

**Business Plan 2018-2023: marginality growth with expected EBITDA of over 1 billion, 3 billion in investments and growth supported by innovation, digitalisation and skill development, keeping the same level of debt. In addition, further improvement in the dividend policy, with a 20% increase in the dividend in 2018 and 10% subsequent annual growth.**

*Based on the objectives achieved over the last four years, the Group has confirmed the effectiveness of its strategic pillars in pursuing growth, with a primary focus on networks, waste management and district heating. These pillars are supported by digitalisation and people: the factors that make development possible. The increase in profitability means the Group can take advantage of financial flexibility, favouring growth and improvement in the dividend policy, confirming the objective of maintaining an investment grade rating.*

### **Financial/economic highlight**

- **EBITDA:** 1,020 million euro in 2023. + 200 million compared to 2017 thanks to organic growth (120 million euro) and synergies (65 million euro)
- **Total investments:** 3 billion euro (+ 500 million compared to the previous Business Plan)
- **Net financial position/EBITDA:** 2.3x in 2023
- **Net profit:** around 300 million euro in 2023
- **Expected dividend:** 8.4 euro cents/share (+20%) in 2018. 10% annual growth thereafter (13.5 euro cents/share in 2023)

### **Business highlight**

- **Organic growth:** 120 million euro, supported by investments in networks, aimed at maximising quality and efficiency for services, and in the environment for circular economy projects.
- **Synergies:** 65 million euro, mainly associated with Performance Improvement initiatives.
- **Concessions:** continuation of current expiring for gas, integrated water services and waste collection.

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**Investor Relations**

Giulio Domma  
Tel. + 39 0521.248410  
investor.relations@gruppofiren.it

**Media Relations**

Paolo Colombo  
Tel. + 39 011.5549175  
Cell. + 39 348.2206005  
paolobartolomeo.colombo@gruppofiren.it

**Barabino & Partners**

Tel. +39 02 72023535  
Giovanni Vantaggi + 39 328 8317379  
g.vantaggi@barabino.it



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- **Energy customers:** 2 million customers by 2023, strong focus on services quality and new products development (New Downstream, energy efficiency and e-mobility services).

Reggio Emilia, 26 September 2018 - The Board of Directors of IREN S.p.A. has today approved the Business Plan to 2023.

**Paolo Peveraro, Chairperson of the Iren Group, declared:** *“This is a Plan that pays its dues to shareholders with a significant investment plan of 3 billion euro, a 20% increase over the previous plan, benefiting both the local area and our customers. The investments will modernise our services and allow us to provide them even more effectively and rationally, offering new options in the sectors of electric mobility and energy efficiency.*

*We are more and more convinced that the development of our country and the quality of life of our citizens is supported by protecting the environment and respecting the local area, and this is why over half of planned investments will go to sustainability projects, the true strategic lever behind our Business Plan.*

*In terms of additional mergers and acquisition operations (not included in the plan), we confirm our intention to take advantage of other opportunities in line with our strategic guidelines and with the goal of creating value for our stakeholders. Some operations will become concrete in coming months, while others will require more time, in any case, in line with our development schedule”.*

**Massimiliano Bianco, Chief Executive Officer of the Iren Group, declared:** *“Over the last four years, the Group, through full integration and rationalisation of its processes, has achieved significant synergies and has made significant investments in strategic sectors, establishing the foundation for a relevant path of dimensional growth. With its Plan through 2023, the Group confirms its multiservice structure and prepares itself to take advantage of new opportunities for development, investing in people, acquiring new skills and moving more quickly towards digitalisation. Because of the growth it has achieved, Iren can increase its 2018 dividend by 20% over the previous year, confirming its commitment in coming years to a 10% annual increase, starting with the 2018 dividend of 8.4 euro cents/share”.*

*In addition, with this Plan, the Group structurally equips itself with a broad portfolio of organic growth options supported by additional capex, not included in the business plan, for over 1 billion Euro. This optional portfolio, which can be flexibly changed over time in all our businesses, is a solid support to the Group's long-term growth even beyond the Plan horizon.*

### **CHANGES WITH RESPECT TO THE PREVIOUS BUSINESS PLAN THROUGH 2022**

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Confirmation of the strategic structure of the previous business plan, with the addition of new growth opportunities deriving from the development achieved over the last 4 years. The financial flexibility obtained allows for greater investments with respect to the previous plan

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(+500 million euro) in a market context that offers opportunities to develop business, strengthen leadership and create value for shareholders. This growth is associated with the objective of achieving EBITDA of over 1 billion, accompanied by organisational development in line with increased complexity. More focus is planned on people and digitalisation, favouring the acquisition of new skills and improvement of organisational processes.

### STRATEGY

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The main trends through 2030 that will influence the Group's strategic objectives are energy in transition, sustainable development, the technological revolution and the central role of customers. This gives rise to the need to adopt innovative technologies to meet the requirements of customers/citizens, who are at the centre of Iren's sustainable growth strategy.

The strategic structure based on the following pillars was maintained:

- **Organic Growth:** totalling 120 million euro, generated by developing integrated water services, activities to benefit customers, district heating, waste treatment systems and participation in gas tenders.
- **Efficiency:** further actions to increase additional efficiency, accompanying the 70 million euro in synergies already achieved in the past three years. The objective of 65 million euro in synergies planned for the coming 6 years will mainly be accomplished through Performance Improvement initiatives.
- **Customers:** redefining the role of customers/citizens, who are increasingly active and involved in acquisition decisions, guides investments towards digital customer communication processes and towards a plan to develop high value-added innovative services (electric mobility, energy efficiency and New Downstream).
- **Environmental Sustainability:** the setting of Environment, Social Governance (ESG) targets in response to the objectives set by the United Nations. The commitments made involve climate change (SDG 13), through water resources (SDGs 6 and 14), the circular economy (SDG 12), clean energy (SDG 7) and resilient cities (SDGs 9 and 11).
- **People:** a strong focus on skills and an agile and efficient organisation, by improving talent and performance management processes in terms of intelligently selecting human resources and training growth and incentivising staff. A strong generational change is expected, supported by integrating new people to a greater extent than planned exits.
- **Digitalisation and innovation:** development through the direct realization of Industry 4.0 and digitization projects (200 million euros) in order to increase efficiency and offer services to customers/citizens in line with emerging needs. To this is added a Corporate Venture Capital program in a structured process of open innovation.

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## INVESTMENT PLAN

The new Business Plan provides for an increase in **investments**, leading to a total of around **3 billion euro**.

Planned investments in **regulated sectors** come to around 1.4 billion euro, of which around 1 billion euro is intended to strengthen the water cycle, through improved efficiency, development of the water network and creation of water treatment plants. **Development investments**, relative to district heating, energy efficiency, treatment plants and continuation of gas distribution concessions, total around 900 million euro. Lastly, around 700 million euro is planned for ordinary maintenance relative to non-regulated business. Around 200 million euro is dedicated to transversal **digitalisation** projects that involve all business areas.

In terms of **sustainability**, over half of all planned investments are aimed at achieving the commitments made with regards to the United Nations SDGs. The focus is mainly on using water resources and the circular economy.

The average annual amount planned in the investment plan is around 500 million euro, slightly higher during the first three years to support district heating, treatment plants and energy efficiency. The modular nature of the investments being developed will allow the Group to take advantage of possible market opportunities, adjusting the schedule of planned investments when necessary.

## OBIETTIVI ECONOMICO FINANZIARI

		2017	2021	2023	Cagr '17-'23
EBITDA*	mln €	838	970	1,020	3.3%
<i>Networks</i>	mln €	334	390	425	4.1%
<i>Waste</i>	mln €	149	181	185	3.7%
<i>Energy (generat., DH, E.Efficiency.)</i>	mln €	244	268	270	1.7%
<i>Market</i>	mln €	111	131	140	3.9%
EBIT	mln €	420	490	530	4.0%
Group net profit	mln €	238	270	300	3.9%
Net financial position/EBITDA	x	2.9	2.7	2.3	-
Net financial position	mln €	2,372	2,650	2,320	-
Average cost of debt	%	3.1	2.4	2.4	-
Dividend per share	€/c	7.0	11.2	13.5	-

\* EBITDA Adjusted



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## **DIVIDEND POLICY**

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The **20% increase in the dividend** in 2018 (equal to 8.4 euro cents/share) compared to the most recently distributed dividend, and the subsequent constant 10% annual increase confirm the attention Iren pays to creating value for shareholders. As of 2019, an average **pay-out ratio** of 50% is forecast. This remuneration is compatible with maintaining an investment grade rating (Fitch rating of BBB).

## **OTHER OPTIONS TO MAKE USE OF FINANCIAL FLEXIBILITY NOT INCLUDED IN THE BUSINESS PLAN**

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The Group's cash flow would make it possible to achieve a NFP/EBITDA ratio of 2.3x in 2023, below the 3.0x value currently judged adequate to optimise the Group's financial structure. This will allow it to use financial resources for other options, not included in the plan objectives but already clearly identified as additional investments for organic growth and for transversal M&A operations involving all business units.

Always with the aim of optimising the Group's financial structure, the creation of a treasury share purchase program will also be evaluated, to be used tactically if cash flow generated exceeds expectations and—if necessary—to support M&A transactions. To that end, through a specific Board of Directors resolution, authorisation will be requested at the next Shareholders' Meeting.

## **FOCUS ON BUSINESS UNIT**

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The reference area over the medium term indicates a need to invest in waste treatment plants, in new infrastructure for the integrated water cycle and in increasing flexibility in plants in response to the energy transition towards renewable production. The evolution of the customer's role also guides investments towards greater digitalisation and services with high added value. Finally, high market fragmentation offers opportunities for growth and to strengthen leadership in the reference areas. These guidelines serve as the basis for the Group's investments.

Significant EBITDA growth (+200 million euro over the course of the plan), despite the expiration of Green and White Certificates during the period (respectively for 40 million euro and 25 million euro) is achieved through positive contributions from all business units. Regulated activities provide the most support for growth, in particular integrated water services.

## **NETWORKS**

The **investment** plan provides for 1,550 million euro to develop and improve the quality and security of the service, with significant growth in RAB (>800 million euro). Around 1 billion

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Paolo Colombo  
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euro will be invested in improving efficiency in the water network, to reduce network losses, and for technological innovation through the use of smart meters and water treatment plants. 2019 and 2020 will feature the objective of maintaining the expiring water and gas concessions for which Iren is currently the incumbent, as well as possible participation in additional tenders in the Group's areas of reference. The latter are not currently included in the plan numbers.

The single integrated business vision, combined with more in-depth implementation of the system of assets and workforce management will offer additional synergies over the period of the plan.

The investments and synergies established will make it possible to achieve **EBITDA** of 425 million euro in 2023.

### **WASTE**

The circular economy is the compass that guides activities in the waste management segment: an increase in waste treatment capacities (plastic, organic waste, wood, paper and cardboard) as of 2021 will generate a greater contribution from special waste and increase production of bio-methane and solid secondary fuel. The coming years will see self-sufficiency, as the entire waste cycle is closed due to the development of new treatment plants, a more efficient collection system and the connection of the Group's three waste-to-energy plants to the district heating networks. The Group has made a commitment to maintain the concessions it currently holds and for which it will begin the tender process by 2020. In addition, possible optional strategic transactions are currently being assessed, not currently part of the plan.

The **investments** required total 430 million euro, in part, also destined for development projects such as improving the efficiency of the systems network and relative logistics, creation of employment and innovation, not just technological, but also in terms of market approach. In order to offer better services to customers/citizens, "Just Iren" will be developed, a new integrated management, operations and IT system.

The investments planned will make it possible to achieve **EBITDA** of 185 million euro (+36 million compared to 2017).

### **ENERGY (GENERATION, DISTRICT HEATING AND ENERGY EFFICIENCY)**

The situation over the medium term will see an increase in prices and in the spark spread compared to the year in course, supported by growth in the cost of gas and CO<sub>2</sub>. The margins planned for the energy unit (+26 million euro) will lead to the achievement of **EBITDA** of 270 million euro (CAGR 5.4% net of energy certificate expiration).

Planned **investments** of 680 million euro are focussed on strengthening Iren's leadership role in the district heating sector (+10 mcm in district heating volumes), developing heat and electricity accumulation systems and strengthening and improving plant flexibility. In addition, these investments will allow the Group to be more competitive in terms of dispatching services (MSD market). Further, a series of new opportunities to develop district heating are being evaluated, currently not included in the plan.

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Giulio Domma  
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To the **energy efficiency**, with a dedicated brand Iren Smart Solution, are planned around 200 million euro of investments, destined for energy requalification work for buildings, management of heat including micro-cogeneration, improving public lighting efficiency and consulting activities.

### **MARKET**

The new plan's focus involves an evolution of that on offer from a simple commodity to integrated high value added services (New Downstream and E-mobility). The central role of the customer/citizen and the need for a single customer experience increasingly involve Iren Mercato as the sole customer interface, even for the other commodities managed by the Group.

By fully developing its "New Downstream" project, Iren is pursuing the objective of reaching 2 million customers by 2023 (+15%), while maintaining one of the lowest churn rates in the sector. To complete the services offered, an "E-mobility" business line with a dedicated brand IrenGO has been launched. To this is added a selective focus on business customers and a reduction in cost-to-serve through digitalisation, with the objective of 50% of transactions carried out on the digital channel by 2021. This scenario, supported by 190 million euro in **investments**, will make it possible to achieve **EBITDA** of 140 million euro.

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