

2020-2025 Business Plan: €3.7 billion in investments and launch of “multicircle economy” to grow at the national level and become a leader in sustainability

Iren confirms its growth strategy through gradually increasing investments (more than double compared to the 2015 plan) and the margins generated, with expected EBITDA at € 1.16 billion (+240 million compared to 2019). The Group’s objective is to expand a number of activities in new Italian territories, strengthen its resilience and become a leading operator in sustainability by developing the “multicircle economy”, its long-term industrial vision focused on conscious and efficient use of resources, confirming its strong roots in its reference areas through constant improvement in the quality of the services offered and as a driving force for the local economy.

Financial/economic highlights

- **EBITDA:** € 1,160 million by 2025 (+240 million compared to 2019) with a CAGR of 4% (compared to 3.5% for the previous plan) through organic growth, consolidation and synergies
- **Total investments:** €3.7 billion (+400 million compared to the previous business plan, +12%)
- **Net financial position/EBITDA:** 2.5x by 2025
- **Group net profit:** around € 350 million by 2025, (+113 million compared to 2019)
- **Dividend:** 8% CAGR over the period of the plan

Business highlights

- **Development in Italy:** through commercial expansion and by replicating the excellence achieved, within our reference areas in the field of waste and energy efficiency, in new geographic areas
- **Sustainable Investments:** € 2.25 billion, 2.1 billion of which will go to support our multicircle economy strategy
- **Organic growth:** € 240 million, supported by investments in networks, aimed at maximising quality and efficiency for services, in waste management, for circular economy projects and the consolidation of IBlu and Unieco, in extending district heating and in increasing retail customers
- **Synergies:** € 55 million, mainly associated with Performance Improvement initiatives which will be partially offset over the plan period by the emerging costs related mostly to digital transformation projects

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Reggio Emilia, 30 September 2020 - Late yesterday evening, during its meeting, the Board of Directors of Iren S.p.A. approved the business plan to 2025.

Renato Boero, the Group's Chairperson, stated, *“The Business Plan to 2025 attests to the Group’s intention to continue in the growth process undertaken in the last few years, more than doubling investments compared to the 2015 Plan, with important outcomes for the territories in which we operate in terms of value creation and the knowledge that we can significantly contribute to the relaunch of the country. We have the ambition of growing at the national level, and we want to affirm Iren’s leadership in sustainability. Lastly, with € 300 million in planned investments, the constant innovation and digitalisation process carried on by the Group is of great importance, as it has allowed us to brilliantly face the difficulties deriving from the current health crisis, which in turn will enable us to make the entire organisation increasingly efficient, providing citizens with high value added services, thanks to which we forecast growth to 2.4 million customers”.*

Group CEO Massimiliano Bianco stated, *“Thanks to the excellent results achieved, the 2020-2025 Plan confirms the strategic approach and the industrial pillars of past years, combining new ambitions: we broaden our outlook towards new territories, increasing the excellence achieved in our reference areas and strengthening the resilience that distinguished us during 2020. The growth trend in investments is continuing, with an increase of 12% for a total amount of 3.7 billion euros; more than 2 billion of these investments are in support of the Multicircle Economy, our long-term industrial vision focused on the conscious and efficient use of resources. Iren, thanks to its strategic approach, consolidated technical capacity and financial solidity, is increasingly a local leader and a leading national operator in the energy transition and in the environmental services”.*

STRATEGY

The growth strategy is consistent with the main trends already identified in the previous business plans and confirmed in the current one, that is the sustainable and conscious use of resources, the energy transition, the central role of customers/citizens, the technology revolution and territorial consolidation. Iren confirms its strategic approach based on the pillars of organic growth, sustainability, customers, digitalisation, people, technological evolution and efficiency, combining them with new ambitions that will characterise the coming years. Fortified by the leadership acquired in its reference areas, the Group is ready to expand its horizons towards **new territories**, not only through commercial expansion, but also by exporting the excellence achieved in the fields of waste and energy efficiency. This growth strategy is based on overcoming the traditional concept of the circular economy with the introduction of the **multicircle economy**. This vision, strongly sustainable over the long term, emphasises Iren’s multi-business nature, in which the different activities share the value of the responsible use of resources. Finally, 2020 highlighted the **resilience** of the Group’s business model, even when faced by unexpected turbulence. This characteristic will be further strengthened by the investments planned in support of the various businesses.

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INVESTMENT PLAN

The new business plan provides for increased **investments**, for a total amount of around € **3.7 billion** (+12% compared to the previous business plan).

Of the planned investments, € 1.6 billion, which is 40%, are directed towards **regulated sectors** in order to expand, modernise and digitalise network services, with particular focus on water treatment plants in the Liguria area, and to improve the quality of the municipal waste collection service.

A similar portion is made up of **development investments**, intended to facilitate the Group's dimensional growth, and regard mainly the waste management segment through the development of selection and treatment plants, the extension of district heating networks and smart solution and digitalisation projects.

Finally, the remaining 18%, approximately € 650 million, is intended for maintenance investments.

From the point of view of **sustainability**, approximately € 2.25 billion, 61% of total investments, is allocated to projects that contribute to fulfilling the commitments made in relation to the SDGs of the United Nations and, in particular, 93% of these investments, more than €2 billion, come together in the new vision of the multicircle economy, including the focus areas of the circular economy, water resources and resilient cities.

Over €300 million is intended for **digitalisation** projects for all company areas, with the goal of increasing efficiency and streamlining the entire organisation and providing high value-added services to customers and citizens.

The annual average investments provided for in the plan are around € 600 million, higher during the first three years due to the repowering of the Turbigo thermoelectric power station, the creation of waste management plants and digital development projects. The modularity of the investments in development will enable the Group to seize possible market opportunities, adapting its investment plan.

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FINANCIAL/ECONOMIC OBJECTIVES

		2019	2023	2025	CAGR 2019-2025
EBITDA	millions of euro	917	1,100	1,160	4.0%
<i>Networks</i>	<i>millions of euro</i>	<i>373</i>	<i>413</i>	<i>444</i>	<i>3.0%</i>
<i>Waste Management</i>	<i>millions of euro</i>	<i>158</i>	<i>218</i>	<i>227</i>	<i>6.3%</i>
<i>Energy (generation, district heating, energy efficiency)</i>	<i>millions of euro</i>	<i>274</i>	<i>318</i>	<i>328</i>	<i>3.0%</i>
<i>Market</i>	<i>millions of euro</i>	<i>110</i>	<i>149</i>	<i>157</i>	<i>6.1%</i>
<i>Technological services</i>	<i>millions of euro</i>	<i>2</i>	<i>2</i>	<i>4</i>	<i>n.s.</i>
EBIT	<i>millions of euro</i>	452	520	585	4.4%
Group net profit	<i>millions of euro</i>	237	310	350	6.7%
Net financial position/EBITDA	x	3.0	3.0	2.5	-
Net financial position	millions of euro	2,706	3,300	2,850	-
Average cost of debt	%	2.4	1.6	1.6	-
Dividend per share	euro cents	9.2	12.1	14.6	-

FINANCIAL STRUCTURE

The limit of the medium/long-term Net Financial Position/EBITDA ratio is confirmed at 3.0x. Despite this, in the short/medium-term, it is possible that it will be in the 3.0-3.5x area, with the objective of gaining value from the finalisation of further strategic options. The flexibility of the investment plan makes it possible to modulate its implementation in order to guarantee observance of the threshold set.

DIVIDEND POLICY

The business plan, following the strong growth of investments in 2020-2021, the latest M&A transactions carried out in 2020 and the impact of COVID-19, adjusts the dividend policy, providing for 9.5 € cents/share on the 2020 net profit (+2.7% compared to the previous year), 10 € cents/share on the 2021 net profit (+5.3%) and growth of 10% per year from 2022 onwards. Over the period of the plan, the CAGR is approximately 8%.

OTHER GROWTH OPTIONS NOT INCLUDED IN THE BUSINESS PLAN

Confirming growth as its strategic priority, the Group has identified a series of additional options not included in the current plan but available for consideration based on future developments. In particular:

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- **organic growth options:** focused on participation in gas tender procedures and developing district heating in new areas, on repowering a number of hydroelectric plants, on plans to increase the flexibility of electricity production plants and on additional waste treatment plants;
- **external growth options:** both through small M&A transactions, oriented to a more selective choice aimed at consolidating non-controlling equity investments, and through transactions of a significant size, to be implemented maintaining the current level of investment grade.

FOCUS ON BUSINESS UNITS

The significant growth of EBITDA (€ +240 million over the period of the plan) is facilitated by the positive contribution of all business units. The greatest support for growth is guaranteed by regulated activities, in particular by the integrated water service, as well as by the increase in the waste treatment and recovery capacity, the expansion of district heating and the development of the energy customer base.

NETWORKS

The **investment** plan provides for almost € 1.3 billion to increase the efficiency and quality of services, with significant growth in RAB which will reach € 2.93 billion in 2025. 61% of investments destined for networks is allocated to the integrated water service, in order to make it more efficient thanks to the investments in water treatment plants, the installation of smart meters, the districtualisation and permanent monitoring of the network, actions that encourage a rational use of water resources, through a reduction of water leaks and a reduction in water withdrawn from the environment.

Unlike the previous one, the business plan 2020-2025 provides for the exclusion of gas tender procedures from the basic plan, owing to the low visibility on when they will start. Despite this, Iren's commitment is to reconfirm the tender procedures in all areas in which Iren is the incumbent and possible participation in further tender procedures in the Group's territories of reference.

The investments and synergies planned will make it possible to achieve **EBITDA** of € 444 million in 2025 (€ + 72 million compared to 2019).

WASTE MANAGEMENT

The circular economy continues to be the guiding star for the waste management sector which, through the development of nine new treatment plants (plastic, paper, organic and wood) aims to increase waste treated in owned plants by 50% to 2.9 million tonnes a year, against an increase in waste managed of 3.7 million tonnes by the end of the plan. Self-sufficiency in closing the entire waste cycle will occur, not only by taking advantage of waste as a material for generating biomethane and secondary fossil fuels, but also through connecting all waste-to-energy plants to district heating networks. Finally, development of a more efficient collection system will make it possible to offer better quality services to the public, reducing the associated environmental impact and supporting Iren's commitment to increase separate collection (over 70% in 2025). The best practices achieved in its established territories enable the Group to cross borders and grow at the national level, establishing itself as one of the main Italian players in the waste management segment, thanks also to the complete integration of the recently acquired companies iBlu and Unieco and the related plant development plans.

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The **investments** necessary to achieve **EBITDA** of € 227 million by 2025 (€ +70 million compared to 2019) amount to € 722 million.

ENERGY (GENERATION, DISTRICT HEATING AND ENERGY EFFICIENCY)

The medium-term energy situation will be characterised, in terms of demand, by modest growth in electricity consumption in Italy due to the combined effects of climate change, electrification and energy efficiency projects and, in terms of supply, by continuation of the energy transition, with renewables playing a greater role and a growing need for flexibility and adaptability in thermal power generation. The development of a new Turbigo thermoelectric plant line, supported by participation in the capacity market auctions, becomes part of the basic Business Plan.

Expected margins for the energy area (€ +54 million) will allow for full recovery at maturity of White Certificates (€ 27 million), while achieving **EBITDA** of € 328 million by the end of the plan.

Planned **investments**, totalling € 1,072 million, are mainly intended to increase the flexibility of plants, develop thermal and electric storage systems and further strengthen the leadership role in the district heating sector, exceeding 100 million cubic metres of volume heated in this way by 2022.

Growth in the **energy efficiency** sector is also planned, supported by investments of € 244 million and by the introduction of the 110% Superbonus, which will make it possible to accelerate the acquisition of new public and private customers at the national level.

MARKET

Iren's commitment to full digitalisation of processes, development of digital payments, fully developing the IrenGo offer and increasing IrenPlus (formerly NewDownstream) products and services has the goal of further increasing the customer base also outside the territories of reference, reaching 2.4 million customers by 2025.

The territorial expansion of the customer base will occur with the objective of maintaining the churn rate among the lowest in the sector, thanks to the strong centrality of the customer-citizen, which is implemented through a multichannel and multibusiness approach, with offers increasingly customised on the real needs of the customer, strong attention to the customer experience and a notable push for innovation and digitalisation of services.

This approach, supported by € 306 million in **investments**, will make it possible to achieve **EBITDA** of € 157 million.

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