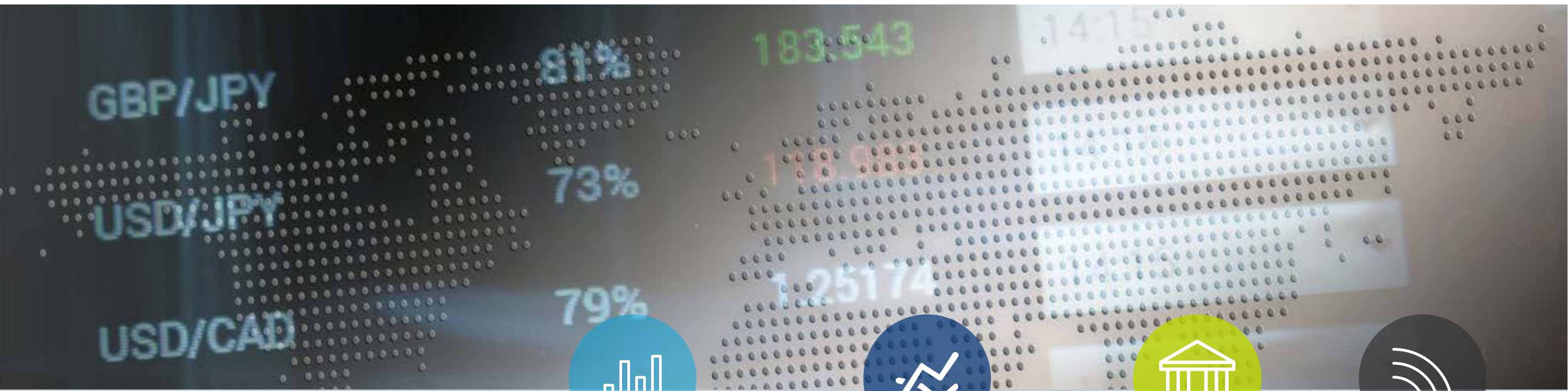
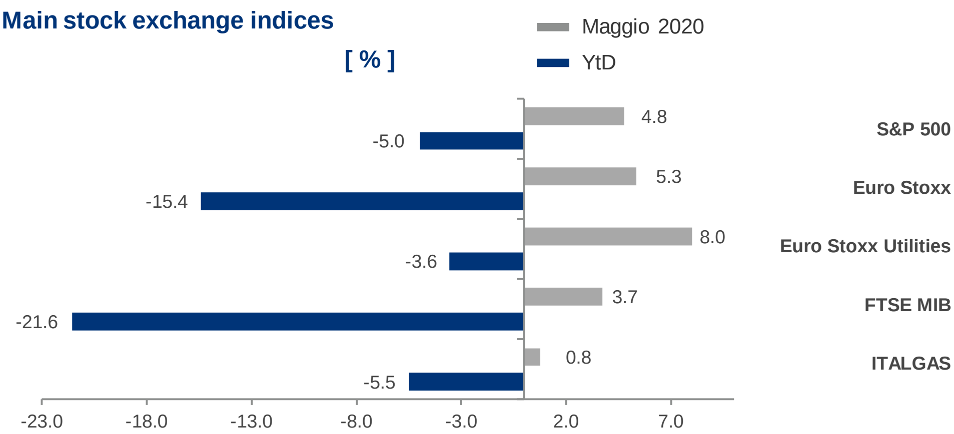
Financial Markets Review



Global equity markets continue to recover with the reopening of activities and better than expected macro data, improved prospects on pandemic containment and EU recovery plan. Core yields limit hikes with weak inflation vs broad spread contraction

Financial markets



Source: Italgas' elaboration on Bloomberg data

The global equity markets recovery phase continued in May, supported by: 1) improved sentiment on possible containment of the pandemic; 2) gradual reopening of economic activities and better than expected macro data; 3) presentation of the EU's Recovery Plan, which resulted in improved expectations on EU ability to tackle the crisis. With regard to the 1st point, Moderna, the biotech operator, announced constructive results on the ongoing vaccine testing phase, with production of antibodies without side effects. Looking at macro data, for the first time since the start of the pandemic, the total number of US workers receiving unemployment benefits fell, while the non-farm payroll data showed an higher than expected number of workers able to relocate. Also Chinese exports were back into growth territory vs expectations of contraction. Euro Stoxx and S&P 500 + 5%, while FTSE Mib underperformed by about 100 bp due to Consob' s decision to remove the short selling ban, while other markets (including Germany) remained unaffected by this measure as it was not introduced at the height of the crisis. Despite an heightened risk appetite, UST yield moved little (+1 bp to 0.65%) due to deflation in the US (core inflation -0.4% m/m in April, historical low). The Bund yield rose moderately (+14 bps to -0.45%) due to German inflation in April and May not in negative territory. Strong contraction of peripheral spreads (BTP-Bund -43 bps to 192 bps) reflecting risk-on, a Franco-German proposal of the Recovery Fund with ample allocation of funds in the form of non-repayable transfers and ECB reports which highlighted the availability to expand PEPP from meeting 04/06. EUR / USD + 1.3% (1.11, max for 2 months) as a result of the EU Recovery Plan and French central bank governor in favour of the "Capital Key rule" easing. EUR / GBP + 3.4% (0.90) with BoE willingness to expand QE and adopt negative rates, as well as resurgent EU-UK tensions over post-Brexit partnership negotiations.

The oil market

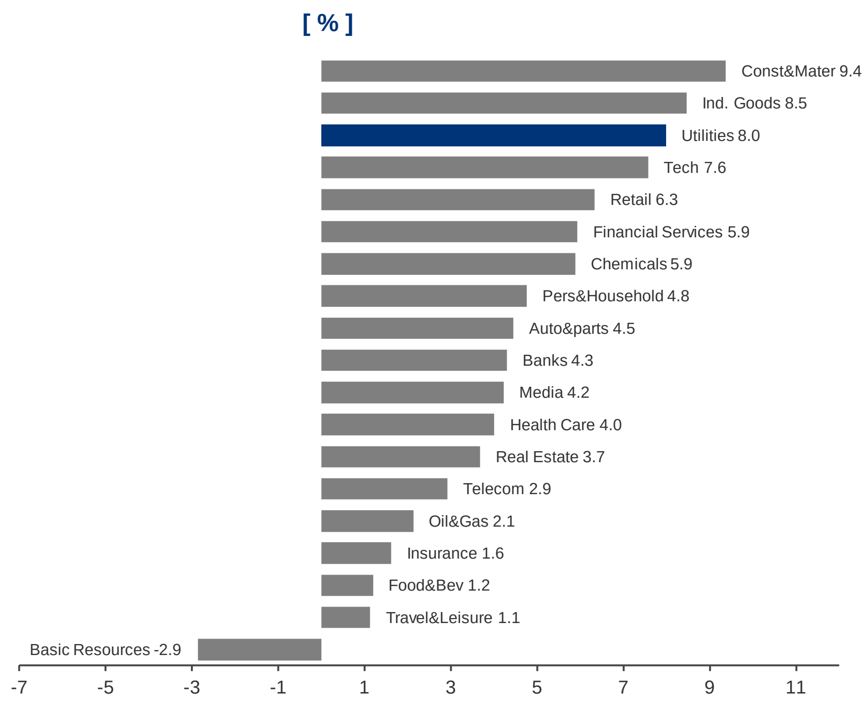
Strong rise in oil prices (Brent + 55% to 37 USD/b) due to: 1) progressive economy reopening on a global scale; 2) Chinese consumption returning close to 2019 levels (13 vs 13.4 mbd of 05/2019), with recovery supported by commuters choosing to use cars instead of public transport (safety reasons); 3) Saudi Arabia announcing new unilateral production cut of 1 mbd to speed up market rebalancing (Kuwait, UAE and Oman aligned with further 0.2 mbd cuts); 4) US drill count at 11 year lows. After recording the highest contango in history at the end of April, with 1-year forward prices doubling the spot levels (reached after 1 month), the oil price curve remained positively sloped, albeit with less steepening (prices 06/2021 at 15% premium vs spot).

Performance by sector

Overall cyclicals outperformance in risk-on phase; focus on energy transition from EU Recovery Plan

The sector dynamic advantaged cyclicals, with some exceptions induced by the EU Recovery Plan based on Green Deal and specific company matters. Constructions were the best performers, driven by infrastructure programs designed to tackle recessions, as well as Saint-Gobain up 20% due to solar developments prospects and energy saving materials. Despite their defensive profile, utilities were among the best performers thanks to the rise of renewables exposed names and the higher growth expected on the back of the Recovery Plan. Among the worst performer the steel sector, affected by -14% of ArcelorMittal due to the capital increase, and the oil&gas – despite the rise in oil - affected by gas at historic lows (TTF -37% m/m), investors' focus on renewables and weak Q1 results.

Main sectors performance, May 2020



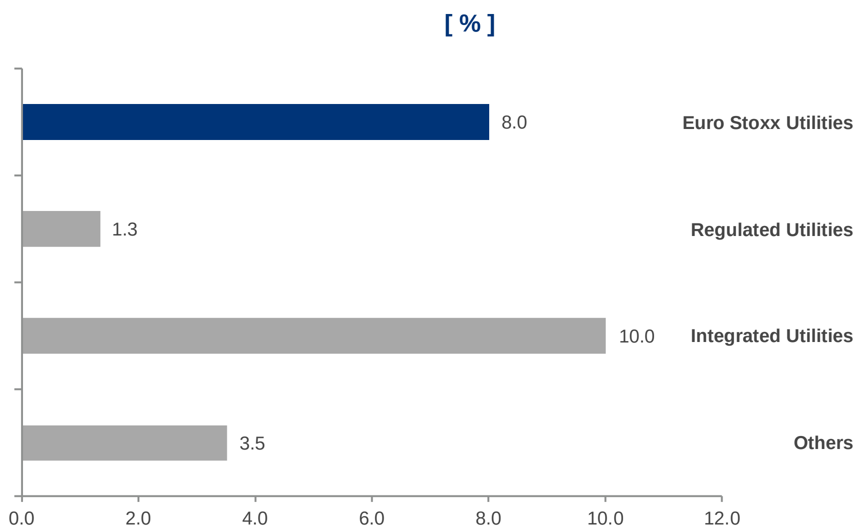
Source: Italgas' elaboration on Bloomberg data

Utilities supported by integrated and renewables with EU risk-on and Recovery Plan

Utilities sector performance

Despite its defensive profile, the utilities sector (+ 8%) was among the best performers in May thanks to the the rally of integrated operators (+ 10%), more able to intercept the economic recovery, and to the better growth expected in renewables (Enel + 11%, RWE + 14%) on the back of the measures in support of the energy transition envisaged in the EU Recovery Plan. On the other hand, in line with the trend in core yields and due to their more defensive profile, the regulated utilities were worst performer subgroup in the sector (+1%) vs the water / environmental sector in an intermediate position (+4%).

May 2020 - Utilities sector and subsectors

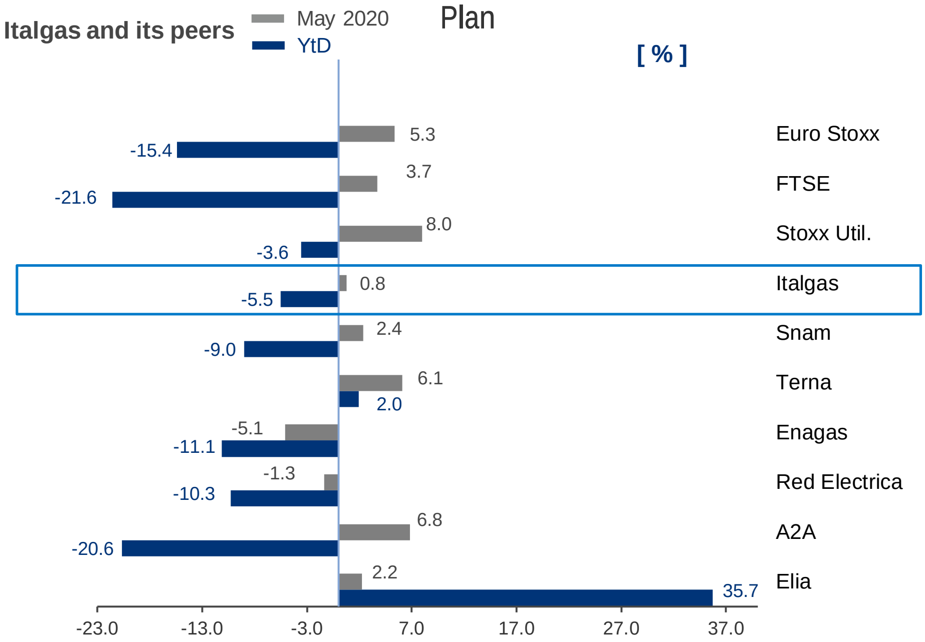


Source: Italgas' elaboration on Bloomberg data

Italgas and its peers

1% appreciation in terms of TSR for Italgas (at € 4,886), aligned with the regulated utilities. The stock underperformed the broader sector index, which was driven by renewable exposed operators as a result of the EU Recovery Plan largely based on the energy transition. Despite potential support deriving from going ex DPS (€0.256), Italgas' share price did not outperform its peers due to the downgrades of Intermonte and Exane, who prefer integrated operators at this stage seeing them better able to intercept the economic recovery. A2A and Terna best performers, in function respectively of the risk-on phase with consequent rotation of portfolios on integrated (A2A) and exposure to electricity (Terna).

Italgas (TSR +1%) in line with regulated utilities; underperformance vs sector index due to risk-on and EU Recovery Plan



Source: Italgas' elaboration on Bloomberg data

Agenda

Corporate events

10 June	Board meeting on 2020 expected performance
11 June	Press release and conference call

Corporate News

Shareholders' meeting approves the 2019 financial statements and dividend proposal

On 12 May, Italgas' Shareholders' meeting examined the consolidated financial statements of the Italgas Group at 31 December 2019, ended with a net profit attributable to the Group of € 2 million (€ 313.7 million as at 31 December 2018) and an adjusted net profit attributable to the Group of € 345.2 million (€ 315.5 million as at 31 December 2018); approved the Financial Statements as at 31 December 2019, ended with profits of € 223.6 million; (€ 7 million di euro as at 31 December 2018; resolved to distribute 0.256 euro per share (+9.4% compared to the previous year) as a dividend for a total of 207mn euro and to carry forward the remaining amount of 16.5 mn euro. The payment of the dividend due on each share from 20 May 2020, with coupon on 18 May 2020 and a record date of 19 May 2020. The Shareholders' Meeting also approved the consensual resolution to appoint the independent auditors PricewaterhouseCoopers S.p.A. and to appoint Deloitte & Touche S.p.A. as independent auditors for nine financial years, specifically for the financial years ended 31 December 2020 to 2028.

Acquisition of 15% of Reti Distribuzione

On 26 May Italgas strengthened its presence in Piedmont thanks to the agreement signed with AEG Coop (Azienda Energia e Gas Società Cooperativa), active in the sale and distribution of natural gas based in Ivrea, for the acquisition of 15% of the subsidiary Reti Distribuzione.

Reti Distribuzione, whose share capital is entirely owned by AEG Coop, operates at the service of 49 municipalities for 32,000 redelivery points distributed mainly in Ivrea and the surrounding areas.

The amount agreed for 15% of the share capital of Reti Distribuzione is equal to 4.56 million euro.

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