



CFA Institute

CFA Institute Research Challenge

hosted by
CFA Society Italy

The Smarties Team

The CFA Institute Research Challenge is a global competition that tests the equity research and valuation, investment report writing, and presentation skills of university students. The following report was prepared in compliance with the Official Rules of the CFA Institute Research Challenge, is submitted by a team of university students as part of this annual educational initiative and should not be considered a professional report.

Disclosures:

Ownership and material conflicts of interest

The author(s), or a member of their household, of this report does not hold a financial interest in the securities of this company. The author(s), or a member of their household, of this report does not know of the existence of any conflicts of interest that might bias the content or publication of this report.

Receipt of compensation

Compensation of the author(s) of this report is not based on investment banking revenue.

Position as an officer or a director

The author(s), or a member of their household, does not serve as an officer, director, or advisory board member of the subject company.

Market making

The author(s) does not act as a market maker in the subject company's securities.

Disclaimer

The information set forth herein has been obtained or derived from sources generally available to the public and believed by the author(s) to be reliable, but the author(s) does not make any representation or warranty, express or implied, as to its accuracy or completeness. The information is not intended to be used as the basis of any investment decisions by any person or entity. This information does not constitute investment advice, nor is it an offer or a solicitation of an offer to buy or sell any security. This report should not be considered to be a recommendation by any individual affiliated with CFA Society Italy, CFA Institute, or the CFA Institute Research Challenge with regard to this company's stock.



BUY

Current price (07/02/2021): € 25,90
Target Price: € 37
Potential upside: 43 %
Dividend Yield: 3,2%

Millions	2019 A	2020 E	2021 E	2022 E	2023 E	2024 E	2025 E
Revenues	1.023 €	1.008 €	1.023 €	1.025 €	1.046 €	1.067 €	1.088 €
EBIT	235 €	230 €	237 €	250 €	255 €	260 €	265 €
Margin	23%	23%	23%	24%	24%	24%	24%
Net Income	110 €	99 €	103 €	112 €	114 €	117 €	119 €
Margin	11%	10%	10%	11%	11%	11%	11%
EPS	0,69 €	0,67 €	0,69 €	0,75 €	0,77 €	0,78 €	0,80 €
P/E	91 €	51 €	50 €	46 €	45 €	44 €	43 €
EV/EBIT	28x	24x	24x	23x	22x	22x	21x
ROCE	6%	6%	6%	6%	7%	7%	7%

BUY? The answer is overwhelmingly blowing in the wind

We initiated our coverage with a BUY recommendation on ERG SpA with a target price of €37, representing a 43% potential upside from the current price. ERG is an Italian company leader in the renewable energy and our valuation of the company is mainly based on discounted cash flow (DCF) model which better embodies the uniqueness of the company's value with an independent insight from market perspective - does not reflect the true potential of the firms in the alternative energy sector. For this reason, we go deeply in adjusting our models by ESG factors. We complete the valuation with a SOTP, Multiple analysis and a DDM.



Listed on: Italian Stock Exchange
Ticker: ERG-IT (FDS); ERG:IM (BB)
Sector/Industry: Utilities / Alternative Power Generation

MAIN SHAREHOLDERS (TOP 5)

Garrone Family	63,5%
Azimut Holding	2,25%
Norges Bank	1,60%
Handelsbanken Fonder	1,14%
The Vanguard Group	0,97%

MARKET DATA

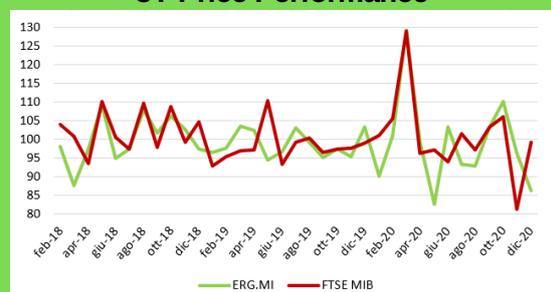
Market Cap (€bn)	3.397
Shares outstanding	148,9
Free float	36,5%
52 Week Standard Deviation	40,84%

STOCK DATA

52 Week Range H/L	€13.17 - 23.48
Avg. Daily Volume (3m)	0.2 Mil.

	2020E	2021E	2022E
EPS	0,67	0,69	0,75
DPS	0,75	0,75	0,75
P/E	51,55	49,7	45,7

3Y Price Performance



Source: Eikon, Team Elaboration

Italy: The green is not only in the flag

ERG's strong presence in Italy and its singularity in providing renewable energy, are the main factors that drive revenues (€ 1.023ml in FY 2019 and 2015-2019 CAGR of 2%) and allow the firm to sustain a stable level of investments, with high growth forecast. Moreover, the low level of indebtedness makes ERG Spa one of the more underleveraged company in its sector, attracting new investors and sustaining them by distributing dividends to give signals of their high income visibility (+38% dividend yield in FY 18-19).

Industry: A niche that is here to stay

The alternative-energy sector is a niche of the energy industry with a market size of nearly 2455 gigawatt in Europe in 2020 and is expected to grow at a CAGR of 7.6% between 2021 and 2026 by reaching 3812 gigawatts - this projection is backed by government policies and the sustainable development goals of the United Nations. ERG SpA is the sixth most performing company in its industry in terms of EBITDA margin and has an enormous potential to bounce head to head with giant competitors in the industry thank to its leverage on debt structure. Moreover, the company is a market leader on its wind division in Italy and is also striving to fortify its position abroad through M&A, Greenfield & co-development and Repowering & Reblading. The large oil companies could find it profitable to use their cash availability to acquire ERG, as its cheap and well positioned in the alternative energy market.

ESG: Everybody talks about it, few delivers

The energetic transition in which the economies are going through, gave the alternative energy operators an essential role. ERG is a champion in sustainability, resilience and green business transformation. The complete exit from the oil sector in 2018 led this company to be a renewable energy operator, quite unique in its industry. This tendency is transposed into ESG scores and indicators, that account for the evolution of the performance and the current state. We provide an estimated ESG Score for ERG of 78.8 out of 100. The best practices in the fight against climate change, decarbonization and natural capital preservation make ERG an exemplary operator. The Sustainability is placed at the core of its business and it represents the principle underlying the medium-long term investment decisions and the relationships with people, communities and stakeholders.

Sustainable Funds Flows: The Cavalry to the investment case

By extension, ERG embodies a potential entity to be held by sustainable funds. Substantial flows are projected to accrue to sustainable investing, which is gaining remarkably positive performance and has demonstrated insensitivity to the recent market falls. Analysts and investors identify the reasons for the robustness of ESG investing during the pandemic and in companies' response to the Covid-19 crisis itself. ERG has shown great resilience by putting in place an effective, timely response able to guarantee business continuity while ensuring health and safety of people. The company has the adaptive flexibility typical of ESG issuers. Growth in sustainable investing - more than tripled compared to 2019 - develops along marketing and commercial logic, and need for regulatory adequacy for some Sovereign and Wealth Management categories. ERG will benefit from such market inflows; hence our BUY recommendation is strengthened.

ERG: from depletable to renewable

ERG was established by the Garrone family in 1938 as a sole refinery power producer of energy which grew significantly for decades. Thanks to the visionary leadership of ERG, in 2008, the company began its **formal transition into the renewable energy sector by divesting €3.3bn of oil and gas assets** which were reinvested with an additional €600mn into renewables and low-carbon energy assets. ERG built and acquired further wind capacity, opened a gas generation plant, and acquired a hydroelectric plant and now the company is the **number one wind operator in Italy and owns assets in Germany, France, Poland, Bulgaria, Romania, and the United Kingdom**. Thus, ERG is fully integrated into the alternative energy sector - generate Electricity from renewable sources i.e. Wind, Solar and Hydro asset, and thermoelectric plant and as such realizes a massive government support through incentives and policies. The business model of the company is primarily based on the generation and sales of Electricity produced in Europe through its continuous development of green field projects and external acquisition. The strategic plan of ERG embodied geographical and technological diversification in order to curb its enormous exposure to incentives and regulation constraints. However, the volatility of power prices and natural resources remains a hurdle for ERG and the global renewable energy sector.

Valuation: small numbers, huge potential

Our year-end target price of 37€ comes by combining the ERG's plan of reducing their high interest rate debt and from their business plan aimed at becoming completely renewable. We evaluate their intrinsic and unique value through a **three-stage DCF**, highlighting first the stability and then the increase in the revenues: this method results in a price of € 34.3. We also performed two relative valuations as support for our DCF model: (1) a **Multiple Methods**, using both P/E and EV/EBITDA multiple, giving more importance to non-fully renewables companies, which led to a weighted average price of € 34,8; (2) a **Sum of the Parts (SOTP)**, which underlines the contribute of each business line to the final price, resulting in a price of - 27,9% (€24,7) lower than the one in the DCF. We further assess the target price adjusting it for the ESG score: we performed a **DDM model**, assuming a +20,0% ESG adj (+10% normal) increase in the dividends in FY 24-27 (growth phase) and a third phase with lower investments but a dividend growth of +45,0% ESG adj (+20% normal). Enhancing this model with ESG consideration lead us to assume that dividend payment may increase because of lower debt expenses (green bond emission/loan subscription, lower interest rate due to ESG-compliance and lower risk). We also make an adjustment for the DCF to account for the ESG score, reducing the WACC by 1,0%. The final valuation results in a **final weighted target price of € 37**.

Financials highlights: sustainable dividend and low debt...what else?!

Our forecasts on ERG's business led to a substantial and significant growth in the dividends, proving the financial strength of the company. From FY 2021, revenues start again to increase reaching a +1,2% CAGR 2021-2025 of €1088.2m in FY 2025. The EBITDA and EBIT margin remain pretty stable throughout the estimated period. Moreover, we expect EPS to increase from €0,69 of FY 2019 to €0,80 in FY 2025 (+2,0% CAGR 2021-2025).

Drivers of Growth: the sustainable future is yet to come

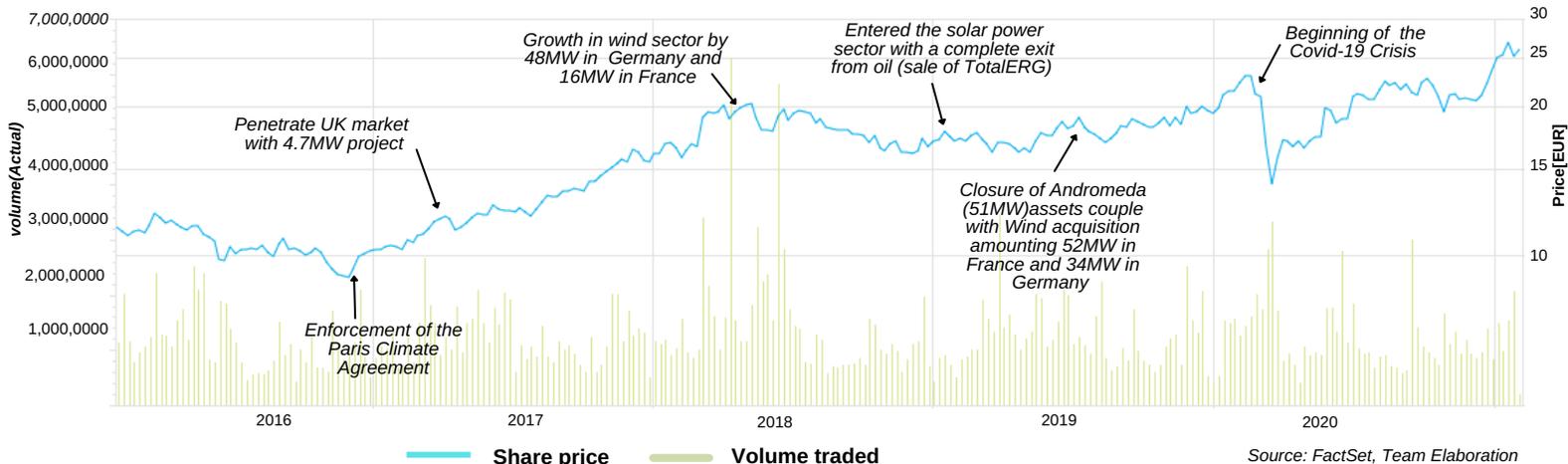
The key drivers of the renewable energy industry mostly consist of the policies from the national and international bodies maintaining and controlling CO2 emission (for instance, the Paris Agreement contracting nations to combat the changing climate) and the mounting focus on alternative fuels to achieve an enduring form of energy generating from low-carbon source. The key players of this industry adopt numerous strategies that include (i) **product launch** (ii) **acquisition** (iii) **collaboration** (iv) **partnership** (v) and **business expansion** to stay relevant and competitive in this market.

Investment risks: possible but manageable

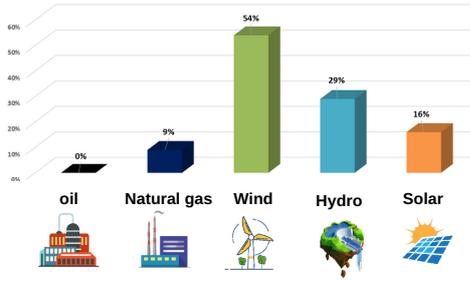
A significant level of uncertainty lies in the legislation of the energy industry and in State incentive system for newly installed capacity, that allows to securitize cash flows and accounts for 75,0% of EBITDA. Market price volatility represents another source of risk, as it affects one fourth of the EBITDA. The "green" reconversion of big oil companies could make the alternative energy sector more competitive; however, **ERG may represent an attractive target for oil companies**.

Covid-19? Challenge accepted

The guidance on 2020 Consolidated EBITDA needed a slight downward revision. Bottlenecks in authorization process worsened and obstructions to ordinary operational activities arose. ERG has effectively faced the difficulties through energy management for hedging and production modulation for renewable plants, insourcing of some activities on solar and wind assets and consolidation of industrial skills. The M&A activities in Europe continues, as the development of greenfield, weakened only by the lag in public permissions. White Certificates for the thermoelectric plants are renewed. The Company implemented an efficient health and safety management of personnel and environment. ERG continues to demonstrate business ethics and integrity; this will lead the Company to gain attractiveness for sustainable investments. As we issued a **BUY** recommendation, we deem that ERG's growth will also develop along this path.

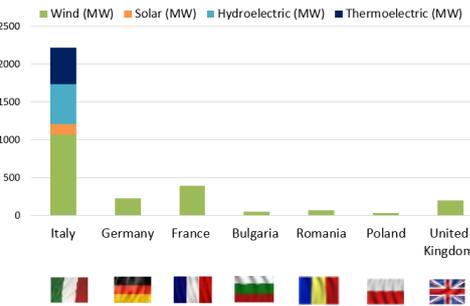


ERG Business Divisions (vol.) - Exhibit 1



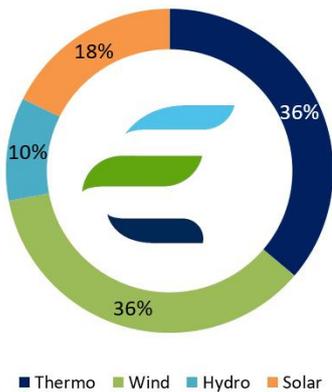
Source: Company Data, Team Estimation

ERG Locations - Exhibit 2



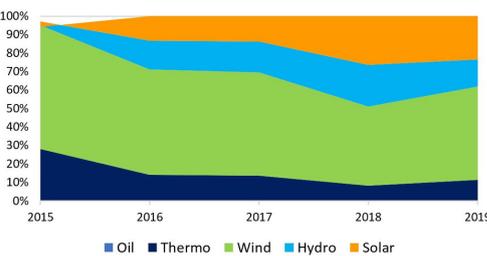
Source: Company presentation, Team Estimation

Revenue breakdown by Divisions in 2019- Exhibit 3



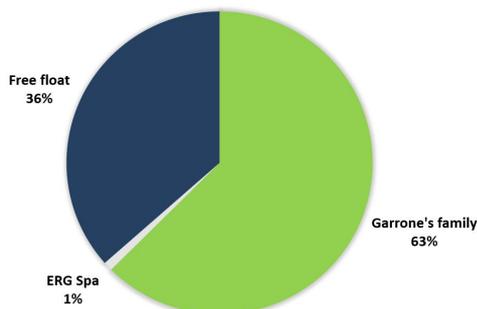
Source: Company Data, Team Estimation

EBITm by Division - Exhibit 4



Source: Company Data, Team Estimation

Shareholder's Structure - Exhibit 5



Source: Company presentation, Team Elaboration

Company Presentation

ERG was founded in 1938 by Edoardo Garrone in Genoa. The company began production in 1947 at the San Quirico refinery in Genoa and by far has built a long-standing trademark operating in the energy sector for over eight decades with massive evolution. 70 years since inception, the company's primary source of electrical energy came from oil but in the last 12 years it transitioned by becoming one of the leading operators in Italy and Europe in the production of electricity from renewable sources such as solar energy, wind energy, hydroelectric energy, and high yield thermoelectric cogeneration energy with low environmental impact (Exhibit 1). The company became listed in the Milan Stock Exchange in 1997 and is well-known for its experience, vitality and focused on sustainable development and decarbonization— it's one of the only four Italian companies included in the Corporate Knight Global 100 most Sustainable Corporation in the world (2nd place in Italy and 34th in the world). Thanks to the globalization vision of ERG, the company has now gone beyond the borders of Italy; it operates in Germany, France, Poland, Bulgaria, Romania, and the United Kingdom (Exhibit 2 and see Appendix 1.1). Indeed, ERG is a successful transformation story because it has finally completed its transformation from an oil company into a renewable utility. Now, the management of ERG Group is entrusted with the subsidiary ERG Power Generation S.p.A which has an installed capacity of over 3,000 MW and carries out a centralized operation, maintenance, and energy management activities for all the Wind, Solar, Hydroelectric, and Thermolectric Power generation sectors in which ERG Group operates. Thus, 100% of the company's activities is invested in renewable electricity production, of which the revenue stream is segment into four business divisions. (Exhibit 3 and Exhibit 4). The management team of ERG Group is well experienced and executes responsibilities through strict financial and risk management policy in the industrial and commercial processes. The team is totally independent from the influence of 62.5% majority shareholders (San Quirico S.p.A. and Polcevera S.r.l.) controlled by the company's founding family; the remaining 36.5% is free float. The Garrone family maintains their power in ERG as Edoardo Garrone is the Chairman and Chief of the Board and his brother Alessandro Garrone is the Executive Deputy Chairman and the Director in charge of Internal control and Risk management system. Thus, the Garrone family along side with top management decides the long-term growth strategy of ERG through rigid policy on Investment valuation, M&A, and sustainability (Exhibit 5 and see Appendix 1.2)

Wind: the potential of greenfield and repowering (€414mn revenues, ca.31.9%EBIT margin)

Since 2008 ERG is active in the generation of electricity from onshore wind sources and the wind farms consist of wind-power generators that transform the kinetic energy of wind into mechanical energy, which is used in turn to generate electricity and the performance expected in each wind farms is influence by the wind speed profile of the farm. Most of the company's wind plants are mainly concentrated in Italy (1,093 MW), but with a significant and growing presence also abroad (836 MW operational) and the company focus mainly on onshore wind farming.

Solar: photovoltaic plants (€71mn revenues, ca.30.9%EBIT margin)

ERG is dynamically involved in the generation of electricity from solar sources with 141 MW installed capacity of which has been an increase of 51.4 MW following the acquisition of two photovoltaic plants in Lazio in January 2019 added to the 31 photovoltaic plants acquired in 2018 located in 8 regions between the North and the South of Italy.

Hydroelectric: the assets efficiency (€119mn revenues, ca.25.2%EBIT margin)

ERG is vigorously active in the production of electricity from hydroelectric sources through an integrated portfolio of assets consisting of 19 plants, 7 dams, 3 reservoirs and one pumping station, located in Umbria, Marche and Lazio, linked by a network of rivers and canals of over 150 km with a capacity of 527 MW and is completely programmable as it is built with basins and dykes such that the water can be accumulated or used for energy production.

Thermolectric: Combined Cycle Gas Turbine – CCGT (€418mn revenues, ca.9.8%EBIT margin)

ERG is active in the generation of electricity from thermolectric sources through the CCGT "Centrale Nord" plant with a capacity of 480 MW located at the industrial site in Priolo Gargallo, Syracuse, Sicily – the plan in Sicily has a local pricing method driven by excess demand. The natural gas plant is a combined cycle power plant which contemporarily produces electricity and steam that is considered a high-efficiency cogeneration plant.

Corporate Strategy and Sustainability Commitment

There has been a radical and reflective change in the industry of electricity generation from renewable sources in Europe as Governments are progressively advocating towards decarbonization in favor of renewable sources. Thus, ERG's strategy is to continue to grow in renewable energies by leveraging on its industrial know-how, territorial presence, quality of assets, operating efficiency, and the flexibility of the integrated Energy Management portfolio. The mid-long-term goal of the company is to increase installed capacity from 3077MW to 3927MW (850MW) by the end of 2022 through the following three pillars (see Appendix 1.3).

1. Greenfield and co-Development (+350MW): ERG plans to continue with its growth strategy via organic development of its own pipeline of projects or agreements for co-development in France, Germany, and the United Kingdom.

2. Repowering and Reblading in Italy (+260MW): with the technological evolution of the wind power sector, ERG has the goal of undertaking repowering and reblading on its wind farms provided with outdated technology, turbines of less than 1 MW and incentives already expired or expiring but at the same time located in the windiest sites and also with very high expected profitability even in the absence of incentives.

3. M&A (+250MW): ERG plans to have an opportunistic tactic in order to exploit growth opportunities in renewable sources in the countries of interest by leveraging on its transformation experience. In recent years, the company has added 137 MW obtained from M&A in solar power (acquisition of Andromeda for 51 MW) and in wind power (acquisition of Polaris, 52 MW in France and 34 MW in

Germany), and having advanced greenfield development - construction sites in the UK and obtaining authorizations in France for 37 MW. Moreover, the Sustainability commitments of ERG on renewables is in line with the United Nations SDGs strategy on combating climate changes. The company focuses on main threads namely: **the generation of electricity from renewable sources; Care for the environment, working conditions and welfare; Implementation, at Group level, of the new Anticorruption Policy and of the new supplier selection procedures.**

Industry Overview & Competitive positioning

Performance of the Renewable Industry

The alternative-energy sector is a niche of the energy industry with a **market size of nearly 2455 gigawatt in Europe in 2020** which is expected to grow at a **CAGR of 7.6%** between 2021 and 2026 by reaching 3812 gigawatts. The market for this industry can be segmented into hydropower, onshore wind, solar, and bio energy, among others and with hydropower accounting for 39% of the industry share. The main players in this industry include but not limited to Falck Renewable, Neoen SA, Encavis AG, Aventron AG, Orsted, Acclona, EDP Renovaveis which are found in the major regions such as Germany, France, Italy, and the United Kingdom (Appendix 2.1) There has been a rising global attention on this sector as we have seen a rapid renewable energy commercialization and expansion particularly in wind power and solar photovoltaics industries. Thus, the energy sector is shifting to a model based on diversification and centralization where weather-dependent renewables will take the lead. (Exhibit 6)

Industry Attractiveness

In recent years, there has been a **continuous improvement in technologies** and **increased government funding** in renewable energy sector to offer lucrative growth opportunities. The market size of this industry is increasing due to rise in **stringent government regulations regarding climate change**. However, power grid expansion, delay in renewable energy connection, and financing access to the projects are the major restraints that slowdowns the industry to expand. The following highlights arise from a Porter's five forces analysis. The competitive landscape of the renewable energy industry is mostly shaped by (1) heavy buyers' power and (2) fierce threat of substitution. (Exhibit 7 and Appendix 2.4)(i) The degree of **buyer power is high as the cost of switching to a non-renewable energy source is low**. Thus, undermines the attractiveness of the industry because customers will easily shift if they find an alternative cheaper source of energy. (ii) **Substitute sources to current renewables will remain high as long as other non-renewable sources of energy remain cost-effective.** (iii) **Bargaining power of suppliers is medium** as the renewable industry is a relatively niche sector with limited suppliers and as such, they enjoy some bargaining power. (iv) **Competitive Rivalry is low** as the sector is relatively new and players are still establishing themselves in the industry; the sector has still not reached the stage of competition. Therefore, competition rivalry is quite low. (v) **Threat to New Entrance is low** as the cost of generating renewable energy is very high; for example, the cost of setting up a windmill or solar panel etc; which makes entry of new players highly difficult.

Industry Trend

The renewable energy industry has registered a surged of USD 129.7 billion of Investments in the wind power sector since 2018 (increased by 3% compared to the previous year). By far, the progress in investment shows the growth in the renewable energy market across the globe (Exhibit 8)

1.Immense evolution of the wind energy, harvesting energy from wind has been done for many decades, but just in the last few years that it has become more particular about universal climate change. The usage of wind power has been a noticeable contributor to the world's energy mix. The Global installed wind-generation capacity onshore and offshore has increased from 7.5GW in 1997 to 564GW by 2018 according to IRENA's latest data.

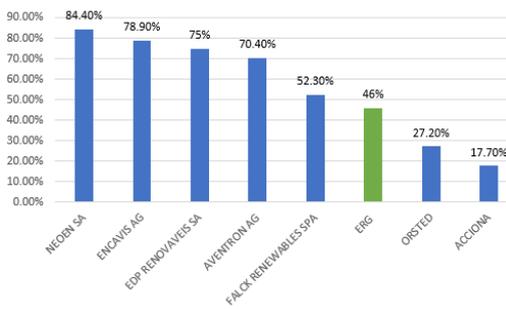
2.The depleting fossil fuel reserves, decreasing cost of wind power generation, rising sensitivity toward environmental issues, and support from various governments across the world, through financial incentives support the exponential growth in the wind energy market.

3.Global wind power installations has increased from 14.86 GW in 2006 to 591 GW in 2018. The growth of the number of turbine installations made between 2006 and 2018 was mainly driven by decreasing costs due to better-quality materials and design and favorable government policies for wind power in major wind power countries, such as, the United States, Germany, the United Kingdom, Italy, China, and India.

4.Government policies and targets are playing a vital role in wind power advancement as countries around the world are increasingly concerned about climate change and the role of renewable energy in curbing it, wind power, along with other renewable energy types, is expected to have more focus from all over the world in years to come. The EU, part of its renewable energy policy includes a 20% target share of clear energy to be achieved at the end of 2020 and such trend is mirrored globally. By far, the International Energy Agency has projected that renewable energy will surely become the number source of electricity by 2035 because it will be widely accepted as a mainstream source of energy.

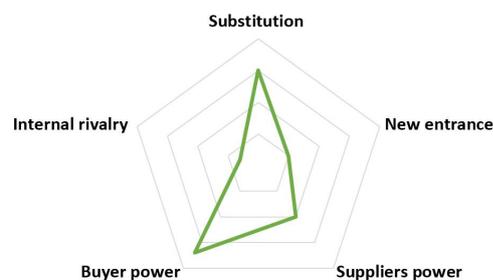
5.Asia-Pacific to dominate the industry, this renewable energy market comprises of 18 countries, with 52% of the world's population, represent 88% of the people living in the region and account for nearly 39% of the global primary energy supply. China and India dominate the region, with 28% of the global energy supply. The region dominated the renewable energy market in 2018 with the highest installed capacity of around 1000 gigawatts, thereby generating more than 2000-terawatt hour of electricity. Giving the number of available renewable technology, hydropower dominates the region with maximum market share and has installed capacity exceeding 500 gigawatts, follows by the wind with installed capacity of more than 200 gigawatts. An investment of around USD 288 billion was injected into the renewable energy sector in 2018, with China as the primary investor, accounting for 32% of the global investment. However, Investment in solar energy decreased drastically by 54%, while in wind energy investment declined by 6%.

Alternative energy performance (Ebitda%) - Exhibit 6



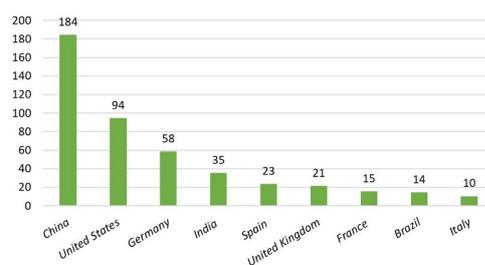
Source: Company data, FactSet and Team Estimation

Five forces analysis of the renewable Industry - Exhibit 7



Source: Team Estimation

Global installed wind energy(GW) in 2018 - Exhibit 8



Source: IRENA, Team Estimation

SWOT Analysis - Exhibit 9

STRENGTHS

- Attractive dividend yield
- Competent Management team
- ESG Trend (UN SDG's)
- High quality asset generation and infrastructure
- Good Governance structure and organic projects
- Biggest and strongest Italian wind power producer
- Improving adaptation of energy-efficient technologies
- Low cost of debt

WEAKNESSES

- High cost for electric grid
- Hurdles in maintaining CO2 emission to zero
- Poor Geographical diversification
- Interest rate volatility
- Wind farms in Italy near the end of their incentives' lifespan

OPPORTUNITIES

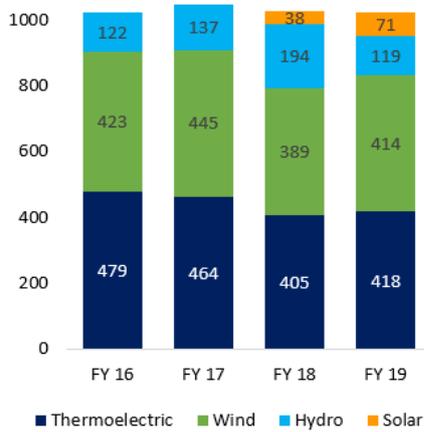
- Geographical diversification
- Reblading and Repowering
- M&A
- Massive industrial prospects emanating from ESG flows.
- Good dimension for international growth
- Increasing investment in renewable energy projects
- Cash generation potential to debt deleverage

THREATS

- Changes in interest rate
- Rising competition
- Huge oil reserve
- Volatility of power prices
- Regulatory mechanism on climate change
- Volatility of weather conditions (natural resources)

Source: Team Elaboration

Revenue Streams - Exhibit 11



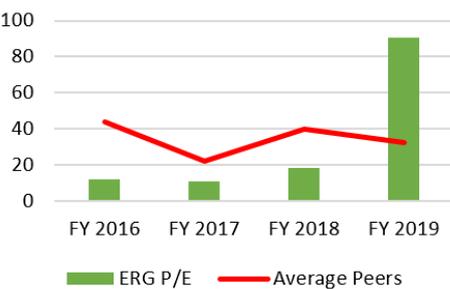
Source: company data, Team Estimation

Competitive Position

Industry Growth Drivers

The key drivers of the renewable energy industry mostly consist of the policies from the national and international bodies maintaining and controlling CO2 emission (For instance, the Paris Agreement contracting nations to combat the changing climate) and the mounting focus on alternative fuels to achieve an enduring form of energy generating from low-carbon source. The key players of this industry adopt numerous strategies such include (i) **product launch** (ii) **acquisition** (iii) **collaboration** (iv) **partnership** (v) and **business expansion** in order to stay relevant and competitive in this market. Moreover, the limited quantity of fossil fuel present on earth and the volatility of their price makes the renewable energy market appealing for investors. However, the generation of energy from renewable sources requires massive investment and for this reason it is anticipated to hinder the market growth. Consequently, in the Middle East, fossil fuels are majorly used to generate energy owing to its cost-effective nature as compared to other regions and thus far the market potential for renewable is quite slim. Unequivocally, the main drivers for this industry has stretch across (i) electricity prices with respect to the sales of electricity (ii) commodities prices (Oil, Coal, and Gas) as inputs in the generation of electricity (iii) volatility of natural resources which is quite crucial for the production capacity in the Wind and Hydro sector (iv) the regulatory framework on climate change and lastly (v) technological progression in the renewable field.

Historical P/E - Exhibit 12

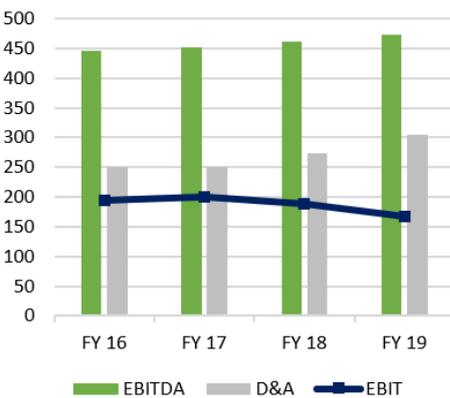


Source: company data, Team Estimation

SWOT analysis

The company could capitalize on its strengths and equally leveraged on the rising opportunities in the renewable energy sector to protect itself from the horrendous threads facing the industry (Exhibit 9). ERG can increase its penetration in the renewable energy industry in Europe and around the world by (i) increasing the range of investments on sustainable projects particularly in the Asia-pacific because they are going to dominate the global renewable energy industry in few years to come. (ii) improve the energy-efficient technologies to beat the cost thread imposed by the volatility of alternative sources of energy such as oil and coal. (iii) exploit international markets by leveraging on its ESG's adoptability and compatibility to the global sustainability goals of the United Nations on Climate Change. Moreover, the renewable energy sector is less prone to adverse taxes and environmental regulations as most of its activities are chartered in upholding high ESG standards. For this reason, they receive substantial government support both in terms of finance and policies to advance the growth of the niche energy sector. However, the variation in natural phenomenon such as weather and other natural resources impose a significant hurdle for the prospect of the renewable sector and the only way to curb this is through geographical diversification. Moreover, the cheap alternative source of generating energy from either oil or coal could have a very crucial effect towards determining the prices of electricity and as a matter of fact the sustainability of the renewable energy sector comes into question.

EBITDA, D&A and EBIT - Exhibit 13

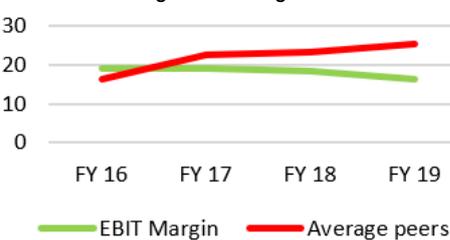


Source: company data, Team Estimation

MOAT analysis

The continuous competitive advantage of ERG by been able to drive cost down, create product differentiation, making switching cost high and locking out competitors through creating high entry barriers would increase the company's intrinsic value over the long haul. Through years of experience and the dynamics of technologies, ERG has built a durable competitive advantage on its wind and solar business division by being able to obtain a massive economic of scales in achieving cost efficiency and leadership in its industry. This edge avails the company a distinct strategy on price and products to significantly locked in customers from switching to rivals in protecting steady growth and profitability for shareholders. However, in terms of economic moat, the company is lagging in competitiveness when it comes to its thermoelectric and hydroelectric division because of inadequate geographical diversification but this is hope to be corrected by ERG in order to ensure a strong competitive barriers and market share in the industry (Appendix 2.4).

ERG'S EBIT Margin VS Average Peers - Exhibit 14



Source: company data, Team Estimation

Financial Analysis

Historical analysis

Revenues

The revenues stream of ERG (FY 2019 | € 1022mln) derives from the production and sale of energy coming from four different natural sources: the strength of natural gas, generating thermoelectric power (€418 mln); the thrust of water, producing energy onshore (€414 mln); the power of water, producing hydroelectric energy (€119 mln); sunlight, with the production of solar power (€ 71mln). Despite the introduction of the Solar sector in FY 2018, the ERG's sales have remained pretty stable in the last three financial years, with a reduction in the level of thermoelectric energy produced and sold, especially in FY 2016 (Exhibit 11).

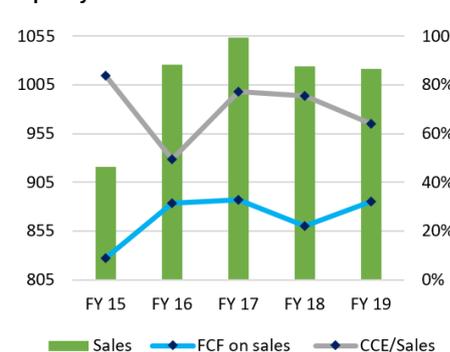
The revenues for the wind sector come from the production of energy in the wind farms: this income voice has grown due to the boost of the installed capacity evolution that has tripled from FY 2012 (596MW to 1,929MW).

The thermoelectric sector brings revenues from energy produced by ERG's natural gas plants, the CCGT, which are characterized by high levels of EBITDA (€69mln in FY 19) thanks to efficiency certificates from the GSE.

Hydropower's sales amounted to 119mln in FY 2019 after having experienced an important decline (-63% in FY 18-19). (This sector was entered in 2015, with the acquisition of the entire Italian hydroelectric business of the Terni Complex, with its 19 plants and 527 MW of installed capacity.)

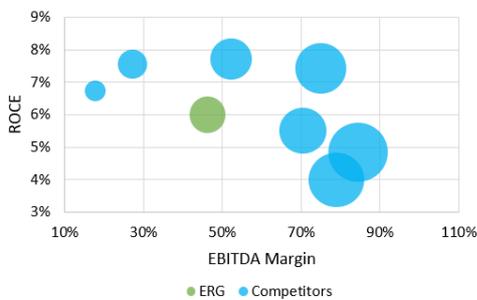
The 33 photovoltaic plants are responsible for the revenues coming from the Solar sector, which has been recently introduced: remarkable was the doubling of the revenues in FY 18-19 (+46%), thanks to the two photovoltaic plants acquired in 2018.

Liquidity Outlook - Exhibit 15



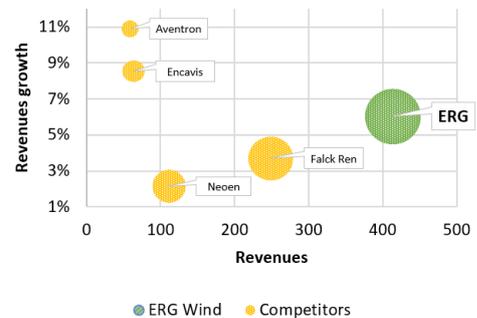
Source: company data, Team Estimation

ROCE VS EBITDA MARGIN - Exhibit 16



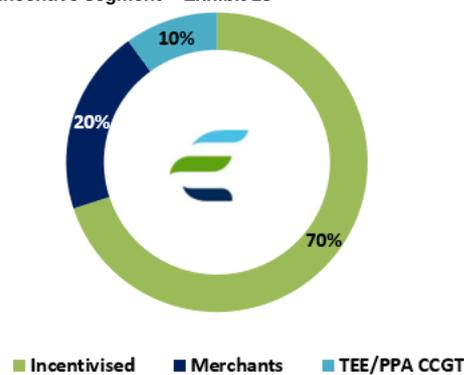
Source: FactSet, Team Estimation

REVENUE VS GROWTH - Exhibit 17



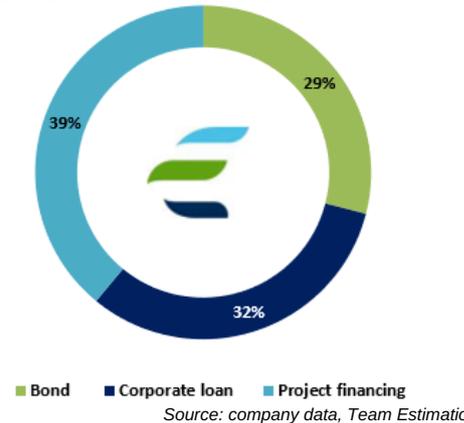
Source: FactSet, Team Estimation

Incentive segment - Exhibit 18



Source: company data, Team Estimation

ERG Debt Structure - Exhibit 19



Source: company data, Team Estimation

WACC Assumption - Exhibit 20

Risk Free Rate (r)	0,5%
Beta (β)	0,77
Equity Risk Premium (rp)	8,5%
Cost of debt (kd)	0,8%
Cost of equity (ke)	9,0%
Marginal Tax Rate (t)	30,0%
Leverage (D/D+E)	46,2%

Source: Team Elaboration

P/E Historical

Compared to the average P/E ratio of its competitors, ERG's has underperformed compared to its peers in the FY 16-18. This indicator has instead boosted in FY 2019 (Exhibit 12) : this is mainly due to the reduction of EPS, which has redoubt from € 0,70 to € 0,21 and to the increase in the price of its stocks (+2,7€ in FY 18-19). Overall, this has reflected the positive/optimistics market expectations around earnings growth rate, that has surprisingly performed better than the average, aiming to maintain this characteristic also in the future.

EBITDA, D&A and EBIT Historical

The slight decrease in revenues in FY 18-19 has been offset by the reduction in Purchases and change in inventories, determining a rise in the EBITDA FY 18-19 of +2,0%, which has not stopped the positive EBITDA FY 16-19 growth (+5,8%), passing from €445 mln to around €473 mln (Exhibit 13). An increase in D&A in FY 17-19 is what caused a decrease of -20,0% in the EBIT: this amount is mainly due to the application of the IFRS 16 - Leases from 1st January 2019, which has recognized the costs for operating leases as depreciation of the right-of-use assets. The increase also includes higher depreciation for the purchase of capital equipment and higher property tax (IMU) in FY 2017. Overall, ERG has outperformed its peers just in FY 2016, reaching an EBIT margin of 18,9% vs. Utilities Peers average of 16,4%. However, in the last three reported years (FY 17-19), EBIT margin is below the historical path of Utilities Peers, with an average of 24,0% vs 18,0% of ERG (Exhibit 14).

Cash Flow, Liquidity & Financial Structure

With an average of 25.5% FCF on sales in FY 2015-2019A and more than enough liquidity (70% average in FY 2015-2019A of cash and short-term investments on revenues), cash generation is not at all a problem. The great level of FCF sustained investors' remuneration via dividend distribution (€0.50 DPS in FY 15-16 and a constant €0.75 DPS in the remaining past financial years), which is also expected to increase in the near future. Net Debt/EBITDA (avg. 3.5 in FY 15-19) was always above 3, made exception for FY 2017; D/E was always below 130,0% and interest coverage ratio has an average of 5.2 in FY 15-19. Moreover, although we think that additional leverage would be helpful in boosting the level of ROE for shareholders, we consider the current capital structure to be appropriate, corresponding to a cost of capital much cheaper than the one of its peers (Exhibit 15).

Competitive Financial Analysis

The competitive position of the Alternative energy sector has been leveraging immensely on the fallen cost of renewable energy sources which is credited to the improving technologies, economic of scale, massive supply chains, and the growing expertise of developers (Falck Renewable, Neoen SA, Encavis AG, Aventron AG, Orsted, Acclona, EDP Renovaveis – renewable energy peer group). For better understanding of ERG's position and performances among its peers in the alternative energy sector, a competitive financial analysis was duly performed on 2019 key financial performance indicators. (Exhibit 16 & 17 and see Appendix 2.2 for details). EGR is the fifth most profitable player among its main competitors in terms of EBITDA margin (Italy is the largest contributor) of which 75% depends on incentives (Exhibit 18) and auctions for tariffs (the most efficient companies win the auction that securitizes the unitary future revenues) and thus increased by 25 times the elimination of CO2 in its portfolio – though the company realized a declined in EBITDA margin but on the contrary were able to increase net profit as a result of a decrease in financial expenses because the company is unlevered (Exhibit 19) and could used debt financing to reach its full potential and again it has its cost of project financing replaced by the issuance of bonds. Moreover, ERG is ranked first in terms of P/E relative to its peers thanks to its excellent liability management, conservative financial policy, and the hedging of climate risk through diversification of portfolio activities. The Debt structure of ERG is also better than most of its competitors thanks to the repositioning in renewables field as it has given the company the leverage to issue 2 green bonds which has exponentially grew in demand by 6 time greater than the offer (the green bond proceeds are linked to the wind division and renewable investments) - 48% of debt is Bond, 29% project financing and remaining are corporate loans. 60% of financing is linked to sustainable projects and as such ERG was awarded BBB- ratings by Fitch.

Valuation

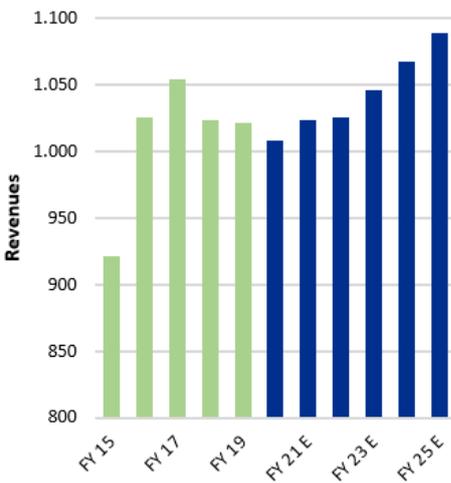
We foresee a year-end target price of **€36,9**, which implies an 42,7% upside on 7th February 2021 closing price in the Italian Stock Exchange and a BUY recommendation. Our valuation is based on a DCF model, supported by a further analysis of the company's different segments, performed by the SOTP, and an analysis based on the value of the dividends through the DDM, since the company has been characterized by a continuous stream of dividend's payments. Finally, a relative valuation supports the result of our previous analysis. To sustain the soundness of our assumptions, both a sensitivity analysis and a Montecarlo simulation have been performed.

Discounted cash flow

The model is based on 3 different stages, each of them related to different assumptions. The first stage, from FY 2020 up to FY 2022, follows the detailed guidelines provided by ERG and their upcoming plans. The second one (FY 23-25) is influenced by the increase in the decarbonization planned by ERG which implies very high growth rates compared to the ones of a mature and stable firm. The last stage involves the Terminal Values, which we have computed using the perpetual growth method, assuming a WACC of 5,1% and a long term growth of 2,0% (Exhibit 20).

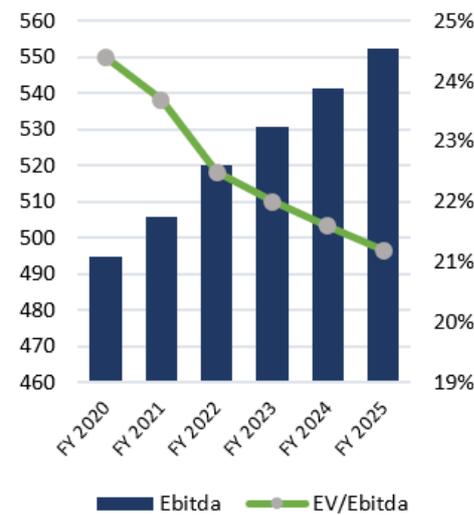
1st stage– The art of resilience. Despite a slowdown experienced in 2020 due to the Covid-19 crisis and to bad weather conditions, ERG relies on stable revenues. Growth in installed capacity (MW) is expected to increase by ca. 20% (608/3116) from today to 2023 thanks to repowering and reblanding, driving the increase in revenues. The expected levels of EBITDA (€480-500mn) have been perfectly achieved in 2020, and its path follows the revenues. Regarding the CAPEX, in the current year, we considered an amount loyal to the guidance provided by ERG (183ml).

Revenues - Exhibit 21



Source: FactSet, Team Estimation

Ebitda VS EV/Ebitda - Exhibit 22



Source: FactSet, Team Estimation

We then assume a huge increase in FY 2021 (+44.2%), justified by the postponement of some investments planned for the current year, due to the Covid-19 impact on operations. The change in NWC has been assumed to be zero for all the forecasted years due to the characteristics of ERG's business cycle.

2nd stage – The journey. In this stage, we estimate a phase of recovery, forecasting an increase in revenues at a constant 2,0% rate (Exhibit 21). This increase is due to the decarbonization plan of ERG. In addition, the decrease in financial expenses as a consequence of the choice of being financed mainly by Green Bond can bring an increase in the investment at low cost, bringing higher revenues and, consequently, higher net profit. The level of CAPEX has been assumed constant.

3rd stage – To the infinite and beyond. Our assumptions for TV rely on a perpetuity growth model, using a WACC of 5,1% and a long-term growth rate of 2%, arriving at the FY 2025. The assumptions reported above led us to a target price of 34,3€.

Amounts in € mln	FY 20 E	FY 21 E	FY 22 E	FY 23 E	FY 24 E	FY 25 E
Revenues	1008,0	1023,0	1025,0	1046,0	1066,9	1088,3
Growth	-1,5%	1,5%	0,2%	2,0%	2,0%	2,0%
EBIT	495,0	506,0	520,0	531,0	541,6	552,5
D&A	-298,0	-304,9	-312,5	-276,0	-281,5	-287,2
Δ WC	-99,3	9,5	1,5	-	-	-
CAPEX	340,0	340,0	245,0	240,0	230,0	240,0
Tax	-38,1	-48,3	-52,3	-53,4	-54,5	-55,6
FCFF	51,0	88,0	216,8	225,8	242,8	241,8
Discount Factor	1,0	1,1	1,1	1,2	1,3	1,3
Target price	34,30 €					

Source: Factset, Team Elaboration

Relative valuation

We performed a relative valuation in order to cross-check the market reliance of the DCF: our analysis is based on both an Enterprise Value and Equity approach. Multiples theory requires a cluster of comparable companies with similar market segment and financial structure characteristics. Alternative energy sector is a defensive industry and ERG belongs to a category of companies that just produce and sell its energy to a stable group of customers, being almost immune to economic downturns. We consider companies operating both in a pure renewables environment, as the company is foreseeing to sell its remaining non-renewables segment, and mixed energy firms, remaining focused on just the European countries. For this purpose, we used a weighted average in computing P/E and EV/EBITDA multiples to be used, giving more weight to those companies more similar to ERG and assigning less to those purely renewable.

Our results show that, **using the P/E multiple (wavg. 34.0x) for the FY 2020, we obtain a target price of €22,7** which results to be much lower than the DCF estimation. Neoen's multiple (133x) has been considered an outlier, thus it is replaced with "n.a." and not included in the calculation of the P/E wavg. A little bit higher is the target price obtained **using the EV/EBITDA multiple (wavg. 14,9x, target price €39,9 in FY 2020). At the end, we came up with an average target price of € 34,8**, obtained giving more weight to the EV/EBITDA multiple since the P/E in this sector is still not reflecting companies potential due to the fact that the peers are not yet out of their investment phase (Exhibit 22).

COMPETITORS	P/E				EV/EBITDA				w
	2019 A	2020 E	2021 E	2022 E	2019 A	2020 E	2021 E	2022 E	
FALCK RENEWABLES SPA	28,4x	40,6x	33,3x	29,2x	11,3x	12,4x	11,7x	11,6x	10%
NEOEN SA	72,8x	n.a.	68,0x	42,4x	20,9x	19,9x	16,7x	15,4x	20%
ENCAVIS AG	55,5x	31,4x	26,5x	25,7x	13,0x	16,2x	13,8x	13,0x	20%
AVENTRON AG	32,5x	37,5x	38,9x	39,0x	11,0x	11,5x	11,4x	11,0x	20%
ORSTED	44,5x	33,24x	50,1x	52,4x	n.a.	28,9x	22,1x	21,0x	5%
ACCIONA	14,5x	31,6x	21,2x	17,4x	8,7x	10,6x	9,3x	8,4x	20%
EDP RENOVAVEIS SA	19,3x	38,4x	33,3x	28,4x	10,4	11,9x	11,1x	10,4x	5%
w. av.	41,1x	34,1x	38,4x	31,9x	12,4x	14,9x	13,1x	12,3x	100%
RENEWABLES multiple	36,3x	35,2x	37,4x	31,2x	14,9x	15,8x	15,9x	15,9x	

Source: FactSet, Team Elaboration

Target Price - Exhibit 23

	P/E	EV/EBITDA
2020	22,67 €	39,93 €
2021	26,55 €	34,48 €
2022	23,95 €	33,94 €

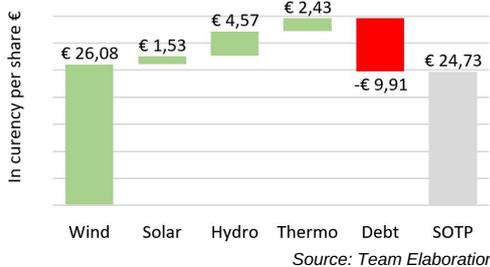
Target Price Renew.

	P/E	EV/EBITDA
2020	33,12 €	42,77 €
2021	35,73 €	44,33 €
2022	32,41 €	46,82 €

Source: Team Elaboration

The table above shows the multiples used for the calculation of the target price. A further calculation has been performed assuming that, in the future, ERG will respect its ideal plans and will become a pure renewable firm. There are evidences that the company is considering divesting its hydro assets and CCGT plant, with 1 bln as aggregate value, and accelerate the expansion in wind and solar. In this way, the company business would approach the model of Orsted or EDPR and thus **we applied a multiple called 'renewables multiple'** in order to calculate the new target price. What we obtain is not what we expected, with a target price of € 33,1 for 2020, being lower than the one computed with the first multiples. Exhibit 23 shows all the target prices computed with both versions of the Multiples Method. Moreover, Exhibit 24 summarizes all the target prices we calculated with different valuation methods. Considering the weights applied for the calculation of the final target price, in general we associated the DCF method with the highest weight because we believe it to be the most appropriate and reliable method for the company, considering all the most relevant drivers for the company (ebitda, capex and debt). Consequently, being ESG a quasi-pure renewable company, the DCF-ESG adjusted price obtained a slightly higher weight.

SOTP Valuation Analysis - Exhibit 24



Summary of Target Price - Exhibit 25

Valuation method	Target Price	Weight
DCF	34,30 €	30%
DCF-ESG	42,53 €	30%
EV/EBITDA	38,48 €	15%
EV/EBIT	39,44 €	10%
P/E	22,67 €	5%
SOTP	24,73 €	5%
DDM	28,60 €	2,5%
DDM-ESG	32,60 €	2,5%
Final Target Price	36,67 €	100%

Source: FactSet, Team Estimation

ESG Quantitative Adjustments

In this section, we listed all the quantitative adjustments performed in order to incorporate ESG consideration: adaptations were applied to the DCF, the Dividend Discount Model and the Multiples Method Model.

- DCF-ESG adjusted:** we adjusted the WACC (applying a discount of 1%) because of the high ESG score of the company, as better explained in the Appendix (section 3.7).
- DDM-ESG:** we forecasted a dividend growth of 20% in the second phase and a second increase, up to 45% in the third phase (for further information, see Appendix 3.5).
- Multiples method model:** as already pointed out in the previous paragraph we performed two different calculations of the target price the first one considers the multiples of selected peers in the industry while the second considers ERG as a pure renewable company.

Further Valuation Assessment

To strengthen our analysis, we decided to perform a SOTP valuation analysis to understand the intrinsic value for each firm's division based on the estimation of the EBITDA 2020 for Wind, Solar, Hydro and CCGT plants (Exhibit 25). For further details, we highlighted the main procedures in the appendix. Moreover, since we believe there is a potential from the dividend historical path of ERG to grow in the medium term future, we wanted to focus also on the future projection of dividend payment stream as one advantage for the valuation assessment. We provided a Dividend Discount model based on 3 stages for the future stream of dividends of the company. We highlighted the main results on the Appendix (section 3.5).

Investment Risks

Investment Risk matrix - Exhibit 26

LIKELIHOOD	SEVERITY				
	NEGLIGIBLE	MINOR	MODERATE	MAJOR	CATASTROPHIC
ALMOST CERTAIN	Brexit-related Risk		Variability of RES	Climate Change Risk	
LIKELY		Interest Rate Risk	Modification to Regulatory Framework	Volatility of Utilities Market Prices Risk	
POSSIBLE	Country Risk	HSE Risk	ICT/Cyber Risk	Reduction in M&A value creation	
UNLIKELY		Credit Risk	Downgrade Rating Risk	Reputational Risk	Business interruption for natural events
		Liquidity Risk	Risk of Anti-Corruption violation		

Source: Team Elaboration

Major Risks

The most relevant risks are represented by:

Natural variability or renewable sources, that could threaten the continuity of production and supply of energy. The operational continuity is ensured by a portfolio strategy diversified in terms of geographic location of farms and in terms of technology. The inactivity of renewable plants is offset by the continuity in production of energy from combined cycle gas turbine (CCGT thermoelectric plant), which is not affected by the intermittency typical of natural sources;

Market price volatility of energy commodities, Electricity and Gas. 25%-30% of EBITDA is exposed to market volatility risk. ERG mitigates market volatility risk through the stipulation of indexed-sales formulas in contracts to securitize prices and cash flows, Power Purchase Agreements, hedging strategies. In 2019, commodity hedging derivatives had a net positive result of 13 million euros;

Reduction in value creation from new Investments and M&As for difficulty in forecasting and assessment phases of Projects; it is offset by structured selection and approval processes for investments (choice between organic growth by Greenfield or M&A), which rely on internal and benchmark analyses, risk impact tests. The WACC/Hurdle Rate (HR) is periodically updated to follow up the new Projects;

Business reconversion of oil companies: developing decarbonized oil and gas is a key strategy toward which the utilities industry is moving, in response to the carbon transition. Big oil companies may use their cash availability to operate a reconversion of their business into renewable sources, consequently making the industry more crowded and competitive. However, in such scenario, opportunities may arise for ERG, because it may represent a potential target to be acquired by reconverting oil companies, given its cheapness with respect to renewable peers;

Modification to laws and rules in energy sector: the regulated framework in which ERG operates affects the economic, financial and industrial balances of the Company. Given the predominant role of State incentive and Authorization system in the Company's cash flow generation (75% of EBITDA comes from the regulated activity), legal changes (transition from Feed-in Tariff to Auction Scheme) and uncertainty may enhance or jeopardize the completion of outstanding projects and the initiation of new plants, overturn the balance of power between operators in the sector. ERG structured an Organizational Unit to monitor the domestic and international regulatory evolution and to participate in institutional and consultation initiatives. Internally, the legal risk impact is mitigated by studying strategy consistent with the results of sensitivity analysis. For further details, see the Appendix (section 5 "Investment Risks").

Covid-19 : Impact and Response

Covid-19 Crisis impact on business units - Exhibit 27

Business Unit	Actual State	Response Strategy	Guidance on 2020 EBITDA
Wind	<ul style="list-style-type: none"> Optimal wind conditions during the first months of 2020 Downturn in energy prices in Europe 	<ul style="list-style-type: none"> Greater installed capacity by M&As in France (+38 MW) Consolidation of acquired wind farms in Germany 	Negative
Solar	Good conditions of solar radiation	<ul style="list-style-type: none"> In-sourcing of some activities of the assets managed Consolidation of industrial skills 	Positive
Hydroelectric	<ul style="list-style-type: none"> Lower volumes than the 10-y average Greater incentive value Lower price and margin scenario 	Energy Management for hedging and production modulation	Negative
Thermoelectric	<ul style="list-style-type: none"> Reduction in the production of Energy Efficiency Certificates 	Renewal of High-Efficiency Cogeneration qualification for Module 1 of the CCGT	Negative
Guidance on 2020 Consolidated EBITDA:			480-500 million euros

Source: Team Elaboration

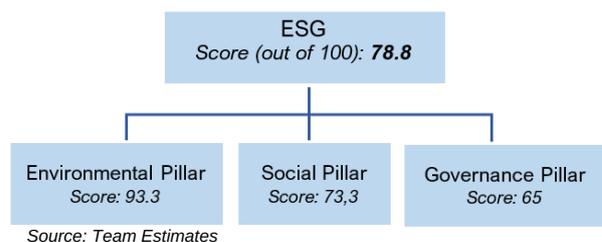
EBITDA on solar plants is estimated to be higher compared to 2019, caused by optimal solar radiation and consolidation of industrial skills. Hydroelectric generating volumes are lower than the ten-year average, and below than 2019 volumes due to lack of water availability in Central Italy. The hydro EBITDA is expected to decrease despite the higher value of incentives. Results from thermoelectric are forecast to suffer a slightly reduction, compared to 2019, due to the discontinuity in the production of Energy Efficiency Certificates.

Overall, the guidance on 2020 consolidated EBITDA is confirmed as the previous quarter. Investments are confirmed for the completion of Greenfield in UK for 250 MW, Poland for 60 MW and France for 50 MW. For further details, see the Appendix (section 6.8).

Environmental, Social and Governance

From an investor point of view, ERG SpA is a good target for investments: it is still a transition company but combines a cheaper price than its peers with a higher or similar ESG score, thus having the potential to become a pure renewable company in the near future with the advantage of a low price.

ERG ESG Score for the year 2019 - Exhibit 28



Estimated ESG Score

We developed a methodology for a numerical ESG Assessment. Our estimation method evaluates eight homogeneous macro classes related to Environmental, Social, Governance Pillar. The possible values for the score range between 10 and 100; the higher the score, the better the Company's performance (for the detailed methodology, see the Appendix - section 6.1).

The ESG score assigned to ERG based on 2019 performance is 78.8 out of 100. ERG's business is materially exposed to ESG issues, being an energy provider from renewable sources for the 90% of its EBITDA.

The highest score arises from the **Environmental Pillar (93.3 out of 100)**, weighted 40%, testifying ERG's best practices in low environmental impact of the business activity. Between 2017 and 2018 ERG experienced a peerless leap in ESG score, of which a significant part is driven by the abandonment of oil products. During 2017, the Company hit the record in installed wind capacity across Europe of 1,814 MW (48MW acquired in Germany and 16 MW acquired in France). But the year 2018 marks the path of growth and diversification. The symbolic sale of TotalERG represented the definitive exit from the oil sector. In the same year, ERG entered the solar power sector by acquiring thirty photovoltaic plants (89 MW). Since 2017, CO2 emissions and NOx emissions have been drastically reduced (+111% in CO2 avoided during the last five years), as well as the Carbon Index, which decreased by 67% during the last five years (the Carbon Index is calculated as grams of CO2 equivalent per 100 grams of product). Natural Capital is preserved accordingly to the regulation for noise and visual impacts. Water stress represents a non-material aspect for renewable farms, while the thermoelectric plant returns water to its source in the form of steam. ERG has an effective waste management; the recycling rate increased from 84% in 2017 to 87% in 2019, hazardous waste decreased by 64% during the years 2017-2019 and in 2019 non-hazardous waste represents the 97% of total waste.

Social Pillar received a score of 73.3 out of 100, resulting from the optimal result in the Human Capital Coverage Index (93%; +3% on 2018), a good Health and Safety (HS) management aimed at employees and supply chain (injury rate 3.97%). Supply chain labor standards have been adopted, although only 23% of suppliers from Vendor List and 46% of newly qualified suppliers have been selected on the basis of HS parameters. Gender employment mix remained quite stable from 2017 to 2019 (20.80% of woman employees in 2019). Gender remunerative gap is still accentuate for Executive positions (18% discrepancy between male and female remuneration), while it is negligible for office workers (1%). Trade union representation increased from 31% in 2017 to 34% in 2019. The poor Social score for 2017 is due to the absence of Policy for freedom of association, Policy for child labor and policy for human rights for the employee and supply chain. Social Pillar contributes with a weight of 30%.

Governance Pillar is valued with a score of 65 out of 100, it is weighted 30%. ERG adopted a Code of Ethics and a Code of Conduct, together with an Anti-Corruption Policy, that guarantee integrity and a sound organisational culture. Nevertheless, the weaker performance than the other two Pillars is due to the BOD composition that is merely aligned with the minimum legal requirements for gender equality and independence of Directors and Audit Committee (100% independent). Garrone and Mondini Families (62.54% of share capital) are the only shareholders exercising ownership activism, the remaining 36.5% of free float is not involved *de facto* in engagement and voting activity and it is not in the position to influence the behaviour of the investee company. No shareholders' agreement is in force. CEO compensation is not linked to Total Shareholder Return (TSR) metrics, a long-term incentive system (LTI) was adopted. Regarding the Corporate Social Responsibility (CSR), ERG CSR Strategy is rated B- (source: *Refinitiv*), due to the consolidated presence of a CSR Sustainability Committee, CSR reporting and external audit. Governance Pillar is weighted 30%.

ERG ESG Score over the period 2017-2019 - Exhibit 29

ERG ESG SCORE		2017	Average	2018	Average	2019	Average
E Weight: 40%	Climate Change	7		9		10	
	Natural Capital	7	7	10	9,3	9	9,3
	Waste and Recycling	7		9		9	
S Weight: 30%	Human Capital	5		7		7	
	Health and Safety	6	5,7	8	7,3	8	7,3
	Social Opportunities	6		7		7	
G Weight: 30%	Corporate Governance	5		7		6	
	Culture and Behavior	6	5,5	7	7	7	6,5
ESG Score		61,5		80,3		78,8	

Source: Team Elaboration, Refinitiv Data

Controversy Score. We considered "additional premium scores" to each Pillar in the event that the Company reputation has been indisputable. Over the period 2017-2019, ERG experienced no environmental controversies, no human rights or wages working condition controversies, no bribery, corruption or fraud events, no discordant opinion from external auditor in the context of accounting. This trend is certified by a stable controversies rating of A+ by *Refinitiv*. We report the dynamic scoring for ERG, considering the evolution of the selected assessment aspects.

Peers ESG Score

Based on the same ESG valuation metrics, we provided estimated scores for ERG's peers, which allows to reciprocally compare the performances.

Despite the renewable nature of its business, Falck Renewables S.p.A. performed poorly in Environmental area (natural resources stress, higher energy absorption), as well as ENEL Russia (the most "green" ENEL's investee company). The entire ENEL Group, however, was characterized by top scores given the decreasing trend of environmental impact, strong Social and Governance features.

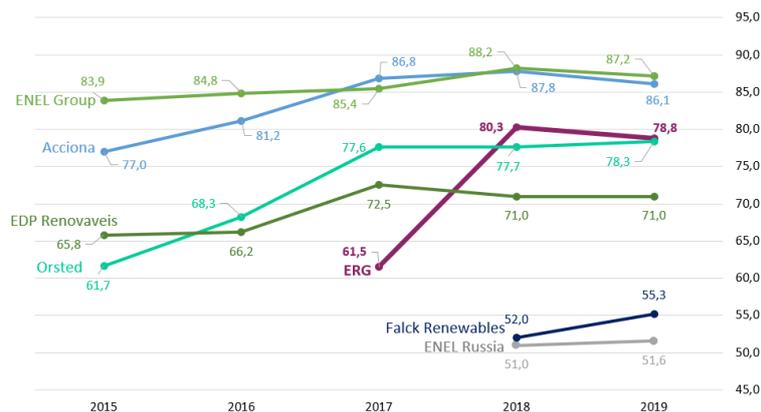
Acciona S.A. has been operating in the last five years with high quality environmental standards that lead the Company to a very high score.

EDP Renovaveis S.A. stands out for very low level of energy absorption, limitations to emissions. Governance score worsened from 2018 to 2019 mostly due to shareholders voting rights allocation.

Orsted A/S applies strong natural capital and environmental restoration activities, even if emission management is not so efficient as ERG or EDP Renovaveis.

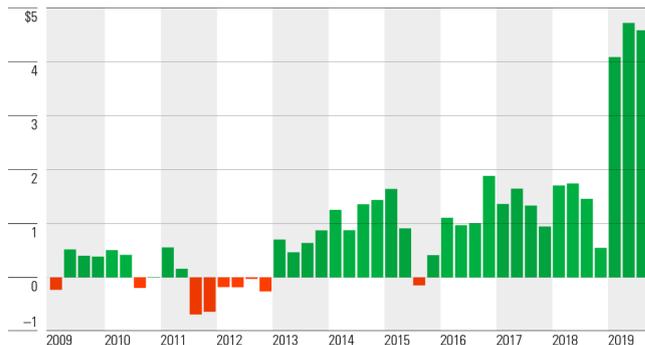
The dynamical analysis shows that ERG is quickly attaining ESG levels of the best in class big renewables operators (ENEL and Acciona).

Peers ESG Scores - Exhibit 30



Sustainable Investing Flows

Estimated Quarterly ESG Flows (USD Billions) - Exhibit 31



Source: Morningstar Direct. Data as of 9/19. Includes ESG Integration, Impact, and Sustainable Sector funds. Includes funds that have been liquidated; does not include funds of funds.

Sustainable investing is bucking the trend of loss in market value suffered by traditional investments, triggered by the Covid-19 crises. Substantial flows are foreseen to accrue to Sustainable funds. One of the main drivers of growth is compliance with law and regulatory opportunities. An increasing number of Countries are incentivizing Wealth Funds to hold ESG securities (among others, European States are implementing the requirements for holdings and benchmark reporting required by the European Commission for the issue of the Ecolabel Certification), and other Countries oblige Sovereign Funds to invest in sustainable issuers. These policies are being adopted **to catalyse the shift to a responsible and sustainable financial system**. A second reason is linked to financial and commercial purposes. Sustainable ETFs are arousing growing interest among investors, driven by higher returns, higher resilience of green portfolios, robustness to market turmoil.

Global inflows to ESG ETFs jumped to 22 billion dollars in October 2020, tripling the total value of 2019 (source: *Bloomberg*). Europe accounted for approximately 75% of global inflows (as of the end of 2019). ESG Fund flows represented almost one third of all European fund sales in the second quarter of 2020, and Sustainable Equity Funds gained 63% of new money invested more than traditional Equity Funds over the period (source: *Morningstar*).

While equities descended rapidly into a bear market halfway through the quarter, estimated net flows for open-end and exchange-traded sustainable funds overcame the previous quarterly record set in the fourth quarter of 2019. Over the past 15 years, ESG investing has grown to over \$30 trillion in assets under management (source: *Morningstar*).

ESG Funds are weakly exposed to oil and gas, for this reason they resisted the panic selling in the stock market during the pandemic crisis and they overperformed the traditional investments. Given the bucking trend of sustainable Funds and institutional efforts, ESG flows are growing and they will expand their appeal to capital markets.

As of January 2021, 17.56% of ERG's share capital is owned by Institutional Investors: among these, Wealth Management and Sovereign Wealth Funds own 0.08% and 1.60%, respectively, while the total portion of ETFs is 1.33%. ERG's ownership held by sustainable funds still have a negligible dimension, but it is quite likely that Wealth Funds and sustainable ETFs will increase their holdings. Indeed, the company is a valid potential candidate for entering the composition of ESG Funds and Wealth Funds. ERG utilizes almost exclusively renewable sources for energy production (being natural gas qualified as a "semi-green" sources); its business is characterized by a solid orientation towards ESG and sustainable commitments, as confirmed by the ESG scores and ratings awarded. **Since the complete divestment from oil and fossil fuels sector, ERG gained that adaptive flexibility needed in a new world that values clean and healthy businesses.**

Consequently, our **BUY** recommendation is strengthened by the greater expected flows and growth in sustainable investing. For detailed institutional ownership, see the Appendix - section 6.2.

ESG Ratings

ERG has been included in relevant sustainable indices, based on ESG criteria: ECPI Global Clean Energy Equity Index, FTSE Environment Renewable and Alternative Energy Index, Ethibel Excellence and Pioneer Investment Register 2019, Corporate Knights 2019 Global 100 Most Sustainable Corporations in the World Index.

Carbon Disclosure Project (CDP), the not-for-profit that assigns ratings to environmental impact and disclosure systems, upgraded ERG environmental rating to "A-" (previously rated "B") in December 2020, positioning the Company in the "Leadership" range based on best practices in the fight against Climate Change and well above the European average ("C" rating) and above renewable operators average ("B" rating).

Vigeo Eiris assigned ERG the maximum score of 88/100 in its ranking of best firms in reporting the business impact of Climate Change. ERG's reporting guidelines are based on Task Force on Climate-related Financial Disclosures (see the *Appendix*). MSCI rated the Company "AA", while ECPI placed ERG "among the top 40 companies with the highest ESG ratings active in the production and trading of renewable energy." CSR performance is assessed by the Ethibel Excellence Investment Register, which included ERG for the third consecutive year.

We report an assessment of externally provided ESG Scores (source: *Bloomberg* data) in the Appendix (section 9.3) for ERG and selected peers.

ESG Ratings - Exhibit 32

ESG Rating Company	Rating
vigeo eiris	62 Advanced
Corporate Knights	35 th place
CDP	A-
ECPI	EE+
ISS ESG	B
MSCI	AA
SUSTAINALYTICS	75 Outperformer
FORUM ETHIBEL	
standard ethics	E+
Globe	78/100

Source: ERG presentation

ERG Ownership by Fund Type - Exhibit 33

Top Mutual Fund Types

Fund Holding Style Analysis

Holder Type	%OS	Pos (000)	Pos Chg (000) [Recent]	Mkt Val (MM)	Mkt Val Chg (MM) [Recent]	Holding Style	%OS	Pos (000)	Pos Chg (000) [Recent]	Mkt Val (MM)	Mkt Val Chg (MM) [Recent]
Total (Count: 345)	17,51	26.318	248	807	7	Total (Count: 345)	17,51	26.318	247	807	8
Open-End Fund (274)	14,42	21.672	642	665	20	Growth (103)	5,9	8.875	324	272	10
Pension Fund (3)	1,59	2.383	-36	73	-1	Aggressive Growth (55)	4,6	6.910	628	212	19
Exchange Traded Fund (45)	1,33	2.001	123	61	4	Index (58)	2,41	3.624	210	111	6
Variable Annuity Fund (10)	0,08	116	5	4	0	Value (31)	2,19	3.299	-721	101	-22
Pension & Life Product (7)	0,05	79	-122	2	-4	Unassigned (58)	1,47	2.215	-175	68	-5
Hedge Fund (2)	0,02	29	-1	1	0	GARP (20)	0,56	845	-89	26	-3
Closed-End Fund (3)	0,02	27	-376	1	-12	Yield (19)	0,35	534	79	14	2
Insurance - Diversified (1)	0,01	13	13	0	0	Deep Value (1)	0,01	17	-9	1	0

Source: Team Elaboration on FactSet Data

Appendix - Table of Content

1.Business Description	
1.1 Operational Divisions	12
1.2 Shareholder/Governance Structure	13
1.3 Corporate Strategy.....	13
2.Industry Overview & Competitive Position	
2.1 Performance of Renewable Industry (market size of players).....	14
2.2 Competitive Financial Analysis	14
2.3 Competitive Position (moat analysis).....	14
2.4 Porter's Five Forces	15
3.Valuation	
3.1 WACC Assumptions	16
3.2 Montecarlo Simulation	16
3.3 Sensitivity Analysis	16
3.4 Sum of the parts (Break-up analysis)	17
3.5 Dividend Discount Model	17
3.6 Multiple Valuation Regression	17
3.7 ESG Scoring and adjustments	17
3.8 Target price's weights	17
4.Financial Statements	
4.1 Cash flow Statement	18
4.2 Reclassified Balance Sheet	18
4.3 Income Statement	18
4.4 Financial ratios (actual and estimated)	19
4.5 Financial ratios evolution	19
5.Investment Risk	
5.1 Investment Risks	20
6.Sustainability and ESG	
6.1 ESG Scoring Methodology	21
6.2 Sustainable Investing and ESG Flows	22
6.3 Peers ESG Score	22
6.4 Environmental Impact of Business Activity	23
6.5 Disclosure on Climate Change Impact	23
6.6 Board of Directors and Corporate Bodies	24
6.7 Organisational Culture.....	24
6.8 Covid-19 Section	24
7.The Utilities Sector	
7.1 System of State Incentives	25
7.2 Power Purchase Agreements	25
7.3 European Emission Trading Scheme	25
7.4 White Certificate Mechanism	25

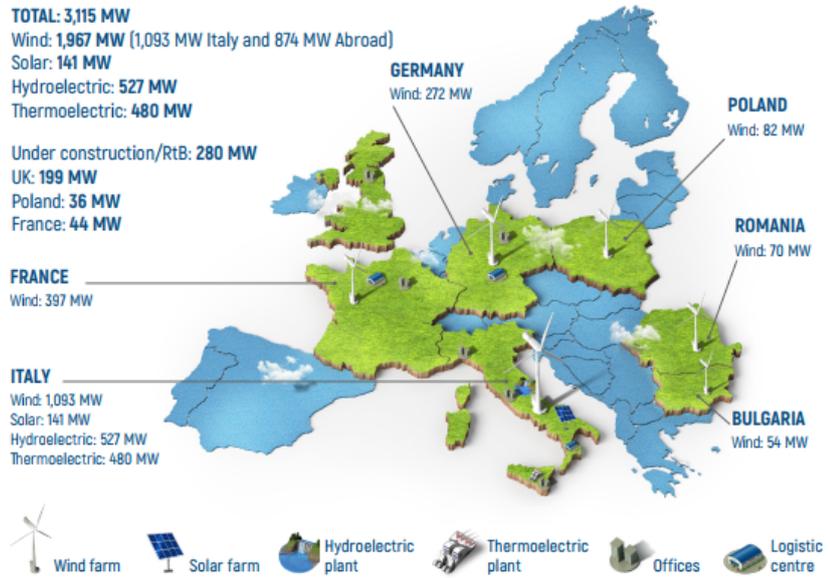
1.1 Operational Divisions

The transition journey of ERG began in 2006, when the company launched a tender offer on a small independent operator active in renewable sources. ERG sold 49% of its refinery to a Russian company Lukoil in June 2008, with a put option on the remaining 51%. The company gained 3 Billion Euros from the deal and reinvested it in renewables together with the proceeds coming from the divestment from the oil power and thus marks the transition from grey activities to green activities. Most notably the Deputy Chairman Alessandro Garrone said during the presentation of the business plan of 2012; "It's like we sold the original ERG and bought a new ERG of the same dimension but completely different."

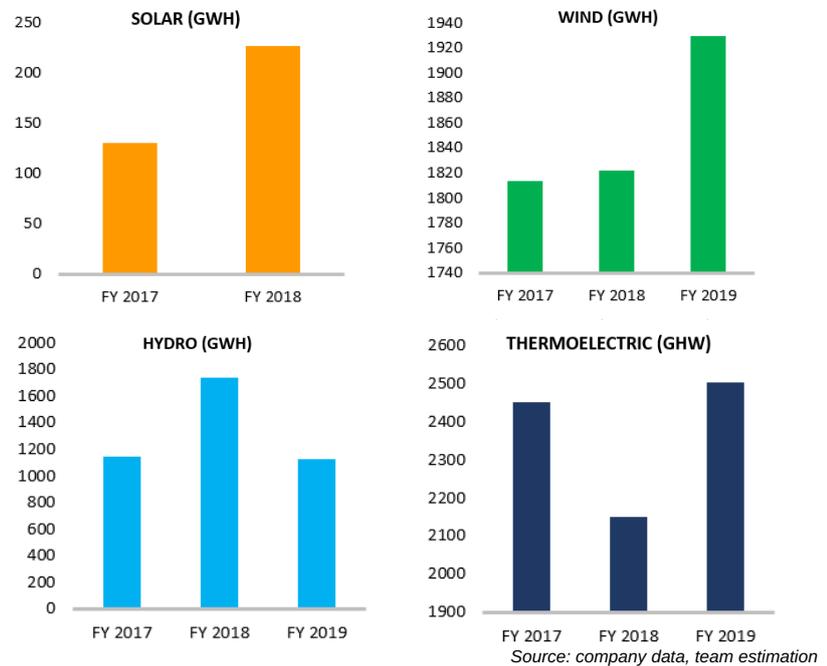
WIND Farm: ERG acquired 500MW of wind power in 2013 from Gaz De France that was leaving the business in Italy. This acquisition allowed ERG to become the first wind power operator in Italy and one of the top 10 in Europe, holding the best geographic positioning - first wind turbines to be installed in Italy but they have obsolete equipment. Now, these plants are object of a re-powering process, which urged to be dismantled and re-build to enhance a greater production potential and improved modern technologies. However, the company wants to continue its growth in wind power through deals for greenfield and co-development in Germany, France, and UK and for Italy the company seeks to undertake the strategy of repowering instead of greenfield. At present, ERG directly manages over 1,300 MW of wind energy which equal to over 67% of its total portfolio. largely in France (359 MW), Germany (272 MW), Poland (82 MW), Romania (70 MW) and Bulgaria (54 MW) and the United Kingdom with projects in progress. The business performance is influence primarily by sale price of electricity which could vary meaningfully depending on the geographical location and regulations of organized energy markets.

SOLAR Farm: In 2019, ERG, through its subsidiary ERG Solar Montalto S.r.l., completed the acquisition from Soles Montalto GmbH, an investment fund managed by the AREAM group, a European asset manager in the renewable sector, of 78.5% of Perseo S.r.l., holder of 100% of Andromeda PV S.r.l., a company that in turn manages two photovoltaic plants with total installed capacity of 51.4 MW. It was also agreed that Soles Montalto GmbH will remain the non-controlling shareholder, based on shareholders' agreements that will guarantee ERG full industrial control of the asset and its line-by-line consolidation. The plants are in Montalto di Castro (Lazio), and in 2018 recorded a total output of 85.6 GWh and EBITDA (gross operating profit) of EUR 30 million. Equipped with Sun Power and uni-axial tracker technology, the plants on average came into operation in the 4th quarter of 2010 and will benefit from the second feed-in premium for 20 years, until 2030

HYDROELECTRIC Plans: ERG is active in the generation of electricity from hydroelectric sources through the equity investment in ERG Hydro S.r.l., owner of the Terni Hydroelectric Complex (527 MW), including a system of programmable and flexible plants located in central Italy; these plants are used under the related hydroelectric concessions that will expire at the end of 2029. The total capacity of the plants at the Terni complex came to 526.9 MW, of which 512.4 MW relating to large offtakes and 14.5 MW related to small offtakes and minimum vital outflows. In 2019, revenue, amounting to EUR 119 million, related mainly to electricity sales i.e. mostly on the spot market for EUR 67 million, revenue from the feed-in premium (former Green Certificates) for EUR 51 million. The costs are essentially attributable to the concession fees, personnel expenses, operation and maintenance costs, insurance payments and costs for services. EBITDA in 2019 amounted to EUR 87 million (EUR 146 million in 2018), a decrease of EUR 59 million, mainly due to the reduced availability of water resources, significantly lower than the historical average and then the particularly high value recorded in 2018.



Source: company presentation



THERMOELECTRIC Plans: ERG is active in the generation of electricity from thermolectric sources through the investment in ERG Power S.r.l., owner of the high output, high efficiency, low emission, highly modulable and flexible cogeneration CCGT plant (480 MW). In 2019, ERG Power's net electricity generation was 2,504 GWh, up compared to 2018 (2,151 GWh), in relation to the more favorable market context, with increased net generation margins, mainly due to the significant decrease in gas prices in spite of a significant increase in CO2 prices. This trend was stronger than the more general one recorded in Italy for the entire thermolectric sector thanks to the differential price in Sicily versus the National Single Price (PUN) in an environment of lower prices in Sicily. The net supply of steam to captive customers of the Priolo Gargallo petrochemical site totaled 875 thousand tons, up significantly with respect to 737 thousand tons in 2018. Consequently, the number of accrued White Certificates grew markedly relative to 2018. Adjusted EBITDA of 2019 amounted to EUR 69 million (EUR 53 million in 2018), an increase as a result of the improvement in the spark spread, of the higher sales to customers at the Priolo Site, of the higher income deriving from White certificates and of the performance of the plants. Thanks to this high efficiency, the company received from the GSE (Electric Service Authority of Italian Government) an efficiency certificates that made the plants particularly profitable (high EBITDA) with respect to the usual CCGT. Thus, this sector is in a high-efficiency, low environmental impact cogeneration plant (HEC) which uses combined cycle technology fueled with natural gas and the company entered commercially into operation in April 2010 along with other ancillary plants to produce steam and, to a lesser extent, of other utilities

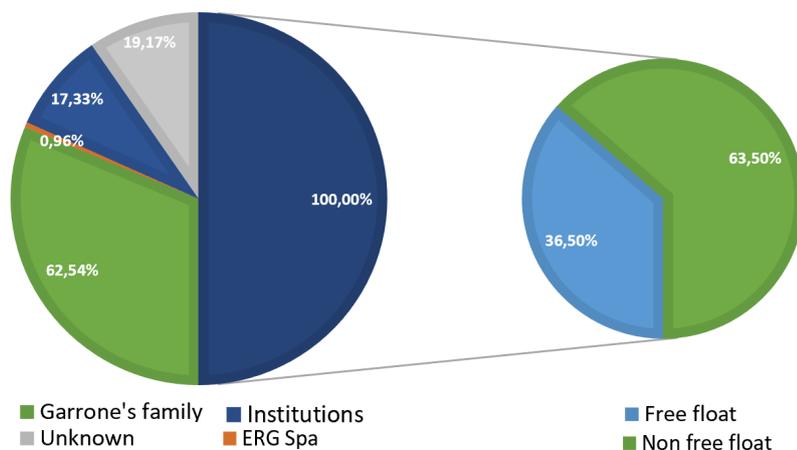
TOP 100 MOST SUSTAINABLE CORPORATION: ERG is one of the only four Italian companies included in the Corporate Knights Global 100 Most Sustainable Corporations in the World, the index that ranks the world's most sustainable companies. The selection criteria, based on the Thomson Reuters data stream, analyzed around 7,500 companies and ERG ranked 35th place in the world, the second highest Italian company. The companies - listed and with a turnover of at least US\$ 1 billion - are evaluated preliminarily based on four screens (sustainability reporting, financial soundness, category of products sold and financial sanctions incurred) and, subsequently, on an additional 21 indicators, specific to each industry considered: management of natural resources, employee management, clean revenue and supplier performance.



1.2 Shareholder/Governance Structure

ERG's share capital amounts to EUR 15,032,000 and is represented by 150,320,000 registered ordinary shares with a par value of EUR 0.10 each as of 31st December 2020. The shares are indivisible, and each share gives the right to one vote. The current corporate governance structure of ERG S.p.A. has evolved over time by gradually introducing rules of conduct that reflect the most advanced and widely recognized principles of Corporate Governance into the ERG S.p.A. corporate approach.

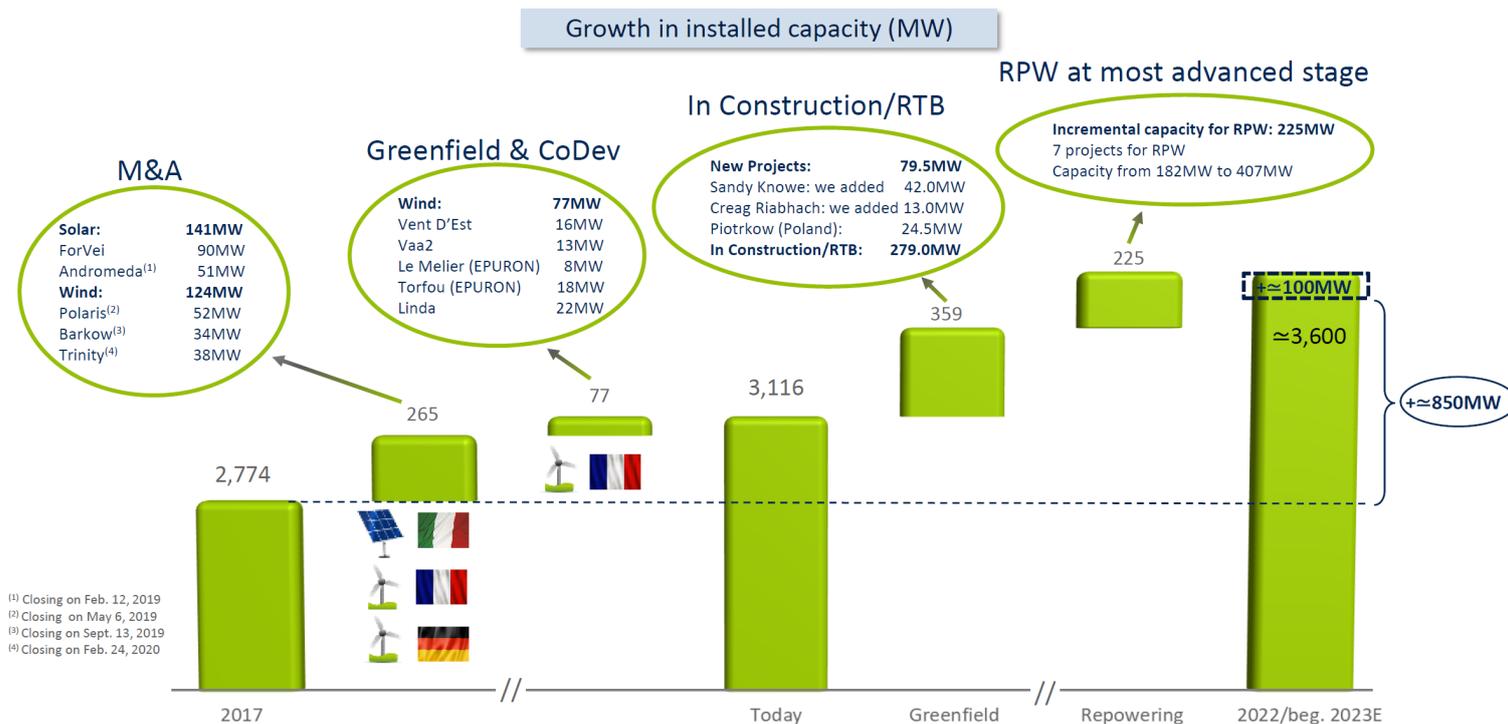
The Corporate governance encompasses statutory bodies, board committees and the corporate governance documents that regulate their operation and are enshrined in the provisions of the Italian Civil Code and other laws and regulations relating to companies, particularly those contained in the Consolidated Finance Act and inclusively, reflects compliance with the Corporate Governance Code⁴. ERG's Board of Directors guarantee clarity and completeness of executive powers and accountabilities, through the monitoring of the activities carried out and the assessment of achieved results.



Source: company data, team estimation

1.3 Corporate Strategy

ERG's corporate strategy is focused on sustainable and flexible growth pattern segmented into three main clusters namely: **Greenfield, Repowering, and M&A**. The company has the preference of instituting such business and technology in countries like Germany, France, United Kingdom and Italy. Under Greenfield, the company hopes to create a long term sustainable growth that would be able to propel repowering and reblading as a way to better exploit asset base and extend its useful life. Moreover, the M&A approach would avail ERG with the opportunity to consolidate fragmented businesses and technologies in becoming a more solid market leader. The below chart and diagram gives a general overview of the corporate strategy.



Source: company presentation

Industry Overview & Competitive positioning

2.1. Performance of Renewable Industry

Market Size of players: The market for this industry is segmented into hydro power, onshore wind, solar, and bio energy etc. The below model highlights the size of each key players from 2015 to 2019 in terms of revenues.

Amounts in €mln	2015	2016	2017	2018	2019
Falck Renewables SpA	217,00	249,60	291,10	349,10	374,50
Neoen SA	-	-	-	228,00	253,00
Encavis AG	112,90	141,80	222,40	248,80	273,80
Aventron AG	-	-	-	-	-
Orsted	70.843,00	61.201,00	59.709,00	76.946,00	67.842,00
Acciona	6.544,00	5.977,00	7.254,00	7.510,00	7.191,00
EDP Renovaveis SA	1.547,00	1.651,00	1.827,00	1.697,00	1.824,00
ERG	937,20	1.025,00	1.049,00	1.047,80	1.036,00
Total	80.255,10	70.245,40	70.352,50	88.026,70	78.794,30

Source: company data, FactSet, team elaboration

2.2 Competitive Financial Analysis

Competitors:	SIZE & GROWTH		MARGINS			RETURNS		CAPEX		VALUATION		
	Revenues (€)	Rev. 5Y CARG%	Gross margin (%)	EBITDA margin	EBIT margin	ROA	ROE	TD Debt/Capex (%)	EV/EBITDA	EV/EBIT	Div. Yield (%)	P/E
Falck Renewable Spa	374,5	8,6%	36,7%	50,2%	29,6%	2,8%	9,2%	61,2%	11,3	19,2	1,4%	28,4
Neoen SA	252,2	-	51,5%	85,2%	53,5%	0,6%	3,0%	77,8%	20,9	33,2	-	72,8
Encavis AG	283,9	27,2%	42,4%	79,0%	35,1%	0,8%	3,9%	76,8%	13	10,3	2,8%	55,5
Aventron AG	-	-	-	-	-	-	-	-	-	-	-	-
Orsted	59338,0	-3,7%	-0,7%	10,9%	-0,7%	3,6%	9,3%	43,1%	49,3	-786,8	1,5%	44,5
Acciona	7190,6	2,0%	9,6%	17,8%	9,6%	2,2%	10,5%	69,9%	8,7	16,0	1,7%	14,5
EDP Renovaveis SA	1794,9	9,2%	45,0%	72,6%	39,3%	2,7%	7,0%	34,2%	10,4	19,2	0,8%	19,3
ERG	1021,6	-26,7%	31,1%	46,3%	14,4%	0,7%	1,8%	55,5%	9,8	27,7	3,9%	90,7
Median	1021,6	5,3%	36,7%	50,2%	29,6%	2,2%	7,0%	61,2%	11,3	19,2	1,6%	44,5
Average	10036,5	2,8%	30,8%	51,7%	25,8%	1,9%	6,4%	59,8%	17,6	-94,5	2,0%	46,5
Weighted average	4843,8	1,6%	32,8%	54,9%	27,4%	1,5%	5,6%	65,9%	1460,0%	-19,0	1,9%	52,7

Source: company data, FactSet, team estimation

2.3 Competitive Position



	Wind	Solar	Thermoelectric	Hydroelectric	Bioenergy & etc
Intangible Asset	★				
Switching cost		★			
Network Effect		★	★	★	
Cost Advantage	★		★	★	
Scale	★	★			
Total Score	Wide	Wide	Narrow	Narrow	None

Economic Moat: this analysis aims to capture the long-term competitive advantage of ERG SpA through the lense of Intangible Asset, Switching cost, Network effect, Cost advantage, and Scale in the alternative energy sector. By far, it is evident that the Company has built a very solid brand when it came to its Wind and Solar business division and as such it is harvesting the demographic dividend by sustaining customers through the offering of cheaper energy when compared to giant competitors. However, the Company is quite narrow in terms of the Thermoelectric and Hydroelectric business segment though there are plans to remedy the current situation in order to built a company that is strong, sustainable and also able to protect itself from competitors.

Source: Team estimation

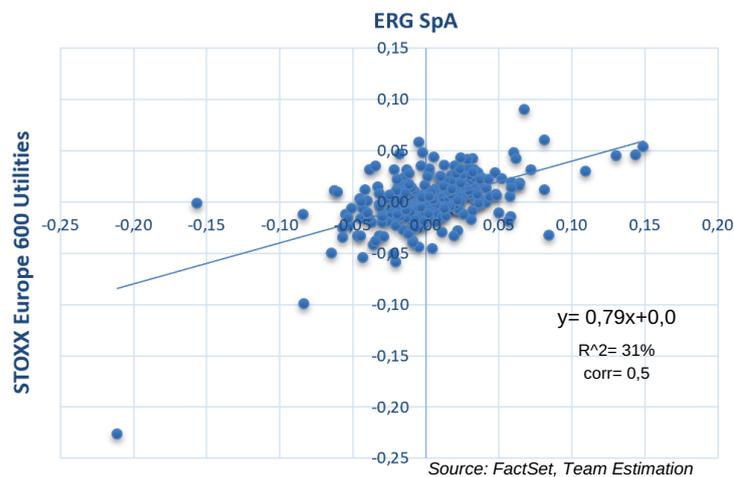
2.4 Porter's Five Forces

Threat of substitute	Number of substitutes	The convention approach to the generation of energy from sources such as crude oil, coal and finite products remains the main substitution products for the generation of energy from renewable sources such as wind, solar, hydrothermal, nuclear energy, gas, bioenergy etc. as the switching cost is ideally low. Thus, the traditional energy sector is identified as a clear substitution product for the competitive landscape of the alternative energy sector.
	Relative prices	The prices of depletable energy is cheaper than the renewable ones. Alternative energy involves massive capital expenditure and as such it also affects the prices of its products. Consequently, its price is influenced by demand – the higher the price, lower the quantity demanded.
	Relative quality	Power quality is directly related to productivity and when it comes to renewables it is cleaner than fossil fuel, sustainable, environmentally friendly, and can be used without interruption. The quality of renewables will continue to rise by edging out fossil fuels and reducing greenhouse gas emission.
Buyer power	Buyer concentration	The buyer concentration for renewables is high in the commercial sector and is expected to increase across industrial, and residential sectors. In recent years, the prices of wind and solar energy has fallen and as such attracted numerous buyers reaching a capacity of 3GW.
	Price sensitivity	Retailers of renewable energy are characterized to be quite sensitive to the premium prices of the alternative energy sector. Thanks to government funding and incentives now most distributors sensitivity is optimized in the competitive landscape of the renewables.
	Switch cost	The switching cost remains medium for buyers as governments around the world are drawing policies, spearheading incentives, and funding to support the sustainability of renewable industry.
	Buyer profit margin	ERG has higher EBIDA and profit margin than most of its buyers because the company is leveraging immensely on its economy of scale and continuous improving technologies.
Supplier power	Backward integration	The risk of backward integration is highly unlikely for ERG and its peers. The alternative energy sector is the energy of the future and has been receiving huge endorsement from Governments and NGO's.
	Supplier concentration	Renewable energy companies buy their raw materials from numerous suppliers, some with dominant position to decrease the margin of ERG due to their negotiation power to extract higher prices. Thus, the overall impact of higher supplier bargaining power lowers profitability of the alternative energy sector.
	Forward integration	The risk of forward integration is almost insignificant given that the renewable energy sector is capital intensive, requires continuous technology advancement, and revolving policies centered on the environment and climate change.
	supplier relative size	The size of supplier enormously varies from small, medium and to big multinationals companies.
	Dependence on industry	The volume of installed (GW) capacity from renewable sources of energy is relatively low compared to the market potential and thus yields a lower return for suppliers.
Internal rivalry	Product differentiation	The degree of differentiation is low and varies across suppliers in terms of capacity and implied technology on areas such as solar, wind, hydrothermal, bio etc.
	Concentration	The market concentration of the alternative energy sector is moderate as there are few established competitors present in the industry.
	Size of competitors	The market size of key competitors is fragmented in large and medium sizes – of which majority have similar weights.
	Industry growth	The global alternative energy industry has been growing year over year and it is estimated to register a CAGR of 6.1% from the 2018 to 2025 – reaching a net worth of \$1,512.3Billion.
	Fixed cost	In the alternative energy industry, the presence of fixed cost is quite high as companies would pledge increasing Capex due to the massive need to invest in technologies that ensures the continuous improvement of existing products for sustainability.
	Product differentiation	Product differentiation in the alternative energy industry is low-moderate and most of the competitors have similar renewable products. Buyers are driven to products with lower prices and efficient in the use of sustainable technology that contribute to the reduction of CO2 emission present in the atmosphere.
	Diversity of competitors	The geographical diversity and product range among competitors is low. The pace of growth varies significantly across companies that have built economic of scale and skills around global portfolio of multiple renewable technologies along its value chain.
	Exit barriers	Huge fixed cost, high specialized asset, and revolving government policies are deemed as the main exit barriers for this industry. ERG's plan for geographical diversity and incentives will go a long way in curbing the hurdles arising from exist barriers.
Threat to entry	Rivalry shift	The renewable energy sector is quite dynamic in terms of products and for this reason, competition is likely to remain moderate on the niche but would have to depend on the evolution of a more sustainable and environmentally friendly technologies.
	Economies of scale	Scale economies does not impose a very crucial and significant barrier for new entrance into the alternative energy sector as the implied capacity of GW production remains limited as regards to demand for greener energy. Thus, scale economies are not critical.
	Legal and regulatory barriers	There are no regulatory barriers for entry in this industry, instead, there are many policies and incentives promoting greener energy.
	Capital requirements	Massive investment is required to entry the alternative energy industry as it is quite necessary to obtain high level of CapEx. This remains a hurdle for new entrance.
	Switching cost	The switching cost is low for end-users since the sector has been receiving enormous favors in terms of policies and incentives to make the products more affordable and sustainable.
	Cost advantage	The incumbents are avail with quite a lot of cost advantage difficult to be replicated for new entrance and such benefits range from economies of scale, economies of scope, policy incentive, government funding, and improving in technology
	Distribution channels	Access to distribution channels imposes a significant barrier for entrance. For effective distribution of energy to retailers/ end-users a sound infrastructure is needed.
Product differentiation	The giants of this industry could take advantage of their product market share, goodwill, and network to deter a new entrance. These drivers are strong defense mechanism.	

Source: team elaboration

3.1 WACC Assumptions

i) **BETA.** Even if 100% of revenues comes from Italy, Erg is a target company for international investors, mainly Europe, thus the Beta was computed by regressing ERG returns against STOXX 600 Utilities market index (SXXP 600 Utilities). We used as historical time period five years with weekly intervals. The final result of the beta is 0,79. The adjusted beta used for the ESG version of the DCF is calculated by applying a discount of 5% to the original one calculated here.



Country	10y risk-free	w	Country	ERP %	w
IT	0,56%	94%	IT	9,00%	80%
FR	-0,29%	1%	FR	6,65%	5%
DE	-0,54%	1%	DE	5,96%	10%
UK	0,26%	4%	UK	6,65%	5%
w. av.	0,53%	100%	w. av.	8,46%	100%

Source: Pablo Fernandez (2020), Team Estimation

Source: Damodaran (2019), Team Estimation

ii) **RISK-FREE RATE.** The company operates in Europe but the entire production is sold in Italy, for this reason to calculate the risk free rate we computed a weighted average of the 10Y Government Bond yields of Germany, Italy, France and UK, giving more weight (94%) to the Italian BTP yield, being Italy the country to which the company is exposed the most. Given the current situation of negative interest rates, we decided to increase the weight of the Italian risk-free rate.

iii) **EQUITY RISK PREMIUM.** Since we are in a period of extremely low interest rates, we considered more appropriate and realistic to calculate the equity risk premiums using the 2019 values from Damodaran (2019). Consistently with the risk free rate calculation, we computed a weighted average of the Italian, German, French, and British equity risk premiums, giving more weight to the Italian premium (80%).

iv) **COST OF DEBT.** Given the company has the intention to keep issuing green bonds, to calculate the cost of debt we considered the coupon of the green bonds listed in 2020 (ISIN: XS2229434852 and XS2274549034) and the one listed in 2019 (ISIN:XS1981060624). The respective maturities are 2027, 2027 and 2025, thus this measure is a suitable representative of the cost of debt relative to the time period we are studying. Also in this case, we computed a weighted average, giving more weight to the bonds issued in 2020 since the very low coupon is more realistic of the cost of long term debt the company will face in the following years.

	Green bonds	coupon	w
2020	XS2229434852	0,50%	40%
2020	XS2274549034	0,50%	40%
2019	XS1981060624	1,88%	20%
	kd	0,775%	100%

Source: ERG Annual Report 2019, Team Elaboration

v) **MARGINAL TAX RATE.** We assumed a tax rate of 29%-30%, where 24% is the nominal IRES (corporate income tax) rate (24%), increased by the IRAP (regional income tax) rate (3.9% - 5.57%) when applicable.

vi) **LEVERAGE (D/D+E).** We considered the market value of Total Debt and market capitalization as of December 2020.

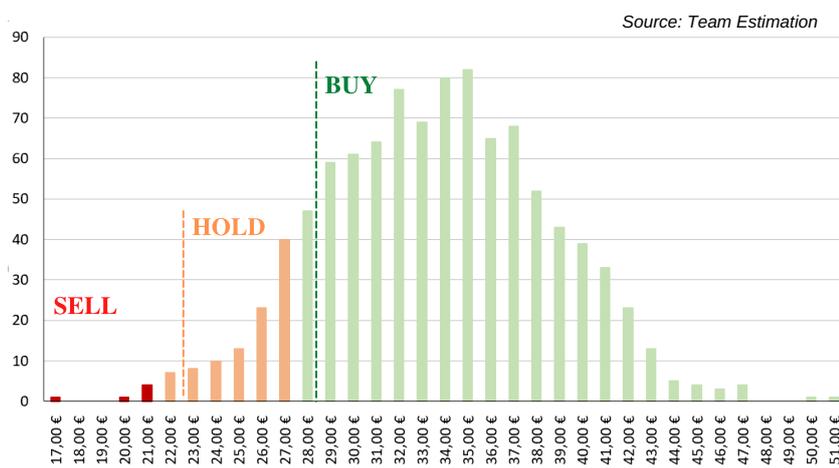
3.2 Montecarlo Simulation

To test our valuation, we performed a monte carlo simulation of the target price with respect to changes in the company key drivers: CAPEX and EBITDA.

Besides the fact that ERG SpA has a capital intensive business, CAPEX is a relevant variable because the company expects to increase the production through M&As and new greenfields mainly, thus it is interesting to capture how an increase in the usual capital expenditure or a decrease in the expectation levels could impact the final valuation.

The other variable we considered is EBITDA. Erg is a company which mainly relies on incentives, specifically 70% of EBITDA is incentivized. Currently, incentives are expiring but the company expects to win several auctions in the near future, thus, we found it interesting to measure the impact on the target price of changes in variables which the company assumes to remain stable.

The main results of our analysis show that 81% of the outcomes confirm our **BUY** recommendation, with 18% supporting the **HOLD** and only 1% the **SELL** recommendation.



3.3 Sensitivity Analysis

For a quasi-pure renewable company which is going to increase the amount of green debt issued at very low costs, we found valuable to perform a sensitivity analysis of the target price with respect to changes in the cost of debt and risk free rate (graph on the left). The same analysis was applied also with respect to the ESG-Adjusted Target Price (graph on the right).

The **BUY** recommendation is confirmed in almost all the cases considered.

	Risk free rate					
	0,5%	0,8%	1,2%	1,8%	2,0%	
Cost of Debt	34,33	35,7	35,7	35,7	35,7	35,7
	0,5%	34,4	34,4	34,4	34,4	34,4
	0,78%	29,3	29,3	29,3	29,3	29,3
	2,0%	25,9	25,9	25,9	25,9	25,9
	3,0%	24,5	24,5	24,5	24,5	24,5
Cost of Debt	42,53	44,4	44,4	44,4	44,4	44,4
	0,5%	42,5	42,5	42,5	42,5	42,5
	0,78%	35,5	35,5	35,5	35,5	35,5
	2,0%	31,1	31,1	31,1	31,1	31,1
	3,0%	29,2	29,2	29,2	29,2	29,2

Source: Team Estimation

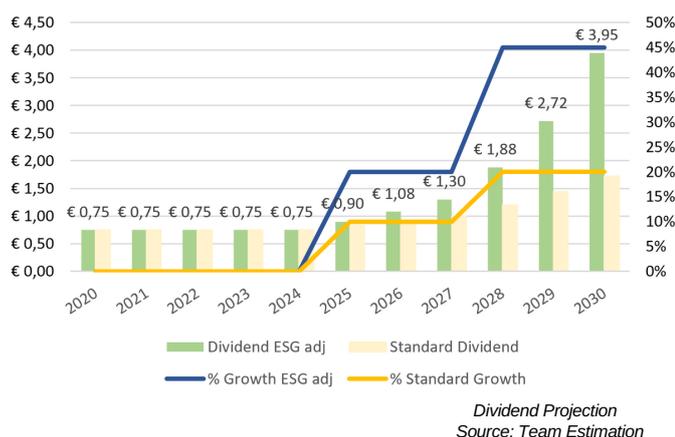
3.4 Sum of the Parts (Break-up analysis)

We performed a SOTP analysis since our goal was to focus on how much each business segment of ERG worth with respect to the overall value of the company. For the purpose of the valuation, we applied a volume-based approach for the main divisions, taking into account the average development cost estimates for renewable projects provided by the I.R.E.N.A. (International Renewable Energy Agency). We derived an expected cost per MW installed and under development for wind, solar, hydro and thermo. Finally for the Corporate division, we performed a multiple based valuation, where we applied a 6x EV/EBITDA: this value is derived by averaging the similar transactions performed by the company in 2020. As clear from the exhibit below, the overall segment of Wind worth alone 26.08€ compared to a target price of 24.73€, highlighting this as the segments driving the most value for the business at whole.



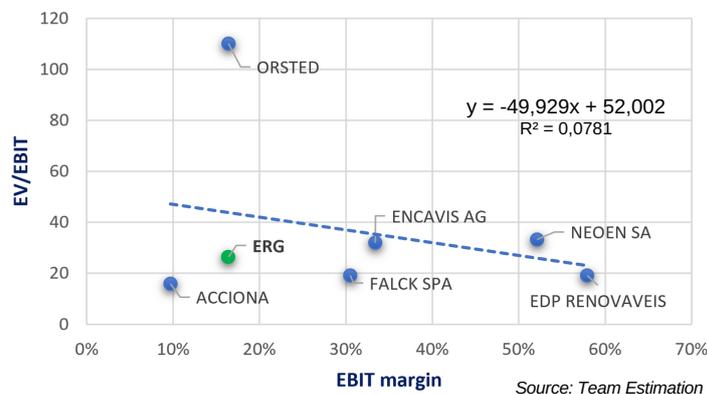
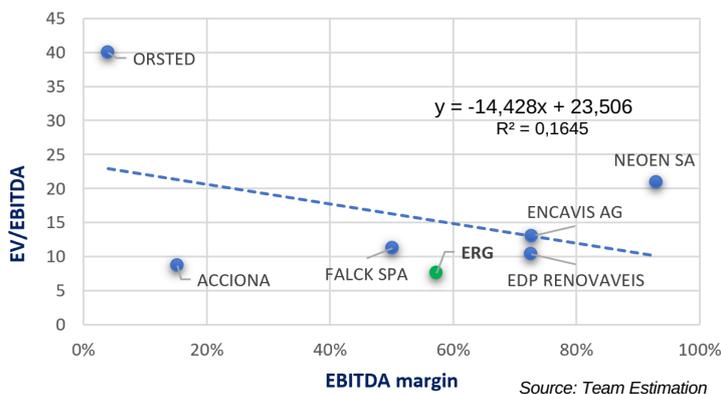
3.5 Dividend discount model

As support for our valuation assessment, we decided to take into account a 3-stage DDM, since the company exhibited a continuous stream of dividend payments throughout the years. We assumed a first stage, from 2020 to 2023, characterized by a constant development in the dividend's distribution value, where the value of DPS is considered fixed to the last dividend payment, that is a value of 0.75€ per share. The second stage, from 2024 to 2027, is characterized by a growth period of 20% ESG adj (10% normal): this is supported by the greater involvement in the economy of utility firms, which will imply greater investments and greater cash generation, allowing for this further increase of dividend value. Third stage is considered from 2028 to 2030: this period will be characterized by lower investment made by the company. However, due to the precedent investments made and thanks to the cash collected in the previous years by the company, we assume ERG will be able to increase even more the value of dividends' payment, 45% ESG adj (20% normal), as it will be able to distribute additional cash as dividend payments. Finally, the target price of €32.60 support our **BUY** recommendation.



3.6 Multiple Valuation - Regression

We performed an OLS (Ordinary Least Square) regression using two different types of multiples and regressors, both based on Enterprise Value Approach (EV/EBITDA and EV/EBIT vs EBITDA and EBIT margin). We did not use the P/E multiple because the comparable firms we have chosen are still in their investment phase and so their potential has not been expressed yet. In both regressions there is a weak correlation between the multiples (EV/EBITDA and EV/EBIT) and any regressor (7 metrics have been used), but the target price that comes out performing each of them is enough in line with the DCF target price and confirm the one obtained from the normal multiple valuation.



3.7 ESG Scoring and adjustments

ESG Score	WACC Adjustments
0 - 10	1,66%
11 - 20	1,33%
21 - 30	1%
30 - 40	0,66%
41 - 49	0,33%
50	NO IMPACT
51 - 60	-0,33%
61 - 70	-0,66%
71 - 80	-1%
81 - 90	-1,33%
91 - 100	-1,66%

To adjust our DCF valuation and to account for the ESG, we reduced the WACC following the scores' rank in the table. With a ESG score of 78,8, ERG is in the middle of the green side. For this reason, a -1% has been deducted from the original WACC calculation, reaching a DCF-ESG target price of € 42.53.

Source: Team Estimation

3.8 Target price's weights

Valuation Issue	Normal industrials	Growth industrials	Holding company	Loss runners	Bank	Insurers
DCF	30%	30%	5%	40%	0%	0%
EV/EBITDA	15%	20%	0%	5%	0%	0%
EV/EBIT	15%	5%	0%	5%	0%	0%
P/E	5%	5%	15%	5%	10%	40%
SOTP	5%	5%	55%	40%	65%	25%
DDM-ESG	3%	3%	10%	3%	13%	18%
DCF-ESG	25%	30%	5%	0%	0%	0%
DDM	3%	3%	10%	3%	13%	18%

Source: Team Estimation

To adjust the Final Target Price we used the weights under the Normal Industrials column as a reference point but then adjusted to approach the Growth Industrials weights.

4.1 Cash Flow statement

Amounts in €m	2019A	2020E	2021E	2022E	2023E	2024E	2025E
Cash from Operating Activities							
Net Income	129,10	104,00	126,00	140,80	151,80	167,42	178,25
D&A	294,00	294,00	310,00	294,00	294,00	294,00	294,00
Non Cash Items	14,00	11,28	13,66	15,27	16,46	18,16	19,33
Change in NWC	-53,10	99,30	9,50	-1,50	0,00	0,00	0,00
Total	384,00	508,58	459,16	448,57	462,26	479,58	491,58
Cash from Investing Activities							
CapEx	-326,00	-183,00	-328,00	-278,50	-180,00	-180,00	-180,00
<i>CapEx/Revenues</i>	0,32	0,18	0,32	0,27	0,17	0,17	0,17
<i>CapEx/D&A</i>	1,11	0,62	1,06	0,95	0,61	0,61	0,61
Extraordinary events	0,00	-44,70	0,00	0,00	0,00	0,00	0,00
Total	-326,00	-227,70	-328,00	-278,50	-180,00	-180,00	-180,00
Cash from Financing Activities							
Dividends Paid	-112,40	-113,90	-113,90	-113,90	-113,90	-136,68	-136,68
Cash From (Repayments) of Debt	-67,20	15,30	15,30	15,30	15,30	15,30	15,30
Buybacks	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Extraordinary events	-55,00	-55,00	-35,00	30,57	-25,48	-19,50	-25,38
Others from Financing activities	-34,40	-50,00	-29,56	34,96	-21,18	-21,70	-27,82
Total	-269,00	-203,60	-163,16	-33,07	-145,26	-162,58	-174,58

4.2 Reclassified Balance Sheet

Amounts in €m	2019A	2020E	2021E	2022E	2023E	2024E	2025E
Net PPE and other capitalized investments	2247,22	2337,11	2407,22	2455,37	2504,47	2554,56	2605,65
Goodwill and acquired intangibles	1062,00	1050,00	1062,00	1064,00	1064,00	1064,00	1064,00
Goodwill	148,00	148,00	148,00	148,00	148,00	148,00	148,00
Acquired intangibles	914,00	902,00	914,00	916,00	916,00	916,00	916,00
Other noncurrent operating assets, net of liab.	-40,94	-40,94	-40,94	-40,94	-40,94	-40,94	-40,94
NWC	134,70	234,00	243,50	242,00	242,00	242,00	242,00
<i>% of Revenues</i>	0,13	0,23	0,24	0,24	0,23	0,23	0,22
Operating working capital	163,00	162,30	166,30	172,40	172,40	172,40	172,40
<i>% of Revenues</i>	0,16	0,16	0,16	0,17	0,16	0,16	0,16
Trade receivables	196,90	195,60	200,20	205,20	205,20	205,20	205,20
Inventories	26,90	26,80	27,40	28,10	28,10	28,10	28,10
Trade payables	60,80	60,10	61,30	60,90	60,90	60,90	60,90
Other current operating assets, net of liab.	-28,30	71,70	77,20	69,60	69,60	69,60	69,60
Invested Capital (including goodwill)	3402,98	3580,17	3671,78	3720,43	3769,53	3819,62	3870,71
<i>Goodwill as % of Invested capital</i>	0,04	0,04	0,04	0,04	0,04	0,04	0,04
Invested Capital (excluding goodwill)	3254,98	3432,17	3523,78	3572,43	3621,53	3671,62	3722,71
<i>Growth</i>	-	0,05	0,03	0,01	0,01	0,01	0,01
Debt and debt equivalents, net of cash	2074,18	2333,37	2403,78	2410,53	2459,63	2509,72	2560,81
Debt	1410,48	1502,17	1572,68	1579,43	1628,53	1678,62	1729,71
Debt equivalents	888,20	1056,10	1056,00	1056,00	1056,00	1056,00	1056,00
Cash and cash equivalents	-377,40	-377,80	-377,80	-377,80	-377,80	-377,80	-377,80
Financial assets, net of liabilities	152,90	152,90	152,90	152,90	152,90	152,90	152,90
Equity	1328,80	1246,80	1268,00	1309,90	1309,90	1309,90	1309,90
Invested Capital (including goodwill)	3402,98	3580,17	3671,78	3720,43	3769,53	3819,62	3870,71

4.3 Income statement

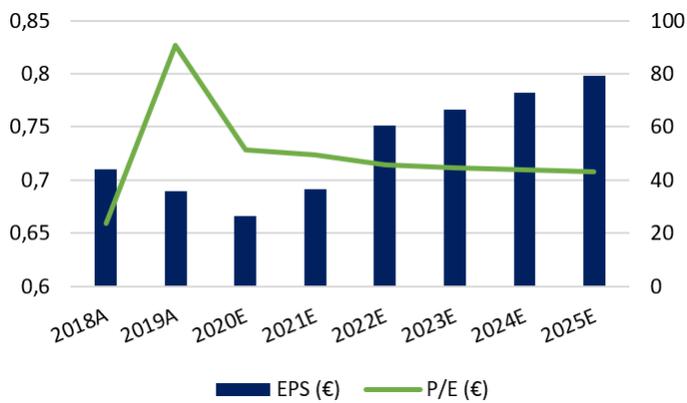
Amounts is €m	2019A	2020E	2021E	2022E	2023E	2024E	2025E
Revenues	1023,00	1008,00	1023,00	1025,00	1046,00	1066,92	1088,26
Costs	503,00	513,00	517,00	505,00	515,00	525,30	535,81
EBITDA	520,00	495,00	506,00	520,00	531,00	541,62	552,45
<i>of which Solar</i>	63,00	61,40	68,15	76,65	84,32	92,75	102,02
<i>of which Wind</i>	301,00	298,00	306,94	317,15	325,66	334,43	344,47
<i>of which Hydroelectric</i>	87,00	90,30	90,30	91,20	92,12	93,04	93,97
<i>of which Thermoelectric</i>	69,00	45,10	40,59	34,50	29,33	21,99	11,30
D&A	-294,00	-294,00	-310,00	-294,00	-294,00	-294,00	-294,00
EBIT	226,00	201,00	196,00	226,00	237,00	247,62	258,45
Financial expense	-55,30	-55,30	-55,30	-55,30	-55,30	-55,30	-55,30
Financial income	0,10	0,10	0,10	0,10	0,10	0,10	0,10
Net financial income (expense)	-55,20						
PROFIT BEFORE TAXES	170,80	145,80	140,80	170,80	181,80	192,42	203,25
Income taxes	-41,70	-38,00	-35,00	-30,00	-30,00	-25,00	-25,00
PROFIT FOR THE YEAR	129,10	104,00	126,00	140,80	151,80	167,42	178,25

4.4 Financial ratios (actual and estimated)

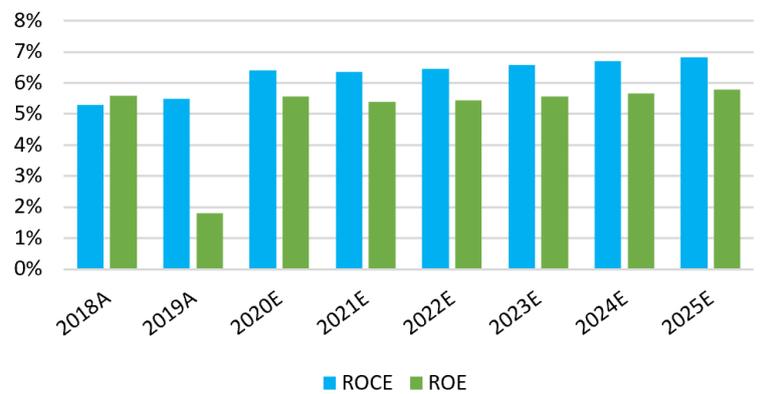
Financial ratios	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E
Profitability								
EBITDA Margin	44,3%	57,3%	49,1%	49,5%	50,7%	50,8%	50,8%	50,8%
EBIT Margin	20,1%	18,6%	22,8%	23,2%	24,4%	24,4%	24,4%	24,4%
Net margin	10,2%	3,2%	9,9%	10,1%	10,9%	10,9%	10,9%	10,9%
Efficiency								
ROCE	5,3%	5,5%	6,4%	6,4%	6,4%	6,6%	6,7%	6,8%
ROE	5,6%	1,8%	5,6%	5,4%	5,5%	5,6%	5,7%	5,8%
Valuation								
EPS (€)	0,71	0,69	0,67	0,69	0,75	0,77	0,78	0,80
P/E (€)	23,57	90,68	51,52	49,67	45,67	44,78	43,90	43,04
EV/EBITDA	8,45	7,57	11,35	11,10	10,80	10,58	10,37	10,17
EV/EBIT	21,3	27,7	24,43	23,71	22,47	22,03	21,60	21,18

Source: FactSet, Team Estimation

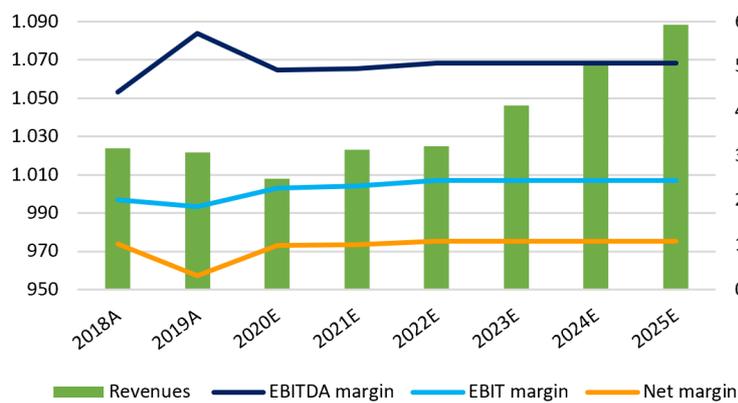
4.5 Financial ratios evolution



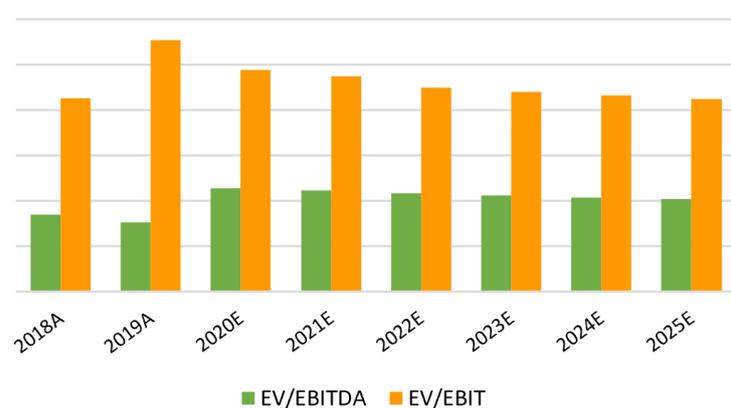
Source: Factset, Team Estimation



Source: FactSet, Team Estimation



Source: FactSet, Team Estimation



Source: FactSet, Team Estimation

	Description of Risks	Criticality Level	Mitigation Strategy	Criticality post-mitigation
Corporate Strategy	<i>Climate Change Risk.</i> Climate change may impact the availability of renewable sources, limit the operations, load O&M costs and compliance costs.	●●●●	<ul style="list-style-type: none"> Introduction in the portfolio strategy of long-term PPA for the sale of Electricity to cover the possible high volatility of market prices. Monitoring of international goals and regulatory evolution. CSR and targeted communication to stakeholders; ESG Rating. 	●●●●
	<i>Natural variability of renewables.</i> Wind, water and sun are intermittent and not programmable sources, so the production and the results are affected by their discontinuity.	●●●●	<ul style="list-style-type: none"> Portfolio diversification in terms of technology (wind, solar, hydro, thermoelectric) and in terms of geographic location. Sophisticated weather forecasting systems. Scheduling of the plant inactivity and matching with the maintenance interventions. Insurance coverage. 	●●●●
	<i>Risk of Reduction in value creation from M&A and New Investments.</i> Two main drivers of ERG's growth are M&As and Greenfield. The risks are related to factors of various nature that may jeopardise the success of such new investment initiatives, like the impossibility of developing economic and financial forecasts. ³	●●●●	<ul style="list-style-type: none"> A specific Unit drives the selection and approval process of investments (organic growth or M&A) based on benchmark analysis, legal analysis, financial models. Analysis of impact of risk, timely strategies and follow-up. Periodic WACC/HR updating. 	●●●●
	<i>Risk of Loss of Key Suppliers and Key Personnel</i> originates from losses, reputation damages or business interruption of supplier and misalignment of Company's Strategy with personal motivation, respectively.	●●●●	<ul style="list-style-type: none"> Supplier selection follows formally defined criteria and qualification requirements. An Organisational Unit is tasked to oversee the suppliers' performances and to check if they meet the quality standard. Development of monetary and non-monetary employee remuneration system aligned to market benchmarks. Differentiated approaches for retention of employees, based on the level of strategic relevance and seniority of the positions. 	●●●●
	<i>Reputational Risk.</i> The Reputation is the set of expectations, opinions and perceptions of all the stakeholders about the quality and the attitude of the organisation. It may be undermined by behaviours divergent from the declared values, negative word of mouth, improper use of trademarks, inconsistent HSE policies, financial and/or decisional crises.	●●●●	<ul style="list-style-type: none"> Corporate Social Responsibility process aimed to disseminate Non-Financial Information. Monitoring of the stakeholders' brand perception. Persuasive communication to media and active stakeholder relationship management. Crisis management process promptly limit the effect of a crisis on the Group's Reputation and Image. 	●●●●
Operational	<i>ICT and Cyber risk</i> refer to unauthorised access to networks or systems, vulnerability of information system, technological disaster.	●●●●	<ul style="list-style-type: none"> A Security Program is tasked to adapt safe technological infrastructure to daily operational activities, to spread security awareness among users, to develop intrusion detection systems. In case of disservice of the ICT interfaces, the Disaster Recovery System guarantees the continuity of the activities (particularly of the Market interface system) by using an alternative Data Centre. Cyber Crime insurance coverage. 	●●●●
	<i>Risk of Business interruption for accidental, catastrophic or pandemic events.</i> An economy shut-down or natural events may determine operational crises threatening the Group's stability and balance.	●●●●	<ul style="list-style-type: none"> Plant management pursues high level of safety and operational excellence, accurate maintenance routines with highly specialized personnel, programs/procedures for remote control of industrial systems. Insurance coverage from catastrophic events. 	●●●●
	<i>Industrial and HSE Risk.</i> The working activity may compromise the health and safety of the personnel and the biological equilibrium of the environment.	●●●●	<ul style="list-style-type: none"> Establishment of specialist HSE Audit and monitoring of plants. Adoption of Certified Management Systems and Quality Standard (ISO 14001 and OHSAS 18001-ISO 45001); EMAS Certification on the main plants, subject to periodic confirmation visits of the certifying Agencies. Circulation of a safety culture among the employees and suppliers. 	●●●●
Financial	<i>Downgrade Rating Risk.</i> It worsens the cost of financing and limits the access to capital market. All Companies of the Group and potential targets can threaten this aspect. On May 2020 Fitch confirmed the Issuer Default Rating and senior unsecured rating "BBB-" (Investment Grade) with Stable Outlook for ERG, merely explained by market variables and Italy's sovereign debt rating.	●●●●	<ul style="list-style-type: none"> Prevention of crisis events through a balanced financial structure in terms of duration and composition and monitoring of actual and expected results of the financial statements. Systematic and stable cash generation from the business activity. Investment planning consistent with standing covenants. Technological and geographical business diversification. 	●●●●
	<i>Interest Rate Risk.</i> Changes in interest rates trigger changes in the value of financial position and in the level of expenses, compromising the financial stability and the capital adequacy.	●●●●	<ul style="list-style-type: none"> Seeking financial resources at best conditions on the market. Regular monitoring of the level of exposure. Derivative Instruments, exclusively for hedging. Optimisation of the Group's cost of debt. 	●●●●
	<i>Liquidity Risk.</i> The Company may not be able to meet its financial duties due to lack of liquid monetary assets or changed perception by the market of the risk of the Group.	●●●●	<ul style="list-style-type: none"> Financial planning prevents the liquidity crisis situations. The Group must be solvent in normal and distressed business conditions. Prudential approach for inflows and outflows of projects and for forecasts in the Financial Plan. Balance between credit lines and debt in terms of duration and composition. 	●●●●
	<i>Credit and Trade Credit Risks.</i> It is tied to a downgrade rating of a counterparty, from which ERG could suffer significant losses. The detection and the correction of these risks are essential to preserve the Group's assets and Reputation.	●●●●	<ul style="list-style-type: none"> Definition of exposure limits and risk mitigation instruments at Group level. Credit management with specific Organisational Units and Credit Committee assess the credit merit of any commercial and financial counterparty and analyse the exposure level and the need for corrective actions. Dealing with financial counterparties with Investment Grade Public Rating (at least "BBB-" rating – S&P Scale). 	●●●●
Macroeconomic	<i>Market price volatility.</i> European energy operators are affected by volatility of market prices of Electricity, Gas, CO2 and Carbon Emissions, and EEC relatively to Natural Gas.	●●●●	<ul style="list-style-type: none"> Risk measures and Loss thresholds development and monitoring. Counterbalance between diversified positions. Contractualisation of indexed sales formulas. Hedging through derivatives, authorised only in presence of an underlying asset that mitigates the economic impact of the volatility. 	●●●●
	<i>Brexit-related Risk.</i> Given the negotiations on legal and trade aspects of the Deal for the exit of the UK from the EU, ERG's Greenfield Projects (250 MW) – requiring high CapEx - are subject to uncertainty. The eventual depreciation of the exchange rate of British Pound relatively to Euro and the higher volatility on British financial markets may negatively affect the ROI.	●●●●	<ul style="list-style-type: none"> Currently, limited presence of ERG in the UK. The investments are planned over the next five years, at the end of which the political situation will be defined. Undertaking relations with European institutions to understand the evolution of the terms of the Deal. 	●●●●
	<i>Country Risk.</i> Political instability and law enforcement, protection of foreign rights in case of breach by State Agencies or private parties, tax pressure, complex authorising processes compromising the time-to-market of projects are considered, relatively to the Countries in which ERG operates.	●●●●	<ul style="list-style-type: none"> Exclusion of investments in Countries characterized by political/social instability that are inconsistent with the risk profile which the Group is willing to assume. Setting high targeted returns from new investments in Countries with distressed macroeconomic and financial indicators. 	●●●●
Legal and Compliance	<i>Modifications to the regulatory framework.</i> Electricity market is characterized by an invasive regulation by Public Authorities. Subsidy systems evolved from a Feed-in Tariff to a Feed-in Premiums scheme; Auction mechanism has taken place. Authorization rules for repowering and/or construction of plants may worsen.	●●●●	<ul style="list-style-type: none"> A specific Organisational Unit monitors the evolution of domestic and international reference regulations. Keeping active institutional relations and consultation initiatives. Sensitivity Analysis for the effects of changes on results. Care of lasting involving relationships with local stakeholders. 	●●●●
	<i>Risk of violation of Anti-Corruption Regulation.</i> Any employee, Director or Company of the Group may be involved in a proceeding deriving from offences in violation of anti-corruption laws. ERG sanctions all corrupt practices.	●●●●	<ul style="list-style-type: none"> Enforcement of a Code of Ethics and Anti-Corruption Policy inside the organisation (supervised by "Compliance 231"). Employee training programs to enhance the knowledge of the legislative framework. Significant Third Parties testing process assesses the corruption risk connected with the establishment of a contractual relationship. 	●●●●

6.1 ESG Scoring Methodology

Our ESG Score Estimation Methodology takes inspiration from the disclosed *MSCI ESG Ratings Methodology*. The data utilized for the ESG Analysis are drawn from official reports (*Annual Report* as at 31 December 2019, *2019 Sustainability Report - Consolidated Non-Financial Statement*) and *Refinitiv* for ERG, and by *Refinitiv* for its peers. The final estimated ESG Score is composed by the three typical Pillars: Environmental, Social, Governance. Each Pillar is decomposed into macro classes, in which homogeneous key issues are grouped.

Environmental Pillar. The first macro class is the result of commitment in the fight against climate change and actions undertaken to contain global warming and carbon dioxide, nitrous oxide, carbon monoxide, greenhouse gases and other toxic emissions. For these aspects, we considered *Refinitiv* data for CO2 emissions under Scope 1,2 and 3 of the GHG Protocol. Climate Change macro class also deals with energy absorption and energy production from renewables. Natural Capital pertains to consequences of business activity on natural resources exploitation and the ways in which they are returned to their original source, and to biodiversity and land preservation. Finally, the Waste macro class considers the level of total waste, waste recycling rate and the portion of non-hazardous waste.

Social Pillar. Human Capital is related to workforce treatment and equality, labour management, human capital development and supply chain labour standards and quality standards. ERG developed the *Human Capital Coverage index* (registered brand), a measure of the ROI on Human Capital based on the Skill Gap Analysis. In 2019, the *HCC Index* reached the 93% (the higher, the better). Health & Safety macro class describes the adopted H&S policies, become particularly relevant to the recent Covid-19 pandemic, the injuries frequency. Finally, Social Opportunities tests the level of communities engagement, access to finance and the quality of relationships with investors, public regulators and stakeholders.

Governance Pillar. Corporate Governance concerns about Board independence, gender balance and remunerative equality, quality of Audit, ownership engagement and voting right, remuneration linked to business objectives. The last macro class is related to Organisational Culture

and Corporate Behavior, that deal with the conduct and the principles adopted within the Company and throughout the supply chain and corruption events.

ESG Controversies Score. The Score identifies the Company involvement in some major ESG controversies, compliance with laws, principles and directives and its performance.

We accounted for Controversies as a "transversal measure", that is by adding premium scores to the related Pillar score previously assessed whenever a Company has no outstanding controversies in that field.

The procedure has been repeated for ERG and its peers (Acciona, EDP Renovaveis, Enel, Enel Russia, Falck Renewables, Orsted) to have a view of the reciprocal positions of ESG performances. We report the detailed table for ERG for the year 2019.

Numerical Calibration.

The single Pillars have their own scores, arising from the arithmetic average of the score of their macro classes. The score ranges between 1 (very poor performance) and 10 (best quality performance).

The final ESG Score for the Company is calculated as the weighted average of individual Pillar scores, with weights: 40% for Environmental Pillar, 30% for Social Pillar, 30% for Governance Pillar. The result is multiplied by 10 and rounded to the first decimal digit to have a broader magnitude which allows an immediate comparison. The maximum achievable score is 100, the minimum is 10.

ENVIRONMENTAL			SCORE (out of 10)
CLIMATE CHANGE	Carbon and Other Emissions	Carbon Index -90% since 2006 (entry in RES sector); -67% in the last five years +111% in CO2 avoided in the last five years. ISO 14001 Environmental Certification EMAS Registration for Hydro plants and CCGT NOx and CO emission measured by UNI 14181 Standard	10
	Energy Absorption	Total indirect energy consumption: 24.9 GWh Indirect green energy consumption: 89%	
	Green Energy Production	2019 EBITDA: 87% from Wind, Hydro, Solar; 13% from Natural Gas 2019 Capital Employed: 54% Wind; 21% Hydro; 16% Solar; 10% Natural Gas Oil sources completely abandoned	
NATURAL CAPITAL	Water Stress	100% of water used by hydro plants returns to its source in the same quality and quantity. A portion of water used by the CCGT returns to its cycle in form of steam.	9
	Biodiversity and Land Use	New farms are subject to <i>Environmental Impact Assessments</i> by Public Authorities. The business does not impact on biodiversity, which is actively preserved.	
WASTE	Waste and Recycling	Recycling rate: 87% Non-hazardous waste: 97%	9
SOCIAL			SCORE (out of 10)
HUMAN CAPITAL	Human Capital Development	Adoption of <i>Human Rights Policy</i> Total Employees: 754 <i>Human Capital Coverage</i> : 93%; +3% on 2018 Employee Turnover: 13.7%	7
	Labour Management	Unionisation rate (Italy): 34% Ongoing labour disputes: 1 Average employee age (years): 43.2 Gender Mix: 20.8% female (+0.7% on 2018); 79.2% male Gender Remunerative Gap: 18% for Executives; 2% for Middle Managers; 1% for Office Workers Diversity: 89.66% Italian; 6.1% French; 3.2% German; 0.39% British; 0.13% Bulgarian; 0.13% Polish; 0.39% Romanian	
	Supply Chain Labour Standards	Active suppliers: 1736 Local (Italian) suppliers: 63% (-2% on 2018) Expenditures local suppliers: 61% (-16% on 2018) Suppliers on <i>Vendor List</i> qualified based on <i>HSE parameters</i> : 23% (231) Newly qualified suppliers based on <i>HSE parameters</i> : 46% (31) Active Customers: 170 Industrial Customers: 6.5% O&M Customers: 31.2%	
HEALTH & SAFETY	HS Management	Injuries: 4 during 2019 Injury Frequency: 3.97% (no. of injuries x 1,000,000/no. of hours worked) OHSAS 18001 – ISO 45001 Safety Standard Training Time: average 7.8 days per Employee; total 46 thousand hours	8
SOCIAL OPPORTUNITIES	Community Relations	Participation to <i>Clean Energy Package</i> event, <i>Emission Trading Scheme</i> reform, <i>National Energy Strategy</i> initiative. Many Projects involving the Communities: "Vai col Vento!", "A tutta Acqua!" and "Progetto Scuola!"; ERGLab think-tank.	7
	Access to Finance	One-to-one meetings and roadshows for the Financial Community: 125 investors reached; participation to <i>Sustainability Day</i> held by Borsa Italiana.	
GOVERNANCE			SCORE (out of 10)
CORPORATE GOVERNANCE	Board of Directors	Board of Directors: 12 members, of which 6 (50%) independent Directors Gender Mix in BOD: women are the less represented gender (33% vs 67% of men) BOD average age (years): 56 Protection of minorities: a Director is appointed by the minority list of a number of Institutional Investors	6
	Board of Statutory Auditors	Separation between Chairman of BOD (not independent) and CEO (not independent) Board of Statutory Auditors: 6 members, 100% independent Presence of Control and Risk Committee, Nominations and Remuneration Committee and Strategic Committee	
	External Audit	Audit Fees: 83% of Audit Services, 17% in non-Audit Services No discordant opinion by external Auditor Insider Ownership: 63.5%	
	Ownership	Presence of share classes with different voting rights (Special List shareholders: Garrone-Mondini Families) Preservation of the existing voting right in the event of a merger No Shareholders' Agreement in force Shareholding by Senior Management: 0.05% of share Capital	
	Remuneration policy	Management by Objectives (MBO) for short-term incentives with weights 30% for Group EBT and 70% for individual objectives Long-term incentive system for <i>Executive Deputy Chairperson</i> , <i>CEO</i> , <i>General Manager</i> and other Management positions, with weight 100% on cumulated group EBITDA 2018-2020	
ORGANISATIONAL CULTURE AND BEHAVIOR	Business Ethics Intellectual Property	Adoption of <i>Code of Conduct</i> Adoption of <i>Code of Ethics</i> Adoption of <i>Anti-Corruption Policy</i> Patent filing for new turbines in <i>Reblading Projects</i>	7

6.2 Sustainable Investing and ESG Flows

Sustainable Investing is forecast to attract substantial flows from institutional and retail segments. Sustainable funds growth is boosted both through purely **financial logic** (attractiveness to investors for increasing performance and returns, resilience of ESG portfolios to market pitfalls, marketing purposes for ETFs) and recent **legislation**, that incentivizes or obliges Wealth Funds to hold minimum thresholds of equity and/or debt instruments issued by Companies active in ESG commitment.

In particular, the European Commission is outlining holding requirements and benchmark reporting standards for the Ecolabel Certification: among others, UCITS Equity Funds must hold 40% of the total value of their assets under management in environmentally sustainable activities and this percentage must increase from year to year.

Financial markets experienced an unprecedented recession during the most dramatic months of the pandemic (first semester of the year 2020). ESG investing proved to be a robust industry, as evidenced by the record of inflows attracted. It continues to retain investor confidence. Asset managers are equally bullish on ESG investing; during the first four months of the year 2020, 88% of indexed funds with a focus on sustainability did better than their non-sustainable counterparties (source: *Bloomberg*). Consequently, it is no longer debated whether sustainable investing is mainstream.

We report ERG's ownership structure classified by investor types (insider owners and institutional owners), geographic location, mutual funds type and mutual funds holding style, as of January 2021.

While the insider ownership (Garrone Family and the holding ERG S.p.A.) is constant over time (63.5% of share capital), the institutional ownership dropped from 20.68% (Q1 FY 2019) to 17.56% (January FY 2021). In particular, the share held by Sovereign Wealth Management increased by 0.13% of ERG total shares from the first quarter of 2021 up to January 2021 (currently 1.60%); the shares held by Private Banking and Wealth Funds class remain unchanged during the same period.

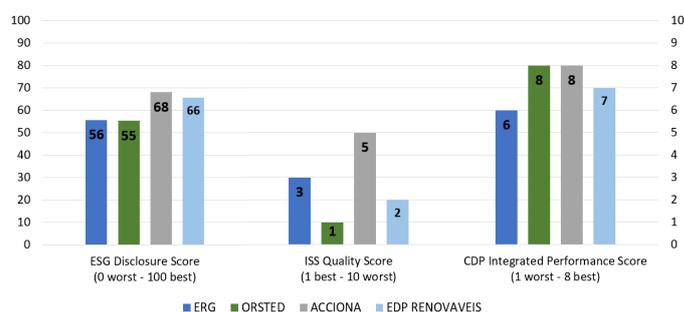
This dynamic analysis of institutional ownership structure shows a nascent interest in ERG security from sustainable Funds and Wealth Management.

The definitive divestment from fossil fuels sector and the numerous growth projects in renewables (reblading and repowering, new installations abroad, M&As) had the effects of raising awareness of environmentally and socially responsible themes, stigmatizing the reputation of other carbon-inefficient competitors, supporting the Italian and European institutions in policy making process about decarbonisation and energy transition, redirecting investments toward low-carbon economy.

Furthermore, analysts and investors identify the determinants for the resilience of ESG portfolios during the pandemic also in companies' response to the Covid-19 crisis. Despite the financial crisis caused by the sanitary emergency, the amount invested in ERG by these Funds did not decrease. This trend can be explained by ERG's ability to carry on the operational activity, as an essential service, by reorganizing the staff and operating sites to safeguard health. ERG's response was interpreted as a willingness to focus on long-term goals, rather than short-term profit at all costs. The trend in institutional ownership anticipates that ERG will be a security which will be held by an increasing number of ESG institutional investors.

6.3 Peers ESG Score

We report the ESG scores externally assessed by *Bloomberg* for ERG and its peers. Orsted A/S, Acciona S.A. and EDP Renovaveis S.A. are the rated comparable companies that we include in our analysis. We consider ESG Disclosure Score, ISS Quality Score which focuses on Governance, and Carbon Disclosure Project Integrated Performance Score. The comparison based on Bloomberg data also confirms the fast growth of ERG, that ranks as a best-in-class company.



Peers ESG Scores.
Source: Bloomberg

Top Investor Types

Investor Type	%OS	Pos (000)	Pos Chg (000) [Recent]	Mkt Val (MM)	Mkt Val Chg (MM) [Recent]
Total (Count: 150)	81,06	121.846	484	3.737	15
Individual (1) [Garrone Family]	62,53	94.000	0	2.883	0
Public Company (1) [ERG SpA]	0,96	1.450	0	44	0
Total Insider Ownership (Count: 2)	63,5	95,45	0	2927	0
Investment Adviser (110)	11,36	17.070	-522	524	-16
Mutual Fund Manager (21)	4,25	6.388	740	196	23
Sovereign Wealth Manager (2)	1,6	2.409	201	74	6
Hedge Fund Manager (8)	0,22	337	55	10	2
Private Banking/Wealth Mgmt (5)	0,08	128	-3	4	0
Pension Fund Manager (1)	0,03	52	0	2	0
Insurance Company (1)	0,01	13	13	0	0
Total Institutions (Count: 148)	17,56	26.396	484	810	15

Geographic Ownership

Country	%OS	Pos (000)	Pos Chg (000) [6M]	Mkt Val (MM)	Mkt Val Chg (MM) [6M]
Total (Count: 150)	81,06	121.846	-1.094	3.737	-34
Italy (28)	69,03	103.765	-81	3.183	-2
France (21)	3,71	5.576	198	171	6
United States (34)	2,98	4.478	36	137	1
Norway (3)	1,64	2.472	31	76	1
Sweden (1)	1,31	1.969	919	60	28
Germany (10)	0,78	1.175	20	36	1
United Kingdom (18)	0,77	1.152	-2.517	35	-77
Switzerland (16)	0,4	599	228	18	7
Belgium (3)	0,13	194	31	6	1
Luxembourg (3)	0,1	150	13	5	0
Netherlands (2)	0,1	147	0	5	0
Austria (3)	0,06	95	30	3	1
Ireland (2)	0,03	47	-2	1	0
Australia (1)	0,01	9	2	0	0
Denmark (1)	0	7	0	0	0
Japan (1)	0	5	0	0	0
New Zealand (1)	0	5	0	0	0
Israel (2)	0	2	0	0	0

Top Mutual Fund Types

Holder Type	%OS	Pos (000)	Pos Chg (000) [Recent]	Mkt Val (MM)	Mkt Val Chg (MM) [Recent]
Total (Count: 345)	17,51	26.318	248	807	7
Open-End Fund (274)	14,42	21.672	642	665	20
Pension Fund (3)	1,59	2.383	-36	73	-1
Exchange Traded Fund (45)	1,33	2.001	123	61	4
Variable Annuity Fund (10)	0,08	116	5	4	0
Pension & Life Product (7)	0,05	79	-122	2	-4
Hedge Fund (2)	0,02	29	-1	1	0
Closed-End Fund (3)	0,02	27	-376	1	-12
Insurance - Diversified (1)	0,01	13	13	0	0

Fund Holding Style Analysis

Holding Style	%OS	Pos (000)	Pos Chg (000) [Recent]	Mkt Val (MM)	Mkt Val Chg (MM) [Recent]
Total (Count: 345)	17,51	26.318	247	807	8
Growth (103)	5,9	8.875	324	272	10
Aggressive Growth (55)	4,6	6.910	628	212	19
Index (58)	2,41	3.624	210	111	6
Value (31)	2,19	3.299	-721	101	-22
Unassigned (58)	1,47	2.215	-175	68	-5
GARP (20)	0,56	845	-89	26	-3
Yield (19)	0,35	534	79	14	2
Deep Value (1)	0,01	17	-9	1	0

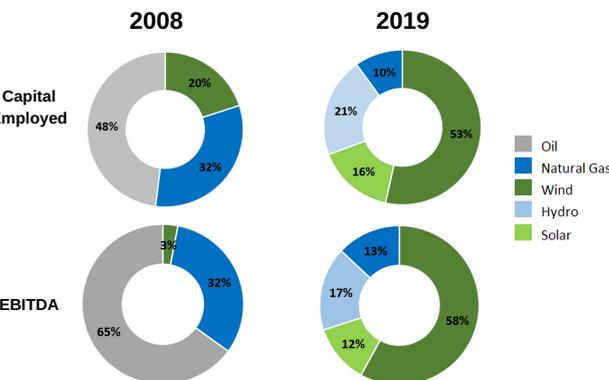
ERG Ownership grouped by Investor Type, Geography, Mutual Fund Type, Holding Style.
Source: FactSet, January 2021 Data

6.4 Environmental Impact of Business Activity

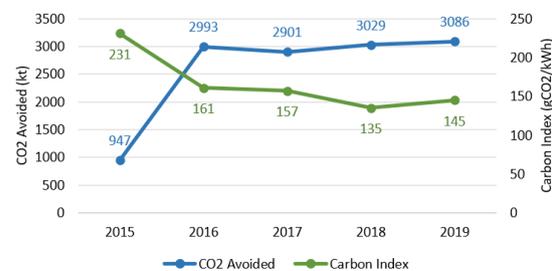
ERG has made a real transition in its portfolio of assets during the last decade. In 2008, almost half of the capital was employed in oil, while the only renewable source was wind (20%), which contributed to Group's EBITDA for 3%. In 2019, oil resources disappeared, more than half (53%) of employed capital is in wind, 21% in hydroelectric, 16% in solar, 10% in natural gas. Assets composition is more aligned to corresponding EBITDA contributions, as evidence of the path of renewable plants towards grid parity.

Currently, the Group's environmental commitment also involves the analysis of potential impact of the activities on the environment. ERG identifies the specific environmental risks and applies a Management System to monitor and avoid them.

Use of Energy Resources. The use of energy from the electricity grid is needed only for the functioning of ancillary and safety systems external to renewable plants, while for the CCGT grid electricity is required only for services active in case of shutdowns. To minimise the environmental impact from the purchase of energy from the national grid, the Sustainability Committee has made a pledge to procure certified electricity from RES.



ERG Capital Employed and EBITDA for years 2008 and 2019. Source: Team Elaboration on Company Data



Reduction in Carbon Index and CO2 Avoided. Source: Team Elaboration on Company Data

Emissions of greenhouse gases and pollutants. Renewable plants generate only indirect emissions (from ancillary processes). For the thermoelectric plant, CO2 and other emissions are disclosed and externally certified according to EU-ETS scheme and UNI 14181 standard.

Use of water resources. Water stress represents a non-material aspect for solar and wind plants. Water drawn from reservoirs by hydroelectric plants is totally returned to its source in the same quality and quantity. The thermoelectric plants use water in two processes: seawater to cool the plants, that is returned to its source in the same quantity and quality, and demineralised water to generate steam for the energy production of CCGT. The water resources used in this process return to the natural water cycle in form of steam.

Biodiversity and Land. The RES plant new installations are subject to preventive analyses and periodic controls to preserve biodiversity. Legal requirements for soil occupation and minimum vital flows for water release are observed. For thermoelectric plants, biodiversity preservation is a non-material aspect, since they are located in places with no interaction or threats to biodiversity and soil.

Visual noise and impact. The wind installations are subject to the Environmental Impact Assessment by the Ministry for the Environment; similar authorisation processes are applied in other European Countries. Visual and noise impacts of solar and hydroelectric installations are assessed within the authorisation process by the relevant public authorities. The thermoelectric plants do not have visual impact on the resident communities and the emitted noise is periodically measured to check the respect of the legal limits. The compliance with regulatory limits makes visual and noise impacts non-material aspects.

6.5 Disclosure on Climate Change Impact

In 2019, ERG developed a process to analyse the impact of Climate Change on its business, in accordance with the guidelines of the Task Force on Climate-related Financial Disclosure (TCFD) of the European Commission. The purpose of the guidelines is the disclosure of Governance, strategy, risk management and metrics and targets related to the Climate Change. Channeling these insights to markets accelerates global shift towards a sustainable financial system. This disclosure system has allowed ERG to upgrade its sustainability awards during the last year. Among others, Carbon Disclosure Project upgraded ERG environmental rating to the "Leadership" range ("A-"); Vigeo Eiris, a Moody's Affiliate, recognized its capability to provide the market participants with insight on ESG and climate change management, by evaluating ERG with the maximum score of 88/100.

The first step of the management process is the identification of the reference scenarios. The chosen physical scenario is developed by Intergovernmental Panel of Climate Change (IPCC), showing the response of the Earth's climate to changes in atmospheric concentration of greenhouse gases (GHG). In absence of mitigation actions and the current production rates, the estimated response will be an increase in the average temperature of +1.5°C by 2040. Two transition scenarios (Below 2 degree Scenario and Sustainable Development Scenario from the *International Energy Agency*) estimate the effect of climate policies on GHG reduction. The mitigation strategies consistent with the transition scenarios require 25% reduction in emissions by 2030 to keep the increase in average temperatures below 2.0°C, reaching net zero around 2070. For a target of 1.5°C, global CO2 emissions would need to be reduced, compared to 2010, by approximately 45% by 2030, reaching net zero around 2050. The different variables that may impact ERG's business were subsequently identified and classified into Physical (acute and chronic) and Temporary (Regulatory, Market, Reputational, Technology) events. Climate Change risks are approached with a climate strategy closely integrated with the business strategy. The governance of the Climate Change issues is divided between Board and Management.

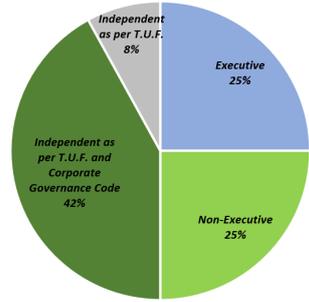
The Board is responsible for strategic guidance, designing the Group's green future, analysing the economic, regulatory and market scenarios, supporting the low carbon transition.

The Management is responsible for managing the assets, technological development and increasing the efficiency of plants in order to extract the greatest possible value, asset integrity, and the environmental and safety management to ensure business continuity. A Sustainability Committee plays a coordinating role: it defines the sustainability policies aimed at creating value over time and it examines sustainability process and non-financial reports from the Board of Directors, namely the environmental impact of avoided emissions and CO2 saved because of production from renewable sources.

Definition of scenarios	Identification of influencing variables	Risks and Opportunities
IPCC Physical Scenario Hypothesis: absence of mitigation actions	+1.5°C estimated in global temperature by 2040 due to GHG emission	PHYSICAL VARIABLES Acute events: storm, flood, intense heat waves. Chronic events: rise in average temperature, reduction in rainfall. TRANSITORY VARIABLES Regulatory aspects: changes in subsidies and incentives, emission regulation. Market: uncertainty of energy demand, increased competitive pressure in energy sector.
Below 2 Degree Scenario (B2DS) from the IEA Science Based Target initiative	Targets: Global warming < 1.5°C -45% GHG emission by 2030	RISKS Possible damages to plants and infrastructure and interruption in the Supply Chain due to Acute Physical events. Negative performance of plants for extreme heat waves. Interruption in hydroelectric production for lack of rainfall.
Sustainable Development Scenario (SDS) of the IEA	Targets: UN 2030 Sustainable Development Goals	OPPORTUNITIES Increase in electricity demand for cooling purposes. Exit from coal could increase the energy prices.

Source: Team Elaboration

6.6 Board of Directors and Corporate Bodies



Board of Directors: Composition by Status. Source: Team Elaboration on Company Data

ERG's Board of Directors is composed by twelve members, six of which are independent (one member as per "Testo Unico Finanziario" and five members as per T.U.F. and Corporate Governance Code). It approves the financial reports, defines the strategic guidelines, and the fundamental aspects of organisational structure, resolves on significant transactions. The Board of Statutory Auditors is composed by a Chairman, two Standing Auditors and three Alternate Auditors. It oversees the compliance with law on matter of administration principles and accounting.

These two bodies are assisted by a series of Committees. The Control and Risk Committee, entirely non-executive and independent, assists the BOD in Internal Control and Risk Management System (ICRM). The Nominations and Remuneration Committee (one Chairman and two members) issues recommendations on remuneration of Directors with power or specific duties and incentive system for the Management. The Strategic Committee supports the CEO and the BOD in defining strategic business portfolio, long-term strategic plans, finance guidelines, and the Group's investment budgets. It is composed by one Chairman and five members. The Strategic Committee together with the Investment Committee (involving the CEO, General Manager and a Management Team) develop a strict financial discipline on investment decisions and budget allocation among new projects.

Remuneration Policy



Remuneration Policy. Source: Team Elaboration on Company Data

ERG has adopted a Remuneration Policy of the members of the Board of Directors and Key Management positions in line with the principles of Corporate Governance Code, supposed to align the beneficiaries' interests with the achievement of the durable value creation for the Shareholders.

The Long-Term Incentives (LTI) System is applied for the positions of the Executive Deputy Chairman (DC), the Chief Executive Officer (CEO), the General Manager (GM), and other Key Management Positions (KMP), i.e. Managers of the Group having strategic relevance in achieving the objectives of the 2018-2022 Business Plan. The LTI System consists in assigning a determined number of ESG shares at the end of a three-year vesting period, subordinated to the attainment of a predetermined percentage of the cumulated Group EBITDA for the period 2018-2020. In addition, if a defined price of ERG stock is also touched, the number of assignable shares by LTI increases up to a bonus cap.

Short-term incentives are dedicated to the Group's Managers and to selected Professionals. The System is based on Management By Objectives (MBO), a class of non-fixed remuneration linked to Group EBT for 30% and individual targets (e.g. EBITDA, NFP, OPEX, etc...) for 70%.

6.7 Organisational Culture

By adapting the model of Hofstede Organisational Culture, we analysed ERG's Corporate Culture from six different dimensions.

Organisational Effectiveness. ERG is a rather result-oriented company, since there is a common concern for the outcomes and the employees achieve internal goals and results as a priority.

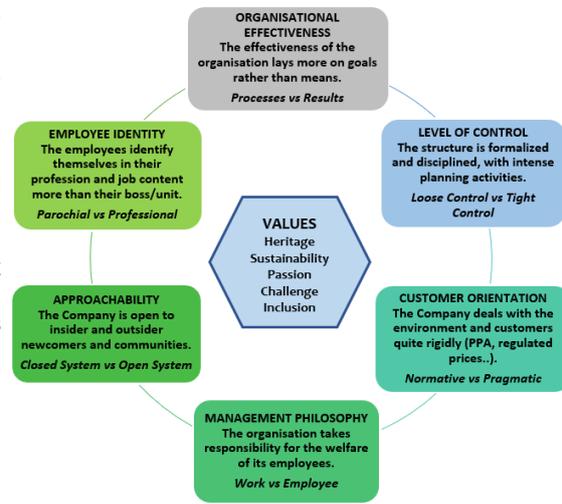
Level of Control. The need for planning the operations, scheduling plant activity and O&M interventions, the indispensability of the provided energy service require a high internal structuring, tight control and discipline.

Customer Orientation. Given the regulated nature of the sector and ERG's high exposure to market price volatility and natural cycles, the company deals with the business environment by using well-established practices, predetermined contractual forms for its customers.

Management Philosophy. The staff wellbeing is seriously considered, as the company uses a scrupulous HS System, and it is characterized by a strong belief in people and diversity.

Approachability. ERG is a quite open system: the style of internal and external communication towards shareholders, investors and communities has a relatively high degree of openness, and newcomers are made welcome.

Employee Identity. Workforce identity is determined by the profession, the job content and the surrounding organisational environment.



Organisational Culture. Source: Team Elaboration

6.8 Covid-19 Section

During the Covid-19 emergency, ERG demonstrated the robustness of its ESG features by adopting safety measures for the staff employed and the plant operative continuity across all operating sites. The main economic implications are related to the downward trend in energy market prices, limitations to production systems and to construction and installations, and bottlenecks in the public authorisation process. The guidance on full FY 2020 consolidated EBITDA as reported in the previous quarter is confirmed (result in the range 480-500 million euros). Capital Expenditures for 2020 are mainly allocated in Greenfield projects for wind farms in the UK (250 MW), Poland (60 MW) and France (50 MW) and the renewal of the High-Efficiency Cogeneration for module 1 of CCGT. The CapEx amount (150-180 million), however, are lower than in 2019, year characterised by M&As. On the people side, neither reduction nor mandatory dismissal for staff have been applied, on the contrary the Group hired 23 new people. Engagement and partnership activities continued due to specifically allocated financial resources. ERG has done works of charity and sanitary support.

PEOPLE	<p>Remote working adopted in Italian and abroad headquarters for nearly the 100% of office staff and over the 70% of the total corporate workforce.</p> <p>Improvement in IT corporate resources: tenfold increase in remote meetings.</p> <p>The operational continuity of plants is guaranteed: prevention rules and Health and Safety devices have been rigorously adopted for O&M personnel and for the entire workplace.</p> <p>Active collective bargaining for updating the Risk Assessment Document, concurrently with a third-party Audit for health and safety.</p> <p>No reduction in staff; no mandatory temporary dismissal. Between March and September 2020, 29 new hires took place.</p> <p>Covid-19 health insurance for all employees.</p>
SOCIAL	<p>Donation of 1 million euros to Genoa Hospital, 2300 hours of Company's work to Civil Protection Department, support to two healthcare projects of the "Fondation des Hopitaux de France".</p> <p>ERG allocated 2 million euros to support the healthcare system in the production sites.</p>
MARKET	<p>Complex trading environment. ERG hedged the entire 2020 electricity production and more than 70% of the production of 2021. Hedging strategies together with production modulation restrained market damages.</p> <p>European energy market prices suffered a downward trend during 2020, lowering the profitability margins.</p>
OPERATIONS	<p>Deceleration in new installations plan and general delays in public authorization processes.</p> <p>International growth in Wind and Repowering of Italian wind farms is confirmed.</p> <p>Capital Expenditures for 2020 are mainly allocated to progress in construction of Wind Greenfields in UK (250 MW), Poland (60 MW), France (50 MW) and to the requalification of the Module 1 of CCGT. Guidance on CapEx confirms the range 150-180 million euros.</p> <p>Cash generation, net of the CapEx, will allow to reduce the level of indebtedness in 2020 (range 1.35-1.43 billion against 1.48 billion euros of 2019), also due to effective financial liability management and Green Bond emissions.</p>

Covid-19 Effect. Source: Team Elaboration on Company Information

7.1 System of State Incentives

The fluctuation in production of electricity from renewable sources makes the power generation unstable and prices highly volatile. For these reasons, Governments are adopting strategic reserve mechanisms to maintain asset operational over time. Subsidies interventions are needed to cover the break-even price of renewable technologies and make the investments profitable. On the other hand, green energy projects are getting closer to grid parity levels - even if still uncertain - and projects from non-subsidised operators are emerging.

Given the vigorous turning towards the renewable sources, the energy sector is walking across a fundamental transformation. The cost of renewable energy sources has fallen sharply over the last decade, thanks to improved technologies, economies of scale, increasingly competitive supply chains and the growing experience and know-how of developers. The subsidies and the incentives are being replaced by tenders in competitive auctions, that are won by the cheapest developers of installations. Hence the need for private agreements originates, according to the new market system that is emerging.

The Italian regulation currently in force is outlined by the D.M. 04/07/2021 (DM "FER"), that aims to provide, through economic support, the diffusion and consolidation in renewable source energy plants. The access to incentives is subject to the obtaining of a valid position in the ranking of a Reduced Auction on the value of incentive, drawn up by the "Gestore dei Servizi Energetici" (GSE). The incentive will be granted after administrative and technical assessments. The admitted projects are newly built photovoltaic, on shore wind farms, hydroelectric plants and plants using purification gases. State incentives represent for ERG, as for the whole energy industry, a factor of strategic nature: 70%-75% of EBITDA comes from regulated activity, and tariffs become an infrastructural component of revenues. Auction system, together with frequent authorization bottlenecks create new challenges for new installation procedures. ERG Group internally oversees all phases of its value chain, from development to construction, to the successive management and O&M processes of its farms in order to better know the assets managed. ERG develops strategies to increase plant efficiency or reduce costs.

7.2 Power Purchase Agreement

Power Purchase Agreements are long-term contract (10-15 years) between an energy wholesaler and a buyer for the forecasting of production, management of imbalances and financial stability through the securitization of future cash flows. If the contract has a fixed price, in fact, it allows to secure the sale price of energy produced by renewable energy plants for a predetermined period of time, covering the exposure to the volatility of the energy price. Usually, the provision of renewable energy is produced by investments in newly installed capacity. The price may also be matched with structured derivative instruments, like collars or floors, to hedge only the downside volatility exposure. The traditional feed-in tariffs or the auction incentives are nothing more than PPAs with a public counterparty (the GSE) that pays the tariff. This kind of agreement is assuming a role that testifies the solid and durable commitment of companies in producing new capacity from renewables. ERG's Sales Area is tasked to detect potential buyers and promote to them PPAs for supporting new capacity investments, especially for the recent projects in the UK and for repowering activities in Italy.

7.3 European Emission Trading Scheme

In 2005, the European Union launched the ETS program to fight against the climate change and to reduce the carbon dioxide emissions. The EU ETS follows a "cap and trade" principle. An energy-producer unit may participate to an auction, in which the emission allowances are allocated among units. Any registered unit must monitor and report its CO₂ emissions to check if they are within the allowed limit. If a unit has lower emissions than the permitted level, it can either sell the remaining allowances to units that require them or it can keep the spare allowances and use them for the future emissions. Nowadays the emissions covered are not exclusively the carbon dioxide, but also nitrous oxide and perfluorocarbons. In 2019 the European Union refined the system with the Market Stability Reserve plan, reducing oversupply and increasing allowance prices. The mechanism adjusts the new allowances to be issued to the annual auction volumes yearly deducted by the 10% of the total circulating allowances. The deduction is placed in the Reserve. This refinement made the 2019 total emissions to reduce by 9% (source: European Commission).

For the period 2021-2030 the European Parliament voted for an additional supply reduction of 2.2% per annum, expandable to reach the intermediate target of 55% net reduction in greenhouse gases by 2030.

The EU ETS operates in all EU countries, Iceland, Liechtenstein and Norway, limiting emissions from more than 11 thousand heavy energy-using installations and airlines. It covers around 40% of the total European greenhouse gases emissions. Emissions from installations adhering to ETS declined by 35% between 2005 and 2019 (source: *European Commission*).

7.4 White Certificate Mechanism

The White Certificates Mechanism has been introduced in 2005 in Italy and it represents the main incentive for promoting energy efficiency. White Certificates are negotiable securities that certify the achieving of end-use energy savings through interventions and projects. A Certificate is equivalent to saving one Tonne of Oil Equivalent (TOE). On indication of the GSE, the Certificates are issued by the GME (Gestore dei Mercati Energetici) on specific accounts. They are exchanged on the market managed by the GME or through bilateral negotiations between admitted subjects, included in the Electronic Register of Energy Efficiency Certificated held by the GME. The economic value of the securities is defined in the trading session.

The system involves primary energy savings obligations for distributors of electricity and natural gas with more than 50,000 customers (the "obliged subjects"). They can achieve the mandatory quota of savings by directly carrying out the authorized energy efficiency projects or purchasing the Certificates from other admitted parties. Every year an efficiency target is fixed: in 2017 this level was 7.14 million TOE, up to 11.19 million in 2020.

The intervention from high-efficiency cogeneration plants and the projects that continue to generate savings also beyond their lifetime. For the high-efficiency cogeneration plants, the GSE controls the functioning and it determines the number of White Certificates to which the plant is entitled.

White Certificates cannot be cumulated with other tariffs and State incentives on the same projects. In compliance with the European legislation, they can be combined with loans disbursed at local, regional and European Community level, having access to guarantee and revolving funds, interest subsidies, income tax benefits for the purchase of machinery and equipment (in the latter case, the number of Certificates is reduced by 50%).

Energy and natural gas operators can submit projects for:

- 1 - Direct actions related to interventions to improve network efficiency.
- 2 - Interventions related to the vertically integrated or contiguous sectors of assistance and maintenance for the end user.
- 3 - Interventions related to service management activities different than distribution.

The projects are required to generate additional energy savings (i.e., lower consumptions compared to previous levels or below a given reference levels in case of new installations). The additional savings must be not less than 10 TOE in the first 12 months of the implementation.