Whilst most countries are expected to experience a gap between infrastructure spending and needs, China, Australia and Japan are positive outliers…

Source: McKinsey Global Institute, bridging infrastructure gaps - Has the world made progress? October 2017
… WITH EUROPE AND ITALY IN PARTICULAR SHOWING A NEGATIVE GAP

Gap between spending and estimated infrastructure needs, % of GDP (2017–35)

- Italy spent approx. 2.3% of yearly GDP on average in the period 2010-2015
- The projected gap between spending and needs is approx. 0.2% per year which in absolute terms corresponds to €3.3bn per year (approx. €60.0bn cumulated for the period up to 2035)

Source: McKinsey Global Institute, bridging infrastructures gaps - Has the world made progress? October 2017
### Which are the main challenges for Italy?

<table>
<thead>
<tr>
<th>Where are we in Italy?</th>
<th>Main challenges/actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>An uneven infrastructure endowment strongly correlated to economic development</td>
<td>Investment in infrastructures is key as it contributes to reducing inequalities</td>
</tr>
<tr>
<td>Public investments in infrastructures suffered a major decline since 2008</td>
<td>Due to existing governmental budgetary constraints it is essential to attract private investors</td>
</tr>
<tr>
<td>Some major Italian infrastructure projects present an uneven distribution between risks and returns</td>
<td>Develop a pipeline of projects in line with global IRR targets (10%-12%)</td>
</tr>
<tr>
<td>Political uncertainty undermines investors appetite as infrastructure projects are highly exposed to political and regulatory risks</td>
<td>Define a sustainable and long-term strategy to reassure investors</td>
</tr>
</tbody>
</table>
The European economic and sovereign crisis played a pivotal role in fostering the banks’ disintermediation process.

Source: Thomson Reuters Project Finance International (PFI) League Tables
... IN LINE WITH A GENERAL DISINTERMEDIATION PATTERN ... 

Cumulative net flow is underpinned by a neutral contribution from the banking sectors and strong involvement of institutional investors.

Source: SG Cross Asset Research / Global asset allocation
ALTHOUGH THE SITUATION VARIES BETWEEN CORE EUROPE AND SOUTHERN COUNTRIES

The case of Italy: a net negative flow

In Italy the situation is more challenging with bank loans decrease not compensated by capital markets activity

Source: SG Cross Asset Research / Global asset allocation
INSTITUTIONAL INVESTORS AND BANKS WILL PLAY A MAJOR ROLE GOING FORWARD...

Institutional investors have been showing strong willingness to devote more resources towards infrastructure investments.

Source: Prequin Investor Interviews, December 2015 - 2017
ALTHOUGH MAJOR CONSTRAINTS STILL EXIST

BANKS

1) Basel III and IV
2) Greenfield vs. brownfield projects

INSTITUTIONAL INVESTORS

1) Standardization
2) Creation of a new and liquid asset class
AS AN ACTIVE PLAYER IN THE INFRASTRUCTURE SECTOR, SOCIETE GENERALE HAS IDENTIFIED KEY AREAS TO FOCUS ON …

➢ **Regulatory**

- **Banks**: Ad hoc regulation and carve outs under Basel IV regulation incentivizing infrastructure investments (lower floors) and prevention from capital misallocation (risk adjusted return neutrality)

- **Institutional investors**: Capital relief for insurers and tax incentives for pension funds

➢ **Policy making**

- ✓ National infrastructure plans

- ✓ PPPs units: French example

- ✓ Project preparation

- ✓ Stakeholder management and approvals
... AND ACTED AS ADVISOR AND FINANCER OF VERY VISIBLE PROJECT FINANCE TRANSACTIONS IN ITALY

DEAL SUMMARY

➢ Construction of **Milan underground line 5** (2007-2015)
➢ Strong **interest** from banks and institutional investors:
  - Institutional investors tranche of **€150.0m**
  - Project bank financing tranche of **€430.0m**
➢ **Amortizing floating rate note unrated** (maturity 2035)
➢ Mix of bank and institutional tranche solution offers **higher returns and more visibility** for the equity investors

POLICY MAKING

➢ **Key** infrastructure for the Expo 2015 in Milan
➢ No formal PPP unit but **combination** of funding sources (banks and institutional investors)
➢ Thorough **Due diligence** carried out estimating usage/traffic impact and social impact
➢ **Involvement** and approval of central government, regional government, local municipality and citizens

DEAL SUMMARY

➢ Roll-out of the **national fiber-optic broadband network**
➢ Total investment in excess of **€6.0bn** over 2018-2023
➢ **€510.0m** Bridge Financing signed on July 2017 with 3 banks including Société Générale
➢ **€3,5bn** Jumbo Financing with the 3 banks as **advisor and underwriter** of the **financing package** aimed at funding the entire 7 years investment plan

POLICY MAKING

➢ **Key** infrastructure to reduce the digital divide in Italy
➢ No formal PPP but presence of an Authority AGICOM and a grantor for the areas under a concession regime Infratel strongly contributing to **reducing regulatory/political risks**
➢ Thorough **Due diligence** carried out
➢ **Involvement** and approval of central government, regional government, local municipality, EIB, Authority and Grantor