Event: **1H 2020 Results**

Date: **6th August 2020**

Speakers: **Mr. Claudio Albertini, CEO**

Operator: This is the Chorus Call operator. Welcome to IGD's H1 2020 Results Presentation. And we remind you that all participants are in listen-only mode. After the presentation, a Q&A will be held. In order to be assisted by an operator during the call, please press "*" followed by "0" on your phone keypad.

Let me now turn the conference over to Mr. Claudio Albertini, CEO of IGD.

Claudio Albertini: Good afternoon to all of you. First of all, greetings on behalf of our Chairman, who is here attending the call as well and some colleagues from our HQ, and they will be here ready to take your questions, if relevant. And you received both the press release of our half year report that was approved by the Board in the morning, and also, you received the presentation that I will walk you through. We were good this time. We thank you, everything, 2 hours ahead of time. So I really hope you have the time to look up to the presentation and the press release before the starting of the call.

We start from Page 3, and here we summarized in one slide. And I know it's very hard, but that's what we tried to do. We tried to summarize what happened in Italy, at least, and then we'll tell you about Romania as well. But we'll mainly focus on Italy starting from end of February this year. And you see this is a summary, 23rd, 24th of February, the first restrictive measures were applied in the Milan area after the covid-19 outbreak and then that was then turned into a pandemic, so COVID-19, affecting the Milan area and all of

LOMBARDY. WE STILL HAVE A SHOPPING MALL VERY CLOSE TO MILAN THAT WAS IMMEDIATELY AFFECTED BY THE RESTRICTIONS. AND THEN THE RESTRICTIONS ALSO AFFECTED THE NORTH OF ITALY, MORE SPECIFICALLY, LOMBARDY. AND THEN, OF COURSE, IT WAS APPLIED TO ALL OF ITALY STARTING FROM MARCH 12, 2020, WITH THE INTRODUCTION OF THE LOCKDOWN MEASURES.

AND IN ITALY, AND I'M SPECIFICALLY TALKING TO THOSE WHO ARE CONNECTED TO THE CONFERENCE CALL FROM ABROAD, I'D LIKE TO SAY THAT ITALY APPLIED VERY RESTRICTIVE ACTIONS. OUR SHOPPING MALLS STAYED OPEN BECAUSE OUR SHOPPING CENTERS HAVE FOOD ANCHORS AND HYPERMARKETS INSIDE AND OTHER ESSENTIAL SERVICES THAT COULD STAY OPEN. SO HYPERMARKETS WERE OPEN THROUGHOUT THE LOCKOUT PERIOD TO PROVIDE THE SERVICE TO THE SURROUNDING COMMUNITY, BUT ALSO SOME ESSENTIAL SERVICES, BUT THEY ACCOUNTED FOR 8% OF OUR TENANTS FOR ESSENTIAL GOODS AND ESSENTIAL SERVICES, BUT NOT ALL OF THEM DECIDED TO STAY OPEN. SOME STORES OR SOME SERVICES, SUCH AS TOBACCO AND PHARMACIES, STAYED OPEN AND MANY DECIDED TO CLOSE, EVEN THOUGH IN THE SECOND PART OF THE LOCKDOWN, THEY OPENED UP. AND THEN MAY 18, 2020, THE DATE WE WERE ALL EXPECTING, THAT WAS THE FIRST EASING ON THE COMMERCIAL OR SAFE RESTRICTIONS THAT WERE THEN FURTHER IMPROVED.

DURING THE LOCKDOWN PHASE, AS YOU CAN SEE AT THE BOTTOM OF THE SLIDE, WE FOCUSED ON SOME TOP PRIORITIES. SO FIRST OF ALL, WE WANTED HEALTH AND SAFETY IN OUR SHOPPING CENTERS, GENERALLY SPEAKING, AND IN THE FOLLOWING SLIDES, I'LL FOCUS ON THAT. WE ENHANCED THE COMMUNICATION TO VISITORS, ESPECIALLY, IN A DIGITAL WAY, AND WE DID SO WITH OUR TENANTS THROUGHOUT THE LOCKDOWN. AND THERE'S STILL AN ONGOING RELATIONSHIP WITH OUR TENANTS BEING MONITORED. AND THEN LAST BUT NOT LEAST, FROM THE VERY BEGINNING, WE'VE, OF COURSE, TRIED TO MAINTAIN A SOUND FINANCIAL SETUP.

WE WENT BACK TO BEING FULLY UP AND RUNNING ON THE 18TH OF MAY. HERE, YOU SEE SOME INDICATORS. SO WE RECOVERED 85% OF THE FOOTFALLS, SO THERE WAS ONLY A 15% DECREASE. AND I CAN TELL YOU ALREADY, IN THE FIRST 3 DAYS OF THIS WEEK, WE ARE DOWN ONLY 5%. AND WE WERE SOMEHOW HELPED BY THE SALES THAT WERE STARTED AT THE BEGINNING OF AUGUST INSTEAD OF JULY AS LAST YEAR.

AND THEN, OF COURSE, WEATHER CONDITIONS WERE FAVORABLE. THE LAST WEEKEND AND IN THE FIRST DAYS OF THE WEEK, THE WEATHER WAS NOT VERY GOOD, AND SO PEOPLE WENT TO THE SHOPPING CENTERS. SO FIRST 3 DAYS OF THIS WEEK, WE'RE DOWN ONLY 5%. I CANNOT GUARANTEE THAT IT'S GOING TO BE LIKE THAT THROUGHOUT THE WEEK. WE WOULD HOPE SO. BUT NORMALLY, WE WERE DOWN 20% STARTING FROM MINUS 30% 18TH OF MAY, AND THEN NOW, ON AVERAGE, WE'RE DOWN 20%, MINUS

20%. And that is exceeding our expectations somehow that we had pre and during the lockdown period.

And then tenant sales did even better. We look at the average ticket, will see later, and it went up. And tenant sales in June, it's a full month. We checked May, but it was only half of it. So it was only a partial result because our shopping centers fully reopened in May 18. But tenant sales are, only in June, were only down 13.6%. And in June, footfalls were down 22%, 23%. Negotiations with tenants were 70% but we've updated it. Now it's to 74%, so three-fourth of negotiations with tenants have been completed for us to manage the rebates and manage the lockdown and granting rebates.

And then another very positive piece of information is the last one. And as of last night, we've cashed in about 87% of the first half of 2020. It's also true that for 2 months, May and June, we granted deferrals. But for the first quarter we cashed in, on average, 87% as a collection rate. And I think that should definitely be underlined.

Let's move on to the next page. Here, we have our highlights. And as you can see, rental income is down 3.5%, landing at €74.6 million. That's a partial decline. Net rental income is declining a bit stronger, just as core business EBITDA and funds from operation. They include a one-off COVID-19 impact in the first half. So as the President, our Chairman and myself, presented this to the Board this morning so that the impact of the actions we undertook vis-à-vis the tenants are only going to be accounted for in 2020.

Part of these effects will be, or €8.5 million, will afftect our P&L. And then, of course, valuation-wise, which is roughly in the same amount, in the same magnitude. So adopting this accounting principle that was shared with the Board of Auditors and the Board of Directors will take in between the first and second half the effects of COVID on this balance sheet, on this financial statements. And we won't have any carryovers to the next financial year.

I've seen some actual reports from our competitors. They did not make the same decision. It's indeed a decision that can be made. We think it's more conservative to make this type decision. So rental income is already including this €8.5 million one-off provision. So the rental income is down 17.9%. Same applies to core business EBITDA, down 18.3%, €51.4 million. And then the funds from operations is €32.9 million, down 21.4%.

OUR MARKET VALUE, EXCLUDING THE LEASEHOLD, LANDED AT €2.322 BILLION AT THE END OF THE FIRST HALF, DOWN 2.5% WITH AGAIN, WE HAVE TO MAKE A DECISION BETWEEN SHOPPING MALLS, HYPERMARKETS AND ROMANIA. THERE ARE 3 NEW UPPER INDICATORS THAT WERE INTRODUCED THIS YEAR, ALL COMPANIES ARE APPLYING THEM AT EUROPEAN LEVEL. EPRA NRV, THE NET REINSTATEMENT VALUE, IT'S STILL [PH] EPRA NAV OF €10.81, DOWN 5.1%; EPRA NPA AT €10.70 PER SHARE, DOWN 5.2%; AND THEN EPRA NET DISPOSAL VALUE, NDV, IT'S GROWING BECAUSE THE FAIR VALUATION OF THE NEW FINANCIAL INSTRUMENT IS POSITIVE BY €160 MILLION. SO WE ARE €11.35 PER SHARE.

LET'S HAVE A LOOK AT THE OPERATING PERFORMANCE. SO NOW ON PAGE 7 OF THE PRESENTATION, SO THE PRIORITY, AS I SAID BEFORE, WAS GIVEN INDEED TO HEALTH AND SAFETY FOR OUR SHOPPING CENTERS. AND HERE, YOU SEE A LIST OF ACTIONS THAT WERE PUT IN PLACE FROM SANITATION, INFORMATIVE PANELS, REGULATING ACCESS AND ROUTES. WE'VE INSTALLED THERMAL CAMERAS, NOT SCANNERS, THERMAL CAMERAS IN ALL OF OUR SHOPPING CENTERS. SO WE HAVE 30 OF THEM AND WE INVESTED ABOUT €400,000 FOR THE THERMAL CAMERA INSTALLATION, TOGETHER WITH HAVING MONITORING AND SURVEILLANCE. WE STRENGTHENED OUR SURVEILLANCE SO THAT PEOPLE COULD REALLY PERCEIVE SAFETY AND THAT THEY WERE BEING TAKEN CARE OF, FOR TENANTS AND FOR VISITORS.

NEXT PAGE, THE THERMAL CAMERA TECHNOLOGY; THERMAL CAMERA TECHNOLOGY WILL ENABLE US TO USE THIS TECHNOLOGY ALSO GOING FORWARD. I THINK WE HAVE A RUNNING TEST ON THE SHOPPING CENTER IN RAVENNA TO RUN SOME MARKETING EXERCISE, HOT AREAS VERSUS COLD AREAS, WHERE WE HAVE A GREATER OR SMALLER FLOW OF PEOPLE, SEE WHAT KIND OF PEOPLE, YOUNGER, OLDER, MALE, FEMALES, OF COURSE, ALWAYS COMPLYING WITH THE PRIVACY REGULATIONS. AND THEN COUNTING THE FOOTFALLS. SO ONCE THE PANDEMIC WILL BE OVER, THIS INVESTMENT WILL BE USEFUL OR WILL COME IN HANDY FOR OTHER REASONS.

PAGE 9; WE'VE ENHANCED OUR COMMUNICATION TO BOTH VISITORS AND TENANTS. WE'VE INVESTED IN COMMUNICATION CAMPAIGNS ON BOTH THE LOCAL PRESS AND SOCIAL NETWORKS FROM MAY 28 TO JUNE 16, AND UNDERTOOK INITIATIVES, AS YOU SEE UNDER ITEM 2 ON THE PAGE, AND THEN FINANCING OR SUPPORTING ALL THOSE ACTIVITIES THAT WERE MORE PENALIZED SUCH AS RESTAURANTS, ET CETERA. SO WE HAVE NEW INITIATIVES TO SUPPORT THEM, AND WE'VE TRIED TO PROVIDE THIS INCENTIVE TO ALL TENANTS. BUT FIRST AND FOREMOST, RESTAURANTS, WHICH ARE THE ONES THAT ARE SUFFERING MOST. AND OUR TENANTS TOO HAVE PUT IN PLACE A LOT OF INITIATIVES SUCH AS INSTALLED OUTDOOR FACILITIES FOR PEOPLE TO EAT OUTSIDE, OUTSIDE THE SHOPPING CENTER. AND THEN WE STARTED TO ATTRACT NEW BRANDS TO OUR SHOPPING CENTERS.

Let's now move to Page 10. And here, you can see that it's worth stopping on and focusing on what happened in Italy. And I'm talking to our foreign visitors today or those who are connected from abroad. The government provided incentives to tenants as a tax credit. First, to the tenants that had invoiced up to €5 million, and then it was also for those who had a turnover that was above €5 million but only for those tenants who in March, April and May had a turnover decline of equal to 50%, 5-0-percent.

So first of all, the turnover have to go down 50%, maybe for a month or for the 3 months. But all of them or almost all of them have had a decline in excess of 50% because the lockdown restriction started in on March 12. So it's March in full, and then April, they were all closed. All of these players were closed. And then May, until May 18, they were closed. So that was the first criterion applied. And then the tax credit was for those who had revenues before €5 million, depending on whether or not they had a lease contract or a special corporate contract. So 3 times 30 is 90%. So every 3 months, they got 1 for free. For those who were above €5 million, the tax credit was 10% instead of 30%. As you see in the box in red, on the right-hand side, you can see the distinction between our tenants in the different categories. And that really helped us in the negotiations. We started with our own tenants. First, we waited for the tax credits to be approved, for this support measure to be approved, and then we started negotiations.

On Page 11, you see how these negotiations are faring. Let's start from shopping malls, the prevailing portion of our accounts. We're talking about 66% of our total fees, 717 tenants with twice as many contracts. 70% of negotiations, 74% up to this morning of negotiations were closed, more than 1,000 contracts. And we set rules, contracts were not changed. We gave temporary reductions. So we found agreements between 1.5 months and 2, it's closer to 1.5-month reduction.

As to invoicing and collection, you see at the bottom of the slide, we've cashed in 93% of the first quarter. As to the second quarter, first action we undertook right away, March already was to defer the payment of Q2. We split it up in 3 different months. And then we put off the April payment to the end of June, payment of May due date is September 10. And the June payment, the due date is November 10. And what we are reporting now does not include the 2 months that were deferred. So 87% to-date.

And including hypermarkets, let me underline, and we're now on Page 12, They account for 1 quarter of our total rents. And advance invoicing for Q1, so early April, end of March for the second quarter. And so we got 100% cash in. So the average between hypermarkets and shopping centers, as I was explaining before, gets to 87% total cash in, and the figure increases time after time. And for hypermarkets, there were no modifications and no discounts.

Let's move on to Romania, Page 13. This is still better because the Romanian government did not support tenants. So we started negotiations right away without waiting to see what the government could have introduced as supporting measures. Romania accounts for about 5% of our total contracts, so 380 tenants, 539 contracts. We've closed negotiations for 98%. So the total rents are about €1 million. The invoicing, first quarter, 100%. And then the second quarter, we deferred to September for both April and May. And in June, we are cashing in, we're collecting day by day. And this is the picture as far as our relations with tenants are concerned.

Let's move on to Page 14, the rental income. This slide, and I'm saying this also to explain the next one. We make a distinction between the figure, statutory, and/or the figure was the €8.5 million. That is the provision we made, which has an impact on the top line of our P&L, on the top lines of the P&L. And so net rental income, so we had a decline from €77.3 million to €74.6 million, down 3.5%. But we then have €8.5 million as a one-off provision. It's very important that it's a one-off impact of COVID. And so rental income lands at €66 million, down 14.5%.

And over the 6 months, over the half year, again, we had a turnover Italy, 79 contracts. They're flat. And for Romania, we've renewed or we have a turnover of about less 200 contracts with an average upside of 4.8%. So it was 79 contracts for Italy, sorry. And then we have direct costs, €68.6 million, down 5.5% because we had an increase in the provisions. Net of the €8.5 million...including the €8.5 million, instead, net rental income goes down to €56.3 million. That is to say down 17.9%.

Always talking about tenants and the operating results, so we move on to Page 16. Operating tenants pre-lockdown, before March 12, 2020. In terms of GLA, 98.2% of our tenants reopened in Italy and 97.7% in terms of total rents. So the vast majority of our tenants are still are up and running. So the financial occupancy does not have a very high decline. We are at 95.6%. So it's still at high level.

In the following slide, always for Italy, we find footfalls in Italy. Top left, you can see what happened in the first week, between the 18th and 24th of May 2020. So 18th to 24th, down 31.4% footfalls. But the figure improves as we move into June and July and August. Now we are down 15%. So we recovered half of the lost footfalls. But 3, 4th and 5th of August, Monday, Tuesday and Wednesday, we had only minus 5% as the trend in footfalls.

So we hope that will be kept, that it will hold. Even though it was partly affected by the bad weather that led people to go into shopping center and the starting of sales, of markdowns. But it's still to be appreciated as a result. And the penalized time frames or time brackets, as you can see, bottom left, fit the central time slot between 12 and 2 and then from 7 to 9. Okay. Third week, we're talking about June. We don't have the July piece of information. We had about sales in July versus June because in June, we had a 20%, 25% decrease. Sales declined less than the footfalls. So the average ticket is €26.6, it's up 4.1% versus 2019.

And then if you look at the product categories that performed better, we're on Page 19, so clothing, for instance, they completely missed the spring/summer collection, but now they are trying to make up for it with markdowns. And then top right, we have a box that carries the wording News.

The government, by the end of August, they've already approved €25 billion that...we will be able to go off-balance. And some of them will be invested to incentivize consumption, those who will use credit cards in certain industries. But it's only rumors so far. We don't have the actual wording of the law. So in restaurants, maybe clothing and a few more sectors, it's only going to be a temporary measure starting from September until year-end. It might be a boost for consumption and a boost for using cards because in Europe, we are lagging behind other countries, and we don't use credit cards.

Let's now move on to Page 20, Romania. So 94% of operating tenants are up and running, and 97% of total rents. Financial occupancy is at good levels, more or less same as Italy, around 95%. When it comes to footfalls, they're down 25% post-lockdown. But in Romania, there are still restrictions and restaurants are still closed, for instance. So there are stricter restrictions in Romania now than in Italy.

And then we worked on sustainability. And on Page 21, we see some of the actions we've started for sustainable mobility. Certification ISO 14001 or 95% of our total GLA certified. And we acquired 3 more certification being in use. And then we were awarded a further EPRA award as Best Practice in the...on the right portfolio.

I'll try and be quick, otherwise, there will be no time for questions. Portfolio was down 2.5%, roughly. We are in the write-down range that we saw last week for our peers, European peers. So we had a decline of 2.7% in the malls. Hypermarkets, down 1.35% due to inflation, mainly, and because inflation was very low and will be very low going forward as well. I'm not going to say that we're going to end to a deflation, but we're going to be very close to 0 in Italy. And Romania was down 5.37%, the compounded average is down 2.5%. But if you add it up to leasehold, you go down 2.66%. From €2.381 billion, IGD portfolio went down to €2.322 billion first half of 2020.

And now Page 25, we are nearly at the end of the presentation. As you very well know, we mentioned it on May 7 when we presented Q1 report. We've put up some investments, and that will lead to a lower cash out this year, less...well lower...€40 million lower. But some projects, for instance, Porta a Mare will be resumed. We are revising the project, the design. We've put it off about 1 year.

Q3 2021 is the expected opening. And we are rethinking and re-signing the way we are going to actually sell our space in Officine Storiche, which was very much food-oriented. Even though some tenants in the last few days confirmed...the fitness area manager confirmed that they are interested. And they signed a pre-letting. And the hotel also reconfirmed their interest in the area and this year, we will complete the design of La Favorita Mantova and PortoGrande, and then early 2021, they will start working.

EBITDA from core business, down to €51.4 million, but including the €8.5 million one-off provisions for COVID, the COVID impact estimate. Let me go back one minute, after the portfolio we include an estimate from the appraisals of about €8 million of discounts, starting from H2, discount rebates because of COVID. So if we had €8.5 million worth of provisions in our P&L, plus another €8 million, we are €16.5 million. So when we said that it's about 1.5 months, and we think we've expensed discount, we've expensed the COVID effect for the full year, this is what I meant before.

Page 27, we worked on SG&A as well. The improvement is €600,000 improvement is not very much indeed. But in absolute terms, however, we are still at €51.4 million EBITDA from core business. Financial management is still improving, there was a decline of less than 10% in our financial management, net of the negative carry due to nonrecurring charges due to the bond issue. And then the average cost of debt also declined, even though it declined less than last year. FFO, we have a breakdown between pre and post booking. The pre booking of the €8.5 million, it was €0.5 million, down 1.1%. After we booked the €8.5 million, we are at 21.4%, slightly less than €33 million.

Page 30, you see the 3 indicators that I've already that I've already talked about.

Page 31, what have we done on financial activities? First of all, over the last quarter, we've had our 2 committed lines renewed by 2 leading credit institutions. So we scheduled 2020, its €20 million non-revocable. We are finalizing the state-guaranteed loan, Decreto Liquidità, with SACE guarantee equal to 90%. So it's a €37 million loan, 6 year maturity. We should be closing the transaction by the end of August. And then we are still investment grade, even though with one agency with BBB minus with a rating watch that's negative. We'll see whether or not from here to year-end will they downgrade us.

Page 32, our loan-to-value is up 1.4%, landing at 49%, our NFP is basically flat versus end of year 2019 and end of March. But the decline in market value, of course, had an impact on our LTV. ICR is 3.5 times, and average cost of debt went from 2.35% to 2.3%. Bottom left, we have €103 million still cash on hand, plus the €60 million committed lines not written, but its €160 million of non-committed credit lines revocable but still existing, plus a €37 million loan that we'll get from a primary bank in Italy by August 31.

And now on Page 33, it will enable us to see the debt maturities. First the residual bond, €71 million due at the end of 2021. And then we'll be able to service...to cover the maturities for the next 18 months. So we have the necessary means.

Last page, outlook for 2020. We didn't know whether or not we should be disclosing the outlook. We think it's fair to disclose, given our peers also presented the outlook. FFO this year will factor in the COVID impact, fully taken in 2020, no carryover in 2021. So there will be a decline between 25% and 28%. We hope we'll be in the lower part of the bracket that is between €0.54 and €0.57.

Given what happened over the last 6 months, it was fair for us to highlight that the targets we disclosed in our Strategic Plan spanning 2019 to 2021 are no longer valid. 2019 and early 2020, we were in line with the Strategic Plan. Now, we're no longer in line, it's no

LONGER UP TO-DATE. SO THERE ARE NO GOALS, THE TARGETS ARE NO LONGER VIABLE, APPLICABLE. WE'LL SEE WHETHER OR NOT THE SITUATION WILL STABILIZE. WE HOPE SO AND WE WILL GIVE YOU AN UPDATE EITHER AT THE END OF THE YEAR OR EARLY IN THE EARLY MONTHS OF 2021.

I THINK THERE'S STILL ROOM FOR QUESTIONS AND FOR CLARIFICATIONS. SO THAT'S IT FOR ME...FOR MY PART.

Q&A

OPERATOR: THIS IS THE CHORUS CALL OPERATOR. WE NOW START THE Q&A SESSION. IF YOU WISH TO ASK A QUESTION, PRESS "*" FOLLOWED BY "1" ON YOUR PHONE. TO BE REMOVED FROM THE Q&A QUEUE, PRESS "*" FOLLOWED BY "2" ON YOUR PHONE. ASK YOUR QUESTION USING YOUR RECEIVER, YOUR HANDSET. IF YOU WANT TO ASK A QUESTION, PRESS "*" FOLLOWED BY "1" ON YOUR PHONE NOW. LET ME REMIND YOU THAT IF YOU WANT TO ASK A QUESTION, YOU MAY PRESS "*" FOLLOWED BY "1" ON YOUR PHONE.

FIRST QUESTION COMES FROM THE LINE OF FEDERICO PEZZETTI WITH INTERMONTE. PLEASE SIR.

FEDERICO PEZZETTI: GOOD AFTERNOON TO ALL OF YOU. I HAVE A COUPLE OF QUESTIONS, IF I MAY. FIRST OF ALL, ON THE REBATE, THE DISCOUNTS DUE TO THE COVID. THE ESTIMATED COVID IMPACT FOR H1, YOU SAID €8.5 MILLION. SO IF I UNDERSTAND CORRECTLY, THESE ARE THE DISCOUNTS YOU GAVE BECAUSE TENANTS STOPPED THEIR ACTIVITIES, THEIR OPERATIONS DURING THE LOCKDOWN. IF I UNDERSTAND CORRECTLY, IT'S GOING TO BE TWICE THE AMOUNT FOR THE FULL YEAR?

CLAUDIO ALBERTINI: YES, IT'S GOING TO BE FULL YEAR, BUT IT'S ALREADY INCLUDED IN OUR VALUATION, SO IT'S ALREADY DISCOUNTED FOR VALUATION WISE. IT'S ALREADY EMBEDDED, FACTORED IN.

FEDERICO PEZZETTI: AND I WAS WONDERING WHAT YOU EXPECT TO SEE IN 2021? YOU HAVE THE COVID IMPACT, BUT THEN MAYBE SOME DISCOUNTS MAY BE GIVEN NEXT YEAR, TOO. SHOULD THE TENANTS OR SOME TENANTS BE SUFFERING A BIT? SO COULD YOU ELABORATE ON THE DISCOUNTS, THE ONES THAT ARE STRICTLY RELATED TO COVID AND OTHER DISCOUNTS THAT MAY BE KEPT [PH] MAYBE IN 2021 AS WELL? SO A CLARIFICATION ON THAT? AND THEN FINANCIAL CHARGES, COULD YOU HELP US BY ELABORATING...COMING UP WITH YOUR ESTIMATE OF A TOTAL FOR FULL YEAR 2020? AND TELLING US WHAT THE NEGATIVE CARRY CAN HAVE AS AN IMPACT. AND THEN MAYBE 2021 AS WELL, I KNOW IT'S STILL EARLY, BUT GIVE US SOME GUIDANCE AS TO THE TREND YOU EXPECT TO SEE. AND THEREBY STRESSING THE POTENTIAL IMPACT OF STEP-UP CLAUSE, SHOULD THERE BE A DOWNGRADE BY FITCH, TOO?

Claudio Albertini: So the rebates, the discounts, we did not change a single word of our existing contracts. So they were not modified, it is temporary discounts that we are granting. So far...as you say, it's a bit early. We cannot make any forecast for 2021. But if the data we're seeing over the last few weeks...have been seen over the last few weeks, there will be no reasons to take further actions. Indeed, every year, we have a budget for discounts. So probably, we'll have that budget for 2021, too. But let me remind you that in...at the time of crisis, in the past, we got some €3 million to €3.5 million worth of discounts. And at times, we were below €1 million. Indeed, in 2021 we will have a discount budget, but it won't be €8.5 million or the €16 million [ph] we expect by year-end, €8.5 million already factored in this first half. And they're already...another €8 million already included the valuation that will become discount for the year.

And indeed, the trend is improving. There are sectors that are still suffering and that will have an impact in the medium term. Restaurants will have to be supported. We are meeting tenants. We're trying to support them, too, we rethink the layout, their formats, but it's still too early to be able to say. I believe that above and beyond and net off second, third, fourth wave, whatever, once the situation is gradually improving, there won't be any more need for discounts apart from the usual discounts that are the €1 million, €1.5 million next year.

As to financial charges, Page 28, on June the 30th, we have a €2.7 million negative carry. That will decline by year-end because, of course, the €103 million will be used, the cash on hand. They're at...in the bank at zero rate. And then in the last few days, we found a bank that's giving us 0.2, but it's less than the cost of the bond that was 2.125. So the negative carries measuring that I...issued...it's kind of an insurance policy for us. We have the cash on hand that was costing us because there was zero return and now they are giving a better return, and we are better off from a financial viewpoint. There were €2.7 million at the end of the quarter. And they're going to be about €4 million for the full year, because the liquidity will be used as we move into the year, the €103 million and then €25 million, we use to pay our dividend halfway through July. Let me remind you that but something we will start using because we will make investments, we will have CAPEX, it is not that we're going to be frozen forever. And then we'll have cash on hand that we will use to repay the €71 million of the bond in February 2021. So the financial income will be €36 million at year-end twice and will double versus end of June with a cost of 2.3 roughly stable, flat.

THE STEP-UP CLAUSE WITH THIS ESTIMATE OF €36 MILLION IS THE WORST CASE. THAT IS TO SAY WE LOSE THE FITCH RATING. IT'S THE LAST INVESTMENT-GRADE, SO IT'S GOING TO COST €1.5 MILLION THIS YEAR. BUT IN 2021 AND WE HOPE FITCH...AND BY THE WAY, THE 3 AGENCIES DID NOT GIVE A DOWNGRADE TO ITALY OR NOT EVEN OF 1 NOTCH OUTLOOK, DESPITE THE FACT THAT ITALY WILL GO FROM 130% DEBT…GDP TO DEBT, WHILST ITALY WAS NOT DOWNGRADED. AND POOR IGD WE ARE IN GOOD COMPANY NOT THAT IT'S ANY CONSOLATION. SO WITH THE DOWNGRADE AND THE STEP-UP CLAUSE TRIGGERING €1.5 MILLION DECLINE, €35 MILLION. 2021, WE HAVE...GOING TO HAVE A GROWTH OF ABOUT €6 MILLION DUE TO THE STEP-UP CLAUSES, €1.25 MILLION IN THE 2 EXISTING OUTSTANDING BOND, €400 MILLION AND €100 MILLION, SO €500 MILLION, 1.5%, IT'S €625 MILLION. THAT'S THE EXTRA COST WE WOULD HAVE TO PAY IN 2021 AND FUND, SHOULD THE STEP-UP CLAUSE BE TRIGGERED.

ONE MINUTE, LET ME RECTIFY, IN 2021, THE FINANCIAL MANAGEMENT IS ABOUT TWICE AS MUCH FINANCIAL INCOME. WITH THE STEP UP, WOULD BE €1.5 MILLION EXTRA ON TOP, €36 MILLION WITHOUT. YES, €36.5 MILLION THIS YEAR WITHOUT STEP UP, WITH STEP UP, IT WOULD BE €38 MILLION, YES.

FEDERICO PEZZETTI: AND ONE LAST THING, AS YOU'VE ALREADY HINTED AT RESTAURANTS AND THE FACT THAT THEY ARE SUFFERING MORE THAN OTHERS. SO WHAT ARE YOU COUNTERING UP WITH THE TENANTS?

CLAUDIO ALBERTINI: NOT ALL RESTAURANTS AND CATERING BUSINESSES ARE SUFFERING, IT'S MAINLY COLLECTIVE CATERING, SELF-SERVICES AND CAFETERIAS. IT'S A FORMAT THAT WAS GOING TO BE...THAT HAVE TO BE RETHOUGHT TO MAKE IT MORE APPEALING. FAST FOODS ARE DOING WELL. MCDONALD'S, FOR INSTANCE, ARE DOING WELL. SO WE ARE RETHINKING WITH THOSE WHO ARE IN DIRE FREIGHT, WE'RE GOING TO SUPPORT THEM. SOME OF THEM STILL HAVE REDUNDANCY FUNDS FOR THEIR EMPLOYEES. IT WILL PROBABLY BE EXTENDED TILL YEAR-END. SO THEY'RE NOT IN THE IDEAL SITUATION. THEY DON'T HAVE ENOUGH PERSONNEL. THEY...AND LET ME REITERATE THAT, HOWEVER, THE SITUATION IS CLEARLY IMPROVING. LAST WEEK, FOOTFALL IS DOWN 15%, THIS WEEK, WE ARE DOWN TO ONLY MINUS 5%. AND IT WAS MINUS 31% IN THE FIRST WEEK OF OPENING IN MAY. SO WEEK-AFTER-WEEK, PEOPLE GO OUT MORE, CONSUME MORE, BUY MORE IN SHOPPING MALLS. SO I WOULD WAIT TO GIVE A NEGATIVE ASSESSMENT. I WOULD LEAVE IT UNTIL AFTER THE SUMMER IF THE LEVEL OF [INDISCERNIBLE] IS KEPT UNDER CONTROL, AND IT SEEMS TO BE UNDER CONTROL IN ITALY ABOVE AND BEYOND A FEW OUTBREAKS. THE SITUATION IS DEFINITELY IMPROVING.

FEDERICO PEZZETTI: VERY WELL. THANK YOU VERY MUCH.

OPERATOR: MR. ALBERTINI, THERE ARE NO MORE QUESTIONS FOR THE TIME BEING IN THE QUEUE.

CLAUDIO ALBERTINI: VERY WELL. I WOULD LIKE TO THANK ALL OF YOU FROM...ON BEHALF OF OUR COLLEAGUES AND OUR CHAIRMAN. HAVE SOME PLEASANT HOLIDAYS, AND WE'LL MEET AGAIN ON NOVEMBER THE 05TH FOR Q3 RESULTS. AND WE HOPE WE'LL BE ABLE TO DELIVER GOOD NEWS. THANK YOU.