

Rome's pending news: stocks' considerations

The Referendum and Budget Law: scope for rerating ahead of news

Over the next few weeks, Rome's newsflow might move the Italian market significantly, both ways. Our recent marketing suggests investors' positioning in the country is extremely limited, awaiting visibility from the looming (early December) Referendum. Our constructive view on the referendum's risk and the recently-presented pro-growth Budget Law make us believe the excessively perceived political risk (in our view) could find investors unprepared to a possible re-rating throughout a decent Q3 results season that we expect and in light of the pending unveiling of certain banks' action plans.

Referendum: our look-through view says to buy the NO dip and sell the YES rebound

The second derivative is what matters to us, i.e., the impact of the referendum on the electoral law related to but not part of it. Designed to help Renzi win the next elections, Italicum is now showing its perverse boomerang effect pro M5S. In our recent note on the referendum [click here](#) we stressed that whether a YES or NO vote is made, we expect a Renzi 2 Cabinet to emerge after the referendum, change the Italicum, and steer the country to early-2018 elections. If anything, our view goes, a NO outcome that is considered the worst case scenario from investors, would carry two market-friendly news items: a great rationale for Renzi to change Italicum and no risk of near-term elections as two equal Houses would run on different electoral laws inevitably requiring a new (enlarged) Cabinet to harmonise the electoral law before the Head of State can call any election.

Positioning for NO: possible mgmt changes at ENI, ENEL, ENAV, Terna, Poste, Leonardo

In search of potential short-term stocks reaction on 5 December, the Brexit experience suggests liquidity and positioning matter. As such, we would expect larger market caps to be more exposed to profit-taking for investors willing to react to such a potential negative outcome. However, the Italian case offers a specific angle for positioning in case of a NO, which relates to the risk of managerial changes. Soon after its establishment in early 2014, Renzi's Cabinet made several managerial appointments at companies partially controlled by the State. We see the risk of the market reflecting a managerial change discount following a potential Renzi's resignation in case of a NO, at those companies which are due to confirm their management in Q2 2017 subject to government approval.

Positioning for YES: potential tail-winds in local multi utilities Iren, Hera, AZA, Acea

By revisiting Chapter V of the constitution, a YES would re-centralise in Rome the so-far regional competences in infrastructure, motorways, airports and ports, together with transport and distribution of energy. We think this could end up in the Government's pressing the accelerator on the local multi-utilities' consolidation.

Positioning for YES: banks the obvious beneficiaries

The depressed valuations of Italian banks and their high weight in the Italian index make them an obvious candidate for a YES-driven rerating. If Intesa is probably the most at risk in case of a NO simply due to liquidity and positioning, UCG's higher beta should benefit in case of a YES, in our view. We would not rule out some EU paper to tap the market from opportunistic management willing to take advantage should a YES significantly re-rate EU markets: DBK in need of a rights issue or the Dutch Treasury awaiting a favourable market window to further monetise its ABN AMRO stake would be the two usual suspects.

Budget Law: €26bn pro-growth measures for the benefit of Construction, Auto, TMT

The newly-presented Budget Law is at early stages of discussion with Brussels, and probably due to change from its current version. Renzi is trying to force some extra softening of austerity in search of the best balance between higher-than-agreed concessions and no EU violation procedure. Our first reading suggests a boost for: Construction companies from €7.5bn investments; Auto and TMT from 140% and 250% super amortisation, respectively, in machinery and innovation; Utilities, Media, Transport Infrastructure and generally fully domestic businesses from the decline in the corporate tax rate (IRES) to 24% from 27.5%. We see only a minor benefit for Consumer companies from increased purchasing power of retirees.

Antonio Guglielmi

Equity Analyst

+44 203 0369 570

Antonio.Guglielmi@mediobanca.com

Javier Suárez

Equity Analyst

+39 02 8829 036

Javier.Suarez@mediobanca.com

Carlo Signani

+44 203 0369 577

Carlo.Signani@mediobanca.com

Italian Equity Team

Alberto Nigro	+44 203 0369 575
Alessandro Pozzi	+44 203 0369 617
Alessandro Tortora	+39 02 8829 673
Andrea Filtri	+44 203 0369 571
Chiara Rotelli	+39 02 8829 931
Fabio Pavan	+39 02 8829 633
Gian Luca Ferrari	+39 02 8829 482
Massimo Vecchio	+39 02 8829 541
Nicolo Pessina	+39 02 8829 796
Niccolò Storer	+39 02 8829 444
Noemi Peruch	+44 203 0369 645
Riccardo Rovere	+39 02 8829 604
Sara Piccinini	+39 02 8829 295
Simonetta Chiriotti	+39 02 8829 933

Stocks implications in case of YES or NO

Watch the risk of management changes in case of a NO . . .

Management teams subject to renewal from the next government

The market's reaction post Brexit suggests liquidity and positioning matters. In the case of a NO outcome at the Italian referendum, we would expect larger market caps to represent the easiest profit-taking way for investors positioned on Italy and willing to react to such a potential negative outcome on the 5 December.

However, the Italian case offers a specific angle for positioning in case of a NO, which relates to the risk of managerial changes. Soon after its formation in early 2014, Renzi's Cabinet made several managerial appointments at companies partially controlled by the State. We think the market might reflect a managerial departure risk in case of a NO outcome at those companies that are due to confirm their management teams soon after the referendum and subject to government approval. These inevitably become candidates for a profit-taking approach in case of a NO on 5 December, should this bring to the resignation of Renzi, namely: Enel, Eni, Leonardo, Poste Italiane, Terna and ENAV.

- ◆ **Enel.** The current BoD and management team expire in 2017. The confirmation decision is due at the AGM that should take place by the end of May 2017. Enel's CEO Francesco Starace was appointed in April 2014 by the Renzi's Government. He was previously CEO of the company's renewables subsidiary Enel Green Power. Since his appointment, Starace has successfully led the company into an internal reorganisation related to the Latam activities, the delisting of Enel Green Power, the disposal of non-core assets (such as Slovenske Elektrarne), and the entry into the fibre-optic business that is critical for the Government. We believe the market has appreciated the management work so far, so that an eventual change at the top management, seen as more likely in case of Renzi's resignation following a NO at the referendum, could be seen as negative catalyst on the stock.
- ◆ **ENI.** The mandate of ENI's BoD expires in May 2017. As the selection of key Board members remains a prerogative of the government, the new Prime Minister in case of Renzi's departure could decide to choose a new team to lead the company, potentially discontinuing the strategy pursued by the current CEO Claudio Descalzi. We believe this could be negative news for the shares as, in our view, Descalzi is well-regarded by the market, having embarked in a restructuring programme aimed at improving the profitability of the struggling Gas&Power and Downstream divisions, as well as delivering a €7bn asset disposal programme. This is an important element of our investment case, as proceeds from asset disposals will allow the group to cover its dividend, while the oil price remains below US\$55-60/bl.
- ◆ **Leonardo Finmeccanica.** The mandate of the current BoD, together with the one of the CEO Mr Mauro Moretti, expire with the approval of the 2016 financial statements, at the end of April 2017. Mr Moretti was appointed by the MEF in 2014 as the first CEO not coming from an internal appointment following Mr Guarguaglini, Orsi and Pansa. Moretti's mandate, focused on restructuring so far, is expected to divert on growth in case of renewal. We believe the company should have returned to dividends by the time of the BoD renewal, and this should be a sign that Leonardo management would not be a headache for the new potential government making the confirmation of the current management likely, regardless of the outcome of the referendum, in our view. However, we cannot rule out a profit-taking approach from the market should a NO at the referendum result in Renzi's resignation.
- ◆ **Poste Italiane.** The current BoD expires with the approval of the 2016 financial statements, which we would expect in May 2017. Mr Francesco Caio was appointed as CEO in April 2014 by the Italian Government, with the specific aim of presenting a new strategic plan and preparing for the listing of the company to the Italian stock exchange. He has formerly been CEO at Merloni, Cable & Wireless and Avio, and he also served as

Chairman of Lehman Brothers Europe. One year before joining Poste, Mr Caio was made Responsible for the Digital Agenda by former Prime Minister Enrico Letta. After having successfully run Poste Italiane over the past few years, and having successfully led the IPO process, we believe the turnaround is still half-way to be completed as the restructuring of the mail and parcels business is due to be completed by the end of 2018. Also, the company has some potential M&A deals in the pipeline according to press (Pioneer and Bartolini, and maybe the merger of BP Fondi SGR and Anima too), and we believe a change in the management team could be sub-optimal at this stage. In addition, a second tranche from the Italian Treasury is expected to come to the market next year, and assuring continuity in the management team is we believe a pre-requisite to successfully execute the second placement.

- ◆ **Terna.** CEO Matteo Del Fante has been appointed in April 2014 by the Renzi Government. His mandate expires in 2017 with the approval of the 2016 annual report. CEO Del Fante's key mandate is help to make the electricity system more competitive, reducing prices to both the industry and citizens. And the completion of the Sicily/mainland Italy pipeline to reduce differential of electricity prices and regional bottleneck is a clear example. Another stock potentially exposed to a sell-off in case of a NO we suspect.
- ◆ **ENAV.** The mandate of the current BoD expires with the approval of the 2016 financial statements, which we would expect at the end of April 2017. As part of the BoD, the mandate of the CEO Roberta Neri also expires. Roberta Neri was appointed by the MEF in July 2015 as the first CEO not coming from an internal selection, and with a key task of reducing the cost base. In our view, the current CEO proved effective in attacking the cost base, as clearly demonstrated in the 9M16 results, as well as successfully complete the IPO despite the uncertain post-Brexit market conditions. Overall, we find that a confirmation of her role for a new mandate to be very likely, whatever the new government team. However, we cannot rule out the market attaching to the stock a managerial departure risk in case of a NO resulting in a new government.

. . . and the momentum in banks and local utilities in case of a YES

Centre vs periphery: potential tail-winds for local multi-utilities - Iren, Hera, A2A, Acea

The Italian referendum aims at re-regulating the balance of power between the central government and the regions by revisiting the Chapter V of the constitution. In case of a YES outcome, we should expect a reallocation to the State of so far regional competences in infrastructures, motorways, airports and ports, together with transport and distribution of energy. And importantly, in our view, it introduces the "Supremacy Clause" ("Clausula di Supremazia") in several other areas for the Government to defend the general interest.

We have made no secret that a YES outcome could result in potential tail-winds to the local multi-utilities on the assumption that this could end up in strengthening the Government's effectiveness to press the accelerator on the sector's consolidation. As such, we think that the market willing to position in case of a YES should look at Iren, Hera, A2A and Acea as obvious candidates to benefit from a renewed momentum lead by a more aggressive central government intervention.

Banks the obvious beneficiaries from a YES

Currently-depressed valuations in the banking space as well as capital raisings post referendum make Italian banks an obvious candidate for a YES-driven rerating. Intesa is probably the one most at risk in case of a NO, simply due to liquidity and positioning, whilst we would expect UCG to be among the main beneficiaries in case of a YES. We think it also fair to expect more European paper to tap the market after the referendum from opportunistic management willing to take advantage should a YES become a market event strong enough to significantly re-rate EU markets. This applies for instance to the likes of DBK in need of a rights issue or the Dutch Treasury awaiting a favourable market window to further monetise its stake in ABN AMRO.

2017 Budget Law: Construction, Auto & Telecom

Looking for growth and electorate support

Total value of the Stability Law at €27bn. Deficit to GDP estimated at 2.3% in 2017 . . .

On 15 October, the Italian Government unveiled the 2017 Stability Law, forecasting a 2.3% deficit and GDP growth of 1% for next year. Estimates include c.€3.5bn to cover the support for migrants (c.0.2% of GDP) to be stripped out from the Stability Pact, as the intention of the Government.

. . . with a smart mix between pro-growth and pro-electorate consensus measures

Overall, the Stability Law shows a degree of continuity with the Government action. It smartly, in our view, contains a good mix of pro-growth (tax reduction for businesses and incentives for investments) and pro-voters consensus measures (abolition of the tax collection agency and higher pension for low-income earners, among others) aimed at supporting the ongoing, though fragile, recovery. Most importantly, we think, the Government has managed not to trigger the safeguarding clauses from last year's Law, avoiding a 2% VAT increase (to 24% from 22% - a measure worth c.€15bn). On the resources side, the €3.3bn from the spending review actions remains within reach, in our view.

Brussels has the final say now: higher-than-expected softening versus risk of EU procedure

The final text of the Stability Law is now under the EC scrutiny, and it is expected to get the green light from the Italian Parliament by the end of November, potentially overlapping with the referendum. The main hurdle for the Law to get the approval from the EC is represented, in our view, by the over-time sustainability of some income items that might have just a temporary impact (i.e. abolition of Equitalia, voluntary disclosure, disposals, etc.). Renzi is clearly trying to force some extra softening of austerity in the stability law, which is why we expect some further negotiation with Brussels with the aim of finding the best balance between higher-than-agreed concessions to Rome (also for electoral reasons) and avoiding any EU violation procedure.

Pro voters in the South where NO prevails

It is worth noting, for instance, that the Budget Law in its current version is particularly Southern Italy friendly (cash amnesty, Equitalia, IRPEF tax cut for agriculture) in an attempt, we think, to also disempower the pro-NO vote for the referendum particularly biased in the Southern regions. We would expect changes to the current version, which is why the reader should take the below considerations as our first reaction but nevertheless subject to revision based on the final approval of the Stability Law. The weekend press, for instance, suggests a likely government U-turn on the voluntary disclosure.

Money in

Roughly €12bn of resources come from deficit spending. The rest is expected to originate from the below measures.

Abolition of Equitalia: €4bn

The state-owned tax collection agency will be merged into the main tax Institution Agenzia delle Entrate. The measure should allow the Government to recover some €4bn from the settlement of pending litigations as a consequence of the cancellation of part of interests and collection fees on overdue taxes and sanctions.

Voluntary disclosure: €2bn

After the 2015 round (c.€4bn cash in from €60bn of emerged worth), the Government aims at collecting some €2bn on undeclared incomes, possibly introducing a withdrawal of 35% on unjustified inflows and of 15% on outflows; most recent newsflow suggest this measure might be reconsidered from the government as it incentivises tax evasion in the future waiting for the next amnesty to come. Also Brussels seems to be against such a measure.

Spending review: €3.3bn

The centralisation of the public administration costs and the optimisation of ministerial budgets is expected to free up €3.3bn resources.

Gambling, disposals and TLC frequencies: €3.7bn

The three items together should bring about some €3.7bn, and should include the benefit from the reorganisation of public administration structures.

Reconversion of funds for economic policies: €1.6bn

Directly and indirectly managed by the Government and the Finance Ministry, these resources should be brought under the State accounting umbrella.

Money out**Reduction in corporate taxes: €3bn**

IRES tax for businesses is to be cut to 24% from 27.5%. The Government also set at a flat 24% the tax rate for family enterprises, personal and small enterprises, provided they keep money in the business (earlier taxation was progressive).

Agricultural taxation: €1.3bn in two years

IRPEF tax has been cut to zero.

Amortisation of 140% for machinery and 250% for technology

The measure allows for a 140% fiscal amortisation for industrial machinery & equipment, and 250% for digital assets and technology.

Pension system: €7bn over three years

The Government allocates €7bn to pensions over next three years (€1.9bn in 2017). This is related to 1) the tax deduction reorganisation, 2) the increase of the 14th-month pension and of the people eligible to get the payment, and 3) the financing of early retirement plans.

Migrants: €3.5bn

Some €3.5bn should be spent on migrants (c.0.2% of GDP). In the intention of the Government, the amount should be accounted for outside the Stability Pact, and this is one of the topics under discussion with Brussels.

Reduction in Rai TV tax

The yearly “Canone Rai” tax will decrease to €90 (from €100). In order to facilitate the collection of this tax, the government has decided to include it in the electricity bills since mid-2016.

Potential sectors’ read-across

The above measures could represent a boost for Construction companies and for names benefitting, directly or indirectly, from investment incentives (i.e. Automotive and Telecom). We see little benefit for Asset Gatherers from the new Voluntary Disclosure (likely to be removed from the Stability law anyway) and minimal support for Consumer companies from increased purchasing powers of retirees. The decline in the corporate tax rate (IRES) is positive across the board, in our view, but clearly companies that are fully domestic in their business model should benefit the most (Utilities, Media and Transport Infrastructure). The impact for Banks from this measure should be neutral as the reduction in IRES tax should be compensated by an increase in additional charges for the same amount.

Construction: cement manufacturers, Salini and Astaldi

The government confirmed incentives worth a total of €3bn to renovate residential and non-residential buildings (including schools) and to reduce the risk of hydrogeological instability. On top of this, €4.5bn will be allocated to rebuild areas involved in the August earthquake in the Centre of Italy. These measures may help local cement manufactures (Italcementi, Buzzi, Colacem and Cementir) and general contractors (Salini Impregilo, Astaldi). According to the press release, additional public investments should amount to €12bn over the next three years, but the destination and funding of these investments is not yet entirely clear.

Transport Infrastructure: SIAS

From our reading of the draft submitted by the MEF, we would highlight the following points of interest: i) investments in transport infrastructure are confirmed as a priority for the government that, however, focuses essentially on railways, therefore relying on privately-owned specialised operators for motorways and airports; ii) expected inflation for 2017 is indicated at 0.9%, below the official budgeted inflation of 1.5% with a potential downsizing of the latter and therefore lower tariff increases for several of SIAS's motorways; iii) plan for the privatisation of Ferrovie dello Stato (Italian railways) in 2017 is for the time being confirmed.

Automotive: FCA, Brembo, Sogefi and maybe Landi Renzo

The extension of the super-amortisation (140%) of investments in machinery could keep on sustaining the automotive industry and promoting the rejuvenating of the car park (more than 50% of circulating vehicles are >10 years old). Year to date in 2016, the measure has supported cars purchased from rental companies (+16% yoy on a tough comparison related to Milan Expo) and from firms (+25% yoy). The two sub-segments account for c.40% of the Italian car market. There is a positive read-across through the production chain, from component makers (Brembo and Sogefi) to car makers (FCA). Also, the Italian association of car services and rental (ANIASA) asked to allow low-polluting vehicles (electric, hybrid but also CNG and LPG) to benefit from the iper-amortisation (250%) to support the utilisation of environmentally-friendly vehicles. Should this be the case, this will be positive news for Landi Renzo.

TMT: Telecom Italia

For the TMT space, we would flag the positive impact that may arise from the iper-amortisation on innovation (250% according to the press release disclosed by the Government). It is likely that the telecom sector could benefit from such a plan (among names under our coverage, potentially good news for Telecom Italia). Also, ANSA has recently suggested €1.8bn potential cash in expected by the auction on 900Mhz and 1,800Mhz frequencies (expiring in June 30, 2018), citing as a source the Draft Budgetary Plan.

Asset Gatherers: not much expected, even more so if the voluntary disclosure will not apply

In terms of the new Voluntary Disclosure, the "Autoriciclaggio" crime (self-money laundering) will not apply only to money held abroad, but also to money held in the country and not declared to the tax authority (e.g. money kept at home or in safe-deposits). The Voluntary Disclosure will regard undeclared cash for the 2009-2015 period. We remind that the previous Voluntary Disclosure made by the Renzi Government in 2015 generated a €3.8bn total cash-in coming from the declaration of approx €60bn (of which only 26% - or €16bn - was physically repatriated to Italy). The €2bn targeted this time might imply some €30bn money to be declared assuming last year's implied average taxation. However, the percentage of that declared going to banks and asset gatherers might be largely higher than last year's 26% due to the focus, this time, on domestic undeclared money. As happened in the previous VD, we expect banks to take the lion's share of the declared money compared to the benefit that we expect for listed asset gatherers. Weekend press suggests the government might reconsider this measure.

Targeting 1% GDP growth for 2017**Italy revised down GDP for 2016e to 0.8% and 2017e to % 1.0%**

Italy's GDP forecast has been revised down by all the major institutions and it is now expected, as median of the September's revisions, at +0.8% in 2016e and +0.9% in 2017e, far from 1.2% and 1.4% respectively forecasted back in the Spring by the government. Similarly the government had to revise estimates as regards to the deficit, now expected at 2.4% of GDP in 2017e from 1.8% and debt at 132.2% of GDP, from 130.9%, for the same year. Several are the factors that played a negative role for the Italian economy, the main being:

- ◆ From the offer side, a way lower dynamism of industrial production;
- ◆ From the demand side, internal demand has diminished and remained weak, especially as regards consumption and investments.

The 0.4% additional deficit will be justified by PM Renzi to the European Commission as for the effort the government will have to make for the recent events related to the earthquake and the immigration crisis, plus the government will probably defend the 0.2% extra deficit as per the revising down of GDP estimates.

Macro Forecasts - 2016

	% GDP		% Deficit/GDP		Debt/GDP	
	2016	2017	2016	2017	2016	2017
NA-DEF* - September	0.8%	1.0%	2.4%	2 (0.4)%	132.8%	132.2%
DEF - Spring	1.2%	1.4%	2.4%	1.8%	132.4%	130.9%
OCSE - September	0.8%	0.8%	2.3%	2.0%	132.8%	131.9%
IMF - September	0.8%	0.9%	2.5%	2.2%	133.2%	133.4%
EC - Spring	1.1%	1.3%	2.4%	1.9%	132.7%	131.8%
Confindustria - September	0.7%	0.5%	2.5%	2.3%	133.3%	134.0%

Source: Mediobanca Securities, *DEF Update

NAWRU vs. NAIRU: Italy looking for extra room for maneuvering

As usual, it will be the output gap at the heart of the debate between Italy and the EU Commission. The output gap is an indicator that measures the difference between a country's actual GDP and its potential one and it is used to evaluate fiscal and economic measures, according to EU and national regulations; in turn, it dictates the room for flexibility by differentiating between structural and cyclical factors. The Italian government will probably keep questioning the methodology adopted at EU level, the so called NAWRU (non-accelerating wage rate of unemployment), pointing to the merits of the so called NAIRU (non-accelerating inflation rate of unemployment) as a less pro cyclical and more appropriate methodology to capture total factor productivity and the output gap.

Alternative Model - Output Gaps and Structural Balances

	Output Gaps		Structural Balances	
	NdA 2016	Alternative Model	NdA 2016	Alternative Model
2015	-3.5	-4.2	-0.7	-0.2
2016	-2.5	-3.4	-1.2	-0.7
2017	-1.7	-2.8	-1.2	-0.6
2018	-0.7	-1.9	-0.7	-0.1
2019	0	-1.3	-0.2	0.6

Source: Mediobanca Securities, MEF

GENERAL DISCLOSURES

This research report is prepared by Mediobanca - Banca di credito finanziario S.p.A. ("Mediobanca S.p.A."), authorized and supervised by Bank of Italy and Consob to provide financial services, and is compliant with the relevant European Directive provisions on investment and ancillary services (MiFID Directive) and with the implementing law.

Unless specified to the contrary, within EU Member States, the report is made available by Mediobanca S.p.A. The distribution of this document by Mediobanca S.p.A. in other jurisdictions may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. All reports are disseminated and available to all clients simultaneously through electronic distribution and publication to our internal client websites. The recipient acknowledges that, to the extent permitted by applicable securities laws and regulations, Mediobanca S.p.A. disclaims all liability for providing this research, and accepts no liability whatsoever for any direct, indirect or consequential loss arising from the use of this document or its contents. This research report is provided for information purposes only and does not constitute or should not be construed as a provision of investment advice, an offer to buy or sell, or a solicitation of an offer to buy or sell, any financial instruments. It is not intended to represent the conclusive terms and conditions of any security or transaction, nor to notify you of any possible risks, direct or indirect, in undertaking such a transaction. Not all investment strategies are appropriate at all times, and past performance is not necessarily a guide to future performance. Mediobanca S.p.A. recommends that independent advice should be sought, and that investors should make their own independent decisions as to whether an investment or instrument is proper or appropriate based on their own individual judgment, their risk-tolerance, and after consulting their own investment advisers. Unless you notify Mediobanca S.p.A. otherwise, Mediobanca S.p.A. assumes that you have sufficient knowledge, experience and/or professional advice to undertake your own assessment. This research is intended for use only by those professional clients to whom it is made available by Mediobanca S.p.A. The information contained herein, including any expression of opinion, has been obtained from or is based upon sources believed to be reliable but is not guaranteed as to accuracy or completeness although Mediobanca S.p.A. considers it to be fair and not misleading. Any opinions or estimates expressed herein reflect the judgment of the author(s) as of the date the research was prepared and are subject to change at any time without notice. Unless otherwise stated, the information or opinions presented, or the research or analysis upon which they are based, are updated as necessary and at least annually. Mediobanca S.p.A. may provide hyperlinks to websites of entities mentioned in this document, however the inclusion of a link does not imply that Mediobanca S.p.A. endorses, recommends or approves any material on the linked page or accessible from it. Mediobanca S.p.A. does not accept responsibility whatsoever for any such material, nor for any consequences of its use. Neither Mediobanca S.p.A. nor any of its directors, officers, employees or agents shall have any liability, howsoever arising, for any error, inaccuracy or incompleteness of fact or opinion in this report or lack of care in its preparation or publication.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desks that reflect opinions that are contrary to the opinions expressed in this research. Our proprietary trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this research. The analysts named in this report may have from time to time discussed with our clients, including Mediobanca S.p.A. salespersons and traders, or may discuss in this report, trading strategies that reference catalysts or events that may have a near-term impact on the market price of the equity securities discussed in this report, which impact may be directionally counter to the analysts' published price target expectations for such stocks. Any such trading strategies are distinct from and do not affect the analysts' fundamental equity rating for such stocks, which rating reflects a stock's return potential relative to its coverage group as described herein.

ADDITIONAL DISCLAIMERS TO U.S. INVESTORS: This research report is prepared by Mediobanca S.p.A. and distributed in the United States by Mediobanca Securities USA LLC, which is a wholly owned subsidiary of Mediobanca S.p.A., is a member of Finra and is registered with the US Securities and Exchange Commission. 565 Fifth Avenue - New York NY 10017. Mediobanca Securities USA LLC accepts responsibility for the content of this report. Any US person receiving this report and wishing to effect any transaction in any security discussed in this report should contact Mediobanca Securities USA LLC at 001(212) 991-4745. Please refer to the contact page for additional contact information. All transactions by a US person in the securities mentioned in this report must be effected through Mediobanca Securities USA LLC and not through a non-US affiliate. The research analyst(s) named on this report are not registered / qualified as research analysts with Finra. The research analyst(s) are not associated persons of Mediobanca Securities USA LLC and therefore are not subject to NASD rule 2711 and incorporated NYSE rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst.

ADDITIONAL DISCLAIMERS TO U.K. INVESTORS: Mediobanca S.p.A. provides investment services in the UK through a branch established in the UK (as well as directly from its establishment(s) in Italy) pursuant to its passporting rights under applicable EEA Banking and Financial Services Directives and in accordance with applicable Financial Services Authority requirements.

ADDITIONAL DISCLAIMERS TO U.A.E. INVESTORS: This research report has not been approved or licensed by the UAE Central Bank, the UAE Securities and Commodities Authority (SCA), the Dubai Financial Services Authority (DFSA) or any other relevant licensing authorities in the UAE, and does not constitute a public offer of securities in the UAE in accordance with the commercial companies law, Federal Law No. 8 of 1984 (as amended), SCA Resolution No.(37) of 2012 or otherwise. This research report is strictly private and confidential and is being issued to sophisticated investors.

REGULATORY DISCLOSURES

Mediobanca S.p.A. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Mediobanca S.p.A. or its affiliates or its employees may effect transactions in the securities described herein for their own account or for the account of others, may have long or short positions with the issuer thereof, or any of its affiliates, or may perform or seek to perform securities, investment banking or other services for such issuer or its affiliates. The organisational and administrative arrangements established by Mediobanca S.p.A. for the management of conflicts of interest with respect to investment research are consistent with rules, regulations or codes applicable to the securities industry. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however,

compensation may relate to the revenues of Mediobanca S.p.A. as a whole, of which investment banking, sales and trading are a part.

For a detailed explanation of the policies and principles implemented by Mediobanca S.p.A. to guarantee the integrity and independence of researches prepared by Mediobanca's analysts, please refer to the research policy which can be found at the following link: <http://www.mediobanca.it/static/upload/b5d/b5d01c423f1f84fffea37bd41ccf7d74.pdf>

Unless otherwise stated in the text of the research report, target prices are based on either a discounted cash flow valuation and/or comparison of valuation ratios with companies seen by the analyst as comparable or a combination of the two methods. The result of this fundamental valuation is adjusted to reflect the analyst's views on the likely course of investor sentiment. Whichever valuation method is used there is a significant risk that the target price will not be achieved within the expected timeframe. Risk factors include unforeseen changes in competitive pressures or in the level of demand for the company's products. Such demand variations may result from changes in technology, in the overall level of economic activity or, in some cases, from changes in social values. Valuations may also be affected by changes in taxation, in exchange rates and, in certain industries, in regulations. All prices are market close prices unless differently specified.

Since 1 July 2013, Mediobanca uses a relative rating system, based on the following judgements: Outperform, Neutral, Underperform and Not Rated.

Outperform (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 6-12 months.

Neutral (N). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 6-12 months.

Underperform (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 6-12 months.

Not Rated (NR). Currently the analyst does not have adequate confidence about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage, on a risk-adjusted basis, over the next 6-12 months. Alternatively, it is applicable pursuant to Mediobanca policy in circumstances when Mediobanca is acting in any advisory capacity in a strategic transaction involving this company or when the company is the target of a tender offer.

Our recommendation relies upon the expected relative performance of the stock considered versus its benchmark. Such an expected relative performance relies upon a valuation process that is based on the analysis of the company's business model / competitive positioning / financial forecasts. The company's valuation could change in the future as a consequence of a modification of the mentioned items.

Please consider that the above rating system also drives the portfolio selections of the Mediobanca's analysts as follows: long positions can only apply to stocks rated Outperform and Neutral; short positions can only apply to stocks rated Underperform and Neutral; portfolios selection cannot refer to Not Rated stocks; Mediobanca portfolios might follow different time horizons.

Proportion of all recommendations relating to the last quarter			
Outperform	Neutral	Underperform	Not Rated
47.90%	35.01%	15.41%	1.68%

Proportion of issuers to which Mediobanca S.p.A. has supplied material investment banking services relating to the last quarter:			
Outperform	Neutral	Underperform	Not Rated
91.30%	92.59%	91.30%	100.00%

The current stock ratings system has been used since 1 July 2013. Before then, Mediobanca S.p.A. used a different system, based on the following ratings: outperform, neutral, underperform, under review, not rated. For additional details about the old ratings system, please access research reports dated before 1 July 2013 from the restricted part of the "MB Securities" section of the Mediobanca S.p.A. website at www.mediobanca.com.

COMPANY SPECIFIC REGULATORY DISCLOSURES

SPONSOR

This report was prepared by Mediobanca S.p.A. in its capacity as sponsor of the following companies, in compliance with the obligations set forth by the rules of the markets organized and managed by Borsa Italiana S.p.A.: ENAV, Poste Italiane. Mediobanca S.p.A. expects to prepare research reports on the following companies at least on a semi-annual basis: ENAV, Poste Italiane.

MARKET MAKER

Mediobanca S.p.A. is currently acting as market maker on equity instruments, or derivatives whose underlying financial instruments are materially represented by equity instruments, issued by the following companies: A2A, Acea, Enel, Eni, Hera, Iren, Leonardo Finmeccanica, Poste Italiane, Terna.

LEAD MANAGER OR CO-LEAD MANAGER OR SIMILAR ROLES

In the past 12 months, Mediobanca S.p.A. has acted as lead manager, co-lead manager, bookrunner or in similar roles in the context of a public offering of financial instruments of the following companies: ENAV, Poste Italiane. In the past 12 months, Mediobanca Securities USA LLC has not acted as lead manager, co-lead manager, bookrunner or in similar roles in the context of a public offering of financial instruments of the following companies: ENAV, Poste Italiane.

INVESTMENT AND ANCILLARY SERVICES

In the last 12 months, Mediobanca S.p.A. or one or more of the companies belonging to its group has entered into agreements to deliver investment and ancillary services to the following companies A2A, Enel, Eni, Hera, Iren, Leonardo Finmeccanica, Poste Italiane, Terna or one or more of the companies belonging to their group.

RATING

The present rating in regard to A2A has not been changed since 07/04/2016. In the past 12 months, the rating on A2A has been changed. The previous rating, issued on 20/01/2016, was Neutral. The present rating in regard to Acea has not been changed since 06/06/2016. In the past 12 months, the rating on Acea has been changed. The previous rating, issued on 29/09/2014, was Outperform. The present rating in regard to ENAV has not been changed since 31/08/2016. The present rating in regard to Enel has not been changed since 01/04/2016. In the past 12 months, the rating on Enel has been changed. The previous rating, issued on 19/11/2015, was Not Rated. The present rating in regard to Eni has not been changed since 04/09/2015. The present rating in regard to Hera has not been changed since 03/03/2014. The present rating in regard to Iren has not been changed since 09/02/2015. The present rating in regard to Leonardo Finmeccanica has not been changed since 21/04/2015. The present rating in regard to Poste Italiane has not been changed since 02/12/2015. The present rating in regard to Terna has not been changed since 03/11/2014.

INITIAL COVERAGE

A2A initial coverage as of 21/03/2003. Acea initial coverage as of 03/02/2004. ENAV initial coverage as of 31/08/2016. Enel initial coverage as of 09/05/2003. Eni initial coverage as of 25/02/2004. Hera initial coverage as of 30/07/2003. Iren initial coverage as of 20/07/2010. Leonardo Finmeccanica initial coverage as of 28/03/2003. Poste Italiane initial coverage as of 02/12/2015. Terna initial coverage as of 27/08/2004.

COPYRIGHT NOTICE

No part of the content of any research material may be copied, forwarded or duplicated in any form or by any means without the prior consent of Mediobanca S.p.A., and Mediobanca S.p.A. accepts no liability whatsoever for the actions of third parties in this respect.

END NOTES

The disclosures contained in research reports produced by Mediobanca S.p.A. shall be governed by and construed in accordance with Italian law.

Additional information is available upon request.

The list of all recommendations disseminated in the last 12 months by Mediobanca's analysts is available [here](#)

Date of report production: 24 October 2016 - 06:36



Mediobanca S.p.A.
Antonio Guglielmi - Head of European Equity Research
+44 203 0369 570

antonio.guglielmi@mediobanca.com

ANALYSTS

ANALYSTS			
European Banks			
Alain Tchiboza	France/IBK	+44 203 0369 573	alain.tchiboza@mediobanca.com
Adam Terelak	France/IBK	+44 203 0369 574	adam.terelak@mediobanca.com
Andrea Filtri	Spain/Italy	+44 203 0369 571	andrea.filtri@mediobanca.com
Riccardo Rovere	Italy/Scandinavia/CEE/Germany	+39 02 8829 604	riccardo.rovere@mediobanca.com
Robin van den Broek	Benelux	+44 203 0369 672	robin.vandenbroek@mediobanca.com
European Insurance			
Gian Luca Ferrari	Global multi-liners/Italy/Asset Gatherers	+39 02 8829 482	gianluca.ferrari@mediobanca.com
Robin van den Broek	Benelux	+44 203 0369 672	robin.vandenbroek@mediobanca.com
Vinit Malhotra	Global multi-liners/Reinsurers	+44 203 0369 585	vinit.malhotra@mediobanca.com
European Utilities & Infrastructures			
Javier Suárez	Italy/Spain	+39 028829 036	javier.suarez@mediobanca.com
Jean Farah	France/Germany	+44 203 0369 665	jean.farah@mediobanca.com
Sara Piccinini	Italy/Spain/Portugal	+39 02 8829 295	sara.piccinini@mediobanca.com
Italian Research			
Alessandro Pozzi	Oil & Oil Related	+44 203 0369 617	alessandro.pozzi@mediobanca.com
Alessandro Tortora	Building Materials/Industrials/Capital Goods	+39 02 8829 673	alessandro.tortora@mediobanca.com
Andrea Filtri	Banks	+44 203 0369 571	andrea.filtri@mediobanca.com
Chiara Rotelli	Branded Goods/Consumers Goods	+39 02 8829 931	chiara.rotelli@mediobanca.com
Fabio Pavan	Media/Telecommunications/Consumer Goods	+39 02 8829 633	fabio.pavan@mediobanca.com
Gian Luca Ferrari	Global multi-liners/Italy/Asset Gatherers	+39 02 8829 482	gianluca.ferrari@mediobanca.com
Javier Suárez	Utilities	+39 028829 036	javier.suarez@mediobanca.com
Massimo Vecchio	Auto & Auto Components/Industrials/Holdings	+39 02 8829 541	massimo.vecchio@mediobanca.com
Niccolò Storer	Auto & Auto Components/Industrials/Holdings	+39 02 8829 444	niccolo.storer@mediobanca.com
Nicolò Pessina	Consumer Goods/Infrastructure	+39 02 8829 796	nicolo.pessina@mediobanca.com
Riccardo Rovere	Banks	+39 02 8829 604	riccardo.rovere@mediobanca.com
Sara Piccinini	Utilities	+39 02 8829 295	sara.piccinini@mediobanca.com
Simonetta Chiriotti	Real Estate/ Financial Services/Banks	+39 02 8829 933	simonetta.chiriotti@mediobanca.com

FOR NON US PERSON receiving this document and wishing to effect transactions in any securities discussed herein, please contact:

Mediobanca S.p.A.
Carlo Pirri - Head of Equity Sales
+44 203 0369 531
carlo.pirri@mediobanca.com

SALES

SALES			
Angelo Vietri		+39 02 8829 989	angelo.vietri@mediobanca.com
Christopher Seidenfaden		+44 203 0369 610	christopher.seidenfaden@mediobanca.com
Lorenzo Angeloni		+39 02 8829 507	lorenzo.angeloni@mediobanca.com
Marco Bronda		+44 203 0369 619	marco.bronda@mediobanca.com
Matteo Agrati		+44 203 0369 629	matteo.agrati@mediobanca.com
Nahid Iqbal		+44 203 0369 597	nahid.iqbal@mediobanca.com
Pierandrea Perrone		+39 02 8829 572	pierandrea.perrone@mediobanca.com
Timothy Pedroni		+44 203 0369 635	timothy.pedroni@mediobanca.com
Stephane Langlois		+44 203 0369 582	stephane.langlois@mediobanca.com
European Spec Sales			
Carlo Pirri	Banks/Insurance	+44 203 0369 531	carlo.pirri@mediobanca.com
Colin Hector	Banks/Insurance	+44 203 0369 687	colin.hector@mediobanca.com
Gert-Jaap Kraan	Banks/Insurance	+44 203 0369 510	gert-jaap.kraan@mediobanca.com

Mediobanca S.p.A.
Cedric Hanisch - Head of Equity Trading and Sales Trading
+44 203 0369 584

SALES/TRADERS

cedric.hanisch@mediobanca.com

Andrew Westoby		+44 203 0369 513	andrew.westoby@mediobanca.com
Michael Sherry		+44 203 0369 605	michael.sherry@mediobanca.com
Roberto Riboldi		+39 02 8829 639	roberto.riboldi@mediobanca.com

FOR US PERSON receiving this document and wishing to effect transactions in any securities discussed herein, please contact:

Mediobanca Securities USA LLC
Pierluigi Gastone - Head of Mediobanca Securities USA LLC
+1 212 991 4745
pierluigi.gastone@mediobanca.com

Massimiliano Pula		+1 646 839 4911	massimiliano.pula@mediobanca.com
Robert Perez		+1 646 839 4910	robert.perez@mediobanca.com