March 2021

Financial Markets Review

Global equity updates historical highs with improved outlook due to macro data and US fiscal stimulus plan approval. UST yield at pre-Covid levels vs stable Bund with ECB PEPP acceleration. Euro at 5 and 13-month lows vs USD and GBP

Financial Markets

Main stock exchange indices

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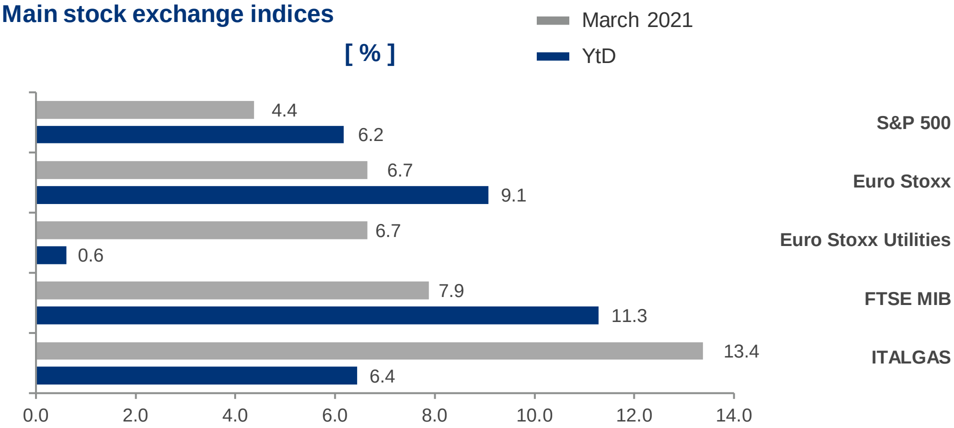


Source: Italgas' elaborations on Bloomberg data

Extension of the rally in global equities induced by further strengthening of the outlook with macro data that continue to be better than expected (Q4 GDP and creation of US non-farm payrolls, but also orders to German industry) and final approval of 1.9 tn dollars fiscal stimulus package by the US. Both the S&P 500 (+4.4%) and the Euro Stoxx (+6.7%) have updated their historical highs. The advantage of the eurozone vs the US benchmark reflected the currency dynamics, with a decline in the EUR/USD, while the outperformance of the FTSE Mib (+7.9%) was supported by a further contraction of the sovereign spread. Wide divergence in terms of core yields; against a marginal decline in the Bund (-3 bps to -0.29%), UST yield advanced by 34 bps (1.74%, new highs from January 2020) reflecting: 1) more proactive approach by the ECB, with the decision to accelerate the PEPP in Q2 in order to mitigate the recent rise in bond yields; 2) overall US advantage in terms of macro data and progress in the vaccination campaign, resulting in a more rapid recovery of the inflation; 3) definitive approval by the US of the 1.9 tn USD fiscal stimulus plan, and presentation of the new 2.3 tn USD infrastructure plan; 4) decision by the FED to not extend the measures aimed at excluding purchases of government bonds from the calculation of the equity capital required to the banks for the purpose of covering the invested capital. Further contraction of 6 bps of the BTP-Bund spread (96 bps), close to February lows (which are even the lows since March 2015) as a function of the aforementioned acceleration of the PEPP in Q2 and the extension of the risk-on phase. EUR/USD -2.9% (1.17), to a 5-month low, reflecting the aforementioned divergence of the respective sovereign yields. EUR/GBP also down by 1.8% (0.85), to a 13-month low due to the acceleration of the PEPP and growing gap in the speed of execution of the respective vaccination programs, as well as higher-than-expected UK GDP in Q4.

The oil market

After initially returning to pre-Covid levels (highest from 05/19) consequently to the outcome of the OPEC+ meeting of March, which saw the organization almost entirely confirming the current production cuts also for the month of April, oil prices declined by 3% (62.4 USD/b) as a result of: 1) inverse correlation with the dollar; 2) profit-taking induced by the new lockdowns and slowdown in the vaccination process in Europe; 3) strong growth in Iranian exports to China despite the US sanctions; 4) upward revision by the EIA of the US output for both 2021 and 2022; 5) stronger-than-expected growth in US crude oil inventories, although said factors were mitigated by the closure of the Suez Canal following an accident involving a cargo ship.

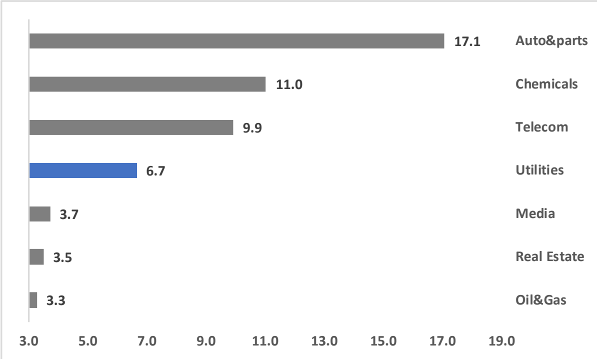
Performance by sector

Core eurozone real yields at historic lows block portfolio rotation to financials from bond-proxy. Overall dynamics reflect specific sector themes

Even in presence of an extended equity bull market, the overall stability of eurozone nominal yields, with real aggregates near historic lows, has removed the basis for continuing sector rotation from bond-proxy to financials. The overall dynamics therefore reflected specific sector themes, with automotive (+17%) best performer as a result of targets expansion in electric vehicles. Chemicals (+11%) and telecoms (+10%) followed with +17% by Linde and Telecom Italia, respectively through the strengthening of the green hydrogen business and progress on the creation of a single digital network. The oil&gas (+3%) was on the opposite side with weak refining margins, as well as real estate and media (+4%) with the lockdowns impact on commercial rents and below expectations results by Vivendi (-2%).

Sector performance; utilities e 3 main ups/downs

March 2021 [%]



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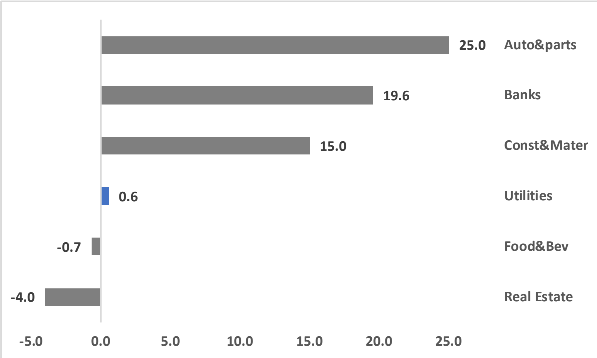

Source: Italgas' elaborations on Bloomberg data

Utilities aligned to the Eurozone benchmark; regulated names outperform with real yields at hist. lows

Utilities sector performance

Utilities sector overall aligned to the Eurozone benchmark. The mitigation of the rise in core yields supported the dynamics of regulated operators (+12% on average), which also benefited from better-than-expected quarterly results. Wide underperformance, on the other hand, for water and waste operators ("Others"; +1%) based on Veolia's -2% following the announcement by Suez of a binding offer received from the consortium of private equity funds Ardian-GIP. Among the integrated names (+6%), Verbund (-2%) and EDP Renovaveis (+1%) underperform due to an expected reduction in their weights in the S&P Global Clean Energy Index, while the latter was also penalized by a capital increase equivalent to 10% of the outstanding shares.

Utilities sector and subsectors

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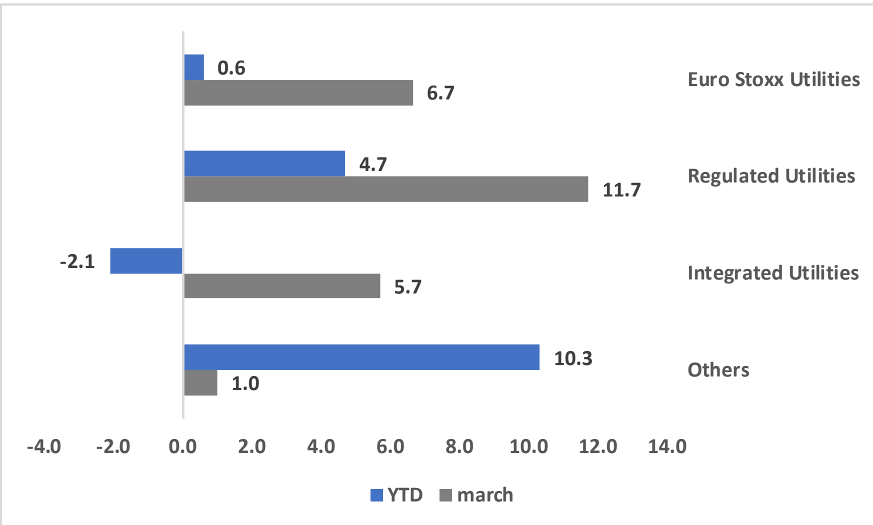
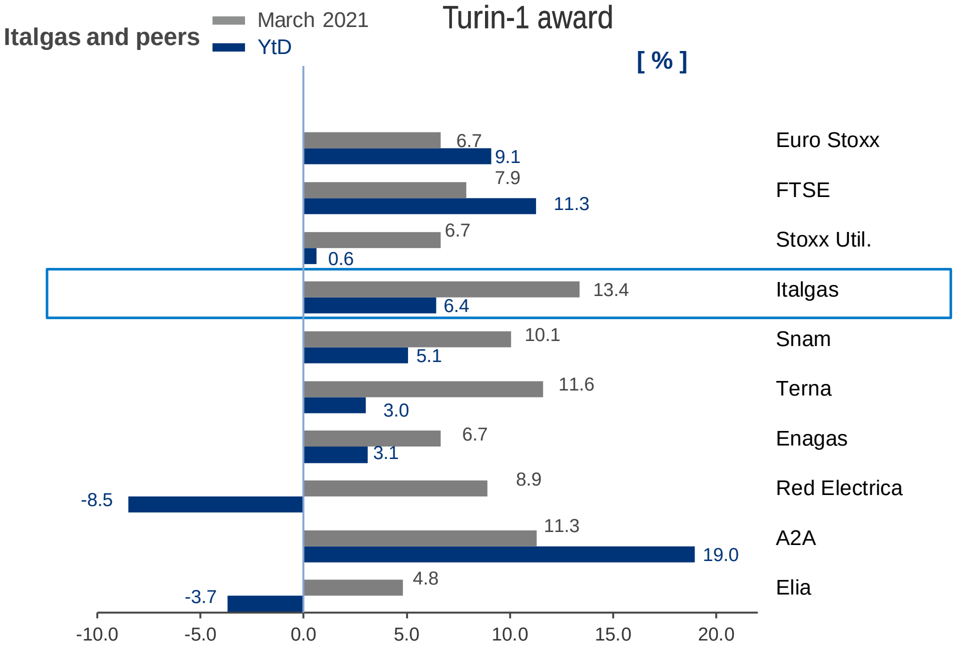


Source: Italgas' elaborations on Bloomberg data

Italgas and its peers

Italgas rose by 13% (5.535 euros), best performer among the peers of the panel; the stock, supported similarly to the other operators by core eurozone real yields back to the historical lows of the beginning of February, also benefited from: 1) higher than expected net income and 2020 dividend; 2) a report by the AGCM to the Prime Minister aimed at introducing some proposals, in the context of national competition promotion, to speed-up and increase the level of competition of gas tenders; 3) the awarding of the Turin-1 Atem, which, although expected, reinforces the visibility on the development of the related capex plan. Elia (+5%) worst performer, still reabsorbing the marked outperformance achieved in 2020.

Italgas +13%, best performer vs peers panel. In addition to real yields, the stock was also supported by 2020 results, AGCM report on speeding-up gas tenders and Turin-1 award



Source: Italgas' elaborations on Bloomberg data

Agenda

Corporate events

20 April Shareholders' meeting 2020 report and div. resolution

Corporate News

Turin-1 Atem awarded

On March 4 Italgas has been officially awarded the tender for natural gas distribution service, over the next 12 years, in the "Turin-1" area. The award of the Atem, consisting of approximately 560K users, allows the company to ensure continuity in the management of the service in an area historically linked to the company, and above all to activate an investment plan for approximately 330 mn euro, which will produce a significant effect on the local GDP, with positive results also in terms of employment, creating 3K new jobs in the related industries. "The award of the Atem Torino-1 - commented the CEO of the subsidiary Italgas Reti, Pier Lorenzo Dell'Orco - is an important result both for the company, which is confirmed in the city where it was born almost two centuries ago, and for the territory. After the Atems Torino-2, Valle d'Aosta and Belluno, this fourth tender awarded to Italgas raises the total value of the investments planned in the involved territories to around 1 bn euro, confirming the virtuous effect that the gas tenders offer for the economic recovery of the country and the need to accelerate their development in a decisive manner".

Consolidated Q4/FY 2020 results

On March 10, the Italgas Board of Directors approved the results as of 31 December 2020 and resolved to propose to the Shareholders' Meeting the distribution of a dividend per share of euro 0.277 (+8.2% compared to 2019). Total adjusted revenues amounted to 1,333.8 mn euro (+6.0%), adjusted Ebitda to 971.4 mn euro (+7.0%), adjusted Ebit to 546.8 mn euro (+6.0%) and adjusted net profit to 345.4 mn euro (+0.1%). Capex at 777.5 mn euro (+5.1%) and net debt (including IFRS 16 effect) at 4,736.5 mn euro.

Paolo Gallo, CEO of Italgas, commented: "The health emergency and the highly penalizing effects reported on the new tariff regulation have not affected the transformation and the development path that today sees Italgas achieving another year of growth. We have been able to face the most serious global crisis of the post-war period thanks to the strategic choices made in the recent years. Our ability to react is evident by reading all the financial and non-financial indicators".

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