

Financial Markets Review



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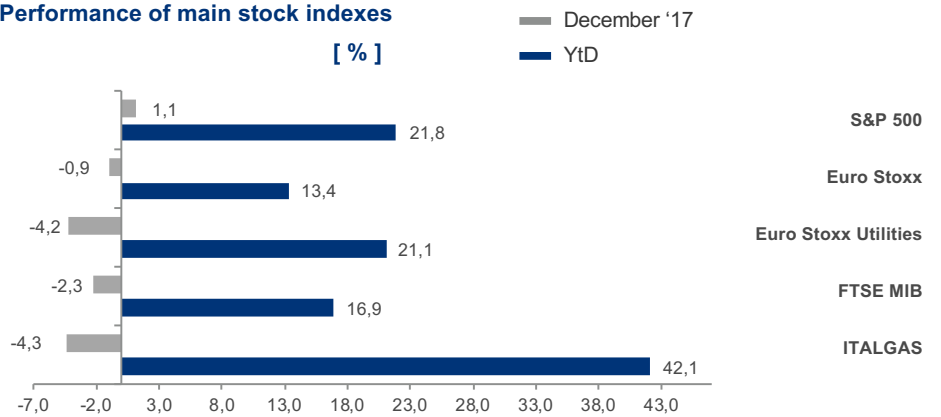


Eurozone shares declining overall in December, due to the resurgence of Italian political risk and expectations that the ECB will normalise its monetary policy. Peripheral spreads up again with political risk

Financial markets

December was marked by two stages for stocks. Until the first half of the month, price indexes were supported by robust macro data and progress in the approval of the US tax reform, which led to a fall of the EUR/USD exchange rate, as well as to the postponement of the reform on bank capital. In the second half of the month, on the other hand, share price indexes showed general decreases because of the return of Italian political risk. This more than compensated the outcome of the ECB meeting, which increased GDP estimates whilst keeping a cautious approach on inflation. Overall, the FTSE Mib has been the worst performer, decreasing by 2.3% against the Euro Stoxx (-0.9%). Wall Street continued to beat its historical highs (S&P 500 +1.1%) thanks to the above-mentioned progress made in the approval process of the US tax reform and to better than expected macro data. The same trend was observed on the fixed income side, with decreasing sovereign yields in the first half of the month, continuing to reflect the QE's extension by the ECB and the real yield of ten-year Bunds which neared historical lows in mid-December.

Performance of main stock indexes
[%]



Source: Italgas analysis of Bloomberg data

In the second half of the month, core sovereign yields showed a clear upturn thanks to expectations that the ECB would normalise its monetary policy in light of improved economic conditions of the eurozone and of the approval of the US tax reform. The 10-year Bund yield increased by +6 bps against 10y US Treasury bonds which remained constant due to the absence of unanimity in the FED's decision to increase rates.

The same trend applied for peripheral sovereign spreads (BTP-Bund +21 bps), which showed a clear upturn in the second half of the month after an initial contraction caused by a higher propensity to risk. This was due to the resurgence of political risk. The euro appreciated by approximately 1% against the dollar and the pound thanks to growing expectations that the ECB will phase out monetary stimuli.

Oil market

The upturn of oil company shares continues, with dated Brent up 6% and at a three-year high, supported by a robust macroeconomic scenario and by the explosion of an oilpipe in Libya following a terrorist attack which

reduced supplies by about 200 kbd. The greater than expected decrease in US crude reserves, which have returned to a 2-year low, has not had a significant impact on share prices, as it is compensated by the new upturn

of US output, close to the 10 mbd threshold and to 1970 highs, supported by price levels and technological improvements.



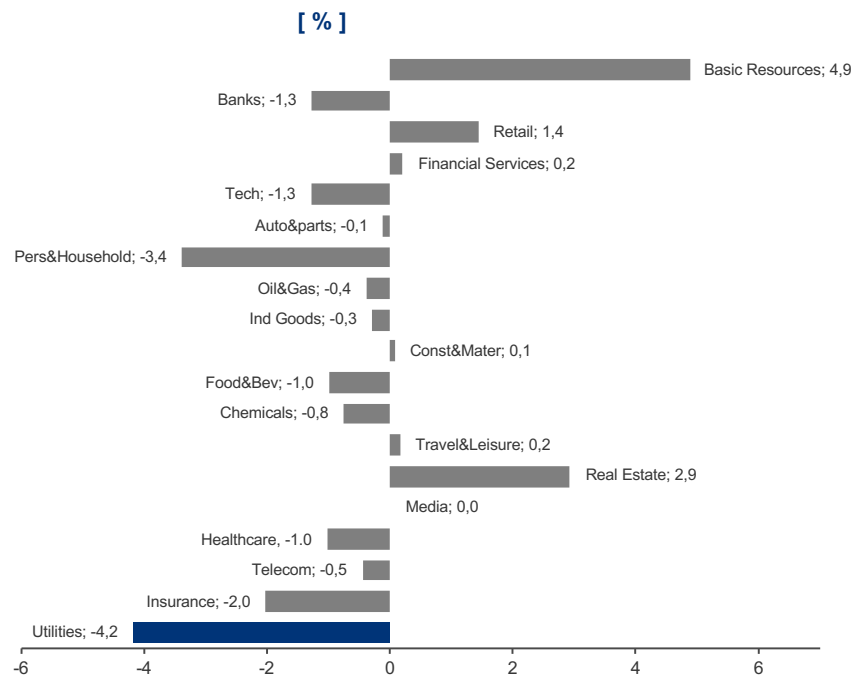
Sector trends

Sector trends were affected by an increase in commodities prices as well as by sovereign yields and peripheral spreads. The Mineral and Basic Resources sector benefitted from steel's strong performance, following China's decision to introduce new restrictions to production to decrease winter pollution, as well as as intensified extraction activity due to higher commodities prices. The Real Estate sector also registered a positive performance, thanks to strong quarterly financial results and M&A activity. The Retail sector registered a negative performance due to sales below expectations for Nike and Adidas. The Utilities sector also registered a negative performance affected by an increase in sovereign yields and peripheral spreads.



Sector performance driven by an increase in commodities prices and bond yields

Main sector trends, December 2017



Source: Italgas analysis of Bloomberg data



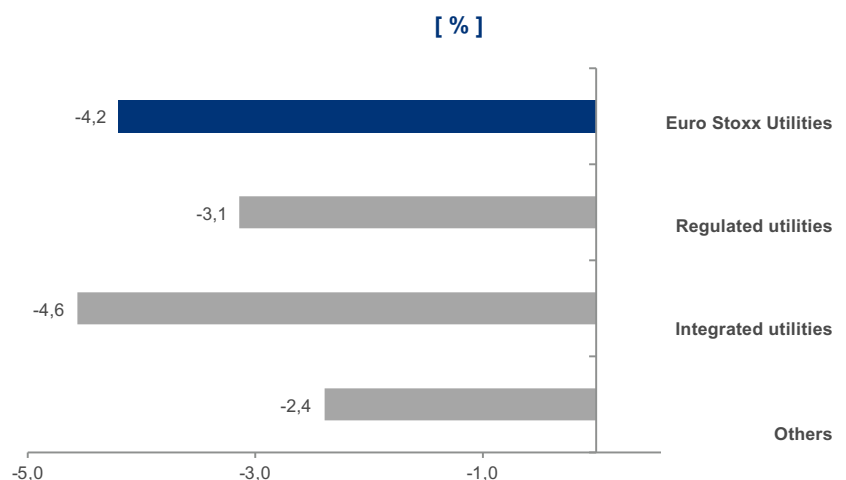
Utilities worst performer following sovereign yields increase and Innogy's profit warning



Utilities Sector Trends

The Utilities sector was December's worst performer. Following an initial positive performance, with central European electric prices reaching maximum levels, and in line with the rest of the market, the sector was subsequently impacted by a sharp increase in sovereign yields and peripheral spreads, also in light of the significant exposure to Southern Europe operators. The sharp decline of the German operators also weighed on the sector (RWE -12%, E.ON -7%) following the profit warning announced by Innogy due to increased competition in the UK market and to higher costs to develop renewable technologies and digitalisation. Overall, there were no remarkable differences between the integrated and regulated utilities.

December 2017 - Sector and sub-sector trends



Source: Italgas analysis of Bloomberg data

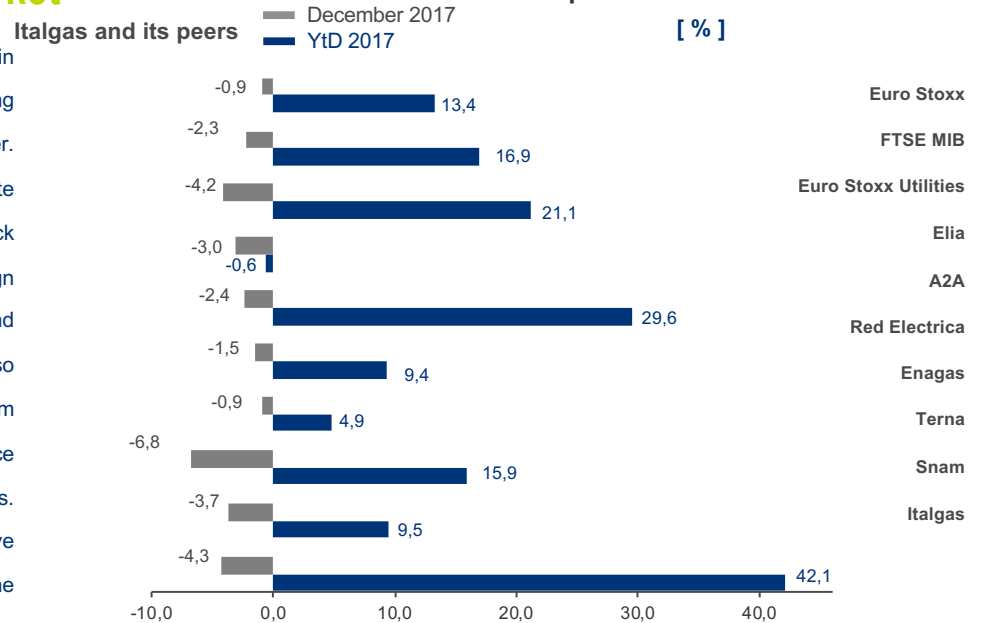


Italgas stock and its peers on the Stock Market



Italgas down with the sector, impacted by the increase in sovereign yields and Italian political risk

Italgas was down approximately 4% in December, in line with sector trends, following highest levels since listing in November. Similarly to the rest of the sector, and despite the continuation of M&A activities, the stock was impacted by the increase in sovereign yields and peripheral spreads in the second half of the month. The stock was also negatively affected by the downgrade from Credit Suisse after it reached its target price and by delays in the gas tendering process. Italgas' peers registered negative performances this month as well, with the Italian stocks underperforming compared to the Spanish ones due to the Italian political risk and increase in sovereign bond yields.



Source: Italgas analysis of Bloomberg data



Agenda

Corporate events

12 March

Board 2017 budget plan and dividend proposal
Press release and conference call

19 April

Shareholder assembly on 2017 financial statement



Corporate News

EIB grants a new loan for a total of EUR 360 million

On December 19, Italgas has signed today a loan agreement with the European Investment Bank (EIB) for a total amount of € 360 million for the financing of some initiatives aimed at strengthening its distribution network and making the gas distribution system even more efficient and secure. The 360 million Euro loan will be at floating rate and will run for 20 years, of which 5 years will be pre-amortisation, at market conditions particularly. Disbursement is expected by the end of December, as well as the repayment of a previous EIB loan of EUR 300 million. The closing of this loan is part of Italgas' strategy to optimise its financial structure, both in terms of reduction of the cost of funding and extension of the average duration of EIB loans, totalling 784 million euro, making the Group one of the largest Italian counterparties of the Bank, supporting the significant investment plan envisaged in the Company's Strategic Plan.

Medea acquisition

On December 21, Italgas and Hera signed today a binding agreement for transferral to Italgas of 100% of Medea S.p.A. The company has the concession for gas distribution and sale in the city of Sassari. Medea's overall enterprise value has been set at € 24.1 million. Medea serves roughly 13,000 customers, all residents in the urban area of Sassari, with annual gas volumes distributed amounting to over 5 million cubic meters. The company's potential pool is of approximately 30,000 users. The network, which in the future may be converted to natural gas, extends for over 190 km and is currently fuelled by LPG through a storage and production plant located on the outskirts of the city. Paolo Gallo, CEO of Italgas, has commented as follows: "The agreement reached today is in line with the objectives set out in our Strategic Plan and, alongside the recent operation involving Ichnusa Gas, further strengthens the presence of Italgas in Sardinia."

Concession of Portopalo acquired

On December 21, Italgas has signed a binding agreement with A Energia Reti for the acquisition, for a total amount of 2.2 million euros, of a company branch regarding the concession and the natural gas distribution network of the Municipality of Portopalo di Capo Passero (Syracuse). The network, which is completed but not yet in operation, extends for about 35 kilometres and serves a pool of about 1,400 potential users.



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