

But Italy is not only that: the Beautiful Country is also (i) the third major economy in Europe with (ii) a network of wealthy families with high saving trends, (iii) a solid banking system, (iv) a wealth of traditions of excellence in different niches, (v) unexploited cultural and environmental heritage values, (vi) a logistic platform for development in Southern Italy, and (vii) a developed financial system.

These are the seven capital virtues of the Beautiful Country which make Italy an appealing investment environment for those abroad. The examination of these virtues has resulted in the "Why not Italy?" report, highlights of which are set out in this document.

Marco Franzini
Partner – Head of Private Equity Italy

"Italy presents some unique challenges but also opportunities for foreign investors who are able to spot the value presented by the niches; their quality and technological excellence. Italian enterprises and the Government are now concentrating on support for growth and development, including the implementation of changes for the ease of workforce management. Simmons & Simmons has almost two decades of consolidated experience in supporting cross border investments either directly or via locally operated investment schemes."

1 The seven capital virtues of Italy

1.1 The third largest economy in Europe

(A) GDP in Italy

According to the World Bank data, Italy has always been among the ten most important developed countries in the world. Italy is the third largest economy in the European Union just after Germany and France.

The ranking is the same for both boom and crisis periods: which means that the Italian economy is strongly connected to the rest of the world.

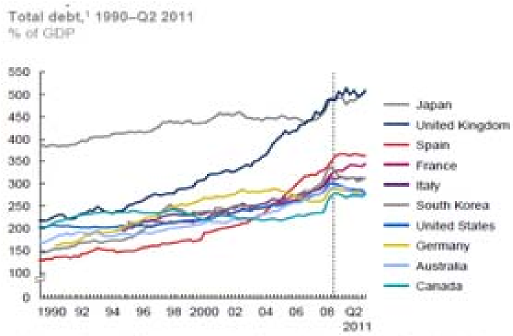
It must be underlined that Italy can't exploit any country advantage like raw materials, low labour costs, energy, oil, etc.

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
United States	1	1	1	1	1	1	1	1	1	1	1
China	6	6	5	6	6	5	4	3	3	3	2
Japan	2	2	2	2	2	2	2	2	2	2	3
Germany	3	3	3	3	3	3	3	4	4	4	4
France	5	5	6	5	5	6	6	6	5	5	5
United Kingdom	4	4	4	4	4	4	5	5	6	6	6
Brazil	9	11	13	13	13	10	10	10	9	8	7
Italy	**7**	**7**	**7**	**7**	**7**	**7**	**7**	**7**	**7**	**7**	**8**
India	13	13	12	12	12	13	14	12	12	10	9
Canada	8	8	8	9	9	8	8	9	11	11	10
Russian Federation	17	16	16	16	16	14	11	11	8	12	11
Spain	11	10	9	8	8	9	9	8	10	9	12
Mexico	10	9	10	10	10	11	12	14	13	14	13
Korea, Rep.	12	12	11	11	11	12	13	13	15	15	14
Australia	14	15	15	15	14	15	15	15	14	13	15
Netherlands	15	14	14	14	15	16	16	16	16	16	16
Indonesia	24	25	22	21	22	23	20	20	18	17	17
Switzerland	18	18	17	17	17	18	19	19	20	18	18
Poland	22	22	21	23	23	21	21	21	17	20	19
Belgium	20	19	18	19	19	17	17	18	19	19	20

Source: World Bank

(B) Financial position in Italy

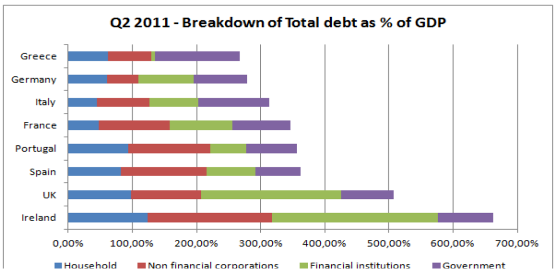
Italy is not a risky country from a financial point of view. Apart from high public debt, there are no major macroeconomic imbalances; no major bubbles in the housing market; low household debt; a fundamentally sound banking system; and no major external imbalances.



Source: McKinsey Global Institute

In Italy, the need for deleveraging is not compelling and the drag on economic growth is likely to be modest.

- The Italian external debt is much lower than that of other developed countries.
- The Italian aggregate debt is comparable to France and is lower than the debt level of UK or Spain.

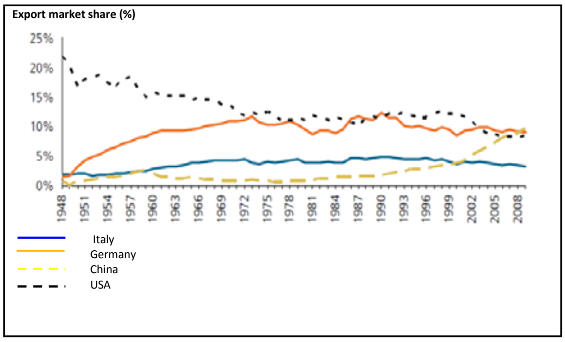


Source: McKinsey Global Institute

(C) Italian exports

Destination of Italian export	2008	2009	2010
Germany	12,80%	12,70%	13,00%
France	11,20%	11,60%	11,60%
USA	6,20%	5,90%	6,00%
Spain	6,50%	5,70%	5,80%
Suisse	3,90%	4,60%	4,70%
UK	5,20%	5,10%	5,20%
China	1,70%	2,30%	2,60%
Turkey	2,00%	1,90%	2,40%

Source: Ministry of Economic Development



Source: Intesa Sanpaolo on WTO data

Italy is mainly an export country and has developed its exporting ability alongside its need to import oil, gas and other raw materials which are materially lacking in Italy.

The recent economic and financial turmoil has hit Italian export companies as well as those in other developed countries due to the increased competition on international markets.

Italian, as well as German and French exports are competing with the increasing international presence of fast growing economies (including China) and the Italian export market, in particular, is strictly linked to the evolution of its European partners.

Compared to other developed countries, however, the higher number of SMEs in Italy and greater product diversification favor the ability of Italian enterprises to intercept and capture the new business chances on the international markets, including temporary niche opportunities.

On the other hand, this very high flexibility has to be combined with the need to build and consolidate long term trading relationships.

(D) The market size: import, export and household final expenditure in Italy

With the exception of China, consumption generally represents at least 50% of GDP in the most important world countries.

Italy and the UK are unique cases: household consumptions, imports and exports, ie the "basic" points to understand the development and the potential of doing business with the private markets, would place Italy in a better position than a ranking based solely on GDP analysis.

This means that the ranking of Italy in terms of GDP is not due to issues related to the private market (whether household or companies).

Average 2000-2010	Household final consumption expenditure as % of GDP	Import as % of GDP	Export as % of GDP
Brazil	61,18%	*12,189%*	*13,315%*
Canada	56,28%	*34,483%*	*37,220%*
China	39,22%	*26,413%*	*30,951%*
France	56,89%	*27,023%*	*26,611%*
Germany	57,92%	*36,243%*	*40,814%*
India	59,71%	*20,739%*	*18,071%*
Italy	59,26%	*26,480%*	*26,528%*
Japan	57,47%	*12,620%*	*13,790%*
United Kingdom	64,97%	*29,933%*	*27,250%*
United States	70,29%	*15,384%*	*10,910%*

Ranking (average 2000-2010)	Household final consumption expenditure as % of GDP	Import as % of GDP	Export as % of GDP	*Ranking as average ranking based on GPD 2000-2010*
Brazil	3	10	9	*9*
Canada	9	2	2	*8*
China	10	6	3	*4*
France	8	4	5	*6*
Germany	6	1	1	*3*
India	4	7	7	*10*
Italy	5	5	6	*7*
Japan	7	9	8	*2*
United Kingdom	2	3	4	*5*
United States	1	8	10	*1*

Source: World Bank

1.2 The wealth of Italian families

At the end of 2010, the net wealth of Italian households, i.e. the sum of real assets (houses, land, etc.) and financial assets (deposits, bonds, stocks, etc.), net of financial liabilities (mortgages, personal loans, etc.), was equal to about EUR 8.64 billion, of which EUR 4.95 billion related to houses and other "buildings" used by families.

On average, every family has wealth of about EUR 360,000, the largest part of which is related to the ownership of the family house. This wealth tends to be concentrated: 10% of the richest families hold 45% of the total wealth.

From a strictly financial point of view, Italian people are "rich" as they hold significant financial assets compared to their disposable incomes.

Total of household real assets as number of time of the disposable income	Italy	Germany	France
2006	5,14	4,16	5,82
2007	5,32	4,29	5,93
2008	5,38	4,3	5,67
2009	5,61	4,31	5,45

Source: Bank of Italy

Total household financial assets as number of time of the disposable income	Italy	Germany	France	Spain
2006	3,5	2,75	2,89	2,93
2007	3,44	2,8	2,92	2,44
2008	3,24	2,65	2,69	2,36
2009	3,4	2,78	2,87	2,42
2010	3,43	2,88	2,94	2,1

Total of household financial debts as number of time of the disposable income	Italy	Germany	France	Spain
2006	0,73	0,98	0,89	1,31
2007	0,78	0,95	0,88	1,17
2008	0,77	0,92	0,94	1,28
2009	0,81	0,91	0,97	1,25
2010	0,87	0,93	0,93	0,9

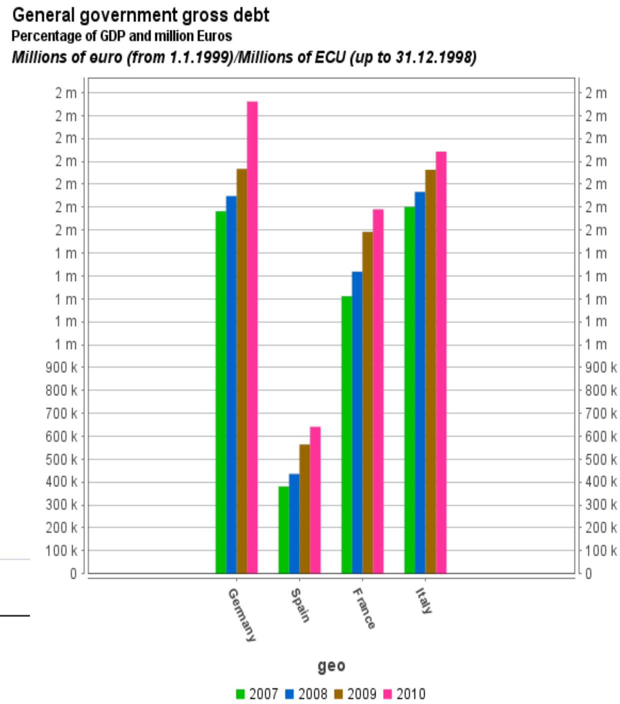
Source: Bank of Italy

However, Italian people do not use financial debts as a source: "mortgage" loans amount to the larger part of this debt.

Italy has a very high Government debt, but it is in fact lower than the German government debt.

In the majority of the developed and financially open countries, foreign institutional investors are the most important Government direct debt holders.

In Italy, on the contrary, resident families own directly a significant quota of the Government debt.



Source: Eurostat

% of public debt hold by families	2008	2009	2010
Germany	n.a.	n.a.	n.a.
Spain	2,34%	1,58%	2,09%
France	0,56%	0,38%	0,24%
Italy	19,67%	15,16%	11,18%

Source: Eurostat

1.3 A solid banking system

Compared to the most important European markets, the Italian banking system is characterised by some strengths:

- the high level of loans to companies and families;
- the low level of financial assets in the portfolio;
- the lower leverage; and
- the greater funding stability (thanks to the high % of direct funding).

It is also worth noting that:

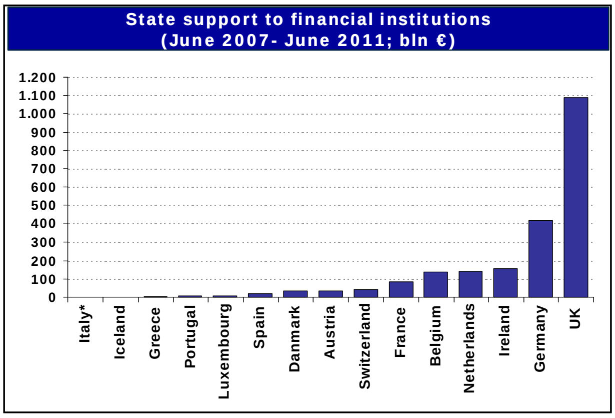
(A) Unlike several other European banking systems, the Italian banking sector will have a relatively small capital and business model impact from the new regulations – including Basel 2.5, Basel 3 and Net Stable Funding Ratio.

Preliminary evaluations on the major impacts of Basel 3 by country

	Quality of capital	Deductions	Counterpart risk	Leverage ratio	Liquidity Standard
France	X	X	X		X
Germany	X	X		X	X
Italy		X			
Spain		X			X
Switzerland			X	X	
UK		X	X	X	X

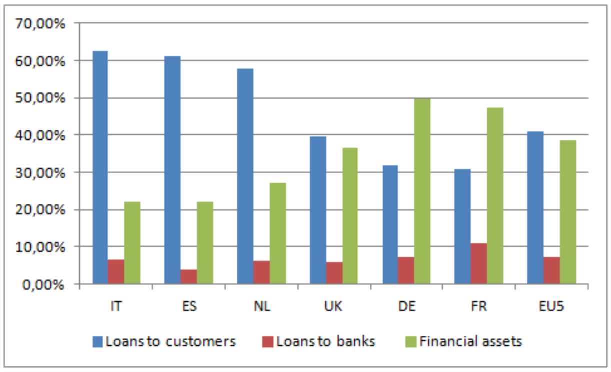
Source: Bocconi University and Italian Banking Association

(B) Contrary to what happened in other European countries, Italian banks have not needed State aid to overcome the recent financial crisis.



Source: Bocconi University and Italian Banking Association

(C) Italian banks are more "traditional", that is, more involved in financial intermediation (direct funding and loans) rather than in financial investments. The Italian banking system has developed following this model: lower risks, lower returns, lower losses, and greater stability.



Source: Bocconi University and Italian Banking Association

1.4 A country of excellence in different niches

(A) The Italian industrial system

Micro and small firms play a very important role in the Italian economy and the tradition of "specialisation" has led companies to be tailored and developed around the concept of "Made in Italy", which is perceived as an internationally recognised quality brand, particularly strong in sectors such as mechanical, food & beverage and fashion.

Traditionally, Italy has few policy initiatives designed to attract inward foreign direct investments or foreign investors to the country, while foreign owned firms in Italy are concentrated in sectors with significant economies of scale.

As in the whole European Union, State aid policies are also limited in Italy. However, there are a plurality of financial and non financial measures to stimulate companies to innovate and internationalise the business.

Unlike Germany, Spain and France, Italy did not implement aid schemes for companies during the recent crisis.

(B) The "Italian way" to exploit and develop market niches: industrial districts

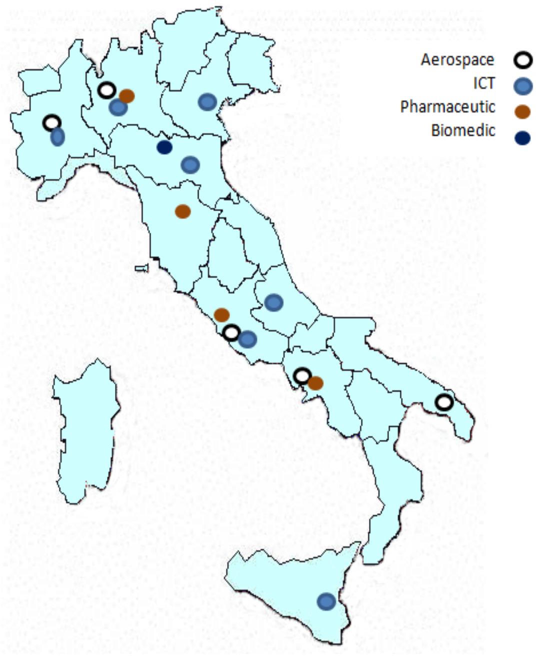
In Italy there are at least 101 industrial districts, the most important of which are shown in the map.

In 2010, Italian districts included:

- 285,000 firms
- 1,5 million workers
- EUR 74.6 billion exports

Districts represent about one third of the whole manufacturing system

The size of companies belonging to a district is larger than the average size of companies across Italy: for example in North-East regions, there are more than double the number of companies with a turnover of at least EUR 50 million than there are ones with a turnover lower than EUR 10 million.



Source: The National Observatory of Italian Districts

(C) "The Italian way" to exploit and develop market niches: technological poles

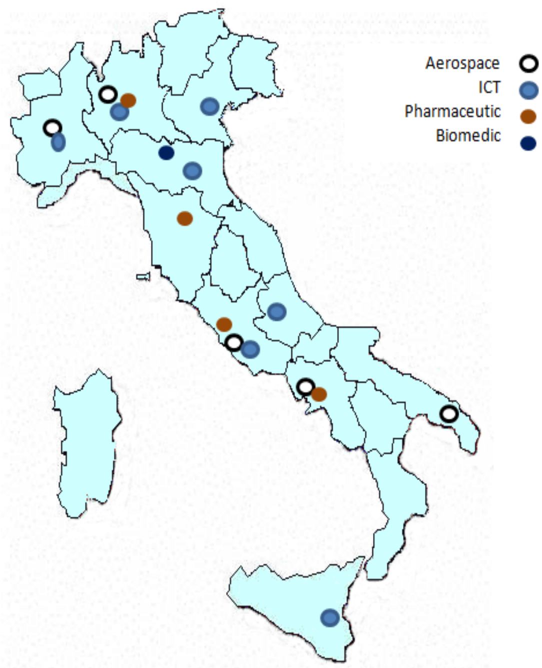
Italy has 27 districts specialised in technology and applied research or high-tech sectors.

At least 18 of them affect the economy of the area where they are located in a significant way.

Companies belonging to technology centres get better performance.

	2009		2008		2007	
	Companies in technology centers	Traditional companies	Companies in technology centers	Traditional companies	Companies in technology centers	Traditional companies
Turnover growth rate	-3,70%	-19,80%	4,00%	-3,40%	n.a.	n.a.
ROI	9,60%	3,70%	11,80%	6,30%	12,90%	8,20%
ROE	4,90%	0,70%	8,80%	2,50%	10,00%	6,00%

Source: Intesa Sanpaolo



Source: Intesa Sanpaolo

(D) "The Italian way" to exploit and develop market niches: network agreements

In order to increase competitiveness and promote M&A projects among SMEs, in 2009 the Italian Government created the Network Agreements ("Contratti di Rete"). This new tool allows companies the chance to give life to joint ventures without creating new legal entities or new business activities.

At the end of 2011, Italian companies underwrote 114 Network Agreements, so in the near future, it's possible that many MSMEs won't really be micro or small…

Following the Italian example, the European Union is modifying the SBA (Small Business Act) in order to realise a European measure that creates Network Agreements among MSMEs

The main objectives of these agreements are:

- improvement of the quality of products (also certification);
- technological innovation;
- improvement of marketing policies and market penetration; and
- environmental protection.

(E) Export and market/sector niches

Export data provides confirmation of the Italian ability to exploit and develop in market niches at a global level. In about 30% of products in which the international trade is divided, Italian companies are ranked between the first and the fifth position.

The total value in the export of market niches is over USD 250 billion.

Ranking of Italian Export	Number of products (compared to a number of 5517 products in which the international trade is divided)	Value of export (2009; bill. USD)
1st	249	71
2nd	347	56
3rd	387	48
4th	317	49
5th	293	29
Total	**1593**	**253**

(F) The well-known Italian brands

According to the most important international rankings, there are only three Italian brands that may be ranked among the 100 world's most valuable brands: Armani, Ferrari and Gucci.

However, high-quality Italian products (protected by the EU) realised a turnover of consumption over EUR 9 billion in 2010, of which exports account for about EUR 1.5 billion.

So, there are a number of brands that may increase their value and become more international than they are currently.

In the last few years, many brands originating in Italy have been the object of international deals, such as M&A transactions.

The logos of the 100 most important Italian brands are shown at right.

Source: MPP Consulting

(G) The Italian family business

As in Europe, Italian families own the vast majority of the companies operating in the country:

- In 2009, in Italy about 55% of companies with a turnover exceeding EUR 50 million belonged to a family.
- In 2010, 16 of the 100 most important European family businesses were Italian (19 were French and 17 were German).
- In 67% of the Italian family businesses, senior management is a direct expression of the owner family (33% in Spain, 25% in France and Germany and 10% in UK).
- Family ownership is an alternative to going public, but not to the entry of a PE investor.

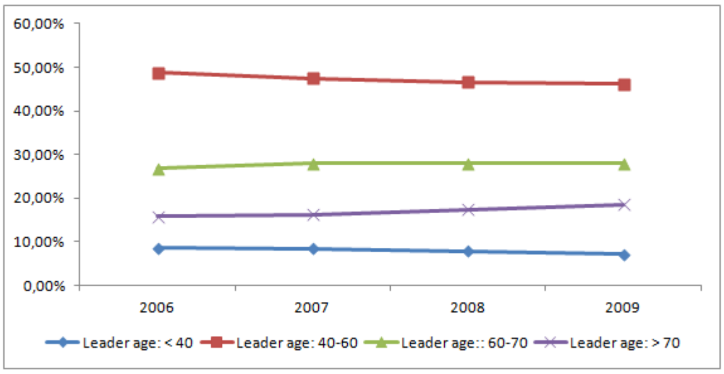
It is also worth noting that Italian entrepreneurs are often self-made men, hence:

- they control multifaceted organisational structures;
- they show a decreasing ability to manage companies when they are large, structured, and more articulated; and
- they are used to exploit, leverage and manage companies with high net financial position.

(H) The great opportunities

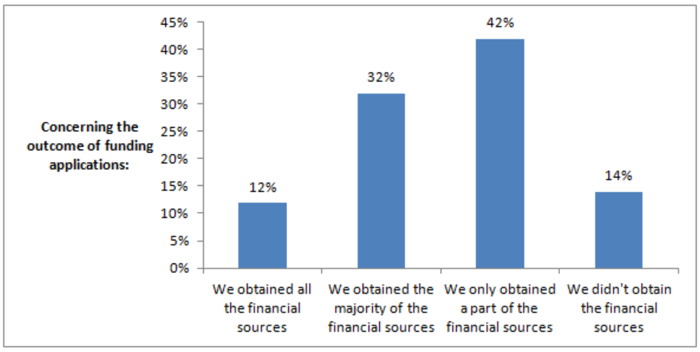
The difficulties Italian companies are facing may also be viewed as investment opportunities, namely:

- succession: Italian entrepreneurs are well aware of the fact that strong growth needs a change of governance and ownership structure. According to the trend, in 2015, one quarter of Italian family firms will have a leader over 70;



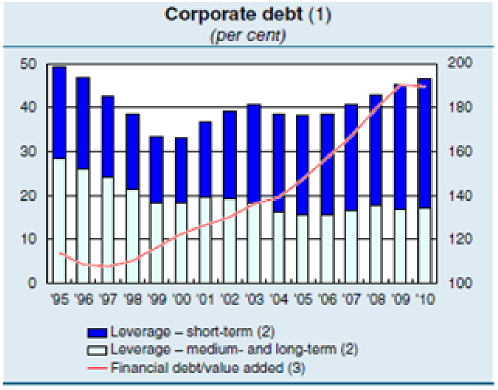
Source: AIDAF

- the credit crunch: recent surveys of MSMEs confirm that companies are facing some difficulties accessing finance and show that entrepreneurs find it hard to improve their relationships with financial institutions;



Source: Forbes

- the undercapitalisation: at the end of 2010, Italian firms' leverage ratio was more than 4 percentage points above the Euro-area average, and about 12 points higher than in the United States.



Sources: Bank of Italy and Istat.
(1) The data relate to the non-financial corporations sector. – (2) Left-hand scale. Leverage is calculated as the ratio of financial debt to the sum of financial debt and shareholders' equity at market prices. – (3) Right-hand scale. Value added for 2010 is estimated from national accounts data.

1.5 Unexploited cultural and environmental heritage values

Italy has the widest cultural heritage worldwide with:

- more than 3400 museums; and
- 47 UNESCO sites.

Despite this absolute primacy in the world, the economic return on cultural assets is very low:

- the United States, with half the number of UNESCO sites of Italy, has a commercial return that is 16 times higher than Italy's; and
- the return achieved by cultural assets in France and UK is between four and seven times that of Italy.

Given the richness of Italian culture, there is an enormous untapped potential for growth. The huge value of Italian cultural assets (monuments and territories) is confirmed by a survey of the Chamber of Commerce of Monza and Brianza (Northern Italy) which tested some of the most important Italian museum, cultural sites and territories on the basis of 10 parameters related to the attractiveness, the number of visitors, the value of merchandising, the number of people employed. The results are summarised in the next table showing that the Coliseum's brand can be evaluated as about 5% of the whole public debt.

Monument	Brand Value (€ bil.)
Coliseum	91
Vatican museums	90
Milan Cathedral	82
Trevi Fountain	78
Excavations of Pompeii	20
Basilica of St. Mark	16
Uffizi Gallery	12
Total	**389**

Territory	Brand Value (€ bil.)
Chianti hills	4,0
Amalfi Coast	3,5
Riviera Romagnola	2,3
Madonie	2,1
Versilia	2,0
Costa Smeralda	1,5
Salento	1,4
Dolomites	1,2
Brianza	1,0
5 Terre	0,7
Aspromonte	0,5
Monferrato	0,5
Total	**20,7**

Source: Chamber of Commerce of Monza and Brianza

1.6 The logistics platform for development in Southern Italy

The geographical location of Italy allows for connections to develop towards Asia, the Middle East, Africa and Europe. In fact, Italy is located at the heart of these key markets, with around 800 million consumers.

National logistics equipment is based on a wide set of infrastructures and logistics:

- more than 6,500 km of operative highways (with a huge plan of expansion already approved);
- around 21,500 km of national roads;
- 24,216 km of rail network (some of them High Speed);
- 3 HUB ports (Cagliari, Gioia Tauro and Taranto);
- 21 first level commercial ports;
- 2 intercontinental HUB airports (Rome and Milan); and
- 25 freight villages.

However, Italy suffers a high degree of fragmentation of its infrastructure and a low degree of intermodal integration.

Logistics in North of Italy are much more developed and integrated than in the South. This situation is also due to the fact that the North of the country is closer to the European big markets, such as Germany and France, and for the same reason: the growth of manufacturing businesses and the economy in general proves to be easier in the North of the country.

Notwithstanding, the South of Italy has a great potential for growth because of:

- the geographical position in the middle of the Mediterranean Sea;
- the incoming rise of trades among Europe and North Africa, and
- the implementation of a European corridor for business flows.

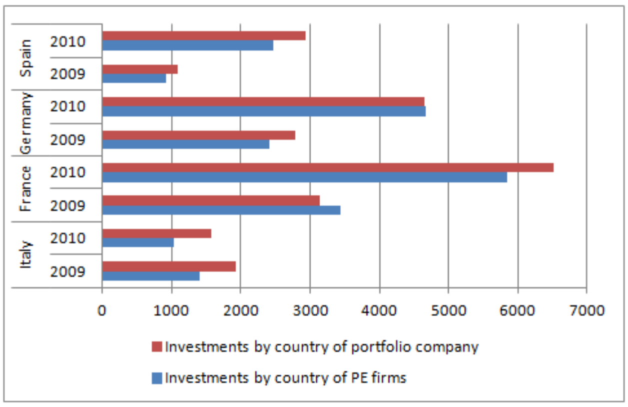
For the South of Italy, therefore, logistics may represent and become as important as oil extraction in Gulf countries.

1.7 A developed financial system

(A) The Private Equity industry

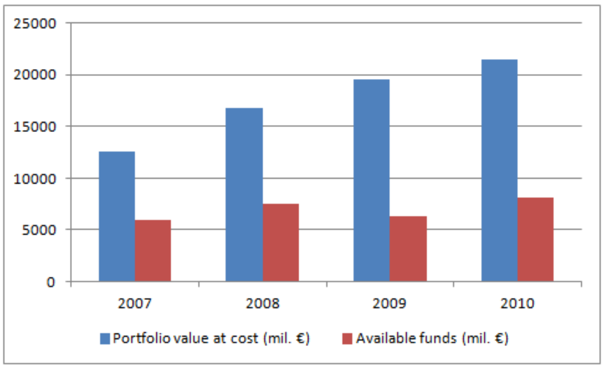
Despite prejudices and difficulties related to its legal legacy, private equity is developed in Italy:

- The size of the domestic industry (amount raised and investments) is lower than in other European countries.



Source: AIFI (Italian Private Equity and Venture Capital Association)

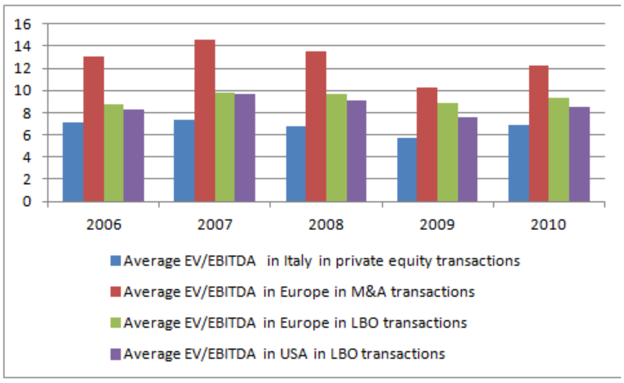
- The number of Italian private equity operators increased over time and, after the rush of the pre-Lehman crisis and the subsequent shrinking of the arena, it has now consolidated into a number of well focused and locally active players.



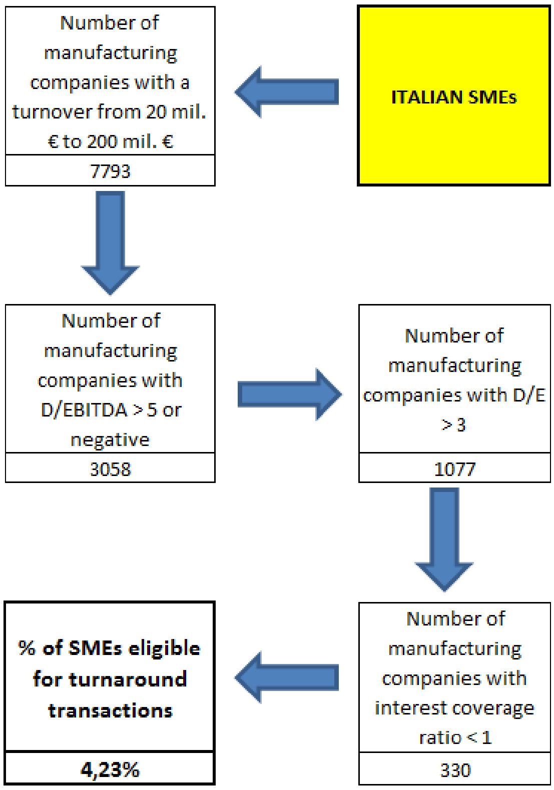
Source: AIFI

- In particular, in Italy there are different kinds of operators, such as:
    - private equity firms (or managers of domestic funds);
    - early stage funds and venture capital funds;
    - Government or publicly funded investment schemes;
    - Banks; and
    - Pan-European funds.

(B) Favourable multiples as opportunities for PE investors



Source: Roland Berger, Bain Cuneo, Credit Suisse, Private Equity Monitor



Source: AIFI

Multiples used in private equity transactions depend on many variables. In Italy, multiples are lower than in Europe or in USA.

Turnaround is still a niche of the whole industry, but there are many companies, especially SMEs, that are operating in a phase of "financial stress" and may eligible for transactions.

(C) The Italian way of Private Equity

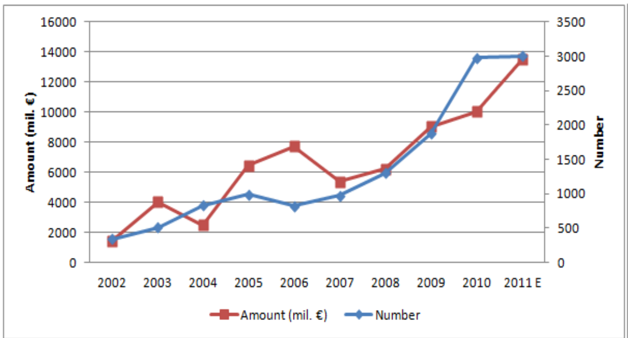
Compared to other countries (in particular, Anglo-Saxon countries), private equity has developed and is still developing differently in Italy:

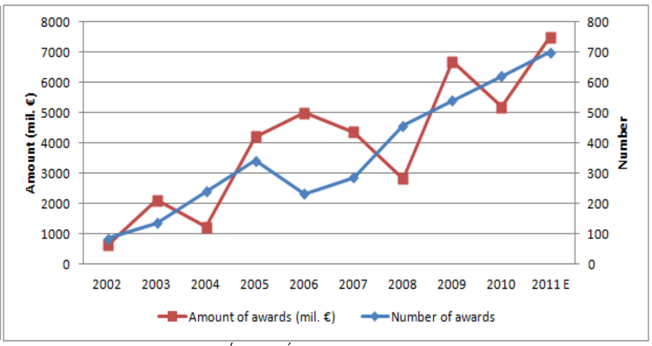
- buy-out deals are usually focused on unlisted companies, family businesses, and highly leveraged firms;
- personal and informal relationships, combined with local distinctive skills and expertise, are vital for a successful deal;
- in expansion deals, private equity operators are used to buy a minority stake;
- the process adopted by companies to select a private equity investor is aimed at identifying a "partner" rather than obtaining the best and highest valuation of the company.

(D) The development of PPP in Italy

Italy can be considered one of the most experienced markets for PPP project development in Europe and Government budget restrictions and the lack of big foreign investors have forced public entities, private companies and banks to get together and find innovative solutions.

Between 2002-2011 more than 13,600 calls for tenders were issued, with a value totalling EUR 66 billion. According to awards in the same period, more than 3,600 deals were recorded to a value of about EUR 40 billion (the Italian market is so big that more of 50% of calls for tender issued do not lead to a final agreement).





Municipalities are the more active subjects in PPP deals in Italy, but the average amount per deal is the lowest among issuers.

According to the sector breakdown, transportation and utilities (water, gas, energy and telecommunications) are the most important sectors in terms of amount.

Kind of issuer	Number of calls for tender 2002-2010	Amount of calls for tender 2002-2010
Municipalities	8.686	15.845
Other local entities	915	10.216
Special agencies	335	15.291
Public health	316	4.119
Other	365	7.306
Total	***10.617***	***52.777***

	Number of call for tenders 2002-2010	*Number of call for tenders with known amount2002-2010*	VAlue of call for tenders 2002-2010 (mil. €)	Number of awards 2002-2010	*Number of awards with known amount2002-2011*	Value of awards 2002-2010 (mil €)
Water, gas, energy, telecommunications	**1.884**	*1.190*	12.898	**640**	*490*	7.739
Marinas	**189**	*56*	927	**35**	*31*	631
Street furniture and public green	**2.397**	*1.371*	718	**419**	*309*	229
Cultural heritage	**47**	*23*	65	**6**	*3*	5
Multipurpose centers	**75**	*51*	262	**32**	*26*	214
Cemetaries	**557**	*480*	1.283	**271**	*241*	982
Trade and crafts	**951**	*655*	902	**185**	*151*	416
Business centers	**17**	*16*	267	**10**	*10*	217
Urban sanitation	**90**	*61*	833	**42**	*33*	607
Sports	**1.751**	*1.185*	1.501	**382**	*312*	972
Parking	**701**	*532*	2.008	**296**	*244*	1.428
Rehabilitation of urban assets	**315**	*148*	2.038	**88**	*82*	1.141
Health sector	**312**	*257*	4.629	**144**	*132*	3.546
School sector and social sector	**280**	*236*	660	**135**	*128*	386
Leisure	**272**	*170*	430	**51**	*43*	265
Transportation	**107**	*72*	22.422	**36**	*32*	12.966
Tourism	**405**	*295*	252	**63**	*51*	69
Other	**267**	*146*	682	**90**	*77*	409
Total	***10.617***	***6.944***	***52.777***	***2.925***	***2.395***	***32.222***

Source: National Observatory on Project Finance

(E) The Italian Stock Exchange

Borsa Italiana is the Italian Stock Exchange, which is part of the London Stock Exchange (LSE). Borsa Italiana has a wide and developed offer system for companies and issuers of securities and involves:

- 328 listed companies;
- 752 listed ETP; and
- 1040 fixed income listed securities.

According to 2012 data, Borsa Italiana is ranked:

- first at European level for turnover velocity;
- first for ETFs trades; and
- first for fixed income trades and turnover.

The Italian Stock Exchange markets offer:

- international members and global investor base;
- the most liquid market in Europe;
- top-ranked market in dividend yield;
- the fastest trading platform; and
- efficient and low-cost trading and post-trading services.

These features have recently attracted the first settlement in Italy by Dagong Credit Rating Co. Ltd, the Chinese credit rating agency specialising in the issuing of credit ratings with respect to corporate bonds, financial bonds, structured finance bonds (and any other services or activities instrumental or ancillary therewith), which established its subsidiary, Credit Rating Europe S.r.l., in Milan for the launch and development of its credit rating business in the European markets.

2 Investment opportunities

2.1 Infrastructure

Italy has a well developed infrastructure system, but it needs to be improved and modernised.

The following projects (some of them already approved by the Government and/or funded) may present interesting opportunities for foreign investors:

- highway improvement projects;
- high speed railways;
- retractable underwater barriers to help protect Venice from flooding (so called Mose); and
- intermodal and terminal container management, establishment of warehouses in freight villages and intermodal centres, creation of European distribution centres in logistics areas, logistics real estate, etc.

2.2 Public private ventures

The pressure of Italian high debt-to-GDP ratio is limiting the Government's desire to stimulate investments directly and public entities are also under pressure from law and regulations to reduce their participation and interests in companies.

Sectors where opportunities might present themselves are:

- energy, water and gas distribution systems;
- waste disposal and recycling;
- remote heating;
- local public transport; and
- sewage management.

2.3 Services

Recent surveys indicate that trade and services to individuals and companies (the service industry) represent the most interesting areas of development. Opportunities for foreign investors may be found in:

- facility management services;
- wholesale, cash & carry, retail distribution and trade;
- social and personal services; and
- R&D development.

The current Government is implementing a process of liberalisation of business activities and reduction of bureaucracy, which will simplify "doing business" in the country.

2.4 Financial institutions

The Italian Government is substantially open to foreign investors and to sovereign funds wishing to invest in shares of Italian banks.

In Italy, the Government (unlike Germany, France and Spain) was not required to support its financial institutions during the recent financial crisis (Italian banks have always been solid and have always shown strong fundamentals).

On the whole, Italian operators conduct the majority of their businesses locally so they have the potential to increase their presence abroad.

Some of the most important banks are owned by foundations or charity institutions that, in the near future, will not be able to fund the growth of their own financial institutions.

2.5 Healthcare and education

In Italy, the State manages almost all of the healthcare and education sectors.

Education – opportunities for investors:

- establishment of for-profit colleges and universities;
- development of a system of adult education and training;
- development of continuous learning projects.

Healthcare – opportunities for investors:

- healthcare sector as a whole represents a great opportunity for investments in Italy.

2.6 Tourism and leisure

Italy is one of the world's preeminent destinations for leisure or business travel. In fact, Italy is:

- First among EU countries for accommodation capacity;
- Third among EU countries for arrivals;
- Fourth in world country rankings for currency earnings;
- Fifth in world rankings for arrivals of travellers into Italy.

Italy has the widest and the most various artistic and cultural heritage, natural beauty and variety of products in the world. The great potential in terms of tourist flows and investment opportunities is therefore hard to quantify.

2.7 Environmental sector

One of the weaknesses of Italy is certainly the lack of raw materials and, in particular, of sources to generate electric power.

In 2010, Italy experienced a boom in "clean energy" investments, ranking fourth in the world, behind only China, the USA and Germany.

Foreign investors may find great opportunities in such market segments:

- agro-energy;
- water treatment and filtration;
- recycling – energy efficiency;
- waste;
- pollution control; and
- biomass – building.

2.8 Privatisation

The Italian Government is committed to reduce the public debt. This will mean a new cycle of privatisation will start involving both central and local entities.

The Italian Central Government still owns significant holdings, or the entire ownership, in many big companies.

Local entities own a great number of companies, most of them in the service sector: such as power, airports and intermodal hubs, water, utilities, etc.

A very conservative estimate of the potential revenues from privatisation of municipally-owned companies and the largest companies (many of them are already listed) is about EUR 200 billion.

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