January 2018

Financial Markets Review

Net recovery of European stocks in January after December decreases, supported by macro data and rally of financial stocks. Core sovereign yields in net increase with expectations of monetary policy normalisation

Financial markets

Eurozone price indexes rallied in January after the decrease registered in the second half of December which was caused by the euro's strengthening and the resurgence of Italian political risk. The recovery was supported by the robust macroeconomic framework, with US industrial production and ISM manufacturing, Chinese GDP and the composite Eurozone PMI above expectations. However, the recovery was not homogeneous across stock exchanges. The higher yield of core sovereign bonds and the further strengthening of the EUR/USD rate which resulted from it favoured the FTSE Mib (exposure to the financial sector, positively correlated to interest rate trends, +8%) compared to the DAX (exposure to manufacturing exporters, +2%). Overall, the Euro Stoxx showed a 3% increase. Wall Street registered new historic highs (S&P 500 +6%), which reflected the further weakening of the dollar and federal activity resuming after the government shutdown, in addition to the positive macro tone.

Performance of main stock indexes
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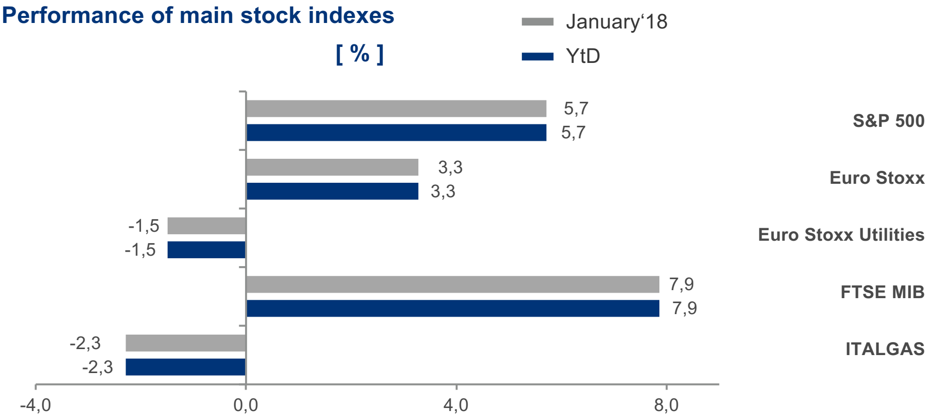


Source: Italgas analysis of Bloomberg data

Core sovereign yields rose significantly thanks to the strengthening of the macro framework which was confirmed by the ECB and FED minutes, which respectively anticipated the possible variation on QE guidance and the continuation of rate increases. The 10y Bund yield increased +27 bps (+21 bps net of maturity variation) and 10y US Treasury +30 bps, respectively at 2 and 4 year highs. Peripheral spreads sharply contracting (BTP-Bund -20 bps in rectified terms) because of the upgrade of the Spanish and Greek sovereign ratings and with the real yield on the Bund still widely negative. The EUR/USD is up 3%, at a 3-year high, reflecting the formation of the new German government, the US Treasury's support to the dollar's weakening and different stages of ECB monetary policy vs FED. EUR/GBP -2% on the basis of BoE representatives' declarations on further rate rises and weekly remuneration data above expectations.

The oil market

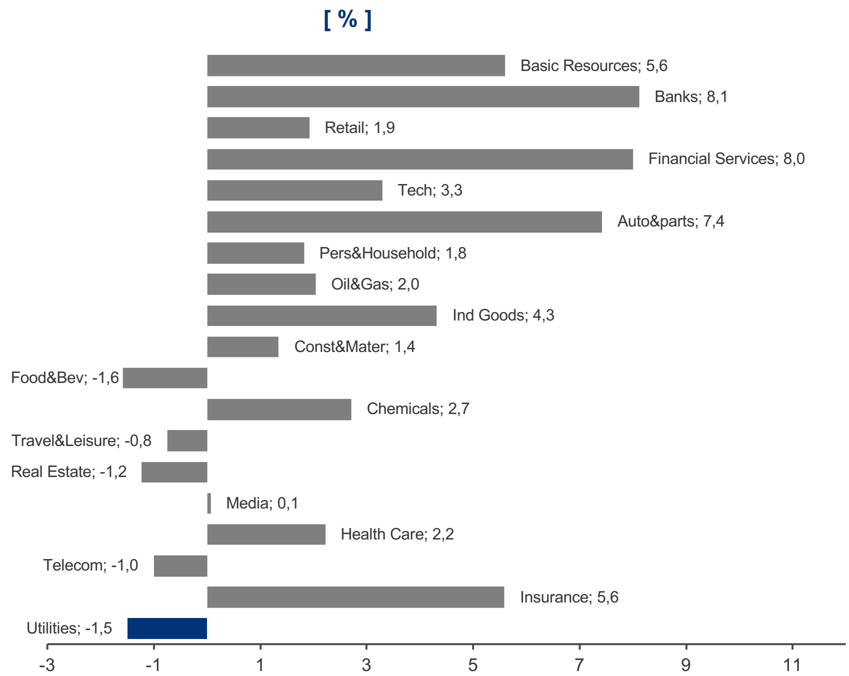
The upturn of oil prices continued, with dated Brent (+3%) reaching the $70/b threshold, the December 2014 high. The trend reflected: 1) the resurgence of undersupply risk, with US crude inventories at a 3-year low, despite US output consolidation near the 10 mbd threshold; 2) the robust macroeconomic framework, with the strong stock market recovery and the Saudi energy minister's prediction of an increase of global demand for oil of 20 mbd in the next 25 years; 3) the new strengthening of the EUR/USD.

Sector trends

Sector trends reflected the improvement in the macro environment, which subsequently led to an increase in sovereign yields. The Financial sector was the best performer, benefitting from a spread widening due to employement yields and collection costs. Generally, the more cyclical sectors registered an outperformance. The Automotive sector, in particular, benefitted from better than expected US registrations and from brokers' positive outlook. Differently, the defensive and bond-proxy sectors were negatively affected by the above-mentioned increase in sovereign bond yields. The Utitlies sector, in particular, was impacted by the Spanish Government's intention to introduce changes in the legislation to lower energy bills, starting from regulated activities.

Sector performance driven by stronger macro environment and increase in bond yields

Main sector trends, January 2018



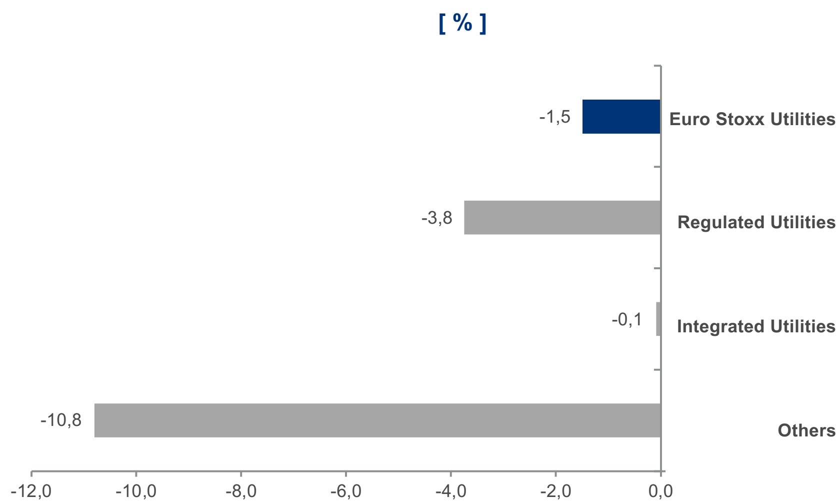
Source: Italgas analysis of Bloomberg data

Utilities worst performer following sovreign yields increase, Spanish newsflow and profit warning

Utilities Sector Trends

Following December's negative performance, the Utilities sector was again the month's worst performer in January. However, the regulated utilities sub-sector closed in a rather stable way, with positive performances by EdF and Iberdrola (increase in energy prices in France and brokers' upgrade) which balanced the negative performance by the German operators (decisions on exiting carbon production still pending due to the formation of the new government). The regulated operators' stocks registered negative performances overall, due to the increase in sovereign yields and the Spanish Government's regulatory intervention to decrease the cost of energy bills. The 'Others' sector's performance, which weighs about 10% on the index, was impacted by Suez' profit warning .

January 2018 - Sector and sub-sector trends

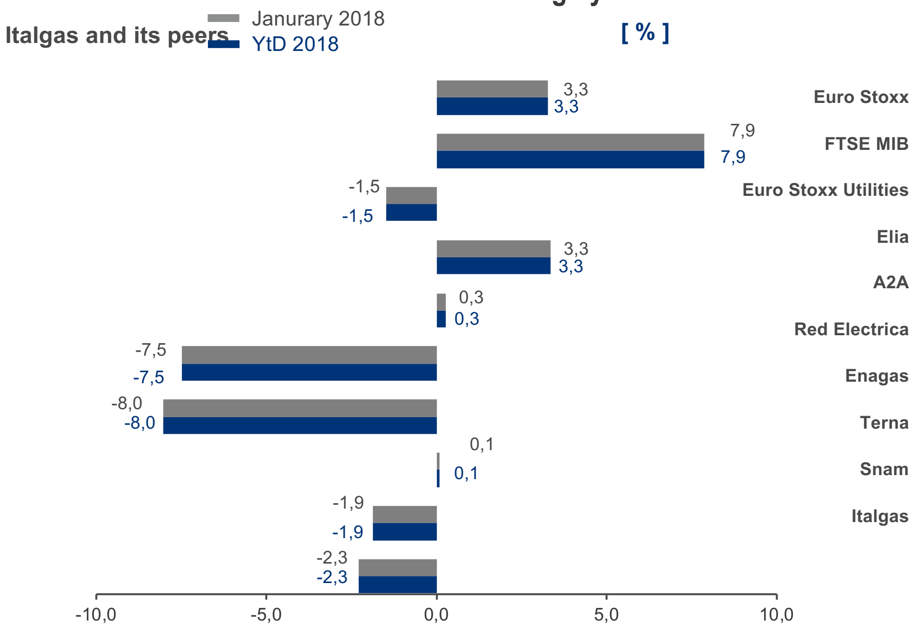


Source: Italgas analysis of Bloomberg data

Italgas stock and its peers on the Stock Market

Italgas continued to register a negative performance, which, after December's falls, was down 2% due to the increase in sovereign yields, partly mitigated by a decrease in peripheral spreads. The stock was impacted by profit taking after the large outperformance in 2017, due to the lack of significant newsflow on gas tenders. The Spanish stocks were the worst performer, due to the Spanish Government's intention to decrease the cost of energy bills, starting from a review of regulated activities' remuneration, and due to a larger exposure to bond yield variations. Terna closed in a stable way, an improvement from December's underperformance.

Italgas down with regulated utilities in January, still impacted by the increase in sovereign yields



Source: Italgas analysis of Bloomberg data

Agenda

Corporate events

12 March Board of Directors approval of the consolidated financial statement and dividend proposal press release and conference call

19 April Shareholders' meeting on the financial statement

Corporate News

Bond issue reopening

On 23 January, Italgas successfully reopened the bond issued on September 18, 2017 (500 million euros, maturing on January 18, 2029 and a coupon of 1.625%) for a further amount of 250 million euros. The positive performance of the original issue on the secondary market allowed Italgas to have the reopening better priced in comparison to the original issue, with a spread of 58 bps on the mid-swap rate rather than the original 72 bps. At the moment of the issue, the secondary market levels of the bond reopened were higher than the spread of 58 bps obtained with today's operation. This issue brings the amount of fixed-rate debt to over € 3.2 billion euros, also thanks to the hedging transactions from floating-to-fix carried out in the first part of January. Italgas realized a further step in the optimization process of its debt structure, increasing maturity and fix/floating ratio.

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