

# L’Affaire Montedison

## Episode One

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### ■ *Il Capitalismo* Will Never Be the Same Again

We expect the Fiat/Montedison affair to radically re-shape Italian capitalism. Our report provides a brief description of the companies that might be most affected by the struggle for Montedison.

### ■ The Winners: Edison and Generali

In our view, two stocks that stand to benefit most from the deal are Edison and Generali. Despite a generous bidding price, Edison remains a cheap asset, particularly given EDF’s support for its expansion. Uncertainties over Mediobanca’s future heighten Generali’s appeal.

### ■ Game Over for Montedison

Italenergia, the newly formed company launching the bid, already owns over 52% of Montedison’s ordinary shares. Countermoves by Mediobanca can now only be limited in scope. And EDF’s minority stake in Italenergia (18%) should help assure approval from all regulatory bodies as well as the Italian government.

### ■ Takeover Prices: Setting Benchmarks for the Future

One key side effect of the bid on Montedison is the calculation of the “look-through” price for the secondary offer on Edison. Defined on the basis of the maximum price paid for Montedison shares by the bidders, the majority premium on the subsidiary is averaged only once. This ultimately favours the subsidiary’s minority shareholders.

#### Table of Contents

L’Affaire Montedison: Episode One	2
The French-Turin Connection	3
▪ Montedison	10
▪ Edison	12
▪ EDF	14
▪ Fiat	16
▪ HDP	18
▪ Generali	20
▪ Italmobiliare	22
▪ La Fondiaria	24
▪ Mediobanca	26
▪ Sai	28
▪ Unicredito	30

## L’Affaire Montedison: Episode One

We think the Fiat/Montedison affair will have a profound effect on the shape of Italian capitalism. Mediobanca no longer dominates the Italian market with its network of cross-holdings. To use founder Enrico Cuccia’s words, Mediobanca presided over a system where shares were “weighed rather than counted.”

This report provides a brief description of the companies that might be affected by the struggle for Montedison.

**Table 1: Montedison Game Players**

	Key Drivers	Rating
<b>Winners</b>		
Edison	Still a cheap asset. 20% discount to our fair value.	Buy
Generali	Could benefit from Mediobanca’s weaknesses	Buy
Fiat	Winner in the deal, discounted in the price	Under Review
<b>Losers</b>		
HDP	Overvalued with respect to fundamentals	Reduce
SAI	Destroyed over EUR400m (or 25% mkt cap pre-announcement) in Fondiaria’s purchase	Hold
Unicredito	Likely candidate for dilutive merger with Mediobanca	Hold
La Fondiaria	No news, no glory	Hold
Italmobiliare	Dependence from Mediobanca reflected in high discount to NAV	Hold
Mediobanca	Independence days might be over	Hold
Montedison	Game over	Hold

Source: Julius Baer

## The French-Turin Connection

The rumours that were circulating at the end of last week materialised over the weekend. The long-awaited bid on Montedison ordinary shares has finally been launched by a newly formed Italian/French group.

**Table 2: Key Players in the Fight for Montedison**

Italenergia and Allies	Stakes in Montedison	Mediobanca and Friends	Stakes in Montedison
Fiat	10%	Mediobanca	15%
EDF	10%	Generali	6%
Zaleski	10.20%	Pesenti group	3%
Deutsche Bank	3.10%	Private investors	6%
IntesaBCI, S. Paolo, B. di Roma	13.10%	SAI	3.10%
		Commerzbank	2%
		Unicredito Italiano	0.90%
		Compagnie Monegasques	0.80%
<b>Total</b>	<b>46%</b>	<b>Total</b>	<b>36%</b>

Source: Julius Baer

### The Structure of the Deal

**Newcomer Italenergia will own over 52% of Montedison ordinaries**

On July 2 a new company, Italenergia, announced an agreement whereby it owns a stake of over 52% of Montedison ordinary shares, according to official sources. As a consequence and as per Italy’s takeover law (article 106 of law 58/98, known as the Draghi law), Italenergia will launch:

- A compulsory public tender offer for all outstanding ordinary shares of Montedison (840,540,448 shares Italenergia does not own). The price for the tender is expected to be EUR2.82 per share, the average of the maximum price paid by the bidding group (EUR3.22) and the weighted average of the share price over the last 12 months (EUR2.42).
- A compulsory public tender offers on 388,918,231 Edison shares not owned by Montedison. the price for the Edison tender is EUR11.6 per share. the price was calculated as the simple average of the weighted average of the share price over the last 12 months (EUR10.794) and the weighted average of the share price over the last three months plus a 15% premium (EUR12.404).

The announced price for the tender is also consistent with the implied valuation of Edison at the highest price Italenergia paid for Montedison. This means the “look-through”price of Edison is EUR11.6 with Montedison at EUR3.22 and the rest of Montedison’s assets at market price (see below). Both tenders are unconditional.

## Takeover Prices: Setting Ground Rules for the Future

The takeover price for Montedison ordinary shares was calculated in accordance with article 106 of the Draghi law, Comma 2. We don’t see any major issues here. However, we believe that the most important development has been the way the bidders have decided to calculate the look-through price for the takeover of Edison.

This is in fact the first case of a compulsory takeover of a 30%-owned subsidiary. In the case of TI/TIM, market regulator Consob ruled out the takeover of TIM; in the Falck/Sondel deal, the Sondel take-out price (EUR3.85) was a voluntary price as the Falck bid was made at a price higher (EUR9) than the mandatory level (EUR8.4751).

Consob has never clarified whether the look-through price for the takeover of a 30%-owned listed subsidiary (Edison) must be calculated as the simple average of:

1. The weighted average of the share price over the last 12 months (EUR10.794) and the implied price of Edison, considering the EUR2.82 takeover price of Montedison. In this case the price would have been  $(10.794+10.00)/2=EUR10.4$ .

Or:

2. The weighted average of the share price over the last 12 months (EUR10.794) and the implied price of Edison, considering the maximum EUR3.22 price paid for Montedison shares by the bidders. In this case (as Italennergia’s official press release explains) the price would have been  $(10.794+11.62)/2=EUR11.21$ .

The price has been set at EUR11.60, with the simple look-through price of Montedison at EUR3.22 – that is without weighting it with the market prices of the subsidiary.

We acknowledge that this has been a favourable treatment to Edison shareholders with respect to the minimum requirement of the Draghi law.

More importantly, we understand from the Italennergia press release that the debate was conducted with the authorities (Consob) only on the basis of the alternative mentioned in point 2 above.

**This is of an utmost importance, as the majority premium on the subsidiary is averaged only once, and with the 12-month weighted average of the subsidiary itself.**

Therefore we think that this doubt has been finally cleared up, although we will contact Consob for more information. In any case, we maintain our view that Edison is a cheap asset.

## Edison: The Real Target

### Julius Baer Italia Valuation

**Bidding price for Edison is 5% below the all-time high, a generous price, given current market conditions**

The bidding price for Edison is EUR11.6, 5% below the all-time high (November 24, 2000). Therefore, it appears to be a generous price, given current market conditions. The price implies an EV/EBITDA of approximately 9X 2001 EBITDA.

However, in our opinion, this price factors in zero growth for Edison’s business. Our valuation methods lead to a range of different conclusions, both emphasizing a value well above the price for the tender. We ran two sets of valuations:

1. DCF valuation, with announced capex. This valuation also respects the incumbent management team’s (un-ambitious) targets, announced along with the business plan.
2. “Corporate raider valuation,” with normalised EBITDA, maintenance capex, disposal value of non-core assets and taxed OPFCF discounted for Edison’s WACC after the acquisitions of Sondel and Elettrogen (5.7% which assumes 0% perpetual growth). Alternatively, our discount rate equates to a hurdle rate of 8.2% (based on a risk-free rate of 5.5%, an equity risk premium of 3.5% and a beta of 0.8) less a 2.5% perpetual growth rate.

We included the integration of Sondel and the acquisition of Elettrogen in both scenarios.

In scenario 1, we reach a valuation of EUR14.44 per share. In scenario 2, the value is EUR17.94 per share.

Table 3: Edison Valuation (EURm)

## 1. Discounted Cash-Flow Analysis

Electricity	6,538
Natural gas	3,220
Edisontel	554
Sondel	1,682
Value enhancement from Sondel integration	612
Elettrogen	3,130
<b>Total enterprise value</b>	<b>15,736</b>
Non core assets	376
- Edison current net debt	(993)
- Sondel current net debt	(996)
- Acquisition cost of Elettrogen	(2,700)
- Minorities (55% of ISE)	(653)
<b>Total equity value</b>	<b>10,770</b>
Edison shares after Sondel merger (m)	745.7
<b>Value per share EUR</b>	<b>14.44</b>

Non Core Assets	% of Capital	No. Shares	Price	Market Value
AEM	5.00%	90.0	2.36	212.4
Acea	0.78%	1.66	8.85	14.7
Acsm	2.37%	0.87	2.79	2.4
Amga	3.00%	9.78	1.45	14.2
Acegas	2.00%	0.71	7.78	5.5
Olivetti	0.83%	60.4	2.10	126.7
<b>Total</b>				<b>375.9</b>

## 2. Corporate Raider Approach

	Electricity	Natgas	Telecoms	Sondel	Sulcis Project (50%)	Elettrogen	Total
Revenues	1,400	1,233	750	568	142	1,050	<b>5,143</b>
Normalised EBITDA	420	345	170	199	77	420	<b>1,632</b>
as a % of revenues	30%	28%	23%	35%	55%	40%	<b>32%</b>
- Maintenance capex	(30)	(25)	(8)	(10)	(1)	(15)	<b>(89)</b>
- Tax	(114)	(108)	(40)	(62)	(19)	(76)	<b>(419)</b>
Operating free cash flow	276	212	122	127	58	329	<b>1,124</b>
as a % of revenues	20%	17%	16%	22%	41%	31%	<b>22%</b>

Edison WACC (after Sondel and Elettrogen acquisition)	5.7%
Multiple of OPFCF	17.5
<b>Group enterprise value</b>	<b>19,719.9</b>
Non core assets	376
- Edison current net debt	(993)
- Sondel current net debt	(996)
- Acquisition cost of Elettrogen	(2,700)
- Repowering capex of Elettrogen	(900)
- Construction costs of Sulcis	(475)
- Minorities (55% of ISE)	(653)
<b>Total equity value</b>	<b>13,379</b>
Edison shares after Sondel merger (m) – Exchange ratio based on current market prices	745.7
<b>Value per share EUR</b>	<b>17.94</b>

Source: Julius Baer

## Montedison

## Why Is It Trading Above the Bidding Price?

At current market prices and taking the sale of a 29% stake of Fondiaria into account, Montedison’s NAV per ordinary share is EUR3.12. Assuming EBS at our target price of EUR117 and Edison at EUR15, Montedison’s NAV per ordinary share raises to EUR3.94. Montedison seems thus to offer an attractive long-term potential that expected changes in the management following Italennergia’s bid might accelerate.

## The Timetable

The clock will start ticking as soon as the prospectus is recognised by Consob and the stock market authority (Borsa Italiana) as legally correct (see below for passivity rule).

In terms of timing, we expect a maximum of 15 days, as the bid seems to have been well-prepared. As we go to print, a prospectus for both the Montedison and Edison offers has been presented to the authorities.

Timing for the offer is within 30 days of when the prospectus is recognised as complete (article 106, comma 2 of the Draghi law).

## EU/Regulatory Approval

Approval from the Italian and EU competition regulators would also be needed, but since EDF has no assets in Italy and Edison no assets abroad, no overlap is foreseen. As usual, the decision might take a long time (4-6 months), postponing the secondary offer for Edison until all approvals are received.

## What Is Italenergia?

Italenergia is the vehicle formed to launch the takeover on Montedison and Edison. Italenergia already owned 52.09% of Montedison as of July 1. All the shareholders transferred their respective stake in Montedison to Italenergia at a price of EUR3.22 per share, receiving the following stakes in the new company:

**Vehicle formed to launch takeover on Montedison and Edison already held 52.09% of Montedison as of July 2nd**

Table 2: Italenergia Shareholders		
	Stake in Italenergia	Stake in Montedison contributed
Fiat	38.61%	10.00%
EDF	18.03%	10.00%
Zaleski	20.01%	10.20%
IntesaBCI	5.99%	3.90%
San Paolo IMI	7.81%	4.40%
Banca di Roma	9.55%	5.40%
<b>Total</b>	<b>100%</b>	<b>43.9%</b>

Source: Julius Baer

Italenergia will therefore own roughly 9 14,020,828 Montedison shares, as well as the assets contributed by Fiat (see below) with no debt before the tender offers.

Italenergia’s total assets at the transfer price of Montedison shares (EUR3.22 per share) will be EUR2.943m plus around EUR500m as the value attributed to the power plants Fiat conferred.

The maximum debt figure if the Edison tender is successful is EUR2.84bn, with an additional EUR2.368bn if the Montedison bid is successful.

### Advisors

Lazard and Deutsche Bank advise Italergeria. Montedison is rumoured to have chosen Goldman Sachs rather than Mediobanca.

### EDF Hidden Reserves

Note that, surprisingly, Deutsche Bank (which has a 3.1% stake in Montedison) has not entered Italergeria, although according to a July 3 interview with Roman Zalesky these shares belong to EDF.

This stake is worth roughly EUR170m at EUR3.22 per Montedison share. The EDF stake in Italergeria would rise by a further 4.86% if these shares were transferred to the new company.

### The Fiat Bingo

**The asset swap has freed up some EUR550m in hidden value for Fiat**

In a first Step, Fiat got a 10% stake in Montedison, transferred by EDF in exchange for Fenice, a wholly-owned energy facility and industrial waste management company. This implies a valuation for Fenice of EUR565m based on a price of EUR3.22 per Montedison share.

Second, Fiat transferred its power generation assets to Italergeria (around 500MW), mainly owned through its 33% stake in Serene (400MW) and its 50% stake in Sogetel (100MW), in which Sondel controls 30% and 50% respectively.

Finally, Fiat transferred to Italergeria some industrial (brownfield) sites where new plants might be developed (100MW are currently under construction).

The combined effect of the asset swap has been to immediately free up some EUR550m in hidden value for Fiat, out of the total EUR1.102bn stake in Italergeria. This is why Fiat shares were up almost 8% on July 2, although the freed value represented only 5% of Fiat’s market cap prior to the announcement.

### Mediobanca’s: Bye-Bye Montedison...

As we suspected, Italergeria already controlled the majority of Montedison; therefore Mediobanca’s options for blocking the Fiat/EDF move were limited. Nonetheless, the few moves the group did make are difficult to understand.

Over the weekend Montedison’s board decided to:

- Sell the 29% stake in Fondiaria at EUR9.5 per share to SAI (EUR1.06bn).



- Sell the 35% stake in Dieci to French financier Vincent Bollore’ (EUR8 1m).

Proceeds raised amount to EUR1.14bn, with a gross (of 19% taxes) capital gain of EUR427m.

But far from blocking the takeover of Italernergia, we think these moves are a favour to the bidding group.

This is the first break-up we have seen in which the target company and its advisors find the buyers for the non-core assets at a very good price!

The rationale behind this move is difficult to understand, apart from the mania for keeping Fondiaria near Mediobanca (SAI).

Moreover, this move solves the problem of a theoretically compulsory bid on Fondiaria, as Montedison held more than 30% (article 106 comma 1 of the Draghi law). Suspicious, to say the least.

### **Passivity Rule & Legal War**

The game is not over until the prospectus is judged to be perfectly in order (or *completo* in Italian) by Consob and the Borsa Italiana.

Therefore, under Italian law, the target company can set up a takeover defence without the approval of Montedison’s shareholders. Mediobanca is rumoured to be willing to attempt a takeover bid of Edison minorities, EDF’s real target as well as the jewel in the crown of Montedison assets.

Yet in our view, any such move would not stop current Montedison majority shareholders (eg, Italernergia), but rather favour Edison minority shareholders.

Mediobanca & Friends could also try to raise a legal war with a blocking majority in the EGM (23%), although we do not give much credence to this scenario.

### **Italian Political Factors**

EDF’s minority stake in Italernergia (18%) should favour the government’s approval of the deal, after its sharp opposition at the time of EDF’s acquisition of a 20% stake in Montedison. The new company would therefore allow EDF to circumvent the law banning a state-owned foreign energy company from having more than 2% of voting rights in an Italian energy group.

Though we believe that Edison’s chances of winning the bid for Elettrogen remain low, the government’s expected green light to Italernergia’s move on Montedison should remove uncertainties over possible regulatory barriers Edison would have faced in its development strategy.

# Montedison

**Hold**

**EUR3.06**

Market Highlights		
Market Cap.	Number of Shares	Min./Max.
EUR6,103m	1,755m (ord.)+168m (sav.)	EUR2.08/3.56

Shareholders’ Structure							
Mediobanca	14%	Zaleski	10%	S. Paolo	4.4%	Deutsche B.	3.1%
EDF	10%	Generali	6.0%	B. Intesa	3.9%	Commerzbank	2.0%
Fiat	10%	B. Roma	5.4%	Sai	3.1%	Unicredit	0.9%

RIC Codes	
Reuters	Bloomberg
MO.MI	M IM

**Investment Thesis**  
 With a NAVPS at EUR3.12 and a potential break-up value of EUR3.7-3.8 per share, Italenergia’s bid looks modest. Should the stock price tumble below EUR3 on the back of the low price offered, we would buy Montedison with a long term view. Expected changes in management and EDF’s support to Edison’s development strategy would unlock further value.

## Approval Required

Italian and EU Antitrust. Italian government should also unofficially approve the deal, following its strong opposition at the time of EDF’s entry in Montedison capital. EDF’s new minority role in Italenergia should favour the government’s support.

## Deal Timetable

17th May 2001 EDF announces it owns a 4% stake in Montedison  
 23th May 2001 EDF announced it raised its stake to 20%  
 25th May 2001 Italian government limits EDF’s voting rights to 2%  
 2nd July 2001 EDF teams with Fiat to launch a bid for Montedison

## Deal Risks

EDF’s minority stake in Italenergia (18%) should favour approval from all regulatory bodies as well as from the Italian government.

Since Italenergia already owns close to 50% of Montedison, the success of the bid is not an issue.

Counteracts by Mediobanca might have only a slight impact, due to the majority stake Italenergia already controls.

## Valuation

At current market prices and taking into account the sale of a 29% stake of Fondiaria, Montedison NAV per ordinary share is EUR3.12. Assuming EBS at our target price of EUR117 and Edison at EUR15, Montedison NAV per ord share raises to EUR3.94.

<b>Montedison NAV</b>						
<b>(Prices as of June 29)</b>	<b>Shares m.</b>	<b>Stake %</b>	<b>Book Value EURm</b>	<b>Price EUR</b>	<b>Mkt. Value EURm</b>	<b>Gain/Loss EURm</b>
Edison	388.9	61.3%	1,767.4	10.9	4,225.6	2,458.2
EBS	13.1	50.3%	1,389.1	97.0	1,268.5	(120.6)
La Fondiaria ordinary	8.2	2.2%	48.5	6.1	50.3	1.8
Falck ordinary	91.9	79.6%	827.5	10.4	960.0	132.4
Sondel	53.1	79.6%	204.5	4.4	235.8	31.3
Assicurazioni Generali	8.1	0.7%	85.5	35.7	290.5	205.0
HDP	7.3	1.0%	10.0	4.6	33.4	23.4
Gemina	3.4	0.9%	4.5	1.2	4.1	(0.4)
<b>Sub-total listed stocks</b>			<b>4,322.5</b>		<b>7,030.7</b>	<b>2,708.2</b>
Ausimont		80.0%	784.0	-	784.0	-
Antibioticos		100.0%	33.8	-	n.m.	n.m.
Tecnimont		100.0%	118.3	-	325.8	207.5
Intermarine		100.0%	13.0	-	6.0	(7.0)
Others			648.0	-	648.0	-
<b>Sub-total unlisted stocks</b>			<b>1,597.1</b>		<b>1,763.8</b>	<b>200.5</b>
Total investments			5,919.6		8,794.4	2,908.6
Net debt					(2,531.3)	
Net assets					6,263.1	
						<b>EURm</b>
Unrealised capital gains (gross)						2,908.6
Taxes @ 19%						(552.6)
Unrealised capital gains (Net)						2,356.0
NAV (gross)						6,263.1
NAV (net)						5,710.5
Market value						6,103.3
<b>Discount on gross NAV</b>						<b>-2.6%</b>
<b>Discount on net NAV</b>						<b>6.9%</b>
						<b>EUR</b>
<b>Per share data</b>				<b>Ordinary</b>	<b>Savings</b>	<b>Overall</b>
Shares outstanding (m)				1,754.56	168.1385	1,922.7
Market weight				0.95	0.05	
BVPS				1.19	1.19	1.19
NAVPS (gross)				3.40	1.82	3.26
NAVPS (net)				3.10	1.66	2.97
<b>Price</b>				<b>3.309</b>	<b>1.77</b>	<b>3.31</b>
P/BV				2.78	1.48	2.66
P/NAV (gross)				1.02	0.54	0.97
P/NAV (net)				0.85	0.46	1.07

Source: Julius Baer

## Edison

**Buy**

**EUR11.42**

Market Highlights		
Market Cap.	Number of Shares	Min./Max.
EUR6,888m	634m	9.23 - 11.9

Shareholders’ Structure	
Montedison	61%

RIC Codes	
Reuters	Bloomberg
SELI.MI	SEL IM

### Investment Thesis

As the real target of Italenergia’s bid for Montedison, Edison should largely benefit from Montedison’s new shareholders structure. Fiat will contribute new sites for the construction of power plants as well as existing capacity (around 500MW). EDF’s support is evident, mainly in order to expand in foreign markets. The new stated target is to have at least 14GW of capacity, 40% higher than Edison’s previous goal.

### Approval Required

Not applicable - Indirectly the same as for Montedison (Italian competition, EU competition, Italian Government)

### Deal Timetable

Compulsory public tender offer for Edison’s shares will be launched by Italenergia at EUR11.6 per share, which has been based on the implied value of Edison at the highest price paid by EDF for Montedison shares (around EUR3.22).

### Deal Risks

EDF’s minority stake in Italenergia (18%) should favour approval from all regulatory bodies as well as from the Italian government.

Counteracts by Mediobanca might have slight impact, due to the majority stake Italenergia already controls.

### Valuation

Our DCF valuation of Edison’s current core business (electricity and gas) points to EUR11.6 per share. We also value Edisontel EUR0.9 per share. The planned merger with Sondel might enhance Edison’s valuation by a further EUR3 per share thanks to expected synergies and Sondel’s valuable expansion projects.

<b>Profit &amp; Loss Account</b>				
<b>(EURm)</b>	<b>2000</b>	<b>2001E</b>	<b>2002E</b>	<b>2003E</b>
Sales	2,397	2,981	3,129	3,127
Sales growth	63%	24%	5%	0%
EBITDA	718	868	915	834
EBITDA growth	11%	21%	6%	-9%
EBIT	487	592	621	522
of which goodwill amortisation	0.0	0.0	0	0
EBIT growth	11%	22%	5%	-16%
Net interest	(35)	(42)	(60)	(65)
Extraordinaries	68	0	0	0
Tax	(161)	(192)	(267)	(228)
Tax rate (%)	31%	35%	48%	50%
Associates	(6)	0	0	0
Minorities	(84)	(124)	(88)	(81)
Net profit - declared	269	234	206	148
Net profit - adjusted	201	234	206	148

Source: Julius Baer

<b>Balance Sheet</b>				
<b>(EURm)</b>	<b>2000</b>	<b>2001E</b>	<b>2002E</b>	<b>2003E</b>
Net fixed assets	2,208	2,743	2,971	3,030
Working capital	192	187	184	178
Shareholders' fund	2,052	2,194	2,301	2,341
Minorities	241	319	378	434
Provisions	30	8	22	37
Net financial position	(936)	(1,186)	(1,215)	(1,106)

Source: Julius Baer

<b>Cash Flow Statement</b>				
<b>(EURm)</b>	<b>2000</b>	<b>2001E</b>	<b>2002E</b>	<b>2003E</b>
Cash flow	591	634	588	542
Working capital requirements	(95)	5	3	6
Capex	(476)	(649)	(429)	(278)
Free operating cash flow	20	(11)	162	270
Financial investments	155	26	26	26
Others	(96)	(119)	(65)	(24)
Change in net financial position	311	250	29	(110)

Source: Julius Baer

## EDF

Market Highlights		
Market Cap.	Number of Shares	Min./Max.
na	na	na

Shareholders’ Structure	
French State	100%

RIC Codes	
Reuters	Bloomberg
na	na

**Investment Thesis**

Teaming up with Fiat helps EDF to circumvent the law limiting its voting rights to 2%, although it had to pay a hefty premium to the Italian lobbyists. Taking control of Edison will make EDF Italy’s second player in the Italian energy market. Although import is limited by capacity constraints at the border, EDF will offer a substantial support to Edison’s expansion ambitions, both financially and from an industrial point of view.

### Approval Required

Italian competition, EU competition, Italian Government

### Deal Timetable

17th May 2001 EDF announces it owns a 4% stake in Montedison  
 23th May 2001 EDF raises its stake to 20%  
 25th May 2001 Italian government limits EDF’s voting rights to 2%  
 2nd July 2001 EDF teams with Fiat to launch a bid for Montedison

### Deal Risks

Mediobanca’s options to block the Fiat/EDF move are limited. Even a takeover bid for Edison’s minority not yet owned by Montedison (39%) would eventually favour the new majority.

### Valuation

Not applicable



# Fiat

## Under Review (Positive)

EUR25.18

Market Highlights		
Market Cap.	Number of Shares	Min./Max.
EUR11,209m	367.4m (ord.)+103.3m (priv.)+79.9m (sav.)	EUR22.3/27.8

Shareholders’ Structure	
IFI/IFIL	28.4%
Syndacate	9.2%

RIC Codes	
Reuters	Bloomberg
FIA.MI	F MI

### Investment Thesis

FIAT is leading the Montedison take-over using a 40% controlled newco. FIAT conferred assets which have been valued at EUR1.0bn. The Agnellis used FIAT rather than other group holdings (IFI or IFIL), as FIAT Spa owned the energy assets transferred to Italenergia.

### Approval Required

See Montedison profile

### Deal Timetable

See Montedison profile

### Deal Risks

See Montedison profile

### Valuation

Under review. A one2one has been already arranged



<b>Profit &amp; Loss Account</b>				
<b>(EURm)</b>	<b>2000</b>	<b>2001E</b>	<b>2002E</b>	<b>2003E</b>
Sales	57,555	59,068	61,325	63,760
Sales growth (%)	19%	3%	4%	4%
EBITDA	4,645	4,785	5,493	6,087
EBITDA margin (%)	8%	8%	9%	10%
EBIT	855	1,053	1,652	2,156
of which goodwill amortisation	(110)	(110)	(110)	(110)
EBIT margin (%)	1%	2%	3%	3%
Net interest	(720)	(831)	(746)	(691)
Extraordinaries	915	650	150	150
Tax	(472)	(393)	(466)	(690)
Tax rate (%)	41%	40%	40%	40%
Associates	0	0	0	0
Minorities	86	50	(10)	(30)
Net profit - declared	664	529	580	895
Net profit - adjusted	55	49	400	715

Source: Julius Baer

<b>Balance Sheet</b>				
<b>(EURm)</b>	<b>2000</b>	<b>2001E</b>	<b>2002E</b>	<b>2003E</b>
Net fixed assets	37,241	34,362	34,311	34,315
Working capital	1,243	1,275	1,324	1,377
Shareholders' funds	13,320	13,426	13,612	14,076
Minorities	1,889	1,904	1,930	1,996
Provisions	16,804	16,804	16,804	16,804
Net debt (cash)	6,470	3,504	3,288	2,815
Gearing	42.5%	22.9%	21.2%	17.5%

Source: Julius Baer

<b>Cash Flow Statement</b>				
<b>(EURm)</b>	<b>2000</b>	<b>2001E</b>	<b>2002E</b>	<b>2003E</b>
Cash flow	3,630	4,101	4,321	4,747
Working capital requirements	732	33	49	53
Capex	3,336	3,544	3,680	3,826
Free operating cash flow	(438)	525	593	868
Financial investments	1,700	500	500	500
Others	(301)	2,942	124	105
Change in net financial position	2,439	(2,966)	(216)	(473)

Source: Julius Baer

## HDP

### Reduce

EUR4.76

Market Highlights		
Market Cap.	Number of Shares	Min./Max.
EUR3,420m	731.2m (ord.)+ 29.4m (sav.)	EUR1.1/5.1

Shareholders’ Structure			
Sicind (FIAT)	11.2%	Caltagirone	5.3%
Mediobanca	10.4%	Pesenti	4.8%
Gemina	7.2%	Generali	2.5%

RIC Codes	
Reuters	Bloomberg
HPL.MI	HPI IM

### Investment Thesis

In recent days FIAT clearly stated that it was getting fed up with the way HDP is run by Mediobanca’s guys and it wants back control on RCS. We also note that the Caltagirone family (not linked to the Agnelli) has already bought more than 5%.

### Approval Required

Caltagirone may face Anti-Trust as it controls two other leading newspaper in Italy. FIAT doesn’t need any particular approval (it owns only one newspaper).

### Deal Timetable

FIAT, Pirelli, Mittel and IntesaBCI (totalling together around 17%) announced their intention to exit from HDP’s shareholders agreement which should have ended in June 2002. We expect the pact to terminate by year-end.

### Deal Risks

Following Montedison’s battle, we don’t expect FIAT and Mediobanca to reach any agreement on HDP. Be prepared for a new battle.

### Valuation

Although we believe that HDP’s control will change hands in the coming months, we would exclude any particular upside. The stock is trading at a 5% premium to its NAV (RCS valued at EUR2.3bn at premium on L’Espresso and Mondadori). Reduce.

<b>HDP NAV</b>						
(Prices as of June 29)	Shares m.	Stake %	Book Value EURm	Price EUR	Mkt. Value EURm	Gain/Loss EURm
Banca Intesa ordinary	52.9	0.93%	175.5	4.2	221.0	45.6
Pirelli & C. ordinary	33.6	5.45%	47.4	3.2	108.0	60.6
Fila	75.8	54.59%	39.4	0.9	66.2	26.9
HDP SpA	13.8	1.81%	47.4	4.6	62.7	15.3
<b>Sub-total listed stocks</b>			<b>309.6</b>		<b>458.0</b>	<b>148.3</b>
RCS	193.6	100.00%	100.0	-	2,307.0	2,207.0
GFT net	315.6	100.00%	132.9	-	287.0	154.1
Real estate		51.00%	9.2	-	9.2	-
Others			217.0	-	217.0	-
H3G	6.4	1.00%	33.0	-	33.0	-
<b>Sub-total unlisted stocks</b>			<b>492.1</b>		<b>2,853.2</b>	<b>2,361.1</b>
Total investments			801.7		3,311.2	2,509.5
Net financial position (sub-holdings included)					417.0	
Net assets					3,728.2	
						<b>EURm</b>
Unrealised capital gains (gross)						2,509.5
Taxes @ 19%						(476.8)
Unrealised capital gains (Net)						2,032.7
NAV (gross)						3,728.2
NAV (net)						3,251.4
Market value						3,421.3
<b>Discount on gross NAV</b>						<b>-8.2%</b>
<b>Discount on net NAV</b>						<b>5.2%</b>
						<b>EUR</b>
<b>Per share data</b>				<b>Ord</b>	<b>Sav</b>	<b>Overall</b>
Shares outstanding (m)				731.2	29.4	760.6
Market weight				0.97	0.03	
BVPS				1.71	1.71	1.71
NAVPS (gross)				4.97	3.20	4.90
NAVPS (net)				4.33	2.79	4.28
<b>Price</b>				<b>4.56</b>	<b>2.94</b>	
P/BV				2.66	1.72	2.63
P/NAV (gross)				0.93	0.60	0.92
P/NAV (net)				1.07	0.69	1.05

Source: Julius Baer

## Generali

**Buy**

**EUR36.93**

Market Highlights		
Market Cap.	Number of Shares	Min./Max.
EUR44,683m	1,253m	32.2/42.5

Shareholders’ Structure			
Consortium	4.3%	Spafid	5.2%
Capital Group	2.0%	Mediobanca	10.1%
Montedison	2.0%	Banca d’Italia	4.7%

RIC Codes	
Reuters	Bloomberg
GASI.MI	G MI

### Investment Thesis

The uncertainty related to Mediobanca future, leverages the appeal for Generali, the jewel of the crown.

### Approval Required

Not applicable at the moment.

Possibly, Italian Competition, EU Competition and Isvap (Italian insurance watchdog).

### Deal Timetable

Not applicable at the moment.

### Deal Risks

Not applicable at the moment.

### Valuation

We maintain our Buy with a target of EUR42 per share.

<b>Profit &amp; Loss Account</b>				
<b>(EURm)</b>	<b>2000</b>	<b>2001E</b>	<b>2002E</b>	<b>2003E</b>
Total revenues	44,351	48,451	52,935	59,936
Premiums written	44,351	48,451	52,935	59,936
Net premiums earned	41,906	45,780	50,017	56,631
Net investment income	8,304	10,643	14,475	15,022
Other income	(219)	(230)	(241)	(253)
Total income	49,991	56,193	64,250	71,401
Claims paid to customers	(26,830)	(29,457)	(32,123)	(34,282)
Underwriting costs	(12,459)	(14,329)	(17,297)	(19,391)
Amortization of goodwill	0	0	0	0
Other expenses	(7,985)	(9,564)	(11,526)	(13,974)
Pre-tax profits	2,717	2,842	3,304	3,753
Taxes	(969)	(1,163)	(1,338)	(1,605)
Minority interests	(323)	(323)	(323)	(323)
Net income	1,425	1,356	1,643	1,825
Adjusted net income	1,425	1,356	1,643	1,825

Source: Julius Baer

<b>Balance Sheet</b>				
<b>(EURm)</b>	<b>2000</b>	<b>2001E</b>	<b>2002E</b>	<b>2003E</b>
Total investments	183,645	205,101	231,086	274,133
Total assets	218,991	246,926	281,403	335,674
Shareholders equity	9,044	10,041	11,191	12,419
Minority interest	2,778	2,778	2,778	2,778
Total reserves	131,342	144,492	158,958	184,411
Total liabilities	218,991	246,926	281,403	335,674

Source: Julius Baer

<b>Ratios</b>				
<b>(%)</b>	<b>2000</b>	<b>2001E</b>	<b>2002E</b>	<b>2003E</b>
Non Life claims ratio	81%	82%	82%	82%
Non Life expense ratio	30%	36%	42%	50%
Non Life combined ratio	111%	117%	124%	132%
Investments / Premiums	438%	448%	462%	484%
Shareholders equity + techn. Reserves / Premiums	406%	407%	409%	413%
Pay out (%)	25%	36%	36%	36%
ROE (%)	18%	16%	15%	15%

Source: Julius Baer

## Italmobiliare

**Hold**

**EUR36.08**

Market Highlights		
Market Cap.	Number of Shares	Min./Max.
EUR1,118m	35.92m (ord.)+19.67m (sav.)	EUR22.3/37.4

Shareholders’ Structure		
Presenti	42.3% Serfis	7.6%
Mediobanca	8.1% Presenti (savings)	44.4%

RIC Codes	
Reuters	Bloomberg
ITMI.MI	ITM MI

### Investment Thesis

Italmobiliare is now one of the few Mediobanca’s allies after the Montedison affair. We fear that it could be soon asked to take position, either providing funds for the warchest or taking stakes without any strategic rationale.

### Approval Required

Not applicable

### Deal Timetable

Not applicable

### Deal Risks

Not applicable

### Valuation

We still believe that Italmobiliare's stock still offers an interesting upside as it trades at some 50% discount on its NAV. However, we believe that the strict alliance with Mediobanca might be the main driver for Italmobiliare stock rather than its fundamentals, at least for the time being.

Italmobiliare NAV						
(Prices as of June 29)	Shares m.	Stake %	Book Value EURm	Price EUR	Mkt. Value EURm	Gain/Loss EURm
Italcementi	100.2	56.59%	338.0	9.2	926.7	588.7
Mittel	5.0	12.91%	7.1	3.6	17.9	10.8
Gemina	8.5	2.34%	12.2	1.2	10.4	(1.8)
Generale Industrie Metallurgiche	6.2	4.16%	7.0	1.1	7.1	0.1
HDP	18.7	2.55%	33.0	4.6	85.1	52.1
Mediobanca	7.4	1.22%	54.2	12.6	92.8	38.6
Montedison	53.3	3.04%	79.1	3.3	176.4	97.3
IntesaBCI	15.8	0.27%	62.0	4.2	66.3	4.3
Unicredito Italiano	85.4	1.71%	84.1	5.1	434.6	350.5
Italmobiliare	0.9	4.01%	20.7	35.9	32.0	11.3
Other			6.5		11.9	9.8
<b>Sub-total listed stocks</b>			<b>703.9</b>		<b>1,861.2</b>	<b>1,157.3</b>
Italmobiliare International Finance Ltd	0.25	100.0%	-		-	-
Intermobiliare	1.00	100.0%	-		-	-
SAB Autoservizi	22.50	100.0%	20.6		50.0	29.4
Sirap Gema	2.33	100.0%	36.7		75.0	38.3
Societe de Participation Financiere	4.29	99.9%	-		-	-
Credit Mobilier Monegasque	n.a.	100.0%	5.3		5.3	-
Nuove Costruzioni Edilizie SANCE	0.07	100.0%	5.1		5.1	-
Sigesa	2.27	29.0%	19.8		19.8	-
Societa Editrice Siciliana	0.03	33.0%	9.5		9.5	-
Fin. Priv. Srl	0.00	12.5%	10.0		10.0	-
Consortium			20.0		20.0	
Dieci			15.0		15.0	
Sesaab Editrice	1.57	10.0%	9.3		9.3	-
Finterbank	na	100.0%	57.3		175.0	117.7
Populonia Italica	1.04	100.0%	1.1		1.1	-
Punta Ala Promozione e Sviluppo	1.29	99.5%	1.3		10.0	8.7
<b>Sub-total unlisted stocks</b>			<b>211.2</b>		<b>413.2</b>	<b>202.0</b>
<b>Total investments</b>			<b>915.0</b>		<b>2,274.4</b>	<b>1,359.3</b>
Net financial position (sub-holdings included)					102.3	
<b>Net assets</b>					<b>2,376.7</b>	
						<b>EURm</b>
Unrealised capital gains (gross)						1,359.3
Taxes @ 19%						(258.3)
Unrealised capital gains (Net)						1,101.1
NAV (gross)						2,376.7
NAV (net)						2,118.4
Market value						1,118.1
<b>Discount on gross NAV</b>						<b>-53.0%</b>
<b>Discount on net NAV</b>						<b>-47.2%</b>
						<b>EUR</b>
<b>Per share data</b>				<b>Ordinary</b>	<b>Savings</b>	<b>Overall</b>
Shares outstanding (m)				22.2	16.3	38.5
Market weight				0.71	0.29	
BVPS				23.30	23.30	23.30
NAVPS (gross)				76.35	41.81	61.70
NAVPS (net)				68.06	37.27	55.00
<b>Price</b>				<b>35.92</b>	<b>19.67</b>	
P/BV				1.54	0.84	1.25
P/NAV (gross)				0.58	0.32	0.47
P/NAV (net)				0.65	0.36	0.53

Source: Julius Baer

## La Fondiaria

**Hold**

**EUR6.07**

Market Highlights		
Market Cap.	Number of Shares	Min./Max.
EUR2,420m	384.871 (ord.)+ 13.449 (sav.)	EUR4.98/6.69

Shareholders’ Structure			
Premafin	2.1%	Banca d’Italia	2.3%
Promofinan	5.8%	Mediobanca	13.8%
Sai	31.1%	Mkt	42.8%
Montedison (through Milano Assicurazioni)	2.1%		

RIC Codes	
Reuters	Bloomberg
IASI.MI	FAS MI

### Investment Thesis

Montedison has announced that it will sell its 29% stake in Fondiaria to Sai for a total consideration of EUR1059m. This Mediobanca driven decision aims at securing Fondiaria’s control on the back of Montedison take-over.

### Approval Required

Italian Competition, EU Competition and Isvap (Italian Insurances wacthdog).

### Deal Timetable

The acquisition should be split in two phases: 1) purchase of 7% of Fondiaria or (26m) shares on announcement date; 2) the remaining offer for 85.5ml shares or 22% of Fondiaria is conditioned to ISVAP and Antitrust authorisations.

### Deal Risks

Sai confirmed that after the deal with Montedison, they are committed to remain under the 30% limit to avoid the compulsory bid. Having already 2.07% of Fondiaria, Sai would exceed the 30% limit with the 29% purchase. Therefore we expect Sai either to reduce the stake below that level or it might be forced to launch a compulsory tender offer for the 69% it wouldn’t own.

### Valuation

Fondiaria's 29% stake has been valued at extremely high multiples of 26.2x 2001 and 2.3x 2001 embedded value with a premium of 55.2% versus the market price. We believe that the valuation of Fondiaria does not reflect the economics of the business, but Mediobanca strategies. We believe that this huge premium is justified only by 1) the need to raise the implicit NAV for Montedison and 2) to prevent any other hostile bids on Fondiaria (possible from Credit-Suisse-Winthertur).



<b>Profit &amp; Loss Account</b>				
<b>(EURm)</b>	<b>2000</b>	<b>2001E</b>	<b>2002E</b>	<b>2003E</b>
Total revenues	3,141	3,232	3,268	3,465
Premiums written	3,141	3,232	3,268	3,465
Net premiums earned	2,992	3,078	3,112	3,300
Net investment income	760	874	1,140	1,166
Other income	(99)	(104)	(109)	(114)
Total income	3,652	3,848	4,143	4,352
Claims paid to customers	(1,983)	(1,905)	(1,962)	(1,961)
Underwriting costs	(818)	(973)	(1,070)	(1,070)
Amortization of goodwill	0	0	0	0
Other expenses	(668)	(773)	(881)	(1,005)
Pre-tax profits	184	197	230	315
Taxes	(3)	(3)	(3)	(5)
Minority interests	(49)	(49)	(49)	(49)
Net income	132	144	177	261
Adjusted net income	132	144	177	261

Source: Julius Baer

<b>Balance Sheet</b>				
<b>(EURm)</b>	<b>2000</b>	<b>2001E</b>	<b>2002E</b>	<b>2003E</b>
Total investments	12,718	14,429	16,132	19,304
Total assets	14,415	16,196	18,000	21,308
Shareholders equity	957	1,084	1,231	1,455
Minority interest	301	301	301	301
Total reserves	5,927	6,774	7,538	9,143
Total liabilities	14,415	16,196	18,000	21,308

Source: Julius Baer

<b>Ratios</b>				
<b>(%)</b>	<b>2000</b>	<b>2001E</b>	<b>2002E</b>	<b>2003E</b>
Non Life claims ratio	75%	70%	65%	50%
Non Life expense ratio	32%	38%	45%	52%
Non Life combined ratio	107%	108%	110%	102%
Investments / Premiums	425%	469%	518%	585%
Shareholders equity + techn. Reserves / Premiums	409%	425%	443%	468%
Pay out (%)	22%	21%	21%	21%
ROE (%)	9%	14%	15%	19%

Source: Julius Baer

## Mediobanca

**Hold**

**EUR13.05**

Market Highlights		
Market Cap.	Number of Shares	Min./Max.
EUR8,116m	642.2m	EUR9.6 / 14.7

Shareholders’ Structure	
Banca di Roma	9.4%
Unicredito	9.2%
Pesenti	2.5%

RIC Codes	
Reuters	Bloomberg
MDBI.MI	MB IM

### Investment Thesis

After just one year since Mr. Cuccia’s death, Mediobanca is under siege with just few friends left, including Unicredito, Generali, Italmobiliare and SAI. Independence days might be over. Although it is the leading Investment bank in Italy, the market has traditionally valued Mediobanca on its NAV, giving no value to Mediobanca core banking activities and no premium for the controlling stake in Generali.

### Approval Required

Not applicable

### Deal Timetable

Following Montedison’s battle, we expect Mediobanca to become a take-over target itself. As a defensive move, we believe that Mediobanca might end up merging with Unicredito in the coming months.

### Deal Risks

Not applicable

### Valuation

Mediobanca is trading at some 10% discount to its NAV. Core banking activities might be valued as high as EUR2.0bn. Considering that in the NAV calculation, no premium for control has been given to Generali, we wouldn’t exclude further significant upside for Mediobanca’s stock, despite its recent rally.

Mediobanca NAV							
(Price as of July 2)	Shares (m)	% Stake	BV ITLbn	BV	Price (EUR)	Mkt Value (EURm)	Gain/Loss (EURm)
Assicurazioni Generali (Euralux stake)	48.87	3.90%	2,886	1,490	36.65	1,791	301
Assicurazioni Generali	128.18	10.23%	1,129	583	36.65	4,698	4,115
Banca di Roma	106.47	1.95%	259	134	3.75	399	266
Banca Intesa ord	53.00	0.91%	416	215	4.20	222	7
BNL	0.51	0.02%	4	2	3.72	2	0
Cofide ord.	14.43	2.55%	14	7	0.80	11	4
Enel	1.30	0.01%	11	6	3.63	5	(1)
FIAT ord.	11.06	3.16%	168	87	24.62	272	186
Finmeccanica	82.45	0.98%	221	114	1.08	89	(25)
Gemina ord.	46.13	12.66%	126	65	1.20	55	(9)
GIM ord.	3.90	2.63%	8	4	1.15	4	0
HdP ord.	318.43	11.32%	269	139	4.51	1,436	1,298
Italmobiliare ord.	2.11	9.50%	67	35	36.18	76	42
La Fondiaria Assicurazioni ord.	51.16	13.29%	349	180	6.08	311	131
Marzotto ord.	1.00	1.51%	6	3	13.91	14	11
Mediolanum	14.30	1.97%	470	243	11.93	171	(72)
Montedison ord.	254.29	14.50%	743	384	3.27	832	448
Olivetti ord.	69.95	1.01%	384	198	2.10	147	(51)
Pininfarina ord.	0.24	1.33%	2	1	27.03	7	6
Pininfarina sav. Convertible	0.39	89.78%	3	1	44.50	17	16
Pirelli & C. ord.	28.18	4.84%	78	40	3.24	91	51
Ratti	2.86	9.17%	9	5	1.17	3	(2)
Safilo ord.	7.66	7.48%	98	51	12.43	95	44
SAI ord.	1.33	2.16%	39	20	18.05	24	4
Snia BPD ord	6.98	1.39%	13	7	2.14	15	8
Stefanel ord.	2.46	2.27%	7	4	1.26	3	(1)
Warrant Immobiliare Lombarda 99/03	1.91		0	0	0.22	0	0
Warrant Put Intesa-Bci	7.25		17	9	0.85	6	(3)
Listed stocks (Italy)			4,910	2,536		9,009	6,774
Allianz A.G. Holding	0.40	0.16%	113	58	346.70	137	79
Amb	0.25	0.46%	44	23	124.00	30	8
Ciments Francais	4.37	11.38%	285	147	51.45	225	78
Commezbank	6.20	1.15%	350	181	29.85	185	4
Koenig & Bauer	0.36	4.50%	7	3	26.52	10	6
Societe' de la Rue Imperiale de Lyon	7.82	1.28%	6	3	35.00	274	271
<b>Listed stocks (foreign)</b>			<b>805</b>	<b>416</b>		<b>861</b>	<b>446</b>
<b>Non listed companies</b>			<b>430</b>	<b>222</b>		<b>222</b>	<b>0</b>
<b>Total</b>				<b>3,173</b>		<b>10,092</b>	<b>6,919</b>
							<b>EURm</b>
Unrealised capital gains (gross)							7,219
Taxes @ 19%							(1,372)
Unrealised capital gains (net)							5,848
Shareholders equity							3,489
NAV (gross)							10,708
NAV (net)							9,337
Market value							8482
<b>Discount on net NAV</b>							<b>-9.2%</b>
<b>Discount on gross NAV</b>							<b>-20.8%</b>
<b>Per share data</b>							<b>EUR</b>
Shares outstanding							642.2
BVPS							5.43
NAVPS (gross)							16.68
NAVPS (net)							14.54
Discount on net NAV							-9.2%
Discount on gross NAV							-20.8%
<b>Price</b>							<b>13.21</b>
P/BV							2.43
P/NAV (gross)							0.79
P/NAV (net)							0.91

Source: Julius Baer

## Sai

### Hold

EUR17.25

Market Highlights		
Market Cap.	Number of Shares	Min./Max.
EUR1,486m	61.350 (ord.)+ 36.3 (sav.)	EUR15.8/21.55

Shareholders’ Structure			
Premafin	51.45%	Montedison (through La Fondiaria)	2.02%
Goldman	4.896%	Mediobanca	2.15%
Generali	3.11%	Mkt	36.37%

RIC Codes	
Reuters	Bloomberg
SII.MI	SA IM

### Investment Thesis

Sai will offer EUR9.5 per share for 29% of La Fondiaria, the insurance arm of Montedison. Sai would pay the highest between EUR9.5 per share or the implied price for Fondiaria of any eventual bid for Montedison or any direct bid on the insurer, plus a 10% premium. The stake is worth EUR1,059m.

### Approval Required

Italian Competition, EU Competition and Isvap (Italian Insurances watchdog).

### Deal Timetable

See Fondiaria

### Deal Risks

Sai confirmed that after the deal with Montedison, they will remain under the 30% limit to avoid the compulsory bid. Since they already have a 2.07% stake in Fondiaria, we expect SAI either to reduce the stake below that level or it might be forced to launch a compulsory tender offer for the 69% it wouldn’t own.

### Valuation

Although we still do not like SAI’s business mix (75.5% P&C, 24.5% Life, only Eur453m in Aum), we believed that the stock was trading cheap (pre Fondiaria purchase) as its market cap was barely equally to its financial investments. Hence, insurance business came for free. But, as we believe that Fondiaria’s 29% stake has been valued at extremely high multiples, we think that Sai share price could suffer in the short term. All in all, we regard the current news as extremely disappointing for Sai, confirming all our doubts on the group’s strategic outlook and on its independence from Mediobanca.

<b>Profit &amp; Loss Account</b>				
<b>(EURm)</b>	<b>2000</b>	<b>2001E</b>	<b>2002E</b>	<b>2003E</b>
Total revenues	3,586	3,950	4,271	4,828
Premiums written	3,586	3,950	4,271	4,828
Net premiums earned	3,283	3,616	3,910	4,419
Net investment income	412	557	736	692
Other income	(21)	(22)	(23)	(24)
Total income	3,673	4,151	4,622	5,087
Claims paid to customers	(2,376)	(2,591)	(2,852)	(2,933)
Underwriting costs	(541)	(700)	(784)	(1,050)
Amortization of goodwill	0	0	0	0
Other expenses	(595)	(686)	(779)	(884)
Pre-tax profits	161	173	208	220
Taxes	(73)	(72)	(86)	(91)
Minority interests	(0)	(0)	(0)	(0)
Net income	88	101	122	129
Adjusted net income	88	101	122	129

Source: Julius Baer

<b>Balance Sheet</b>				
<b>(EURm)</b>	<b>2000</b>	<b>2001E</b>	<b>2002E</b>	<b>2003E</b>
Total investments	9,635	10,157	10,602	12,552
Total assets	11,106	11,776	12,412	14,608
Shareholders equity	1,114	1,212	1,329	1,452
Minority interest	56	56	56	56
Total reserves	3,917	4,006	3,977	4,693
Total liabilities	11,106	11,776	12,412	14,608

Source: Julius Baer

<b>Ratios</b>				
<b>(%)</b>	<b>2000</b>	<b>2001E</b>	<b>2002E</b>	<b>2003E</b>
Non Life claims ratio	82%	80%	78%	67%
Non Life expense ratio	21%	22%	22%	23%
Non Life combined ratio	103%	102%	101%	90%
Investments / Premiums	294%	281%	271%	284%
Shareholders equity + techn. Reserves / Premiums	289%	284%	278%	280%
Pay out (%)	4%	5%	5%	5%
ROE (%)	8%	9%	10%	9%

Source: Julius Baer

## Unicredito

### Hold

EUR5.03

Market Highlights		
Market Cap.	Number of Shares	Min./Max.
EUR25,521m	5,002m (ord.)+ 21.7m (sav)	EUR4.65/5.93

Shareholders’ Structure			
Fondazione CRT	14.5%	Allianz	3.1%
Spafid	2.5%	Mkt	57.6%
Fondazione CRV	19.3%		

RIC Codes	
Reuters	Bloomberg
CRDI.MI	UC IM

### Investment Thesis

Mediobanca could call on Unicredito’s majority shareholders, the three Foundations holding 36.9% of capital, to find support for a possible counter bid for Montedison or to try to lock up its shareholder structure. Indeed, at the moment Banca di Roma (Mediobanca’s largest shareholder with a 9.36% stake) could be quite a dangerous shareholder for Mediobanca management.

### Approval Required

Not applicable at the moment.

Possibly, Italian Competition, EU Competition and Banca d'Italia.

### Deal Timetable

Not applicable at the moment.

### Deal Risks

There are two possible scenarios for Unicredito, both negative: 1) Direct or Indirect participation through the Foundations, in a counter bid for Montedison. This could be a likely scenario if the war for Montedison is considered crucial for the survival of Mediobanca. 2) Strengthening cross-shareholdings with Mediobanca. At the moment, Unicredito owns 9.220% of Mediobanca. This could be possible if Mediobanca does not consider its shareholding structure to be stable. A possible merger between Unicredito and Mediobanca could be worth at an exchange ratio of around 3x based on our valuation.

### Valuation

We maintain our neutral view on Unicredito considering that both possibilities, although remote at the moment, could be negative for Unicredito share price. The stock is trading at 16.1x and 13.7x our earnings estimates respectively, with 9.3% and 19.4% premiums versus the Italian Banking Average.

<b>Profit &amp; Loss Account</b>				
<b>(EURm)</b>	<b>2000</b>	<b>2001E</b>	<b>2002E</b>	<b>2003E</b>
Net interest income	4,669	4,839	5,052	5,321
Net fee & commission income	3,339	3,573	3,966	4,362
Net trading income	638	606	636	675
Net insurance income	0	0	0	0
Other net income/expenses	657	702	745	798
Revenues before risk provisions	9,304	9,720	10,399	11,156
GOP	4,437	4,453	5,013	5,679
Provisions	(1,384)	(1,071)	(970)	(825)
EBET	3,053	3,382	4,043	4,854
Extraordinaries	226	52	0	0
Tax	(1,435)	(1,414)	(1,665)	(2,048)
Associates	15	16	18	22
Minorities	(464)	(483)	(569)	(683)
Net profit - declared	1,395	1,552	1,828	2,145
Net profit - adjusted	1,259	1,521	1,828	2,145

Source: Julius Baer

<b>Balance Sheet</b>				
<b>(EURm)</b>	<b>2000</b>	<b>2001E</b>	<b>2002E</b>	<b>2003E</b>
Total assets	202,656	219,424	234,531	244,897
Risk weighted assets	121,804	131,882	140,961	147,192
Shareholders' fund	9,547	10,596	11,833	13,147
Customers loans	115,157	128,976	141,873	153,223
Non performing loans	4,636	5,073	5,286	5,392
Due to customers	83,103	93,906	101,419	104,462

Source: Julius Baer

<b>Ratios</b>				
<b>(%)</b>	<b>2000</b>	<b>2001E</b>	<b>2002E</b>	<b>2003E</b>
Net interest income/ Total revenues	50.2%	49.8%	48.6%	47.7%
Cost/income ratio	52.3%	54.2%	51.8%	49.1%
Annual risk provisions as % of GOP	31.2%	24.1%	19.3%	14.5%
Total loans as % of total assets	56.8%	58.8%	60.5%	62.6%
NPL as % of total loans	4.0%	3.9%	3.7%	3.5%
Risk provisions as % of NPL	48.9%	48.8%	49.3%	0.0%
BIS Tier 1 ratio	7.8%	8.0%	8.3%	9.0%

Source: Julius Baer

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