Italy: We are Open for Business
Italy Meets The United States of America

New York, 10 February 2015
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Structural reforms in Italy: a change of pace
Structural reforms in Italy: a change of pace

Regulatory systems have always been a sort of an Achilles heel in Italy but in the last few years the Italian Government started taking serious steps to modernize and re-launch the country.

Below are a few of the most interesting reforms that can favor both the economy and investments.

"Investment compact“

Jobs and labor

Tax

The Digital agenda

Spending review

Legal processes
Investment attractiveness in Italy

In the last years, national and foreigners investors have found Italy less attractive than other countries. In the 2014-2015 Global Competitiveness Rank, Italy is 49 out of 144 countries\(^1\) and it is 56 out of 189 economies in the ease of doing business rank\(^2\).

But the wind is changing. The current government is renewing the trust in our economic system and recent reforms are making doing business easier; changes in political and regulatory systems are positively affecting FDI (Foreign Direct Investment) inflows:

- in the first quarter 2015, for example, real estate investments grew by 16% vs 2014\(^3\); similar trends are reported for other “made in Italy” sectors such as fashion, manufacturing, logistic, and electronic;
- the biggest global investment funds are increasing their shares in the Italian market: BlackRock invested €20,8 billions in the Milan stock exchange (almost the double compared to few years ago), Vanguard Group €7,94 billions, Capital Group Companies € 6,59 billions\(^4\);
- after almost ten years, Italy is within the first 25 destinations that investors will look at in the upcoming years\(^5\).

The investment attractiveness is one of the main issues that the Italian Government is facing and the recent “Investment Compact act” demonstrates its commitment on making Italy open for business.

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2 World Bank Group, “Doing Business 2015 - Going Beyond Efficiency”  
3 Source CBRE, Real Estate global leader  
4 Source Borsa Italiana  
5 A.T. Kearney, “The 2014 Foreign Direct Investment Confidence Index”
Investment compact act (1/3)

The Investment Compact act (DL 45/2015 - Urgent measures for the banking system and investments) is a recent regulation approved by the Italian Government aiming at:

- **reassuring investors** (especially from abroad);
- **fostering the development SMEs** (Small and medium-sized enterprises);
- **promote innovation** and R&D.

The investment compact assumes an investment re-launching process driven by:

- **reform of the banking system**;
- introduction of an ‘**Innovative SMEs’ category’;
- **creation of a "service company"** for restructuring and financial supporting companies in temporary capital and financial distress;
- **extension of the tax exemption**.
1. **Reform of the banking system**

Italian “popolari” co-operative banks with assets exceeding 8 billion € must become Limited companies within 18 months; this action preserves the role of small banks with territorial vocation and adapts the governance of the major “popolari” co-operative banks to the ordinary model.

2. **Creation of a capitalization and Investments Service Company**

Creation of a “Service company” aimed to the capitalization, corporate restructuring and industrial consolidation of Italian companies in temporary capital and financial distress, but characterized with a positive industrial and economic outlook. Investors will be both institutional and professional, with a 7-10 years investment length period.

3. **Payment account portability**

Banks and payment service providers must guarantee the free portability of a payment account within predefined deadlines. In case of non-compliance with the terms, the bank or the payment service provider must refund the customer in proportion to the delay and to the outstanding volume of the payment account at the time of the portability request.

4. **New Italian Public Export-Import Bank**

SACE, the joint stock company totally owned by the Italian Ministry of Economy and Finance specialized in providing export credit guarantees and insurances, could now establish itself as Banking Institution and directly provide financial aids. In compliance with international laws, this establishment is subject to authorization of Italian Central Bank.

**MAIN IMPACTS**

- The voting right will depend on the amount of shares hold
- Increased market contestability and consolidation of the banking system
- Sustain high potential companies in temporary distress and fix the «traditional» Italian companies’ undercapitalization
- Increased competition in the banking system based on pricing and services provided
- Strengthen the support of exports and internationalization of the Italian economy
5. Introduction of the “Innovative SMEs” cluster

Audited and not listed SMEs, characterized by a considerable innovation grade (high R&D expenditure, highly qualified workforce, etc.) can benefit from the measures addressed to innovative start-up companies: tax benefits for investors, possibility to raise capital through web crowd-funding, stock options and work-for-equity as remuneration for employees.

6. Extension of «Patent Box» tax exemption to Trademarks

The “Patent Box” tax exemption addressed to incomes from exploitation of intangible assets, patents and intellectual property is now extended to trademarks and exploitation of intellectual property developed and managed among companies of the same group.

7. Tax benefits for capital investment of SMEs

SMEs investing in capital goods (such as machinery, equipment, plants, etc.) through banks’ and financial intermediaries’ autonomous funding can now take advantage from the tax-benefits addressed to loans granted using State funds.

8. Tax relief in favor of loan funds

Extension of the tax exemption on revenues generated from non-leveraged funds only to all kind of funds. Foreign institutional investors, operating in "white list" countries and under banking supervision, can now participate indirectly as lenders and benefit from the tax exemption on revenues.

MAIN IMPACTS

Increase attractiveness of innovative SMEs by incentivizing financial investors and attract / retain high qualified personnel.

Attract high qualified R&D investments and enhance intangible assets, industrial designs and trademarks.

Increase the number of SMEs beneficiaries of tax benefits and simplify / quicken the whole disbursement loans process.

Increase the attractiveness for foreign investors.

Align Italian legislation to other European Countries (i.e. Germany or France).
Impact of the Investment compact act and other measures

The “Investment compact act” is only one out of 50 measures included in the wider “Destination Italy” program, a multidimensional framework aiming at:

- making the whole lifelong investment cycle easier;
- valuing national assets;
- investing in people in order to become the “country of big talents”;
- creating an economical diplomacy to promote Italy worldwide.

According to Bank of Italy, all these interventions will have a positive impact the Gross Domestic Product:

- +0,4% in 2015
- +1,6% in 2016
The JOBS ACT, i.e. the 2015 labor market reform, is aimed at making the Italian work environment more aligned to the flexibility that is needed in today's economic global landscape with the urgency of a full recovery of the employment rate and a better foreign investment attraction.

The JOBS ACT’s key points are:

- **deregulation of dismissal regime** (i.e. indemnity for wrongful dismissal in lieu of the reinstatement);
- **deregulation of fixed-term contracts**;
- **significant tax/social security contribution breaks** for employers that offer permanent job contracts;
- **job seekers** reallocation by improving private and public labor market institutions;
- promotion of **firm-level collective bargaining**.

Figures provided by ISTAT (Italian National Statistics Institute) show that the reform has already helped by creating 100,000 jobs in December 2014, with the overall month-on-month number of unemployed people having decreased by 3.2%, while youth unemployment rate was down 1% over the same period.
Focus on: Labor cost

Eurostat figures on the cost of labor, which include number of employees, social contributions and wages, show that Italy from this perspective is quite attractive since the country’s cost of labor, while higher than Eastern Europe countries, is significantly lower than other Western economies, like Germany and France.

<table>
<thead>
<tr>
<th>INDIC_SB</th>
<th>Personnel costs</th>
<th>Wages and Salaries</th>
<th>Social security costs</th>
<th>Number of employees</th>
<th>Wage per employee</th>
<th>Social security as a % of labor cost</th>
<th>Labor cost per employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norway</td>
<td>17,615.1</td>
<td>14,373.6</td>
<td>3,241.5</td>
<td>226,194</td>
<td>63.5</td>
<td>18.4%</td>
<td>77.9</td>
</tr>
<tr>
<td>Sweden</td>
<td>37,157.0</td>
<td>25,459.2</td>
<td>11,697.8</td>
<td>584,438</td>
<td>43.6</td>
<td>31.5%</td>
<td>63.6</td>
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<tr>
<td>Belgium</td>
<td>29,483.9</td>
<td>21,263.9</td>
<td>8,220.0</td>
<td>490,808</td>
<td>43.3</td>
<td>27.9%</td>
<td>60.1</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>1,847.7</td>
<td>1,604.1</td>
<td>243.6</td>
<td>33,838</td>
<td>47.4</td>
<td>13.2%</td>
<td>54.6</td>
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<tr>
<td>Netherlands</td>
<td>34,992.8</td>
<td>28,084.4</td>
<td>6,908.3</td>
<td>648,400</td>
<td>43.3</td>
<td>19.7%</td>
<td>54.0</td>
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<td>Austria</td>
<td>31,237.1</td>
<td>24,496.7</td>
<td>6,740.4</td>
<td>597,132</td>
<td>41.0</td>
<td>21.6%</td>
<td>52.3</td>
</tr>
<tr>
<td>France</td>
<td>151,326.1</td>
<td>104,492.4</td>
<td>46,833.7</td>
<td>2,933,286</td>
<td>35.6</td>
<td>30.9%</td>
<td>51.6</td>
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<td>Germany</td>
<td>352,171.2</td>
<td>290,555.1</td>
<td>61,616.0</td>
<td>6,995,407</td>
<td>41.5</td>
<td>17.5%</td>
<td>50.3</td>
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<td>Finland</td>
<td>17,583.6</td>
<td>14,148.9</td>
<td>3,434.7</td>
<td>352,174</td>
<td>40.2</td>
<td>19.5%</td>
<td>49.9</td>
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<td>Ireland</td>
<td>7,834.5</td>
<td>6,568.0</td>
<td>1,266.5</td>
<td>157,078</td>
<td>41.8</td>
<td>16.2%</td>
<td>49.9</td>
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<td>Denmark</td>
<td>17,414.2</td>
<td>15,660.1</td>
<td>1,754.1</td>
<td>354,183</td>
<td>44.2</td>
<td>10.1%</td>
<td>49.2</td>
</tr>
<tr>
<td>Italy</td>
<td>130,843.1</td>
<td>92,945.3</td>
<td>37,897.8</td>
<td>3,306,745</td>
<td>28.1</td>
<td>29.0%</td>
<td>39.6</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>94,879.8</td>
<td>79,852.6</td>
<td>15,027.2</td>
<td>2,445,641</td>
<td>32.7</td>
<td>15.8%</td>
<td>38.8</td>
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<tr>
<td>Spain</td>
<td>63,218.0</td>
<td>48,979.5</td>
<td>14,238.5</td>
<td>1,704,016</td>
<td>28.7</td>
<td>22.5%</td>
<td>37.1</td>
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<tr>
<td>Greece</td>
<td>6,937.3</td>
<td>5,402.1</td>
<td>1,535.1</td>
<td>271,434</td>
<td>19.9</td>
<td>22.1%</td>
<td>25.6</td>
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<tr>
<td>Slovenia</td>
<td>4,041.2</td>
<td>3,501.6</td>
<td>539.6</td>
<td>180,722</td>
<td>19.4</td>
<td>13.4%</td>
<td>22.4</td>
</tr>
<tr>
<td>Cyprus</td>
<td>657.2</td>
<td>561.0</td>
<td>96.2</td>
<td>30,346</td>
<td>18.5</td>
<td>14.6%</td>
<td>21.7</td>
</tr>
<tr>
<td>Portugal</td>
<td>10,346.3</td>
<td>7,924.8</td>
<td>2,421.5</td>
<td>610,759</td>
<td>13.0</td>
<td>23.4%</td>
<td>16.9</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>17,415.9</td>
<td>12,801.7</td>
<td>4,614.2</td>
<td>1,075,167</td>
<td>11.9</td>
<td>26.5%</td>
<td>16.2</td>
</tr>
<tr>
<td>Slovakia</td>
<td>5,789.4</td>
<td>4,374.7</td>
<td>1,414.7</td>
<td>390,371</td>
<td>11.2</td>
<td>24.4%</td>
<td>14.8</td>
</tr>
<tr>
<td>Estonia</td>
<td>1,387.7</td>
<td>1,035.2</td>
<td>352.5</td>
<td>101,991</td>
<td>10.1</td>
<td>25.4%</td>
<td>13.6</td>
</tr>
<tr>
<td>Hungary</td>
<td>8,469.2</td>
<td>6,749.7</td>
<td>1,719.5</td>
<td>644,755</td>
<td>10.5</td>
<td>20.3%</td>
<td>13.1</td>
</tr>
<tr>
<td>Croatia</td>
<td>2,977.4</td>
<td>2,520.8</td>
<td>456.6</td>
<td>251,009</td>
<td>10.0</td>
<td>15.3%</td>
<td>11.9</td>
</tr>
<tr>
<td>Poland</td>
<td>25,605.3</td>
<td>20,885.0</td>
<td>4,720.3</td>
<td>2,161,839</td>
<td>9.7</td>
<td>18.4%</td>
<td>11.8</td>
</tr>
<tr>
<td>Lithuania</td>
<td>1,608.7</td>
<td>1,232.6</td>
<td>376.1</td>
<td>186,348</td>
<td>6.6</td>
<td>23.4%</td>
<td>8.6</td>
</tr>
<tr>
<td>Latvia</td>
<td>955.1</td>
<td>769.7</td>
<td>185.4</td>
<td>115,650</td>
<td>6.7</td>
<td>19.4%</td>
<td>8.3</td>
</tr>
<tr>
<td>Romania</td>
<td>7,207.8</td>
<td>5,665.9</td>
<td>1,541.9</td>
<td>1,156,583</td>
<td>4.9</td>
<td>21.4%</td>
<td>6.2</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>2,335.4</td>
<td>1,958.3</td>
<td>377.0</td>
<td>504,544</td>
<td>3.9</td>
<td>16.1%</td>
<td>4.6</td>
</tr>
</tbody>
</table>

Source: Eurostat 2012 Europe labor costs
Recent tax rules and incentives for foreign investors

In the last two years the Italian Parliament approved new legislation, including tax incentives, specifically aimed at attracting foreign investors.

Among those specific tax incentives, the following are particularly relevant:

the «Destination Italy Decree» (December 2013)

- created a specific desk of the Revenue Agency in order to help and provide information to foreign investors, and
- enhanced the tax ruling procedures, by extending the validity period of the preventive rulings from 3 to 5 years and including also the existence of Italian permanent establishments of foreign companies;

the «Fiscal Compact Decree» (January 2015)

- extended the tax exemption on interest paid by Italian companies to funds based in white-listed jurisdictions (exemption originally introduced in 2014 but limited to non-leveraged EU funds);
- the new rule will enable Italian companies to benefit from financial instruments currently available to their foreign competitors, by aligning the Italian legislation to those of major EU partners like the UK, Germany or France.
On March 27, 2014 the Parliament approved a **broad reform of the Italian tax system**, for a balanced, transparent and pro-growth tax environment.

Under the delegation law, the Government should reform the following areas:

<table>
<thead>
<tr>
<th>Specific Area</th>
<th>Relevance for Foreign Investors</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revision of the real estate register</td>
<td>Low</td>
<td>In Progress</td>
</tr>
<tr>
<td>Estimate and monitoring of tax evasion</td>
<td>Low</td>
<td>In Progress</td>
</tr>
<tr>
<td>Revision of tax expenditures</td>
<td>Medium</td>
<td>In Progress</td>
</tr>
<tr>
<td>Revision of the anti-abuse rules</td>
<td>High</td>
<td>Draft Legislation</td>
</tr>
<tr>
<td>Tutoring/tax risk management systems, revision of installment payment of tax liabilities, revision of tax ruling procedures</td>
<td>Medium</td>
<td>Draft Legislation</td>
</tr>
<tr>
<td>Simplification of tax compliance</td>
<td>High</td>
<td>Final Legislation</td>
</tr>
<tr>
<td>Revision of tax penalties</td>
<td>High</td>
<td>Draft Legislation</td>
</tr>
<tr>
<td>Strengthening intelligence/audit activities</td>
<td>Medium</td>
<td>In Progress</td>
</tr>
<tr>
<td>Revision of tax litigation and local tax collection rules</td>
<td>Medium</td>
<td>In Progress</td>
</tr>
<tr>
<td>Revision of income tax rules, with simplified systems for smaller taxpayers</td>
<td>Low</td>
<td>In Progress</td>
</tr>
<tr>
<td>Rationalization of corporate tax rules, including deductibility of specific costs and cross-border operations</td>
<td>High</td>
<td>In Progress</td>
</tr>
<tr>
<td>Rationalization of VAT and other indirect taxes</td>
<td>Medium</td>
<td>In Progress</td>
</tr>
<tr>
<td>Revision of rules on public games</td>
<td>Low</td>
<td>In Progress</td>
</tr>
<tr>
<td>Incentives for the green economy</td>
<td>Medium</td>
<td>In Progress</td>
</tr>
</tbody>
</table>
New rules aimed at providing a business friendly (and competitive) tax environment

In December 2014 the Italian Government passed a draft Decree aimed at revising the anti-abuse rules and the tax criminal sanctions.

This new legislation, which is part of the broader reform of the Italian tax system, will have a relevant impact on three issues that are core concerns for foreign investors:

1. more clarity on the “abuse of law” concept used by the tax authorities to challenge tax savings achieved in the context of group reorganizations or acquisition of Italian targets, together with new procedural rules in favor of the taxpayers;

2. higher thresholds for the criminal liability of the directors of Italian companies in case of tax violations by these latter (the criminal liability is excluded in case of anti-abuse challenge);

3. stricter rules for the tax authorities to enforce the longer statute of limitations in case of tax criminal violations (the ordinary five years’ term will be doubled only if the tax criminal violation is notified to the prosecutor before the expiration of the ordinary term).

The draft legislation is expected to be finalized shortly, once the competent parliamentary commission will issue its technical opinion.
New tax incentives available also to foreign investors

Other tax incentives, provided by the 2015 Stability Law and the recent «Investment Compact Decree», available also to foreign investors, are:

- **Patent box** – a five years’ elective regime will grant a partial tax exemption on income derived from qualifying intangible assets (patents, know-how, trademarks) as long as the Italian company performs R&D activities;

- **New R&D tax credit** – enhanced for the years 2015-2019, with the elimination of any access limitation based on turnover (it was 500M euro at group level) and a doubled cap amount (from 2.5M to 5M euro per year);

- **Full deductibility** from the IRAP (local tax) taxable basis of labor cost for employees hired on a permanent basis;

- **Extension of the tax incentives** provided for the «technological start-ups» to the «innovative SMEs» (companies with R&D expenditure higher than 3% of revenues and/or cost of production, more than 20% of personnel is «highly qualified», and owning or being licensed one or more patents or software rights);

- **Refinancing** of prior tax credits/incentives for the purchase of industrial equipment («Nuova Sabatini» and «Tremonti-quater»).
Going digital is a trend that represents positive change and in Italy digital can offer investors an environment where doing business is easier, faster and, above all, profitable. To deliver change in a structured and effective way, the Agency for Digital Italy was created and recently designed the ‘Italian Strategy for the Digital Agenda 2014-2020’, which primarily focuses on:

- the all-encompassing nature of digital and the need of cohesion at local, regional, national and supranational levels;

- the need to understand that the digital agenda is a real industrial plan for the country;

- awareness that infrastructural improvements are needed;

- a firm belief that digital policies need adequate regulations and fertile ecosystems to develop infrastructural and social networks.
In the Agency’s official paper, Innovation and ICT go hand in hand and digital will unavoidably make its way into the Public Administration as well:

- with **economic processes** (the development of ICT-based productive capacity, knowledge economy and start-ups, smart cities and communities, strategic agriculture, social entrepreneurship, etc.);

- with **social processes** (digital citizenship, support to community processes for the production of mutual goods, social innovation, crowdsourcing and crowdfunding, etc.);

- with **institutional and administrative processes** (e-government, digital identity, interoperability framework, institutional simplification, related services, information systems to support regional and inter-regional policies).
Legal system

Unfortunately, Italy does not place well in global rankings that take into consideration the legal system and corruption.

The reform, however, targets this issue through:

- the creation of an anti-corruption Authority, with a minimum penalty of 4 to 6 years and a maximum penalty of 8 to 10 years for people convicted of corruption;

- cutting down by half the time for civil lawsuits, lasting no more than 1,000 days, and one year total in first instance;

- the immediate confiscation of goods for people convicted of corruption, as already done for mafia-related crimes, and complete repayment.
FDI – Providing certainty to investors

CERTAINTY OF TAXATION

- Closer collaboration between Italy's Revenue agency and investors. Tax agreements and dedicated desk
- Tax credits for research & development expenses
- Extensive cuts to the tax wedge
- Lower taxes on young people salaries

CERTAINTY OF RULES

- Creation of specific Business Courts for foreign investors
- Simplification of Court proceedings
- Review of the abuse of rights

CERTAINTY OF PROCEDURES

- Simplification of authorization procedures
- Facilitated financing for SMEs including through access to capital markets
- Dedicated visas for investors, researchers and foreign students
- Reform of "Conferenza dei servizi", which approves all major authorization procedures for industrial plants
- Facilitate real estate investments through simplification of procedures
Corporate stability and household wealth: winning factors for Italy
The macroeconomic scenario in Europe…

Europe is in deflation, with prices falling -0.2% in December 2014. European Central Bank is launching a €60bn-a-month quantitative easing program in a bid to save it from the low-growth crisis: A scheme similar to that already employed by the US and UK.

The program will see €60bn-a-month of bonds purchased until September 2016, with the aim of lifting inflation back towards the ECB's 2 per cent target.

By buying up the Eurozone nations' government bonds, the ECB will inject extra money into the financial system.

The continental economy is expected to grow:*  
- +1.2% in 2015, up from 0.8% in 2014  
- +1.6% in 2016-2018. This is due to:  
  - a weakening euro  
  - easing fiscal austerity  
  - more certainty in the banking sector  
  - sharply lower oil prices

...and in Italy

Export, eased by a weaker euro and the recovery of countries like USA or UK, will experience more limited growth:*
- +0.1% in 2015
- +1.0% in 2016-2018

Italian export, on the other hand, will grow more:
- +2.3% in 2015
- +3.3% in 2016-2018

According to the Bank of Italy, overall growth could be higher: +0.4%, while Confindustria (main Italian association of companies operating in manufacturing and services) expects a highly positive incidence of the \textit{quantitative easing} by the ECB, with a GDP growth of 0.8% in 2015 and of 1% in 2016.

Italy is a founding member of the Eurozone and the strong will to remain within its monetary boundaries gives Italy's economy solidity and strength in the global market. It has been calculated that abandoning the Eurozone, like a few radical parties sometime suggest, would have an impact of 2,000 billion euros lost for households and corporates. The effect on bank accounts, financial activities, State bonds and loans would be equally devastating.

What's more, supply chains are nowadays a global and irreversible process, and playing a leading role implies staying in the Eurozone.

Highlighting Italy's winning factors

Some factors can increase Italian attractiveness in the eyes of investors:

- Italy is Europe’s **second manufacturing** economy and **number five globally**

- **Strongest increase** in the balance of trade in the first six months of 2014 among EU countries: +5.6%

- Net wealth of Italian households is **eight times that of their disposable income**

- Leverage on Italian households is relatively low, and half as leveraged as in the UK (82% vs. 160% of their income)

- Best primary surplus/GDP ratio in the EU: +2.5%

- **Spread BTP Italy/Bund 10 plummeting**, from 194 in February 2014 to 133 in January 2015
Manufacturing: when quality wins

Italy is the second largest manufacturing economy in Europe and the fifth in the world, and has a manufacturing surplus of over 100 billion dollars, ranking it slightly behind China, Germany, Japan and South Korea, while putting it ahead of France, UK and USA.

The Italian economy has not taken a negative hit from globalization and has maintained 71% of its overall export from 1999, just like the USA. Overall export in Japan slipped to 67%, France to 61% and UK to 55%. Only Germany scored better, maintaining a 94% export rate. [source: Fondazione Edison].

Italian corporations are among the most competitive in the world. In 2012, 935 different Italian products ranked first, second or third in foreign trading from an overall number of 5,117 [sources: Istat, Eurostat, Un Comtrade].

Even for sectors that are not traditionally considered as “Made in Italy”, there still are, of course, champions and best practices, such as, for example in Pharma industry, where Italy achieved the largest growth in the World for export since 2010.
SMEs: opportunities for growth

The on-going reforms and the winning factors presented here represent a huge opportunity for Italian Small and Medium Enterprises to thrive outside the local market. SMEs are the backbone of the Italian economy; when they grow, the whole country grows.

SMEs can achieve growth by increasing their size, and a favorable business environment drives investments, accelerating the consolidation process in some sectors where it is more needed. "Small" is good but it is also a limit that, where possible, should be overcome, allowing Italian companies to reach the critical mass necessary to compete globally.

On the other hand, if a company does not grow in terms of size, it can dramatically increase its presence abroad and its revenues in global markets by adopting the ongoing revolution that is reshaping business: digital. Digital cuts down costs and distances, providing a competitive advantage to those who are able to leverage on it.
Italy could possibly boast the strongest balance of trade increase in the Eurozone in the first six months of 2014: +5.6%, which is an incredibly good result given that a large portion of our energy for consumption is imported.

Export is growing, Made in Italy continues to be appreciated and welcomed worldwide.

In the period from September to November 2014 exports towards non-EU countries grew by 3.2%, as well as in every sector, with the exception of Energy (-1.6%). Sales of instrumental goods are experiencing an even greater expansion: +7.8%.

Overall export month-on-month growth was 2.6% in November 2014 and, in particular, durable consumer goods (+6.7%) and instrumental goods (+6.0%).

Exports towards non-EU countries
(Sept-Nov 2014)

↑+3.2%
Made in Italy: a driving force in the market

In November 2014 balance of trade was €2,715 billion (up from €2,343 billions in November 2013) and surplus in the trade of non-energetic goods was €5.6 billion.

Italian trade’s most dynamic destination markets are ASEAN (+19.7%), USA (+15.0%), and the DAE countries (Dynamic Asian Economies, +8.7%). The strong expansion in these markets contrasts with a decline of sales in Russia (-23.2%), Japan (-19.6%) and MERCOSUR (American Southern Common Market, -8.1%).

Imports from Russia (-23.6%) and OPEC countries (-6.7%) are declining significantly as well.
Case - The pharmaceutical industry in Italy, a valuable asset for the Nation

Pharmaceutical manufacturing overall value (€ billion)

About **200** companies producing medicines and vaccines and **100** for active ingredients

**62,300 direct employees** and **64,000** more in upstream sectors

**€ 28 billion of manufacturing value**, of which 71% for export (€20 billion)

**€ 2.3 billion invested each year**, of which €1.2 in R&D and €1.1 in hi-tech machinery

**Worldwide excellence in upstream sectors**, especially in machinery and packaging

Source: Istat, Eurostat, EfpiA
Italy is a European and Worldwide hub for pharmaceutical industry

Pharmaceutical export growth: 2010-2013 (USD billion)

Italy ranks 1st in the world for medicines and vaccines export growth 2010-2013. In 2014 still growing more than EU

Italy ranks 1st in Europe for industrial activity of US pharma companies, in terms of employees, production value and investments

Source: Fondazione Edison, Eurostat
R&D Italian excellence, with special focus on biotech and clinical studies

Biotech: position of Italy as for the top 10% most quoted publications

Italy among the top 10 countries in the world for biotech scientific publications

Italy ranks 6th in the world for number of clinical studies, representing 17.2% of total EU (16.5% in 2009)

Source: ONBB, clinicaltrials.gov, Aifa
Household wealth: an antidote to the crisis

Italian households are struggling in terms of income and jobs, even if capital strength is very high, due to a historical tendency towards savings and real estate investments.

Despite a constant decline in the real estate market, the average net wealth of Italian households in 2013 was eight times their disposable income, the same wealth rates in Italy at the end of the 1990s. Wealth rates are also similar in France, Japan and UK, and higher than in Canada, Germany, and the USA.

It is also worth noting a trend that is seeing shifts in real estate investments to stocks and corporate bonds, which can also lead to a larger and more dynamic capital market.
Italian consumers: growth and caution

In Q3 2014 the average household income, at current rates, grew 1.8% from Q2 and 1.4% from Q3 2013.

Keeping in mind current trends in prices:

- in Q3 2014 the buying power of Italian households grew 1.9% from Q2 and 1.5% from Q3 2013;

- households did not incur additional expenses, at current rates, from Q2 to Q3 2014, while they spent slightly more (+0.4%) in the same period in 2013. They are, nonetheless, maintaining a traditionally high savings rate.
Debt: a world leader…

For historical and cultural reasons, as well as a particular financial system, Italian households have experienced low leverage rates – 82% of their net income.

This results in greater liquidity and overall expenditure capacity and can greatly contribute to lowering aggregate debt (State, households, corporates). From this perspective Italy is one of the less leveraged countries in the world, according to the Bank of Italy: 261% of GDP vs 412% in Japan, 305% in Spain, 284% in UK and 264% in USA.

Italy is the country of the Eurozone with the largest share of government debt held by residents: 64.4% of the total, compared to 37.6% in Germany, 37.1% in France, 56.6% in Spain, 42.5% Netherlands, Belgium 37.0%, Austria 23.2%, Finland 15.9%, Greece 14.1%, Portugal 28.6%, and Ireland 36.5%.*

*Source: Banca d’Italia Financial Stability Report n.2 2014
...and a European example

Over the past few decades Italy has done an excellent job in containing the rise in debt. According to Eurostat, aggregate debt to GDP in Italy grew by 61% from 1995 to 2012, while in France aggregate debt grew by 81%; in the UK by 93%; and in Spain by 141%.

From the beginning of the Nineties and up to today, according to the European Commission Italy’s ‘market share’ of Eurozone public debt has constantly declined, from 28.7% in 1995 to 22.1% in 2013.
Recent spending review policies have led to a virtuous result of +2.5%, which implies Italy’s ability to sustain a higher level of interests on public debt and, most likely, reduce debt levels.

Public expenses haven't grown in the last few years, and there's still room for cutting costs in several sectors. The current Government, in fact, is focused on reducing costs by 3% of the grand total.

Last September, the Prime Minister spoke about reducing Government expenses by acting on Ministries’ budgets with the following cuts:

- Ministry of Economic Development: €400 million
- Defense: €60 million
- Justice: €300 million
- Infrastructure: €400 million
- Economy: €530 million
A few years ago “BTP Italy/Bund 10” ratio was, for several months, the most tangible and worrying sign of low economic confidence towards Italy. The BTP-Bund spread peaked at 468 points at the end of 2011. However, substantial changes in the political and regulatory scenario has caused it to drop to 194 points in 2014 and 133 points in January 2015.

Therefore, those dark times when the spread was the cause of fear for international investors are now over. Italy has regained its balance and relays to investors a message of solid stability and ability to pay back its debt.
M&A, Italy-USA relations and opportunities for investors
More confidence in the economic outlook

As seen so far, Italy undoubtedly presents several motivating factors to attract potential investors. One of the top factors is the positive outlook of Italian managers, as stated in the latest EY Capital Confidence Barometer, which is issued every six months:

- 34% of Italian companies plan to make an acquisition in the next 12 months;

- according to 4 companies out of 10, the M&A market is growing;

- confidence towards the global economy is growing: 58% of Italian companies see the economy improving over the next 6 months, which reflects their increasing focus on broader global markets;

- in Italy, the main driver of an acquisition is access to new technologies/intellectual property (47%) and the opportunity of increasing market share in existing geographies (42%);

- three BRICs (China, India and Brazil), together with the USA and France remain the most favored investment destinations for Italian companies outside local markets.
A lively M&A market

When it comes to M&A, some figures are certainly reassuring and present a dynamic market that is definitively recovering:

- overall M&A activity in Italy grew in the last three years, totaling €24.4 billion in the first nine months of 2014, representing a **27.2% year-on-year increase**;

- 272 deals were announced, up from 239 the year before. This is the **highest level** in the first nine months in any year since 2008 and start of the crisis;

- outbound M&A activity from Italy in Q3 2014 reached its **highest peak since 2007**, with a total of 18 deals valued at €22.5 billion, representing a huge increase over the same period in 2013 (€927 million).*

*Source: Mergermarket Regional Trend Report: Italy, Q3 2014*
Italy-USA: a long-lasting partnership...

Between Italy and the USA, trade has always been excellent, a tangible sign of a long history of a good relations between countries:

- USA is the third largest global market for Italian products, just behind Germany and France. It is the first non-EU country with a share of 6.9%.

- Italy is the eleventh foreign trade partner when it comes to American imports, with a share of 1.8%.

- Food export from Italy to USA, to name one growing sector in the year of Expo 2015 in Milan, reached nearly 2.9 billion euros in 2013, up 5% from the year before. Agro-alimentary exports in 2010-2013 grew by 27%, reflecting the growing interest of American consumers towards Italian products.

It is worth mentioning here the Transatlantic Trade and Investment Partnership between USA and Europe, currently under discussion. The treaty could give an important boost to both economies by creating a sort of unique Atlantic market with almost no barriers; however, varying and deeply rooted regulations in each country (i.e., Welfare) represent a major point of attention.
The top three partners for foreign trade in USA are: China, Canada and Mexico, with 19.8%, 14.8% and 12.6%, respectively. However, for size and geographical reasons, they are already in a league of their own. Japan, for example, ranks fourth at 5.7%. The table [source: United State Census Bureau] clearly shows the positive Italian balance in trade with USA.

<table>
<thead>
<tr>
<th>Month</th>
<th>Exports</th>
<th>Imports</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 2014</td>
<td>1,261.5</td>
<td>3,066.9</td>
<td>-1,805.4</td>
</tr>
<tr>
<td>February 2014</td>
<td>1,317.3</td>
<td>2,845.7</td>
<td>-1,528.5</td>
</tr>
<tr>
<td>March 2014</td>
<td>1,851.1</td>
<td>3,557.8</td>
<td>-1,706.7</td>
</tr>
<tr>
<td>April 2014</td>
<td>1,479.6</td>
<td>3,440.0</td>
<td>-1,960.3</td>
</tr>
<tr>
<td>May 2014</td>
<td>1,477.3</td>
<td>3,530.4</td>
<td>-2,053.1</td>
</tr>
<tr>
<td>June 2014</td>
<td>1,377.0</td>
<td>3,858.2</td>
<td>-2,481.2</td>
</tr>
<tr>
<td>July 2014</td>
<td>1,408.0</td>
<td>4,160.9</td>
<td>-2,753.0</td>
</tr>
<tr>
<td>August 2014</td>
<td>1,215.3</td>
<td>3,667.2</td>
<td>-2,452.0</td>
</tr>
<tr>
<td>September 2014</td>
<td>1,485.9</td>
<td>2,922.5</td>
<td>-1,436.6</td>
</tr>
<tr>
<td>October 2014</td>
<td>1,420.7</td>
<td>3,747.1</td>
<td>-2,326.3</td>
</tr>
<tr>
<td>November 2014</td>
<td>1,280.2</td>
<td>3,667.2</td>
<td>-2,387.0</td>
</tr>
<tr>
<td>TOTAL 2014</td>
<td>15,573.8</td>
<td>38,463.9</td>
<td>-22,890.0</td>
</tr>
</tbody>
</table>
...but growing steadily

It is interesting to see how export from Italy to USA has grown in the last 30 years, considering all the changes at a macro-economic, geo-political, monetary levels and the slow-down of Italian competitiveness.
Additional factors for Italian attractiveness

Finally, here are some additional reasons that can easily boost Italy's attractiveness in the eyes of an investor:

- **unique brands**, globally scalable, especially those that have already taken several steps to penetrate foreign markets but still have room for growth;

- **quality**, so difficult to find elsewhere and not easily made a commodity. Given the need of the dimensional growth of Italian companies, the true Made in Italy brand has its main strength in its dedication to high quality materials and manufacturing;

- **leading niche players**, with proprietary technologies and know-how that is not replicable. In Italy, there are global leaders beyond the well-known ‘champions’ from the food, fashion and furniture sectors. In fact, there are many excellent companies that operate in less trendy sectors but are nonetheless **absolute leaders** in revenues and **product quality**.
Additional factors for Italian attractiveness

- **the Middle Market**, that drives the Italian economy and allows big players to grow their core business by comfortably investing in areas where Italian companies are champions without excessively needing to diversify their activity. What’s more, according to the EY European Mid Market Barometer, 26% of companies will experience a succession in the next 10 years and 9% of them haven’t found a solution yet. Italian Mid Market companies are among the most engaged in activities in North America, according to 30% of the survey’s respondents.

- **financing**: Italy is the European country that relies the most on bank loans. This landscape creates demand for potential financial investors who are waiting for Italy's capital market to introduce new instruments for entry into the market that make capital available under better conditions than in other countries. Italian companies need capital both for growth and for restructuring in the event of distressed situations.
Invitalia for foreign investors

- Invitalia, the national agency for investment promotion and enterprise development, is the one-stop partner for foreign investors who want to set up or expand their business in Italy. Through its staff, it provides information and strategic analysis to identify the best business solutions, offering a deep study and up to date overview on the legal and tax system, the labor market and the national incentive system.

- Invitalia support services include comprehensive assistance in all stages of the investment process, to provide foreign investors with the best solutions to meet the requirements of the project.

- The Agency also supports companies in the search and selection of local business opportunities, national partners, in the recruitment process, through a stable and structured cooperation with the Public Administration and the institutions involved at central and local levels.
Invitalia for foreign investors

Demand Tutoring

Promoting Supply

Matching FDI supply with demand
Invitalia for foreign investors: Operations

Increase FDI inflows in the short term
Invitalia for foreign investors: Key Success Factors

- acceleration
- simplification
- certainty of times
- fast-track procedures
- streamlining
- justice
- tax agreement
- dedicated desks in Revenue Agency
- reducing lead-times and eliminating uncertainty

Creation and promotion of a territorial systems competitive and attractive for FDI

Italy: We are Open for Business
Opportunities for investment

- The collaboration with the diplomatic and consular network will enable to promote in a structured way all the relevant business opportunities Italy may offer.

- Among the business opportunities:
  - The companies in distress and extraordinary administration, under the supervision of the Ministry of Economic Development: strong opportunities in terms of acquisition of dismissed production sites or for industrial collaborations
  - The pipeline of public assets under dismissal process: great number of brownfield opportunities (many of them for touristic use

<table>
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<tr>
<th>Package offer</th>
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<tbody>
<tr>
<td>Industrial Areas for greenfield investment</td>
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<tr>
<td>Industrial areas under recovery process</td>
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<tr>
<td>Companies in distress and under extraordinary administration</td>
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<tr>
<td>Made in Italy companies with recapitalization needs</td>
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<tr>
<td>Public assets under dismissal process</td>
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<tr>
<td>Scientific and technological parks and business incubators</td>
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<tr>
<td>Patents and projects in collaboration with Universities and R&amp;D centers</td>
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<tr>
<td>Historical, artistic and cultural heritage to exploit</td>
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<tr>
<td>Real estate assets</td>
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<tr>
<td>Strategic infrastructure programme</td>
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</table>
Grants available to foreign investors

- Invitalia manages the Development Contract (Contratto di Sviluppo) which is the main policy tool dedicated to support strategic and large innovative investments in the industrial and touristic sectors. The minimum investment size is 30 mln € for the former and 22,5 mln € for the latter.

- Financial support is also provided for investments in basic research, industrial research and competitive development, in cooperation with qualified research bodies.

- Starting from 2012 until December 31, 2014, 371 investment programs were presented, of which 48 approved for a total investment of approx. 1.8 billion euro, which led to an impact on safeguarded employment and/or created of approx. 29,000 employees. 80% of results is concentrated in Southern Italy.

- More than 40% of investment programs is promoted by companies controlled by foreign groups.

- Funded initiatives belong to a large array of economic sectors: food, aerospace, tourism, TLC, pharmaceutical industry. About half of the financed investments belongs to knowledge-intensive sectors.