

2019-2024 Business Plan: increased margins with expected EBITDA of over 1 billion (+200 million) supported by an enhanced investment plan of 3.3 billion (+10%), strategic decisions centred around customers/citizens and a heavy focus on the circular economy.

The Group confirms the effectiveness of the strategic framework of the previous business plan and a progressive increase in investments (+86% with respect to the plan presented in 2015) and in margins generated. Networks, waste management and district heating are the foundation for the growth forecast for 2024. The Group is also ready to take advantage of development opportunities, even significant ones, thanks to improving of the quality of NFP following the recently completed OLT transaction and corporate investments made.

Financial/economic highlights

- **EBITDA:** € 1,070 million in 2024 (+200 million with respect to 2018) thanks to organic growth and synergies
- **Total investments:** € 3.3 billion (+300 million compared to the previous Business Plan)
- **Net financial position/EBITDA:** 2.4x in 2024
- **Net profit:** around € 300 million in 2024
- **Expected dividend:** 9.2 euro cents/share (+10%) in 2019. 10% annual growth thereafter (14.9 euro cents/share in 2024)

Business highlights

- **Organic growth** of € 200 million, supported by investments in networks, aimed at maximising quality and efficiency for services, in waste management, for circular economy projects and to extend district heating
- **Synergies:** € 62 million, mainly associated with Performance Improvement initiatives
- **Concessions:** renewal of those expiring in the areas of gas, integrated water services and waste collection
- **Energy customers:** 2.25 million customers in 2024, with a heavy focus on developing additional services (New Downstream, e-mobility and digital payments) and improving customer experience

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Reggio Emilia, 25 September 2019 - Today, the Board of Directors of Iren S.p.A. approved the business plan through 2024.

Renato Boero, the Group's Chairperson, declared: *"The business plan we just approved demonstrates the Group's intention to continue with its track record of growth, as seen over the most recent years, further increasing investments (+86% with respect to the 2015 plan), with significant benefits for the areas in which we operate in terms of value creation. The attention we pay to the local areas and communities is also clear in the quality of the investments planned, with € 2 billion destined for products that have positive impacts in terms of environmental and social sustainability. We want to be seen as an entity that supports the development of the areas we serve, helping them to face the challenges of economic, energy and environmental sustainability and the new scenarios for service innovation."*

Group CEO Massimiliano Bianco stated: *"The 2019-2024 Business Plan confirms the strategic framework implemented in recent years, validating the industrial foundations of the centrality and importance of our customers, the energy transition, resource sustainability and technological revolution. The objective of the plan is to strengthen the Group's industrial profile, investing in growth, in process efficiency and in operating excellence, in order to maintain a central role while consolidating our position in the sector. To that end, projects were added to the plan that were viewed as optional the previous year, increasing by 10% the total value of investments, bringing them to € 3.3 billion."*

STRATEGY

The growth strategy undertaken by Iren for the coming years is influenced by the main trends expected through 2030, identified in the business plan issued the previous year and confirmed in the current plan, specifically the energy transition, the centrality of customers, sustainable development and the technological revolution. Changes in the rate of acceleration for various trends are reflected in the concrete objectives the Group has set for 2024, demonstrating the quality of its strategic structure, based on the following aspects:

- **Customers:** the path undertaken in past years is confirmed with increased vigour, focussed on customers/citizens, through product offerings and new technological services (New Downstream, e-mobility, digital payments).
- **Organic Growth:** € 200 million, mainly generated by integrated water services, development of waste treatment structures, growth of the customer base, district heating and participation in gas tenders.
- **Efficiency:** the positive trend seen in recent years (€ 200 million of synergies since 2010) will continue, although with a progressive reduction in the target with respect to previous years, showing the typical downward trend in synergies post-merger and also reflecting achievement of objectives earlier than expected. The plan sets a

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target of € 62 million in synergies for 2024, mainly to be obtained through the successful completion of performance improvement objectives.

- **Sustainability:** Iren's commitment to protect the environment and fight climate change is made concrete through the circular economy, minimising resource consumption, decarbonisation and the creation of increasingly resilient cities, through the services it offers and products with lower environmental impact.
- **People:** management of people goes hand in hand with the Group's transformation, with a heavy focus on developing skills, through training and retraining programmes, professional growth and incentive tools. A continuation of the generational turnover is expected, thanks to the addition of new resources in amounts that exceed those expected to leave.
- **Digitalisation:** the commitment to technological change and digitalisation of Group processes will be made concrete through the creation of transversal IT platforms, with the goal of creating a company even more focussed on optimal use of the data it handles.

INVESTMENT PLAN

The new business plan provides for increased **investments**, leading to a total of around **€ 3.3 billion** (+10% with respect to the previous business plan).

Two thirds of the investments planned, or € 2 billion, are aimed at **regulated sectors**, to strengthen, modernise and digitalise network services, with a particular focus on the depuration plants in the Liguria area, on electronic gas, water and electricity meters, network resilience, loss reduction and finally on increasing technical quality.

The remaining third, or € 1.3 billion, are **development investments** intended to support Group growth and mainly involve the waste management sector through the development of sorting and treatment plants, extending district heating networks, gas tenders for minimum territorial areas and smart solution and digitalisation projects.

In terms of **sustainability**, around € 2 billion is aimed at projects which serve to reach the commitments made with regards to the SDGs set by the United Nations. The focus is mainly on four areas: use of water resources, the circular economy, decarbonisation and resilient cities.

Over € 350 million are destined for **digitalisation** projects for all company areas, with the goal of increasing efficiency and streamlining the entire organisation, providing high value added services to customers and citizens.

The average annual amount provided for in the investment plan is around € 550 million, slightly higher during the first three years due to the effect of gas tenders, the creation of

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environmental plans and digital development projects. 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.

FINANCIAL/ECONOMIC OBJECTIVES

		2018	2022	2024	Cagr '18-'24
EBITDA	M€	866 ⁽¹⁾	980	1,070	3.6%
<i>Networks</i>	M€	342	406	451	4.7%
<i>Waste Management</i>	M€	155	189	199	4.3%
<i>Energy (generation, DH, energy efficiency)</i>	M€	265	247	261	-0.3%
<i>Market</i>	M€	98	136	156	8.1%
<i>Technological services</i>	M€	6	2	3	n.s.
EBIT	M€	430 ⁽¹⁾	460	520	3.2%
Group net profit	M€	206 ⁽²⁾	270	300	6.5%
Net financial position/EBITDA	x	2.8	3.0	2.4	-
Net financial position	M€	2,557 ⁽³⁾	2,900	2,600	-
Average cost of debt	%	2.7	2.0	2.0	-
Dividend per share	euro cents	8.4	12.3	14.9	-

⁽¹⁾ Net of positive one-offs seen in 2018, totalling € 101 million.

⁽²⁾ Adjusted figure considering the positive effects registered on the EBITDA, the impact generated by OLT and the corresponding estimated effects on taxes. Reported net profit of € 242 million.

⁽³⁾ Adjusted figure, considering the effects of accounting standard IFRS 16. Reported NFP of € 2,453 million.

DIVIDEND POLICY

The Business Plan continues with the dividend policy announced the previous year, which forecasts a constant increase in the dividend of 10% annually.

As of 2019, an average **pay-out ratio** of around 50% is forecast. This remuneration is compatible with maintaining an investment grade rating (Fitch rating of BBB). The pay-out ratio forecasted for 2022, of 60%, is consistent with the decline in investments planned for the last two years of the business plan.

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** of around € 1 billion: focussed on participation in gas tenders and developing district heating in new areas, repowering Turbigio and other hydroelectric plants, on plans to increase the flexibility of electricity production plants, create additional waste treatment plans and increase the customer base;
- **external growth options:** both through small and medium M&A transactions, for additional EBITDA of € 100 million, supported by market fragmentation and consolidation experience, and through significant transactions thanks to the business model developed over the years and improvement in financial ratios.

FOCUS ON BUSINESS UNITS

Significant EBITDA growth (€ +200 million over the course of the plan), despite the expiration of Green Certificates and the normalization of 2018 extraordinary hydroelectric production (€ 50 million) and White Certificates (€ 20 million) is achieved through positive contributions from all business units. The greatest support for growth is provided by regulated activities, in particular integrated water services.

NETWORKS

The **investment** plan provides for almost € 1.4 billion to increase the efficiency and quality of services, with significant growth in RAB of € 2.9 billion in 2024. 56% of investments aimed at networks are focussed on integrated water services, to improve efficiency thanks to investments in depuration plants, the use of smart meters and the enhancement, districting and permanent monitoring of the network, with consequent decreases in water loss.

The 2019-2024 business plan provides for the awarding of tenders in all the areas in which Iren is the incumbent, as well as possible participation in additional tenders in the Group's areas of reference, 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 planned will make it possible to achieve **EBITDA** of € 451 million in 2024 (€ +100 million with respect to 2018).

WASTE MANAGEMENT

The circular economy continues to be the guiding star for the environmental sector which, through development of new treatment plants (plastic, paper, organic and wood) aims to increase waste treated in owned plants by 60% to 2.4 million tonnes, against an increase in waste managed of 3 million tonnes by the end of the plan. Self-sufficiency in closing the waste cycle will occur, not only thanks to 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 associated environmental impact and supporting Iren's commitment to increase recycling (over 70% in 2024).

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Another Group objective is to maintain the concessions it currently holds and which will be up for tender by 2020. In addition, possible optional strategic transactions are currently being assessed, not currently part of the Plan.

The **investments** necessary to achieve **EBITDA** of € 199 million by 2024 (€ +50 million with respect to 2018) amount to € 581 million.

ENERGY (GENERATION, DISTRICT HEATING AND ENERGY EFFICIENCY)

The medium-term energy situation will be characterised by, in terms of demand, modest growth in electricity consumption in Italy, due to the combined effects of climate change and electrification and, in terms of supply, continuation of the energy transition with renewables playing a greater role, with a growing need for flexibility and adaptability on the part of thermal power generation.

Margins envisaged for the energy area (around € +70 million) will allow for full recovery at maturity during the period for Green Certificates and the normalization of 2018 extraordinary hydroelectric production (€ 50 million) and White Certificates (€ 20 million) while achieving **EBITDA** of € 261 million by the end of the plan.

Investments planned, totalling € 758 million, are mainly intended to increase the flexibility of plants, to 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 2021. Additional strategic options relative to district heating and renewables are also being assessed, not currently included in the Plan.

Growth is also expected in the **energy efficiency** segment, with Iren Smart Solution achieving EBITDA of around € 10 million by 2024.

MARKET

Iren's commitment to full digitalisation of processes, entering the digital payment world, fully developing the IrenGo offer and increasing NewDownstream products and services has the end goal of further growing the customer base, reaching 2.25 million customers by 2024.

The focus on customers/citizens is made concrete through a multi-channel and multi-business approach with ever more customised offerings, tailored to the customer's actual needs, a focus on the customer experience and a significant push towards innovation and digitalisation through new projects such as PSD2. Digital instruments will also enable the Group to develop sales even outside of its reference areas.

This approach, supported by € 268 million **investments** and by hedging actions that will make it possible to overcome the effects of volatility in the coming years, will enable to achieve **EBITDA** of € 156 million.

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