December 2018

Financial Markets Review

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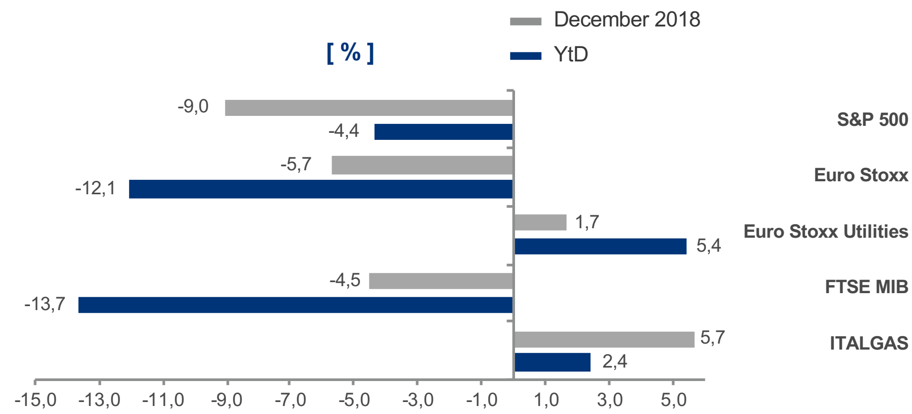
Eurozone equity market at minimum levels for 2 years with continuing macro data weakness and restrictive FED approach. Core yields further contracting; BTP-Bund spread narrows with EU green light for Italian finance law

The financial markets

The global equity market fell heavily again in December, which following the initial hike triggered by the US-China agreement to temporarily block escalation in customs duties and the Russia-Saudi Arabia talks to extend the OPEC+ cartel to 2019 went back to dropping because of: 1) the arrest of Huawei's CFO during a crucial phase for trade negotiations; 2) macro data series continued to lie beneath the expectations of China, the US and the Eurozone (industrial production, manufacturing SMEs, new non-agriculture payroll and German IFO); 3) the FED's decision to increase rates for the 4th time in 2018 and to schedule another 2 increases in 2019, a result fully less accommodating than expected, with resulting rumours on a position replacement of the FED chairman and fears of a clash between political and monetary authorities over the independence of the US central bank; 4) partial shutdown of US federal activities due to the failed agreement on funding the wall at the Mexico border. On the whole, S&P 500 moved back 9% vs. -6% for Euro Stoxx (15 and 24-month lows). Marginal outperformance for FTSE Mib (-5%) due to the sovereign spread contraction caused

Performance of the major Stock Exchange indexes



Source: Italgas processing of Bloomberg data

by progress in cutting the deficit. 10y US yield -30 bps (1-year minimum levels) due to risk-off, with a yield curve that underscored greater levelling off in 11 years and the first turnabout in the mid-term stretch, also on the same period. Implicit US inflation at 18-month lows, also reflecting a continuing drop in crude prices; the market price-marks zero increases in FED rates in 2019. Despite the ECB's reduced GDP and inflation estimates, the 10y Bund yield closed marginally down (-7 bps, 2-year lows) due to mitigated tensions and return of capital on the periphery. BTP-Bund spread -40 bps after the EU approved Italy's financial manoeuvre. EUR/USD +1.3% reflecting the above-mentioned levelling off and US yield curve turnabout and mitigated Eurozone periphery fears. EUR/GBP +1.3% due to growing risk of the Brexit agreement being rejected and postponement of the UK parliament vote.

The oil market

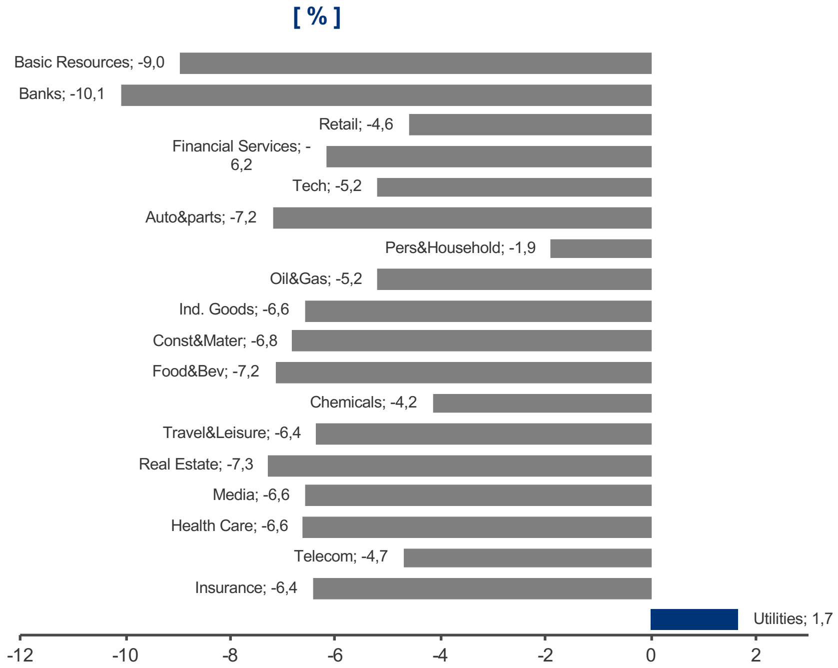
Dated Brent -9%, at minimum levels for 15 months in the wake of an initial rise consequential to the OPEC+ agreement to cut production by 1.2 mbd in order to remove the greater availability of output deriving from exemptions from sanctions against Iran granted to several larger consumer countries for 6 months, and the decision of the province of Alberta (major Canadian production hub) to impose a 0.3 mbd production cut until surplus stocks are cleared, prices were affected by the generalised risk-off phase and fears of world demand slowing down, with the EIA raising its US shale oil production estimates and Russia that announced it is expecting a new historic production record in December on the eve of the OPEC+ production cuts going into effect.

Trend of the sectors

The dynamics in the sectors continue to reflect fears of an economic slowdown and a heavy fall in oil; the best performers are still defensive

In this picture of generalised risk aversion, and although in a context of widespread sales due to the increasing expectations of an economic slowdown, the financial sectors and those tied to commodity prices revealed the worst dynamics, particularly with reference to banking (-10%), penalised by the heavy contraction of core yields, and mineral/iron and steel (-9%), which like the previous month were affected by fears of a slowdown in upstream investments. On the other hand, a few defensive sectors stand out, particularly the utilities and personal goods sectors, while in spite of the bond-proxy profile, the real estate sector closed as one of the worst performers (-7%) due to the 12% drop of the URW group, particularly exposed to the Paris area as a consequence of the mass protests in France.

Trend of the main sectors, December 2018



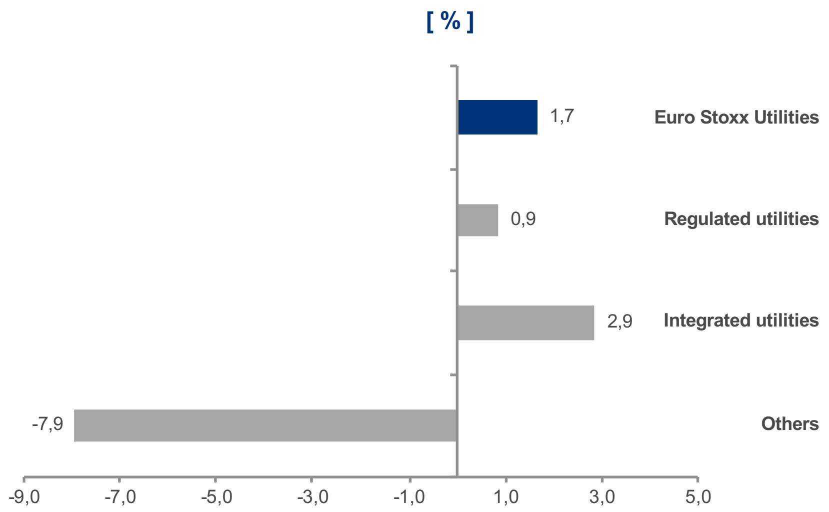
Source: Italgas processing of Bloomberg data

Utilities best performers with risk-off phase and CO2 price rally

Trend of the Utilities sector

Roughly 2% appreciation for the utilities sector, definitely the best performer in December, driven by the integrated securities due to hikes in Iberdrola and Enel (+6% and +5%), the 2 leading contributors to the sector's index, which benefitted from electricity prices in central Europe at their 7-year maximum levels because of the increased CO2 prices, and respectively expectations of an updated business plan, with upgrades by several brokers, and reinforced dividend policy announced in the November business review. Regulated securities were all in all backed by contraction of the peripheral spreads, while the water and environmental sector was affected by Suez's plunge (-12%) after parent company Engie announced its intention to not go ahead with a takeover.

December 2018 - Trend of the sector and sub-sectors

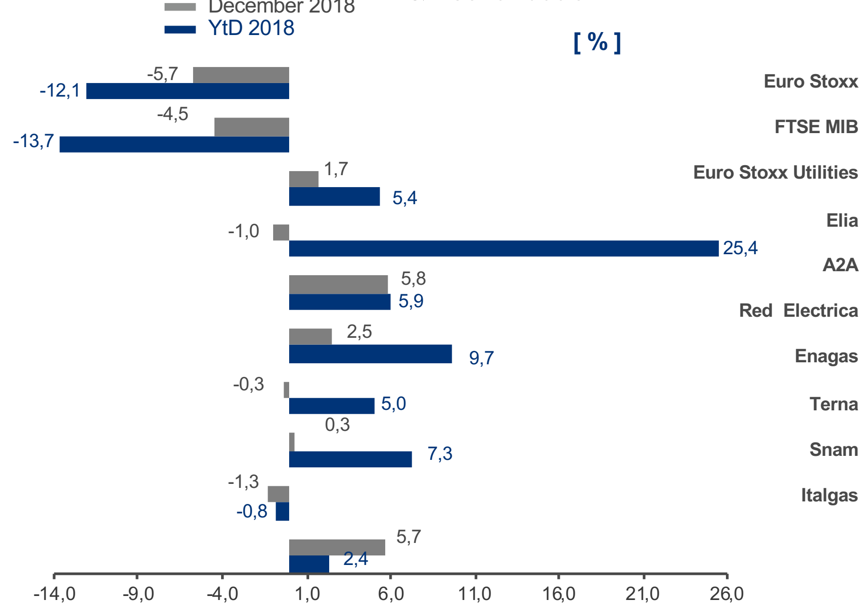


Source: Italgas processing of Bloomberg data

The Italgas share and its peers

Italgas enjoyed a 6% appreciation and was one of the best performers in December as it recovered its underperformance compared to its regulated Italian peers and the sector index of the previous month. In addition to the cited contraction of the sovereign peripheral spreads, the share was held up by acquisition of another 50K PDR (Conscoop), which allowed the target to be met in terms of PDR planned by the end of the year, proof of the company's proactiveness in spite of the ongoing delay in starting up gas tenders. Also reported is +6% of A2A, in this case as well supported by the increase in electricity prices in central Europe because of the CO_2 price rally brought about by the drop in hydroelectric production and regulatory measures aimed at reducing a free assignment surplus.

Italgas and its peers



Source: Italgas processing of Bloomberg data

6% increase for Italgas, backed by a contraction in core yields/spread and M&A continuation

Agenda

Corporate events

22 February BoD Q4/FY results, press release and conference call

Corporate News

EGN acquisition finalised

On 03/12, Italgas finalised the M&A transaction announced on 22/06, in line with the goals of consolidating the market via targeted acquisitions as set out in the 2018-2024 Business Plan. The finalised transaction consists of acquiring the following equity investments from CPL Concordia: 1) a controlling share, equal to 60%, of EGN; 2) 100% Fontenergia S.r.l.; 3) 100% Naturgas S.r.l. The value of the companies was set at €100 million for 100% of EGN and €16 million for 100% of Fontenergia and Naturgas. The agreement to acquire EGN also includes put&call options on the remaining 40% shareholding CPL Concordia holds in EGN, which can be exercised starting from the 6th month after the closing date.

Agreement with Conscoop to acquire 19 concessions

On 28/12, Italgas signed a binding agreement to acquire equity investments and business units comprising 19 concessions for gas distribution and over 50K PDR concentrated in Central-South Italy and Sardinia from the Conscoop Group. The total value of these acquisitions was established at approximately €68.6 million. Italgas will also acquire 10% of the share capital of Isgastrentatrè S.p.A., which holds the gas distribution concession in Bacino 33 of Sardinia, with roughly 600 of the potential customer base of 18,500 currently powered by LPG. The agreements to acquire Isgastrentatrè also include the commitment to take over the remaining 90% when several conditions are met, including the conversion to natural gas of the network currently powered by LPG, whereas if the conditions are not met, Italgas will have the right to resell and Conscoop will be obliged to buy back the 10% share at the same price (€0.3 million). Finalisation of the single transactions described is expected by H1 2019.

Paolo Gallo, CEO of Italgas, commented: "We are closing the year with another important transaction that allows us to fully meet the target set in the Strategic Plan, that of acquiring new users for 2018. Considering the 140K PDR already acquired between 2017 and 2018, and the 50K of today's transaction, we are headed in the right direction, aimed at achieving 250K new users by the end of 2019".

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