

Iren S.p.A.

The rating affirmation reflects Fitch Ratings' view of Iren S.p.A.'s updated business plan for 2020-2024, which continues to focus on regulated and quasi-regulated activities that would contribute more than 70% of EBITDA by the end of the plan.

Fitch considers Iren solidly placed for a 'BBB' rating, with funds from operations (FFO) adjusted net leverage averaging around 4.5x throughout its business plan, notwithstanding increased capex (EUR3.3 billion for 2019-2024, up 10% on the previous plan) and additional investment in a new generation plant in Turbigio. After a partial cash-in in 2019, the company will receive the bulk of the around EUR345 million total proceeds from the sale of Offshore LNG Toscana (OLT) during 2020.

Key Rating Drivers

Solid Business Mix : In the updated business plan, Iren's investments and business mix will remain fairly defensive, with regulated activities (electricity, gas and water distribution, waste collection) estimated to contribute around 47% of EBITDA, and quasi-regulated activities (district heating, waste-to-energy, incentives and capacity market) representing an additional 27%.

Healthy Leverage: The cash-in related to the OLT sale has had a positive impact on FFO adjusted net leverage. It also made Iren's 3.0x net debt/EBITDA target more conservative, since the financial receivables towards OLT, which will be repaid, was previously netted from debt. In our estimates, notwithstanding our more cautious assumptions on the environment, generation and supply business than management as well as the inclusion of around EUR50 million of bolt-on M&A per year, the resulting leverage is solidly positioned in our 'BBB' sensitivities.

Potential Growth Outside Business Plan: The updated business plan does not include non-organic growth. However, the management has said it aims to achieve incremental EBITDA of around EUR100 million derived from relative small M&A opportunities as recently confirmed by the conditional offers for Sidigas gas supply division and I.Blu waste business. Iren has further identified growth capex of around EUR1 billion not included in the plan, signalling healthy organic growth opportunities outside the plan's boundaries.

Large M&A Possible: Following the recent Sorgenia bid, we believe that Iren could opportunistically consider some large M&A transactions that would accelerate growth, even at the expense of moderately diluting the company's regulated business mix. However, Fitch takes into account the management's record of financial discipline and believes that the company will pursue additional growth opportunities broadly within its internal leverage target and without impairing the quality of its business mix.

Supportive Regulatory Developments: Iren's electricity, gas and water distribution businesses are regulated by the independent authority ARERA and operate under concessions. All of these activities bring little to no volume risk. Fitch deems the regulatory framework in Italy as one of the most mature and transparent in Europe, with tariffs set by the authority to cover depreciation and operating costs while ensuring a commensurate return on investments within the regulatory asset base (RAB).

Ratings

Rating Type	Rating	Outlook	Last Rating Action
Long-Term IDR	BBB	Stable	Affirmed 27 January 2020

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Amendment

This report, originally published on 7 February 2020, has been amended to update the liquidity table on page 5. All other content is as of the original publication date.

Applicable Criteria and Related Research

[Sector Navigators \(March 2018\)](#)
[Corporate Rating Criteria \(February 2019\)](#)
[Corporates Notching and Recovery Ratings Criteria \(October 2019\)](#)

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Waste Now Regulated: The inclusion of waste collection into ARERA's scope of regulation is a positive development, given that similar frameworks could be extended in the near future to waste disposal and treatment activities that are currently excluded from our definition of regulated businesses. This could result in the current operating expenditure not being entirely included in the allowed cost base, negatively affecting the profitability of some of Iren's contracts.

However, we expect ARERA's regulation to enhance long-term sector visibility and potentially support profitable investment opportunities, as was the case in the water distribution sector.

Water New Regulatory Period: The third regulatory period (2020-2023) has been formalised in broad continuity with the past, notwithstanding continuous political scrutiny within the water distribution business. The updated regulation includes a tariff cap differentiated for operating costs as well as revenues per customer, a regulator convergence scheme for inefficient operators, and a clear framework for implementing critical, long-term investment.

Overall we expect such additions to be broadly neutral for Iren, which we view as being firmly positioned to outperform on technical and contractual quality standards.

Gas New Regulatory Period: In the gas distribution sector, the publication of the fifth regulatory period provides long-term visibility until 2025. However, we expect the material haircut to the initial allowed operating expenditure and the increase in x- factor of 3.7% to put pressure on operating profitability. This will only be partially balanced by the foreseen capex standardisation, which envisages the potential for Iren to outperform small companies, along with a shortening of the period for smart meter payback and unchanged gearing for distribution activities.

Increasing Visibility in Generation: Electricity prices in Italy fell to an average of around EUR52/MWh in 2019 from EUR61/MWh in 2018, mirroring gas price trends, while demand was broadly stable and renewables additions were limited. In the next two years, current forwards are pointing to a stabilisation at around low mid-EUR50/MWh, but longer visibility for conventional generation's margins is granted by the fixed remuneration entrenched in the capacity market mechanism, which we consider as a quasi-regulated stream of income.

Iren participated in auctions for a large part of its existing capacity (1,800MW) for 2022-2023 and for the Turbigio revamp (150MW) for new capacity. Our base assumption is for future auctions to follow a similar mechanism.

Financial Summary

(EURm)	Dec 2017	Dec 2018	Dec 2019F	Dec 2020F	Dec 2021F
Gross revenue	3,697	3,940	4,399	3,947	4,034
Operating EBITDA (before income from associates)	820	866	909	894	929
Free cash flow	112	103	-39	-245	-166
FFO fixed-charge coverage (x)	4.1	5.5	6.0	8.9	10.3
FFO adjusted net leverage (x)	4.5	4.6	4.6	4.6	4.6

Source: Fitch Ratings, Fitch Solutions

Rating Derivation Relative to Peers

Iren has a comparable business profile to other Italian multi-utilities rated by Fitch, such as Acea S.p.A. (BBB+/Stable), Alperia S.p.A. (BBB/Stable) as well as to international peers, such as Energias de Portugal (EDP; BBB-/Stable). For Acea the rating differential reflects the higher contribution of fully regulated activities (around 75% versus 45%) and slightly lower leverage. Alperia has a lower debt capacity (FFO adjusted net leverage between 3.0x and 3.7x) than Iren, due to a lower contribution of regulated and quasi-regulated activities (35%-40%), partially offset by a 100% fuel cost-free asset base. EDP has a lower rating, notwithstanding similar leverage metrics and its larger size, due to its lower share of regulated activities in the overall business mix.

Navigator Peer Comparison

Issuer	Business profile										Financial profile								
	IDR/Outlook	Operating Environment	Management and Corporate Governance		Position and Cash Flow Profile		Regulation	Market Trends and Risks		Asset Base and Operations	Profitability and Cash Flow		Financial Structure	Financial Flexibility					
Alperia SpA	BBB/Sta	bbb+		bbb		bbb		a-		bbb		a-		bbb+		a-			
C.V. A. S.p.A. a s.u.	BBB+/Sta	bbb+		bbb+		bbb		a-		bbb		a-		bbb+		a		a+	
EDP	BBB-/Sta	a-		a-		bbb		bbb		bbb		a-		bbb		bbb-		bbb-	
Iren S.p.A.	BBB/Sta	bbb+		bbb+		a-		bbb+		bbb-		bbb+		bbb+		bbb-		a-	

Source: Fitch Ratings.

Importance: Higher Moderate Lower

Name	IDR/Outlook	Business profile										Financial profile							
		Operating Environment	Management and Corporate Governance		Position and Cash Flow Profile		Regulation	Market Trends and Risks		Asset Base and Operations	Profitability and Cash Flow		Financial Structure	Financial Flexibility					
Alperia SpA	BBB/Sta	1.0		0.0		0.0		2.0		0.0		2.0		-1.0		1.0		2.0	
C.V. A. S.p.A. a s.u.	BBB+/Sta	0.0		0.0		-1.0		1.0		-1.0		1.0		0.0		2.0		3.0	
EDP	BBB-/Sta	3.0		3.0		1.0		1.0		1.0		3.0		1.0		0.0		0.0	
Iren S.p.A.	BBB/Sta	1.0		1.0		2.0		1.0		-1.0		1.0		1.0		-1.0		2.0	

Source: Fitch Ratings.

Worse positioned than IDR In line with IDR Better positioned than IDR

Rating Sensitivities

Developments That May, Individually or Collectively, Lead to Positive Rating Action

- FFO adjusted net leverage declining below 4.3x (2018: 4.6x), FFO interest coverage sustained above 5.0x, assuming unchanged business risk profile and positive free cash flow (FCF).

Developments That May, Individually or Collectively, Lead to Negative Rating Action

- FFO adjusted net leverage above 5.0x, FFO interest coverage below 4.0x over a sustained period, for instance as a result of lower-than-expected operating cash flows and lack of capex and dividend adjustment. Growing exposure to unregulated activities, upward revision to Iren's dividend policy or material debt-funded acquisitions beyond those already considered.
- Material changes in water regulation, which could lead to a revision of our rating sensitivities

Liquidity and Debt Structure

Healthy Liquidity Profile: Iren's liquidity profile has strengthened in recent months, due to two medium-term sustainability-linked revolving credit facilities in June 2019 totaling EUR150 million, a new "Climate Action & Circular Economy" loan agreement with the European Investment Bank (EIB) in July 2019 for EUR120 million and a EUR500 million bond issuance in October 2019.

At 30 September 2019, Iren had readily available cash of EUR138 million and undrawn committed lines of EUR425 million, compared with short-term debt of EUR189 million and expected broadly neutral FCF for the following 12 months.

Liquidity and Debt Maturity Scenario with No Refinancing

Iren S.p.A. - Base Case (including Turbigo)

Available liquidity (EURm)	2019F	2020F	2021F
Beginning cash balance	380	389	176
Rating case FCF after acquisitions and divestitures	-113	42	-216
EMTN bond - October 2019 - maturity 10 years - coupon 0.875%	500	-	-
Total available liquidity (A)	767	431	-40
Liquidity uses			
Debt maturities	-378	-255	-247
Total liquidity uses (B)	-378	-255	-247
Liquidity calculation			
Ending cash balance (A+B)	3893	176	-287
RCF	150	150	150
BEI	275	275	275
Ending liquidity	539	326	-137
Liquidity score (x)	3.2	3.4	1.6

Source: Fitch Ratings, Fitch Solutions, Iren

Scheduled debt maturities	Original
Statement date	31 December 2018
2019	378
2020	255
2021	247
2022	439
Thereafter	2,015
Total	3,334

Source: Fitch Ratings, Fitch Solutions, Iren

Key Assumptions

Fitch's key assumptions within our rating case for the issuer include:

- EBITDA growing at a CAGR of around 3.6% in 2018-2024 at current business scope, mainly driven by networks, environment and market divisions
- Electricity prices broadly stable at around EUR54/MWh and inclusion of capacity market auction for 2022-2024;
- Annual capex of almost EUR600 million on average (including Turbigio new re-powering investment)
- Additional organic investments (not included in the company's business plan) worth EUR50 million a year in 2020-2024 with an increasing EBITDA contribution from EUR5 million to EUR25 million a year

Financial Data

(EURm)	Historical			Forecast		
	Dec 2016	Dec 2017	Dec 2018	Dec 2019F	Dec 2020F	Dec 2021F
Summary income statement						
Gross revenue	3,283	3,697	3,940	4,399	3,947	4,034
Revenue growth (%)	6.1	12.6	6.6	11.7	-10.3	2.0
Operating EBITDA (before income from associates)	800	820	866	909	894	929
Operating EBITDA margin (%)	24.4	22.2	22.0	20.7	22.6	23.0
Operating EBITDAR	810	830	875	918	896	931
Operating EBITDAR margin (%)	24.7	22.4	22.2	20.9	22.7	23.1
Operating EBIT	496	498	511	462	428	437
Operating EBIT margin (%)	15.1	13.5	13.0	10.5	10.8	10.8
Gross interest expense	-134	-91	-122	-108	-75	-71
Pretax income (including associate income/loss)	303	369	389	384	375	387
Summary balance sheet						
Readily available cash and equivalents	261	179	380	416	258	222
Total debt with equity credit	3,250	3,129	3,375	3,577	3,397	3,603
Total adjusted debt with equity credit	3,410	3,253	3,512	3,674	3,420	3,626
Net debt	2,989	2,950	2,995	3,161	3,139	3,382
Summary cash flow statement						
Operating EBITDA	800	820	866	909	894	929
Cash interest paid	-137	-158	-114	-108	-75	-71
Cash tax	-101	-123	-129	-134	-120	-122
Dividends received less dividends paid to minorities (inflow/(out)flow)	-9	-6	-19	-41	-25	-19
Other items before FFO	-76	-18	-49	-40	-59	-44
Funds flow from operations	493	531	570	616	637	695
FFO margin (%)	15.0	14.4	14.5	14.0	16.1	17.2
Change in working capital	-18	19	70	40	-6	13
Cash flow from operations (Fitch defined)	475	549	641	656	631	708
Total Non-operating/non-recurring cash Flow	0	0	0			
Capital expenditure	-270	-357	-447			
Capital intensity (capex/revenue) %	8.2	9.7	11.4			
Common dividends	-70	-80	-91			
Free cash flow	135	112	103			
Net acquisitions and divestitures	0	0	0			
Other investing and financing cash flow items	-480	-54	-138	-27	-23	-27
Net debt proceeds	458	-105	164	202	-180	206
Net equity proceeds	0	0	53	-26	4	0
Total change in cash	114	-47	181	36	-158	-37
Calculations for forecast publication						
Capex, dividends, acquisitions and other Items before FCF	-340	-437	-538	-768	-589	-924
Free cash flow after acquisitions and divestitures	135	112	103	-113	42	-216
Free cash flow margin (after net acquisitions) (%)	4.1	3.0	2.6	-2.6	1.1	-5.4
Coverage ratios						
FFO interest coverage (x)	4.5	4.3	5.9	6.5	9.2	10.6
FFO fixed-charge coverage (x)	4.3	4.1	5.5	6.0	8.9	10.3
Operating EBITDAR/interest paid + rents (x)	5.5	4.9	7.0	7.5	11.3	12.6
Operating EBITDA/interest paid (x)	5.8	5.2	7.5	8.1	11.5	12.9
Leverage ratios						
Total adjusted debt/operating EBITDAR (x)	4.3	4.0	4.1	4.2	3.9	4.0
Total adjusted net debt/operating EBITDAR (x)	3.9	3.7	3.7	3.7	3.6	3.7
Total debt with equity credit/operating EBITDA (x)	4.1	3.8	4.0	4.1	3.9	4.0
FFO adjusted leverage (x)	5.5	4.8	5.2	5.2	4.9	4.9
FFO adjusted net leverage (x)	5.0	4.5	4.6	4.6	4.6	4.6

Source: Fitch Ratings, Fitch Solutions

How to Interpret the Forecast Presented

The forecast presented is based on Fitch Ratings' internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch Ratings to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch Ratings' rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch Ratings' forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch Ratings' own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch Ratings' own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch Ratings may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch Ratings' own internal deliberations, where Fitch Ratings, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch Ratings may update the forecast in future reports but assumes no responsibility to do so. Original financial statement data for historical periods is processed by Fitch Solutions on behalf of Fitch Ratings. Key financial adjustments and all financial forecasts credited to Fitch Ratings are generated by rating agency staff.

Ratings Navigator

Factor Levels	Business Profile										Financial Profile		Issuer Default Rating
	Sector Risk Profile	Operating Environment	Management and Corporate Governance	Position and Cash Flow Profile	Regulation	Market Trends and Risks	Asset Base and Operations	Profitability and Cash Flow	Financial Structure	Financial Flexibility			
aaa													AAA
aa+													AA+
aa													AA
aa-													AA-
a+													A+
a													A
a-													A-
bbb+													BBB+
bbb													BBB
bbb-													BBB-
bb+													BB+
bb													BB
bb-													BB-
b+													B+
b													B
b-													B-
ccc+													CCC+
ccc													CCC
ccc-													CCC-
cc													CC
c													C
d or rd													D or RD

Operating Environment

a-	Economic Environment	bbb	Average combination of countries where economic value is created and where assets are located.
bbb+	Financial Access	a	Strong combination of issuer-specific funding characteristics and the strength of the relevant local financial market.
	Systemic Governance	bbb	Systemic governance (eg rule of law, corruption, government effectiveness) of the issuer's country of incorporation consistent with 'bbb'.
b-			
ccc+			

Position and Cash Flow Profile

a+	Market Presence and Integration	bbb	Top-tier position in at least one market. Partially integrated (typically including generation, distribution and supply).
a	Earnings from Regulated Network Assets	a	40%-75% of EBITDA comes from high-quality regulated network assets.
a-	Quasi-Regulated Earnings	a	Over 20% of EBITDA comes from quasi-regulated assets in markets or from long-term contracted sales with creditworthy counterparties.
bbb+			
bbb			

Market Trends and Risks

bbb+	Fundamental Market Trends	bb	Markets with structural challenges.
bbb	Generation and Supply Positioning	bbb	Average position in the merit order; short term hedging. Generation largely balanced with medium position in supply and services.
bbb-	Customer Base and Counterparty Risk	bbb	Economy of area served provides structurally stable background; medium counterparty risk; fair collection rates for supply operations.
bb+			
bb			

Profitability and Cash Flow

a	Free Cashflow	bbb	Structurally neutral to negative FCF across the investment cycle.
a-	Volatility of Profitability	bbb	Stability and predictability of profits in line with utility peers.
bbb+			
bbb			
bbb-			

Financial Flexibility

a+	Financial Discipline	a	Clear commitment to maintain a conservative policy with only modest deviations allowed.
a	Liquidity	bbb	One-year liquidity ratio above 1.25x. Well-spread debt maturity schedule but funding may be less diversified.
a-	FFO Fixed Charge Cover	a	5.0x
bbb+	FX Exposure	aa	No material FX mismatch.
bbb			

How to Read This Page: The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

Management and Corporate Governance

a	Management Strategy	bbb	Strategy may include opportunistic elements but soundly implemented.
a-	Governance Structure	bbb	Good governance track record but board effectiveness/independence less obvious. No evidence of abuse of power even with ownership concentration.
bbb+	Group Structure	a	Group structure has some complexity but mitigated by transparent reporting.
bbb	Financial Transparency	bbb	Good-quality reporting without significant failings. Consistent with the average of listed companies in major exchanges.
bbb-			

Regulation

a	Regulatory Framework and Policy Risk	bbb	Less transparent frameworks, with emerging track record and multi-year tariffs; exposed to political risk. Medium-term predictability.
a-	Cost Recovery and Risk Exposure	a	Tariff setting that may marginally limit cost and investment recovery, with little regulatory lag, price and volume risk.
bbb+			
bbb			
bbb-			

Asset Base and Operations

a	Asset Quality	bbb	Mid-range asset quality not likely to affect opex and capex requirements compared with peers.
a-	Asset Diversity	a	High diversification by geography, generation source, supplied product; multi-jurisdictional utility or regional multi-utility.
bbb+	Carbon Exposure	bbb	Energy production balanced between clean and thermal sources; medium carbon exposure (< 450gCO2/kWh).
bbb			
bbb-			

Financial Structure

bbb+	Lease Adjusted FFO Gross Leverage	bbb	5.0x
bbb	Lease Adjusted FFO Net Leverage	bbb	4.5x
bbb-			
bb+			
bb			

Credit-Relevant ESG Derivation

				Overall ESG			
Iren S.p.A. has 12 ESG potential rating drivers				key driver	0	issues	5
▶	Emissions from operations			driver	0	issues	4
▶	Fuel use to generate energy			potential driver	12	issues	3
▶	Impact of waste from operations						
▶	Plants' and networks' exposure to extreme weather						
▶	Product affordability and access			not a rating driver	2	issues	2
▶	Quality and safety of products and services; data security						
Showing top 6 issues							
					0	issues	1

For further details on Credit-Relevant ESG scoring, see page 3.

Credit-Relevant ESG Derivation

Iren S.p.A has 12 ESG potential rating drivers

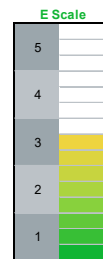
- ➔ Iren S.p.A has exposure to emissions regulatory risk but this has very low impact on the rating.
- ➔ Iren S.p.A has exposure to energy productivity risk but this has very low impact on the rating.
- ➔ Iren S.p.A has exposure to waste & impact management risk but this has very low impact on the rating.
- ➔ Iren S.p.A has exposure to extreme weather events but this has very low impact on the rating.
- ➔ Iren S.p.A has exposure to access/affordability risk but this has very low impact on the rating.
- ➔ Iren S.p.A has exposure to customer accountability risk but this has very low impact on the rating.

Showing top 6 issues

				Overall ESG Scale
key driver	0	issues	5	
driver	0	issues	4	
potential driver	12	issues	3	
not a rating driver	2	issues	2	
	0	issues	1	

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	3	Emissions from operations	Asset Base and Operations; Profitability and Cash Flow
Energy Management	3	Fuel use to generate energy	Asset Base and Operations; Market Trends and Risks; Profitability and Cash Flow
Water & Wastewater Management	2	Water used by hydro plants or by other generation plants; effluent management	Asset Base and Operations; Market Trends and Risks; Profitability and Cash Flow
Waste & Hazardous Materials Management; Ecological Impacts	3	Impact of waste from operations	Asset Base and Operations; Profitability and Cash Flow
Exposure to Environmental Impacts	3	Plants' and networks' exposure to extreme weather	Asset Base and Operations; Profitability and Cash Flow



How to Read This Page

ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

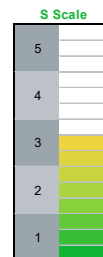
The **Environmental (E), Social (S) and Governance (G)** tables break out the individual components of the scale. The left-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The **Credit-Relevant ESG Derivation table** shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the [number of] general ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector and sub-sector ratings criteria and the General Issues and the Sector-Specific Issues have been informed with SASB's Materiality Map.

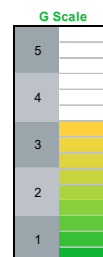
Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	3	Product affordability and access	Profitability and Cash Flow; Regulation
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Quality and safety of products and services; data security	Profitability and Cash Flow
Labor Relations & Practices	3	Impact of labor negotiations and employee (dis)satisfaction	Profitability and Cash Flow; Financial Structure; Financial Flexibility
Employee Wellbeing	2	Worker safety and accident prevention	Profitability and Cash Flow; Financial Structure; Financial Flexibility
Exposure to Social Impacts	3	Social resistance to major projects that leads to delays and cost increases	Asset Base and Operations; Profitability and Cash Flow



Governance (G)

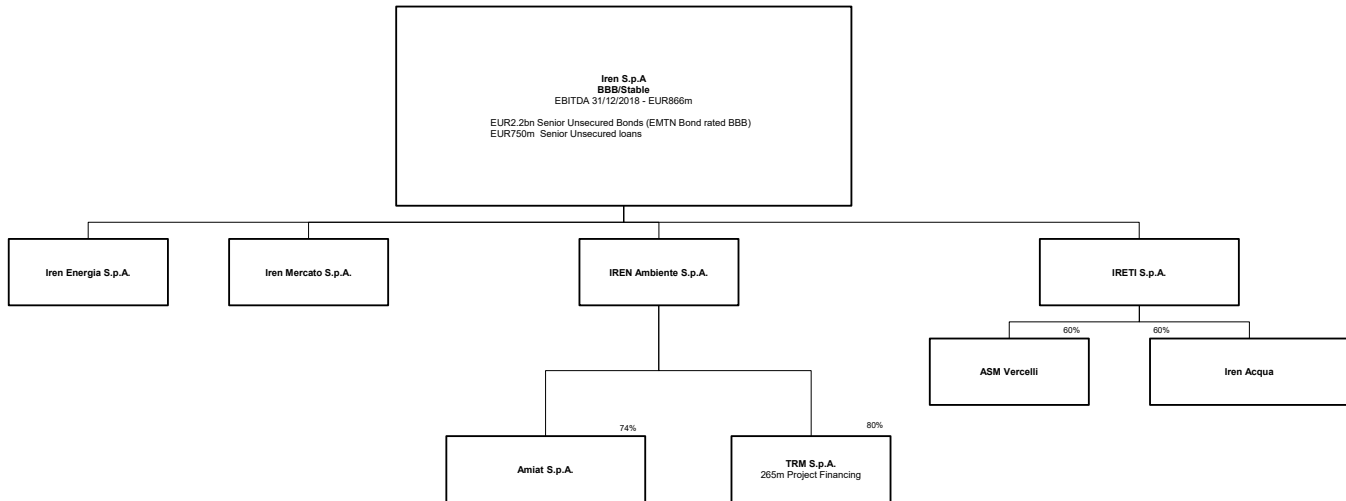
General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance
Governance Structure	3	Board independence and effectiveness; ownership concentration	Management and Corporate Governance
Group Structure	3	Complexity, transparency and related-party transactions	Management and Corporate Governance
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance



CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?	
5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "low er" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Simplified Group Structure Diagram



Source: Fitch Ratings, Fitch Solutions, Iren, as at 30 September 2019

The 74% stake of Amiat S.p.A. held by Iren Ambiente S.p.A. derives from a stake of 93.06% owned by Iren Ambiente S.p.A. in Amiat V S.p.A., which in turn owns 80% of Amiat S.p.A.

Peer Financial Summary

Company	IDR	Financial statement date	Gross revenue (EURm)	Operating EBITDA (before income from associates) (EURm)	Free cash flow (EURm)	FFO fixed-charge coverage (x)	FFO adjusted net leverage (x)
Iren S.p.A.	BBB						
	BBB	2018	3,940	866	103	5.5	4.6
	BBB	2017	3,697	820	112	4.1	4.5
	BBB-	2016	3,283	800	135	4.3	5.0
Alperia SpA	BBB						
	BBB	2018	1,272	198	8	9.5	2.6
	BBB	2017	1,124	150	100	9.1	2.9
		2016	1,224	156	-4	6.7	4.1
C.V. A. S.p.A. a s.u.	BBB+						
	A-	2018	845	138	24	74.7	1.1
	A	2016	1,043	116	57	13.4	-0.4
	A	2015	1,145	156	39	18.4	0.4
EDP - Energias de Portugal, S.A.	BBB-						
	BBB-	2018	15,278	3,287	-198	4.0	4.8
	BBB-	2017	15,746	3,523	-1,184	3.0	5.3
	BBB-	2016	14,595	3,698	315	3.1	5.5
Acea SpA	BBB+						
	BBB+	2018	3,029	890	-80	6.9	4.2
	BBB+	2017	2,797	813	-366	6.7	4.5
	BBB+	2016	2,832	756	-160	6.0	3.9

Source: Fitch Ratings, Fitch Solutions

Reconciliation of Key Financial Metrics

Reconciliation of Key Financial Metrics for Iren S.p.A.

(EUR Millions, As reported)	31 Dec 2018
Income Statement Summary	
Operating EBITDA	866
+ Recurring Dividends Paid to Non-controlling Interest	0
+ Recurring Dividends Received from Associates	-19
+ Additional Analyst Adjustment for Recurring I/S Minorities and Associates	0
= Operating EBITDA After Associates and Minorities (k)	847
+ Operating Lease Expense Treated as Capitalised (h)	9
= Operating EBITDAR after Associates and Minorities (j)	856
Debt & Cash Summary	
Total Debt with Equity Credit (l)	3,375
+ Lease-Equivalent Debt	71
+ Other Off-Balance-Sheet Debt	66
= Total Adjusted Debt with Equity Credit (a)	3,512
Readily Available Cash [Fitch-Defined]	380
+ Readily Available Marketable Securities [Fitch-Defined]	0
= Readily Available Cash & Equivalents (o)	380
Total Adjusted Net Debt (b)	3,132
Cash-Flow Summary	
Preferred Dividends (Paid) (f)	0
Interest Received	15
+ Interest (Paid) (d)	-114
= Net Finance Charge (e)	-99
Funds From Operations [FFO] (c)	570
+ Change in Working Capital [Fitch-Defined]	70
= Cash Flow from Operations [CFO] (n)	641
Capital Expenditures (m)	-447
Multiple applied to Capitalised Leases	8.0
Gross Leverage	
Total Adjusted Debt / Op. EBITDAR* [x] (a/j)	4.1
FFO Adjusted Gross Leverage [x] (a/(c-e+h-f))	5.2
Total Adjusted Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)	
Total Debt With Equity Credit / Op. EBITDA* [x] (l/k)	4.0
Net Leverage	
Total Adjusted Net Debt / Op. EBITDAR* [x] (b/j)	3.7
FFO Adjusted Net Leverage [x] (b/(c-e+h-f))	4.6
Total Adjusted Net Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)	
Total Net Debt / (CFO - Capex) [x] ((l-o)/(n+m))	15.5
Coverage	
Op. EBITDAR / (Interest Paid + Lease Expense)* [x] (j/-d+h)	7.0
Op. EBITDA / Interest Paid* [x] (k/(-d))	7.5
FFO Fixed Charge Cover [x] ((c+e+h-f)/(-d+h-f))	5.5
(FFO + Net Finance Charge + Capit. Leases - Pref. Div Paid) / (Gross Int. Paid + Capit. Leases - Pref. Div. Paid)	
FFO Gross Interest Coverage [x] ((c+e-f)/(-d-f))	5.9
(FFO + Net Finance Charge - Pref. Div Paid) / (Gross Int. Paid - Pref. Div. Paid)	
* EBITDA/R after Dividends to Associates and Minorities	
Source: Fitch Ratings, Fitch Solutions, Iren	

Fitch Adjustment Reconciliation

	Reported Values	Sum of Fitch Adjustments	Preferred Dividends, Associates and Minorities Cash Adjustments	Cash Adjustment	CORP - Lease Treatment	Other Adjustment	Adjusted Values
	31 Dec 18						
Income Statement Summary							
Revenue	4,041	-101				-101	3,940
Operating EBITDAR	967	-92			9	-101	875
Operating EBITDAR after Associates and Minorities	967	-111	-19		9	-101	856
Operating Lease Expense	0	9			9	-0	9
Operating EBITDA	967	-101				-101	866
Operating EBITDA after Associates and Minorities	967	-120	-19			-101	847
Operating EBIT	612	-101				-101	511
Debt & Cash Summary							
Total Debt With Equity Credit	3,375	0					3,375
Total Adjusted Debt With Equity Credit	3,375	137			137		3,512
Lease-Equivalent Debt	0	71				71	71
Other Off-Balance Sheet Debt	0	66			66		66
Readily Available Cash & Equivalents	369	11		11			380
Not Readily Available Cash & Equivalents	0	0					0
Cash-Flow Summary							
Preferred Dividends (Paid)	0	0					0
Interest Received	15	0					15
Interest (Paid)	-114	0					-114
Funds From Operations (FFO)	682	-112	-19			-93	570
Change in Working Capital [Fitch-Defined]	-3	74			-20	93	70
Cash Flow from Operations (CFO)	679	-38	-19		-20		641
Non-Operating/Non-Recurring Cash Flow	0	0					0
Capital (Expenditures)	-447	0					-447
Common Dividends (Paid)	-91	0					-91
Free Cash Flow [FCF]	141	-38	-19		-20	-0	103
Gross Leverage							
Total Adjusted Debt / Op. EBITDAR* [x]	3.5						4.1
FFO Adjusted Leverage [x]	4.3						5.2
Total Debt With Equity Credit / Op. EBITDA* [x]	3.5						4.0
Net Leverage							
Total Adjusted Net Debt / Op. EBITDAR* [x]	3.1						3.7
FFO Adjusted Net Leverage [x]	3.8						4.6
Total Net Debt / (CFO - Capex) [x]	13.0						15.5
Coverage							
Op. EBITDAR / (Interest Paid + Lease Expense)* [x]	8.5						7.0
Op. EBITDA / Interest Paid* [x]	8.5						7.5
FFO Fixed Charge Coverage [x]	6.9						5.5
FFO Interest Coverage [x]	6.9						5.9

*EBITDAR after Dividends to Associates and Minorities

Source: Fitch Ratings, Fitch Solutions, Iren

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