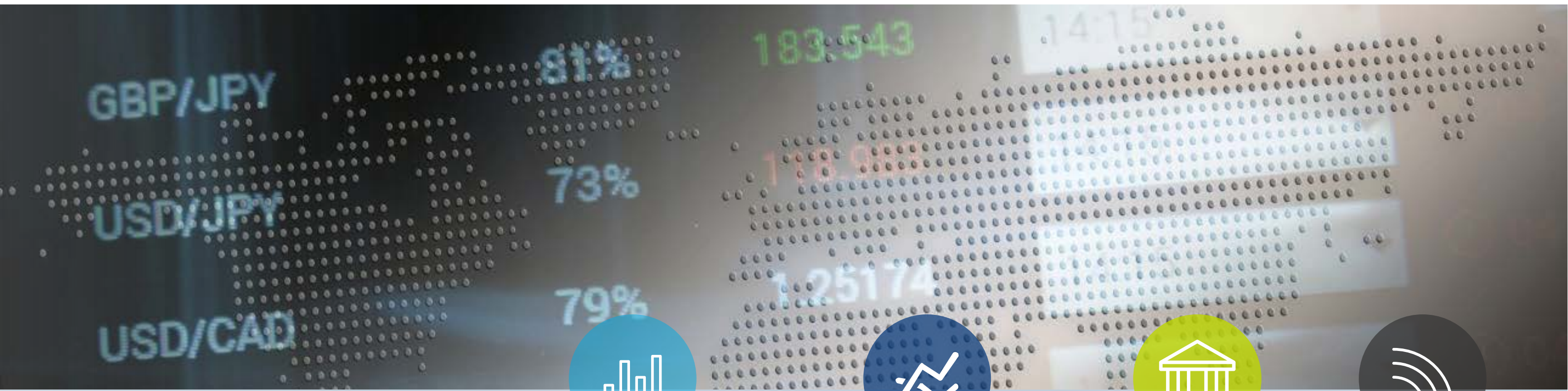
June 2021

Financial Markets Review

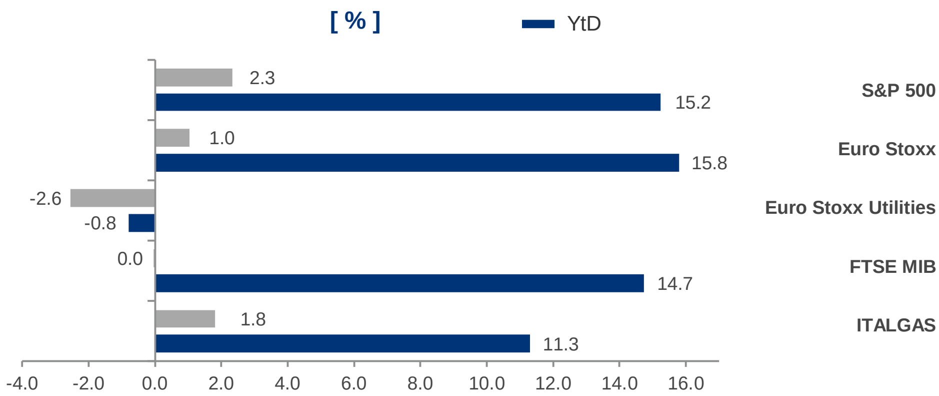


Despite signs of potential FED monetary tightening, global equities extended historical highs supported by better-than-expected macro data and the US fiscal policy. Moderate decline in core yields, triggered by lower expected inflation with changed FED approach

Financial Markets

Moderate rise in global equities, which despite signs of potential monetary policy tightening by the FED due to the strengthening of inflation, and contagion upsurge induced by the Delta variant, extended historical highs with continuation of macro data better than expected and reiterated support from the US fiscal policy, with a bipartisan agreement on financing infrastructure projects for almost 600 bn USD, part of a broader multi-year plan to relaunch infrastructures. The Euro Stoxx advanced 1% while the FTSE Mib closed unchanged due to the exposure to banks, worst performers of the month due to moderation of inflation expectations. On the other hand, the S&P 500 rose by 2%, supported by exposure to tech and "stay-at-home" stocks, which benefited from the aforementioned fears of a rise in infections. Moderate contraction in core yields (UST -13 bps to 1.47%, Bund (adjusted for the extension of the benchmark maturity) -7 bps to -0.21%) reflecting a reduction in expected inflation induced by changed FED approach, with the FOMC anticipating the expected timing for rate hike after the deflator of US core personal consumption spending reached in April a high since 03/1992. The real component, on the other hand, is overall stable both in the US and in the eurozone, with the upwards pressure induced by the aforementioned fears of tapering anticipation offset by a confirmed hyper-accommodative approach by both the ECB and the BoE, with the former announcing an extension of the PEPP acceleration also in Q3, and mentioned risks for economic expansion due to infections resumption. Adjusted for extension of Bund benchmark maturity, the BTP-Bund spread is substantially stable (-2 bps to 103 bps) as a function of factors noted for real yields. EUR/USD -3.0% with the opposite outcomes of FED and ECB vs EUR/GBP little changed (-0.4%) as a function of the hyper-expansionary approach confirmed by both the BoE and the ECB, and overall fluctuation around 0.86.

Main stock exchange indices



Source: Italgas' elaborations on Bloomberg data

The oil market

Strong rise in oil prices (+9% to 75 USD/b), at the highest since October 2018 due to: 1) large contraction in US inventories, which fell below the average of the last 5 years, with Reuters reporting compliance levels by OPEC+ higher than 100% compared to the production cuts planned by the organization; 2) Russia-Saudi Arabia negotiations to increase OPEC+ output by 2 mbd between August and December, or +0.4 mbd per month, with the increase appearing lower than market expectations, as it would leave OPEC+ with production cuts of approximately 40% compared to the initial target of 9.7 mbd set in April 2020, despite the fact that the demand for crude oil has already returned to pre-pandemic levels in several countries, including China and the US.

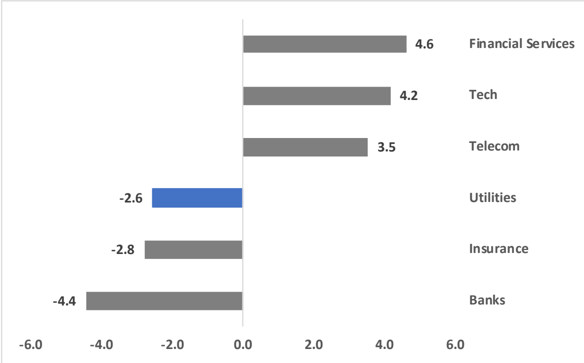
Performance by sector

Sector dynamics reflect moderation of expected inflation; defensives and financials respectively between best and worst performers

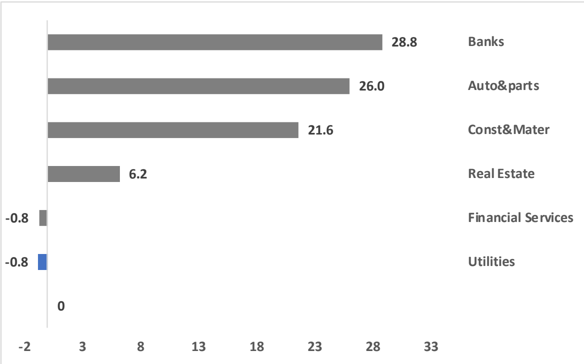
With the exception of +5% recorded by the financial services sector, essentially due to the intensified M&A activity, the sector dynamics highlighted an overall outperformance of defensive and technological sectors due to the contraction of inflationary expectations following the changed FED approach. On the opposite side, insurance and banking are penalized by the positive correlation to bond yields and inflation, and the moderate flattening of the yield curve with mitigated expectations of economic expansion. Despite the defensive profile, the utilities sector is among the worst performers due to the Spanish government's decision to increase taxation on renewable and nuclear plants to contain the excess profits otherwise induced by zero or very low marginal costs compared to the rally in electricity prices supported by CO_2.

Sector performance; utilities e 3 main ups/downs

June 2021 [%]



YTD 2021 [%]



Source: Italgas' elaborations on Bloomberg data

Utilities extend May weakness with increased taxation on CO2-free output in Spain

Utilities sector performance

Despite the defensive profile and forward electricity prices in Europe at the highest levels since 2008, similarly to what was observed in May utilities are among the worst performers due to the weakness of operators exposed to the Spanish market, after the national government has increased the level of taxation on hydroelectric, wind and nuclear plants to contain excess profits otherwise induced by zero or very low marginal production costs. Iberdrola and Enel, the 2 main contributors to the index, recorded declines of 7% and 3% respectively. Supported by the stronger bond-proxy profile, regulated operators reported instead an increase of around 1%, against substantial stability for the water and environmental sector ("Others").

Utilities sector and subsectors

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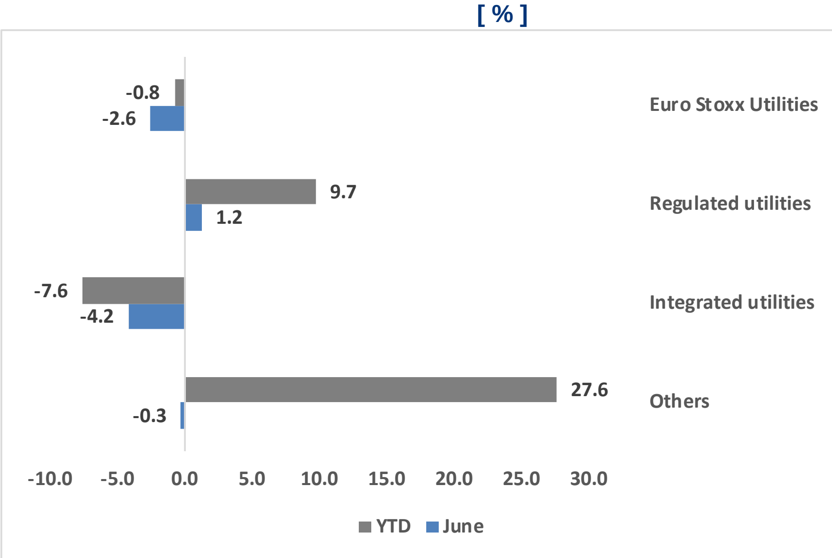
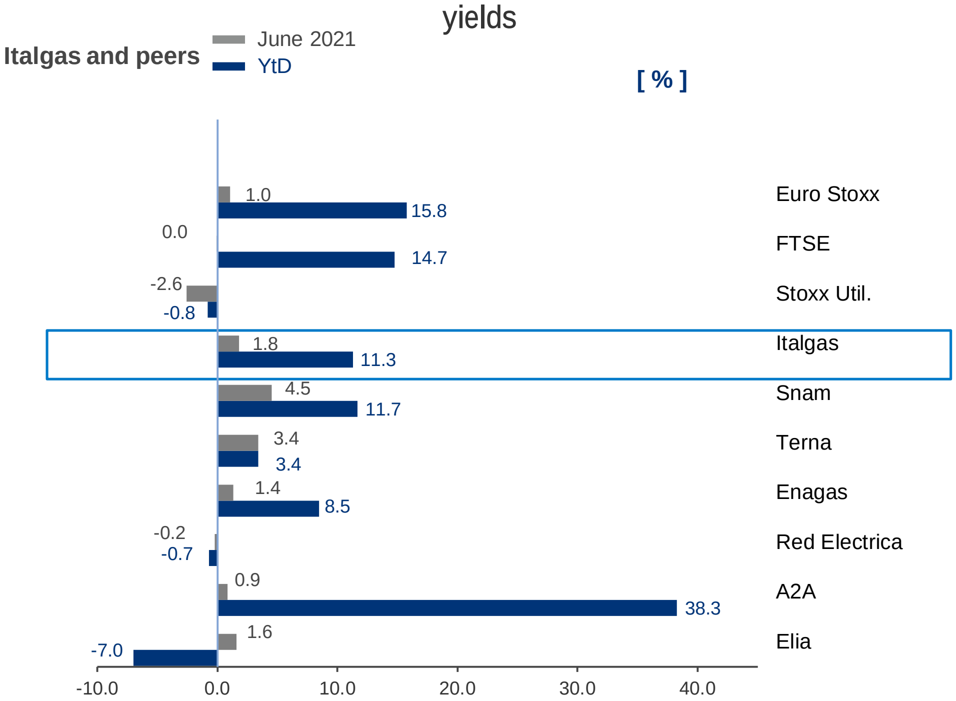


Source: Italgas' elaborations on Bloomberg data

Italgas and its peers

Italgas +2%, supported by cumulative capex upgrade underlying the update of the industrial plan and decline in bond yields

Italgas appreciated by approximately 2%; in addition to the bond-proxy profile in a context of falling bond yields due to lower inflation expectations, the stock benefited from the cumulative capex upgrade underlying the industrial plan update, with over 1/3 of the brokers following the stock revising upwards the valuation. Probably reflecting the detachment of the balance of the 2020 dividend, Snam and Terna (respectively +4.5% and +3.4%) are best performers, the latter also supported by mitigation of YTD underperformance. Red Electrica (unchanged) is the worst performer of the panel, penalized by a downgrade (from Hold to Sell) by DB.



Source: Italgas' elaborations on Bloomberg data

Agenda

Corporate events

26 July	BoD Q2/H1 Results
27 July	Press Release and Conference Call

Corporate News

Strategic Plan 2021-2027

On June 15 Italgas presented the Group's Strategic Plan for the period 2021-2027, approved by the Board of Directors the previous day. The new Plan envisages an investment program of 7.9 bn euro, up by 0.4 bn euro compared to the previous Plan presented last October. The capex increase is driven by digitalization (1.4 bn euro, +32% compared to the previous Plan), with the aim of completing the digital transformation of assets by 2022 and making Italgas a player in the energy transition for all intents and purposes; the Plan is in line with the European objectives of decarbonisation and the development of renewable gases such as biomethane, synthetic methane and green hydrogen. Over 2 bn euro are addressed to Atem tenders. The Plan also provides for a 30% reduction in greenhouse gas emissions and a 25% reduction in energy consumption. The dividend policy is confirmed until 2023.

Paolo Gallo, Italgas CEO, declared: "Digital transformation remains the main enabler of our growth with the aim of completing network digitization by 2022 and drawing the roadmap that will confirm the strategic role of gas networks as a key driver of the energy transition to achieve EU net carbon zero targets. With 7.9 bn euro, an increase compared to the investment program presented last October, Italgas confirms its position as one of Italy's leading industrial groups in terms of planning, execution and value generation for the communities it serves, able to give a strong boost to the recovery of our Country".

Ferrulli Chairman of Italgas Reti

The Italgas Reti Board of Directors, which met on 28 June, appointed Nunzio Ferrulli as Chairman of the Company. Graduated at the Faculty of Law of the "Sapienza" University of Rome, and a Master in Management at the London School of Economics, Ferrulli has been working at Italgas since November 2016 with the position of Director of Institutional and Regulatory Affairs. Within the Group he is a member of the Italgas Acqua Board of Directors, from January 2020 he sits on the Board of Directors of Italgas Reti and from April 2021 in that one of Toscana Energia. He is currently also a member of the Anigas Presidential Committee. Previously he gained important professional experience in Edison, Acea, Philip Morris and Grandi Stazioni.

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