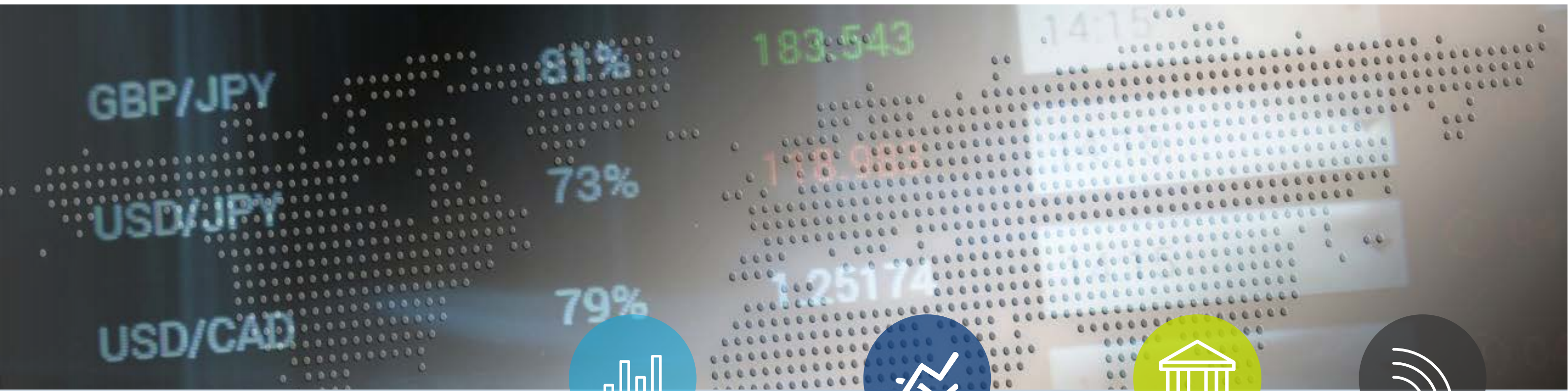
March 2022

Financial Markets Review

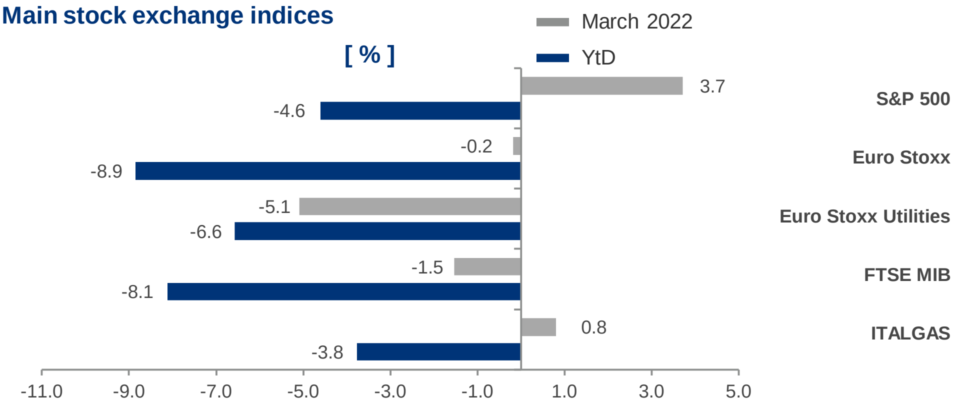


Eurozone stock market little changed; initial downturn mitigated by conflict de-escalation. Core sovereign yields update multi-year highs, driven by inflation component at historical highs, reflecting commodities supply fears

Financial Markets

The eurozone stock markets were overall stable; after an initial decline of 10%, to the lowest since 12/2020, they recovered as a function of progress in the Russia-Ukraine negotiations. Compared to an unchanged Euro Stoxx, the FTSE Mib declined 1.5%, offsetting the advantage accumulated in the first 2 months of the year. Extension of the outperformance for the US indexes, with the S&P 500 up by about 4%, supported by the lower US exposure to the Russian economy and commodities. Sovereign core yields were also very volatile; after updating the historical lows due to the conflict, the German real component recovered as a result of the de-escalation of the tensions and much more hawkish than expected ECB meeting, which put more focus on containing the inflation generated by the conflict instead of mitigating the economic slowdown that ensued. The FED and BoE meetings also confirmed their focus on controlling the inflation. The FED raised the benchmark rate by 25 bps, expecting 6 further hikes by the end of the year, while the BoE decided for the 3rd hike since December. The German and US breakeven inflations updated all-time highs due to commodity prices. Overall, the German yield advanced by 41 and the US yield by 51 bps (to 0.55% and 2.34%), respectively at their highest since 05/2018 and 05/2019. The spread BTP-Bund declined by 8 bps (at 149 bps), reflecting the green light from the EU for the first installment of 21 bn euros of the PNRR, and discussions about a European public spending program in the defense and energy sectors, to be financed by issuing common debt, similarly to last year's Next Generation EU program. EUR/USD -1.4% (1.11), reflecting expectations of accelerated FED monetary tightening (8 further rate hikes priced by the market by the end of the year vs 6 indicated by the board). EUR/GBP +0.8% (0.84) with the BoE governor highlighting the need to take into due consideration the growing uncertainty in terms of economic slowdown.

Main stock exchange indices



Source: Italgas' elaborations on Bloomberg data

The oil market

Brent +6% (107 USD/b, 8-year highs), supported by: 1) decision by the US and UK to ban the import of Russian oil, and the possibility that the EU could follow; 2) exclusion of the main Russian banks from the SWIFT international payment system; 3) extension of production difficulties for OPEC+, which in February underperformed the production target by 1 mbd; 4) warning of possible production interruptions by Saudi Arabia after new attacks on oil installations carried out by pro-Iranian Yemeni rebels. The upwards pressure has been mitigated by the possibility that the US administration could release up to 180 mboe of oil (the largest intervention ever), or about 30% of the 580 mboe held in the national strategic reserves, at a rate of 1 mboe per day (1% of global demand) for approximately 6 months.

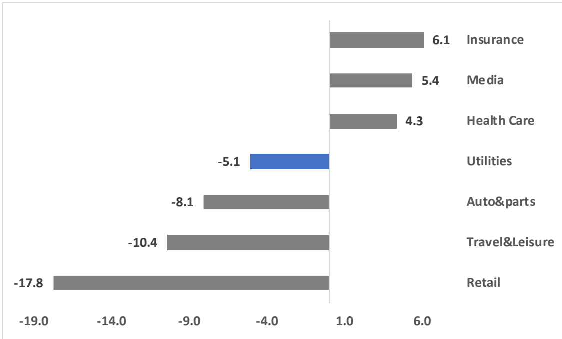
Performance by sector

Lack of underlying sector dynamics in a context characterized by a rise in bond yields and inversion of the curve. Movements reflected specific corporate newsflow

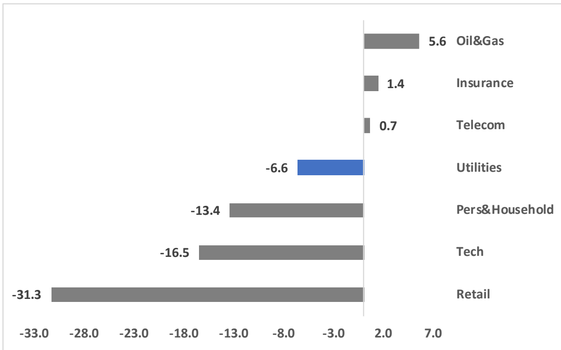
Lack of underlying sector dynamics within a context of broadly flat eurozone benchmark and rising bond yields accompanied by an inversion of the US curve, which signals expectations of an economic slowdown / recession. The movements essentially reflected specific corporate newsflow. The insurance sector, supported by higher bond yields and less exposed than banks to the possible downturn of the economic cycle, was the best performer (+6%) driven by Generali (+17%) due to expectations of build-up in the stakes by main shareholders in view of the renewal of the board. On the opposite side, retail (-18%) was the worst performer due to Zalando (-23%), as 2022 guidance was below expectations driven by difficulties in passing onto the customers the higher prices driven by commodities rally.

Sector performance; utilities e 3 main ups/downs

Febr. 2022 [%]



YTD 2022 [%]



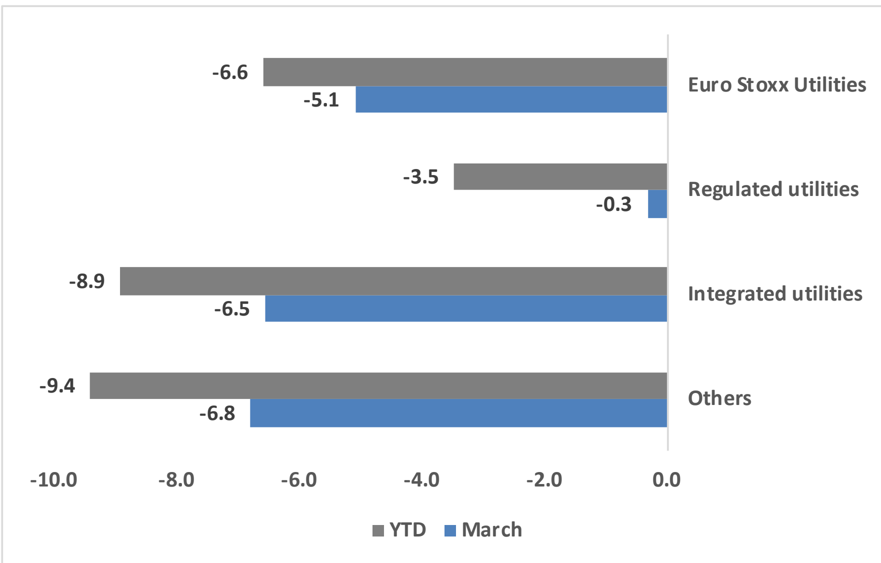
Source: Italgas' elaborations on Bloomberg data

Utilities sector underperformed the Eurozone benchmark, penalized by integrated operators

Utilities sector performance

Utilities (-5%) largely underperformed the eurozone benchmark due to integrated operators, penalized by the EU Commission's proposal to introduce new forms of taxation on profits generated by gas-driven higher electricity prices. Outperformance for regulated operators, reflecting the opportunities arising from the changed European energy context in terms of development of electricity networks and diversification of gas supply sources. Exception for E.ON (-13%), penalized by its exposure to gas sales, which could trigger a contraction in margins, as rising commodity prices are not immediately transferred to the end users.

Utilities sector and subsectors



Source: Italgas' elaborations on Bloomberg data

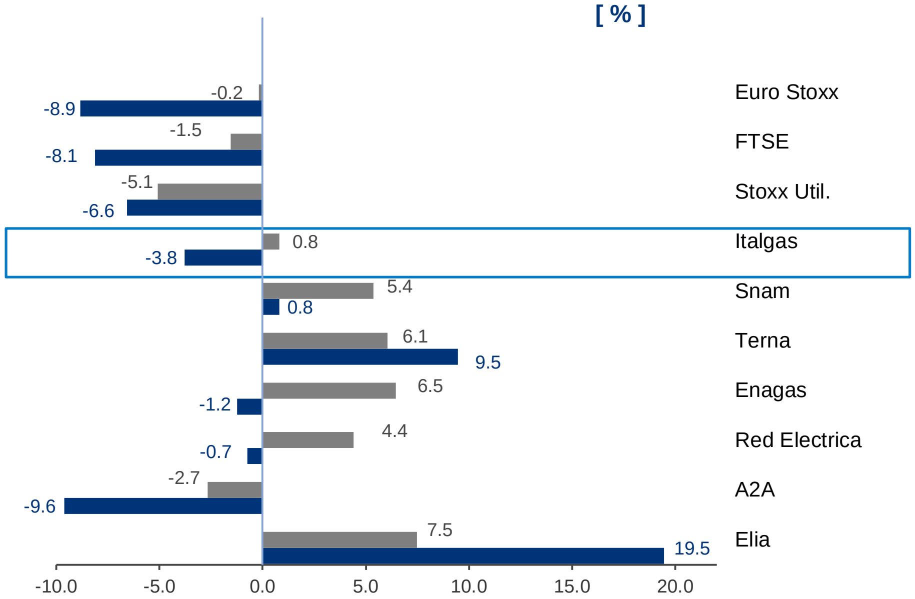
Italgas and its peers

Italgas advanced 1% (5.824 euro); although largely ahead of the eurozone sector index (also reflecting 2021 net profit above expectations), the stock underperformed the peers of the panel (which does not include E.ON) due to the focus on power and gas TSOs triggered by the changed European energy context, which requires acceleration in the development of renewables, and therefore in the upgrade of power grids, and diversification of gas supply sources in order to reduce dependence on Russian gas. The regulated peers of the panel advanced between 4% (Red Electrica) and 7% (Elia), despite the downside in valuation terms for the Spanish operators generated by the inflation rally.

Italgas and peers

March 2022
YtD

Italgas (+1%) outperforms the sector index, but underperforms regulated peers as changed European energy scenario enhances acceleration of renewables and diversification of gas supplies



Source: Italgas' elaborations on Bloomberg data

Agenda

Corporate events

26 April	AGM financial statements 2021FY

Corporate News

Italgas becomes a shareholder of Picarro

On March 2 Italgas strengthened its partnership with Picarro Inc. through the acquisition of a minority share of the US company, a leading technology start-up in the field of sensors applied to the monitoring of gas distribution networks, as well as in technologies designed for those sectors requiring extremely sensitive measurements, such as environmental measurements of the concentration of Hazardous Air Pollutants and the electronics industry for the detection of impurities in semiconductor foundries. The equity investment was acquired for a cash payment of 15 mn USD. Its shareholding in Picarro as the sole industrial partner (the other shareholders are founders and venture capital funds), will allow Italgas – through Mr. Paolo Gallo joining the Picarro's Board of Directors - to contribute to the further development of the technology for the fugitive methane emissions abatement, now at the heart of European decarbonisation objectives. Italgas, indeed, expects to reduce its greenhouse gas emissions by 30% by 2027, also thanks to the increasingly widespread use of Picarro technology, which has already shown significant advantages in terms of speed of execution of monitoring activities, accuracy of measurements and size of the areas monitored.

Consolidated results 2021FY

On March 10 marzo Italgas released 2021 consolidated results; revenues 1,370.8 mn euro (+2.8%), Ebitda 1,008.9 mn euro (+4.1%), Ebit 583.2 mn euro (+6.2%), adjusted net profit 367.7 mn euro (+6.0%) and net debt 4,980.0 mn euro. Paolo Gallo, CEO of Italgas, commented: «In 2021, which saw the first significant signs of economic recovery, albeit influenced by the ongoing health emergency and the strong tensions around the costs of raw materials, Italgas was confirmed as one of Italy's most solid industrial companies. For the 20th consecutive quarter since the return to the stock exchange, we recorded growth in all economic indicators. Digitizing as widespread an infrastructure as our distribution network not only corresponds to valorize an asset of the country and becoming a global benchmark for the sector; it also means ensuring that the gas networks have a central role in the ecological transition as an asset that, with a view of sector coupling, is able to guarantee efficiency and flexibility to Italy's entire energy system».

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