# Create value

[GRI 2-6, 2-23, 3-3, 201-1, 201-2, 201-4, 202-2, 203-2, 207-1, 207-2, 207-3, 207-4, G4-EU10]

The Group's objective is to grow sustainably to ensure resilience and competitiveness and to continue to generate value for stakeholders. The Board of Directors is responsible for sustainable development through the definition of strategies, objectives, action plans and the allocation of investments. The Group's Business Units and Departments are responsible for achieving the objectives of the Business Plan by deploying the human and economic resources provided for in the plan.

## Growth and value creation for the company and stakeholders

### Risks

- Failure to achieve the objectives and targets (economic-financial and ESG) set out in the Business Plan and consequent negative impacts (operating, economic, financial and reputational)
- Reduction in value distributed to stakeholders and direct and indirect economic impacts
- Negative ratings or downgrading in ratings
- Loss of business opportunities related to sustainable development in business sectors
- Ineffective performance communication

### Opportunities

- Business opportunities related to green transition, circular economy, local area and technological and digital evolution
- Access to sustainable finance instruments
- Increased value distributed to stakeholders and direct and indirect economic impacts

### Management methods

- Planning and monitoring of objectives and targets (economic/financial and ESG) of the Business Plan and Sustainable Financing Framework
- Code of Ethics
- ERM system integrated with ESG topics
- Planning and structured financial management for return on investment
- Adoption of sustainable finance tools to support the development strategy
- Sustainable Finance Committee
- Structured traditional investor relationship system and ESG
- Policy for Managing Dialogue with Shareholders and Investors
- Local Committees
- Transparent performance communications

Compared to 2022, Iren Group's economic results show a decrease in revenues (-17.5%), mainly due to the drop in energy commodity prices and the related quantities sold, also in relation to a mild thermal season and lower consumption for industrial use. The drop in turnover was partly offset by the development of energy efficiency and building requalification activities, favoured by tax breaks, and perimeter changes (Sei Toscana and Acquaenna).

The gross operating margin (EBITDA) increased by 13.5%, mainly due to the particularly positive results achieved by the Market Business Unit, while Group profit increased by 12.8%.

| Economic indicators | u.m. | 2023 | 2022 |
|---|---|---|---|
| Revenue | €/mln | 6,490 | 7,863 |
| Gross Operating Margin | €/mln | 1,197 | 1,055 |
| Operating profit (EBIT) | €/mln | 465 | 464 |
| Profit attributable to the Group | €/mln | 255 | 226 |
| Total capitalisation | €/mln | 2,532 | 1,898 |
| Dividend per share | € | 0.1188[(1)] | 0.110 |

[(1)] Dividend proposed by the Board of Directors

Net financial debt as of 31 December 2023 amounted to 3,932 million Euro, compared to 3,347 million Euro as of 31 December 2022, after technical investments of 867 million Euro, slightly down from 898 million Euro in the financial year 2022, characterised by environmental sustainability and focus on territories (electricity grids, gas and water cycle).

## Investments

| Technical investments (millions of Euro) | 2023 | 2022 |
|---|---|---|
| Generation and district heating | 129.8 | 224.6 |
| Networks (electricity, gas, water cycle) | 356.4 | 327.7 |
| Market | 86.3 | 79.4 |
| Environmental services | 201.8 | 192.6 |
| Others | 92.3 | 73.9 |
| TOTAL | 866.6 | 898.2 |

The economic-financial performance of the year confirms – thanks to a business portfolio with a prevalence of regulated activities and the composition of investments – a strong focus on developing infrastructures serving the growth of the economic systems of the areas served.

The multi-utility and predominantly regulated business profile ensured the Group's high resilience to the volatile energy and geopolitical scenario. Furthermore, as defined in the Business Plan to 2030, particular attention is confirmed to environmental sustainability, to the improvement of the quality of the service, digital transformation, and innovation in synergy with the companies and institutions of the local areas.

By hiring 1,145 new employees, in 2023, the Group continued a generational turnover and development process, focused on acquiring the skills needed for digital transformation and growth also in new business lines.

## The strategic guidelines, focused on sustainability profiles, guide the planning of the multi-year investments.

These same profiles are part of the principles of the Code of Ethics that Group companies are required to comply with when making investments: creating value and increasing the Group's assets, management and technological values, the return for Shareholders, and the economic and social well-being for employees and the community. In the planning processes, the Group pays particular attention to the variables, emerging from economic and industrial scenarios of the sector, able to guarantee the medium and long-term availability of energy. Scenarios are analysed by **continuously monitoring industrial, economic, financial and sustainable development dynamics**.

In order to plan the development of **energy production capacity**, the Group considers the medium-term scenarios referred to the electricity and gas markets, the evolution of the capacity market, the price of $CO_2$ and Energy Efficiency Certificates. Development investments in district heating networks and regulatory scenarios favouring renewable energies' growth are also taken into account. Maintenance programmes aim to maintain efficiency and prevent breakdowns and are planned to minimise the impact of unavailability on the Group's results.

The energy production facilities of Iren Group are efficient and appropriate in terms of size, thanks to the significant investments in new production capacity and in increasing the efficiency of the existent one. The production capacity planned for 2030, thanks to the investments envisaged in the Business Plan, will also be guaranteed by 2.6 GW of additional installed power for the production of energy from renewable sources (photovoltaic and wind).

In order to ensure that adequate production and reliability standards are maintained, the Group adopts advanced management and maintenance policies (predictive and preventive). It focuses on innovation, both by increasing the efficiency and flexibility of its plants and by developing projects targeted at the energy efficiency of the system (flexibility of combined-cycle plants, management of waste-to-energy plants to seize opportunities of district heating development, installation of heat storage systems, design of mini hydro plants and realisation of photovoltaic plants). In this context, electrical storage systems were created at the Moncalieri and Turbigo power plants which, together with the one already existing at the Turin North power plant, allow to increase the reserve power and producible energy. As far as renewable energy plants are concerned, two photovoltaic parks, with a total capacity of more than 47 MW, and a wind power plant with a capacity of 6 MW came into operation.

**Medium- and long-term gas availability** is planned and ensured through the combined management of several sources: availability of foreign transport capacity that can be used per event, annual availability of seasonal modulation capacity, through contracts or access to storage, wholesale supply contracts and HUB purchase contracts. The combined use of these sources allows for natural gas demand to be met even during particularly severe periods.

Planning is fundamental for guaranteeing the continuity, reliability and security of the **integrated water service**. This objective is overseen by the resource need analysis for the various areas, also in relation to their possible evolution and seasonality, and the attainment of diversion concessions that are proportional to the identified needs. This is complemented by the planning and management of ordinary and unscheduled maintenance, the renovation of plants and networks to contain water and sewer network leaks, the adoption of remote control systems and the automation of plants, an emergency service, analytical checks and treatments to guarantee compliance with the qualitative requirements of the water supplied and the waste discharged from treatment plants.

As far as **waste management** is concerned, at plant level, the production capacities of the Group's plants are assessed and planned in relation to the needs and production of each region. Investment planning is aimed at optimising waste management and closing the cycle, aiming at the maximum recovery of waste in terms of material and energy.

The Group has adopted a planning tool (medium voltage distribution network master plan) to guarantee the reliability of its **electricity distribution** network that defines the renovation, upgrading and extension rules and methods, for the main high-to- medium voltage transformer plants and networks. The renovation and updating plan for the main plants, in addition to the gradual substitution of parts of obsolete plants, includes quality and technical improvements to the grid layout and its adaptation to future load increases. The plan is reviewed and updated in the event that new significant supply requests or reliability and stability issues emerge for the medium voltage network or for the main plants. The management methods are assessed on the basis of the time schedules for the design and implementation of works and in correspondence with technical standards put in place for the construction of new main stations, by verifying and reviewing the projects established in the time schedules. The effectiveness and quality of the interventions carried out are assessed in relation to the performance of the service quality indicators established by the Regulatory Authority for Energy, Networks and Environment (ARERA).

In **gas distribution**, the plan aims to contain leaks, which is the main objective for the safety, quality, efficiency and continuity of service and protection of the environment. Regular ordinary and unscheduled maintenance and the renovation of plants and networks, scheduled searching for leaks, the addition of gas odourants upon receipt by the national transport network, the maintenance of efficient and effective cathodic protection systems and the use of distributed monitoring systems thanks to the remote control, as well as constant supervision of plants and networks by highly qualified and constantly updated staff, all contribute to achieving this objective.

During the planning phase, the Group also analyses the impact of **climate change** scenarios: changes in temperature distributions (chronic physical risks) - which impact the dynamics of gas and heat consumption of district heating, water and electricity - and extremes of weather phenomena (acute physical risks) such as droughts, heat waves, water bombs, floods, cyclones, landslides. In particular, the latter have repercussions on the hydrology of hydroelectric and aqueduct plants, with the related economic implications, and represent aspects of attention due to the consequences that they may have on the Group's assets, on margins, on the availability planning and scheduled maintenance of thermoelectric production plants (for further details on climate risk management, SEE PAGE 62).
The financial or strategic impacts are primarily analysed in the Group's risk map, which is periodically updated and identifies and quantifies all significant impacts on the business SEE PAGE 59.

# Added value

Iren Group produces added value with respect to the external resources employed, thanks to the effective use of production factors, and contributes to the growth of the economic, social and environmental context, producing important effects on the areas in which it operates, in particular, in view of the investments made, the employment generated and the induced activities it carries out.

Investments contribute to improving basic infrastructure (electricity, gas, sewerage and water supply networks, wastewater treatment plants) and essential services (waste collection and disposal), generating positive impacts for the local socio-economic and environmental context. Moreover, all of the business areas present significant opportunities for the development of innovative technologies and processes and, consequently, for territorial growth, also in terms of know-how.

> The impacts generated by Iren Group on the local areas contribute to the growth of the economic, social and environmental context

The Group also contributes to the employment of the area in which it operates and generates added value through actions aimed at increasing professional skills and at consolidating the improvements reached in the level of education.
The Group has no specific local recruitment policy; nevertheless, given the specificity of the Italian labour market, there is a high coincidence between the provinces of residence of employees and their assigned place of work: 78% of executives reside in the same region as their place of work.

> Iren Group generates opportunities for the development of innovative technologies and processes and for the growth of territorial expertise

The indicator that highlights the Group's ability to produce value and satisfy the economic interests of its main stakeholders is Added Value, which measures the economic performance of operations and the ability to create the conditions for distributing wealth to stakeholders.

In 2023, Iren Group generated a total gross Added Value of about 1,780 million Euro, distributed as follows:

**39.5%**
**to the Company** (over 703 million Euro) as wealth retained within the Group, including depreciation and amortisation and retained earnings;

**34.4%**
**to Personnel** (over 613 million Euro) in terms of wages and salaries, charges and other personnel costs;

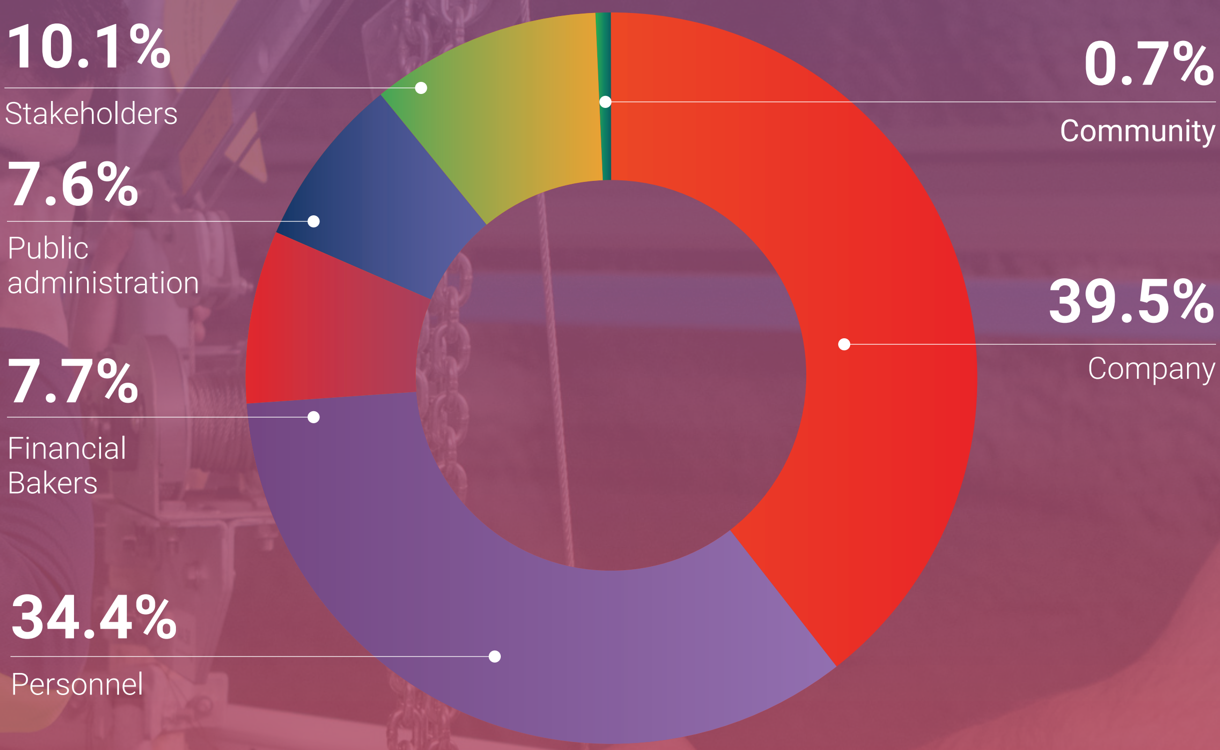
**7.6%**
**to the Public Administration** (nearly 136 million Euro) in the form of direct and indirect taxes, net of operating subsidies received;

**7.7%**
**to Financial Backers** (over 137 million Euro) in terms of financial expenses incurred;

**10.1%**
**to Shareholders** (approximately 180 million Euro) as dividend;

**0.7%**
**to the community** (over 11 million Euro) in terms of contributions to social, environmental, cultural and sports events.

## Total gross added value distributed




| Determination of Added Value (thousands of Euro) | 2023 | 2022 |
|---|---|---|
| Revenues from sales and services | 6,279,015 | 7,554,589 |
| Change in work in progress, semi-finished products, finished products and goods | -65,512 | 35,700 |
| Other revenue | 113,594 | 150,244 |
| **Production revenue** | **6,327,097** | **7,740,533** |
| Raw materials, consumables, supplies and goods | -2,697,328 | -4,613,809 |
| Cost for services | -1,826,775 | -1,621,250 |
| Other expenses | -37,147 | -24,540 |
| Capitalised costs for internal works | 58,267 | 57,223 |
| Provisions for risks | -131,579 | -68,344 |
| **Intermediate production costs** | **-4,634,562** | **-6,270,720** |
| **Gross Added Value from core business** | **1,692,535** | **1,469,813** |
| Non-core and non-recurring items | 87,423 | 132,705 |
| Net profit from discontinued operations | 0 | 0 |
| **Total gross Added Value** | **1,779,958** | **1,602,518** |

# Taxes and duties

Iren Group, while respecting and independently making its own management decisions and in line with its sustainability policy, pursues a tax strategy inspired by principles of honesty, correctness and regulatory compliance, characterised by collaborative and transparent behaviour towards the Tax Authorities and third parties, in order to minimise any substantial impact in terms of risk, be it fiscal or reputational.

To this end, the Board of Directors has approved the document **Fiscal Strategy**, also referred to in the Code of Ethics, which defines the objectives and the approach adopted by the Group in managing the tax variable. The document is made available to all stakeholders on the Group's website (governance > internal control risk management compliance > fiscal strategy) and is updated in a timely manner whenever changes occur at a strategic and/or operational level to the essential elements regulated therein. The Fiscal Strategy establishes the principles of conduct in tax matters, to contain the risk of incurring in the violation of tax regulations or the abuse of the principles and purposes of the tax system, and to ensure the correct and timely determination and settlement of taxes over time. Consistently with these principles, Iren refrains from implementing tax practices or strategies aimed at abusively eroding the tax base and commits itself not to undertake operations and behaviours and not to establish commercial relations or implement company structures that are devoid of economic substance and aimed at obtaining undue tax advantages and that are not justified by valid economic reasons, including organisational or managerial reasons, or in any case consistent with social and business ethics objectives. Iren also undertakes to actively pursue prior certainty of its tax positions and to prevent the start of unnecessary tax disputes or disputes that, in any case, based on a prognostic assessment, could have an unfavourable outcome (principle of "more likely than not"). Where the tax obligations or cases are considered, based on an objective assessment by management, to be unclear or subject to interpretation or, in any case, have margins of uncertainty, Iren acts with full transparency towards the Tax Authorities, according to the instruments made available by the legal system, to achieve the application of the correct level of taxation.
Iren's Board of Directors, supported by the Control, Risk and Sustainability Committee, defined the guidelines for the internal control and risk management system, including tax risks, and identified the Chief Executive Officer as the person responsible for directing the fiscal strategy, verifying the functioning of the **Tax Control Framework**, i.e. the tax risk management and control system that Iren has adopted to ensure the submission of accurate tax declarations, the correct application of all tax regulations and, when deemed appropriate, the involvement of the Tax Authority in the face of transactions likely to generate interpretative uncertainties.

The Board of Directors has also established the **Tax Risk Management Commission**, composed of four permanent members - Director of Risk Management, Tax Risk Manager, CFO and Financial Reporting and Accounting Manager -, which oversees the processes envisaged by the Tax Control Framework with supervisory and control tasks, as well as monitoring activities, supporting with non-binding advisory and proposing functions, the various actors involved, including the CEO and the **Tax Risk Manager**, in the performance of their respective tasks. The Tax Risk Manager is responsible for monitoring, aimed at verifying the effectiveness and efficiency of the controls in place to protect against tax risks and periodically reports to the Tax Committee on the activities carried out, their results, and the adequacy of the Tax Control Framework. By identifying and assessing risks and the preparation, in collaboration with the functions involved, of operating procedures of a fiscal nature, the Tax Risk Manager ensures that each control owner is aware of and implements the control measures and confirms the effective application of the procedures.

Consistent with the broader system of internal control and risk management, the Tax Control Framework requires that tax risk be managed through the assignment of responsibilities and roles according to three levels of control. **First level control** is represented by the individual operating lines which, daily, in carrying out the activities for which they are responsible, implement the so-called line controls, as defined by Company policies and procedures, aimed at ensuring that operating activities are carried out correctly, including those with repercussions on tax compliance. Therefore, the first level of control is carried out by the Company management of the individual operating lines, including the Tax and Compliance Department. **Second level control** is entrusted to the Tax Risk Manager, which differs from the line functions on the basis of compliance with the criterion of separation of duties. The Tax Risk Manager prepares the annual monitoring plan on tax controls and risks and ensures its execution, identifying any areas for improvement and supporting the control owners in identifying the related corrective actions. Adequate, proportionate and diversified information flows guarantee the circulation of information and ensure that the results deriving from the monitoring activities carried out by the Tax Risk Manager are known at the appropriate Company levels. **Third level control**, entrusted to the Internal Audit Unit, has the objective of verifying the operation and suitability of the internal control and risk management system and identifying anomalous trends and violations of procedures and regulations.

The management of fiscal and tax aspects has been identified as a sensitive activity concerning the tax offences referred to in the Legislative Decree 231/01 that Iren considers potentially applicable in the conduct of business activities. The Procedure for the management of reports to the Supervisory Body, approved by the Board of Directors, regulates the methods of communication and management of reports concerning situations of overt or suspected violations of the law, of the principles of the Organisational Model 231 and of the procedures governing sensitive activities at risk of 231-related crimes, along with instruments for implementing the Model itself (for more details on the Model 231, » SEE PAGE 73).

In order to improve communication and collaboration with the Tax Authorities, Iren Group decided to adhere to the "Collaborative Compliance Regime" (Italian Legislative Decree 128/2015), which provides a new scheme of relations between the Revenue Agency and taxpayers inspired by the principles of cooperative compliance already adopted by foreign tax administrations. The main benefits of risk management derive from the possibility of joint assessment of any tax risks with the Revenue Agency before the tax return and access to forms of prior appeal with an abbreviated procedure. The Group companies that meet the requirements of the Revenue Agency and are admitted to the "Collaborative Compliance Regime" are Iren and Iren Energia.

Iren has also consolidated a stakeholder involvement process through the Local Committees, representing the main tool for dialogue and discussion between Iren Group and all stakeholders (consumers/customers, employees, suppliers, institutions, shareholders, the environment and local communities).

Lastly, the tax information in the Consolidated Financial Statements and the Sustainability Report is subject to an assurance process by a third party (Independent Auditors).

The income taxes for financial year 2023 amount to over 97 million Euro (-24.6% compared to 2022). The effective tax rate is 25.61%.

In 2023, the Group received over 79 million Euro in benefits and grants from the Public Administration, of which 14.6 million Euro in capital investments.

| Taxes and duties paid (millions of Euro) | 2023 | 2022 |
|---|---|---|
| Government and Region | 97.09 | 128.85 |
| Total direct taxes and duties | 97.09 | 128.85 |
| ATO concession fees | 1.73 | 1.99 |
| Other concession fees | 25.21 | 23.99 |
| Derivation, taxes and licenses (derivation fees and surtaxes) | 45.23 | 26.46 |
| Taxes and duties | 26.38 | 24.60 |
| TOTAL INDIRECT TAXES AND DUTIES | 98.55 | 77.04 |
| TOTAL | 195.64 | 205.89 |