June 2019

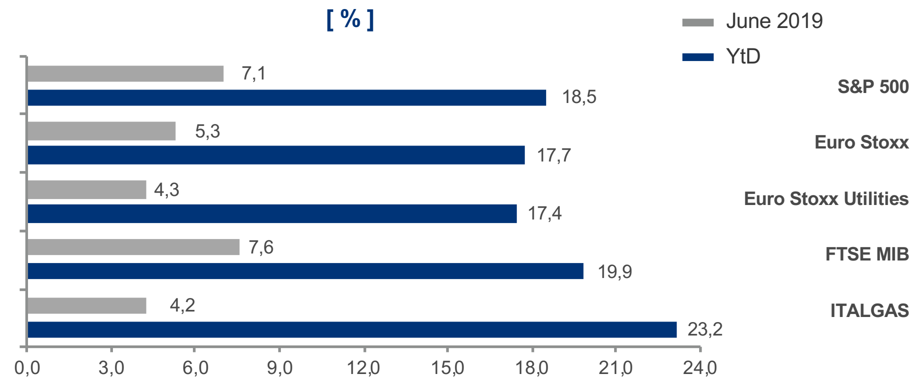
Financial Markets Review

Global equity market recovers from the downturn in May with an accommodating approach by the central banks and the discontinuation of the US vs Mexico custom duties. Core yields at historical/multiannual lows with continuing weakness in macro data

Financial markets

A wide-ranging rally was experienced in the global equity markets after the correction in May reflecting the opening of the FED to the reduction in interest rates to offset the tightening of global trading tensions, as well as the discontinuation of the US plan to increase customs duties for Mexico. The opening of the FED, supported by the inversion in the US yield curve to maximum levels for at least 10 years, was further strengthened by lower than expected US macro data (non-agricultural payroll coupons creation at a minimum for three months and Q1 GDP). In addition, the Chinese central bank declared the availability of wide margins for manoeuvre to offset the worsening trade outlook, and the national government loosened budgetary constraints with respect to local administrations in order to support the launch of infrastructural projects. Euro Stoxx +5% vs S&P 500 +7%, the latter supported also by the appreciation in the EUR/USD exchange rate. A rise of approximately 8% for the FTSE MIB, which recovered from the downturn in May. In spite of the strong rally in share markets, core yields remain at historical/multiannual lows (Bund -13 bps, UST -12bps)

Performance of the main Stock Exchange indices
[%]



Source: Italgas elaboration of Bloomberg data

reflecting the above mentioned confirmation of an accommodating approach by central banks and the continuation of lower than anticipated macro data. The BTP-Bund spread closed 44 bps down following the above mentioned expectations of further monetary easing and space for compromise with the EU in relation to the infraction procedure. The Italian 10y yield consequently dropped to the minimum levels of May 2018. After reaching two-year minimums in May, the EUR/USD exchange rate rose by 1.8% following the above mentioned opening of the FED to a reduction in rates in response to a less accommodating approach by the ECB and the overall greater weakness of USA macro data. There was a rise of 1.3% in the EUR/GBP rate reflecting the greater probability of Boris Johnson, known for his position in favour of a no-deal Brexit, being elected PM, as well as the UK SMI manufacturing index performing well under expectations and on the threshold of 50 points (indictor of economic contraction).

The oil market

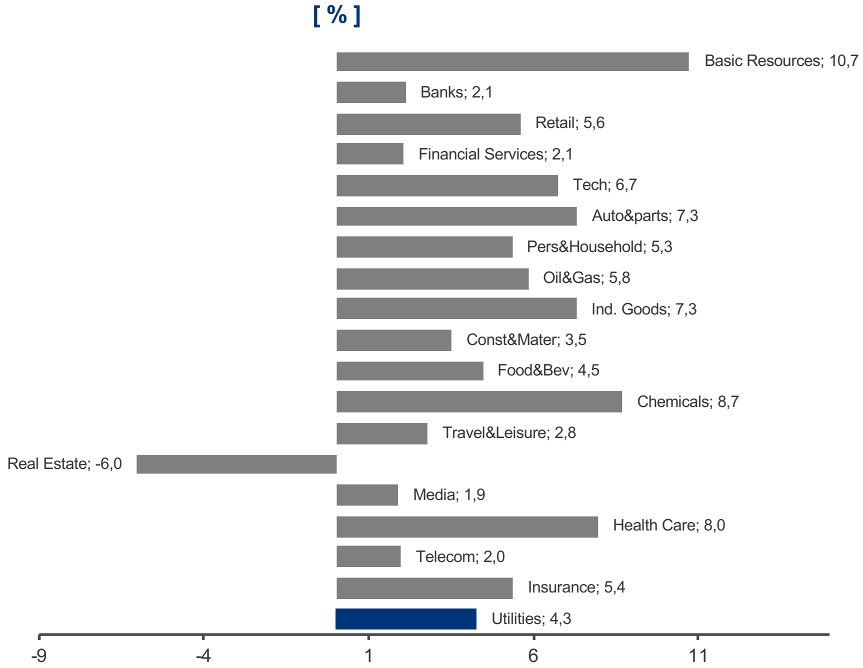
Oil prices were volatile but overall up by 2%. After touching a five month minimum as a result of the weakness of macro data, higher than expected crude oil inventories at a two-year maximum, and a new historical maximum for the US output, prices recovered following the above mentioned appreciation in share prices induced by the expectations of monetary easing and the USA-Mexico trade news flows, as well as commitments by Saudi Arabia and Russia to extend the OPEC+ cuts (1.2 mbd) to the second half of 2019 and the re-emergence of USA-Iran tensions following the attack and damage to two petrol tankers in the proximity of the Strait of Hormuz and the destruction of a US drone by Iran.

Trends by segment

Absence of a clear background sector dynamics, with cyclical and defensive stocks simultaneously among the best and worst performers In fact, among cyclical stocks, the mining sector (+11%) offset the drop in May following the rise in the price of iron due to the greater Chinese demand implicit in the above mentioned acceleration in infrastructural projects, as well as gold prices at six-year maximums due to the growing uncertainty in the macro context. Again with regard to cyclic stocks, however, the further contraction of core yields penalised banking stocks (+2%) following the anticipated reduction in brokerage unit margins. Despite the above mentioned core yield dynamic, real estate, typically bond-proxy, resulted the worst performer sector (-6%) due to German operators (Deutsche Wohnen, Vonovia) after Berlin introduced a five-year block on lease rentals.

Absence of background sector dynamics, with cyclical and defensive stocks simultaneously among the best and worst performers

Performance of the main segments, June 2019



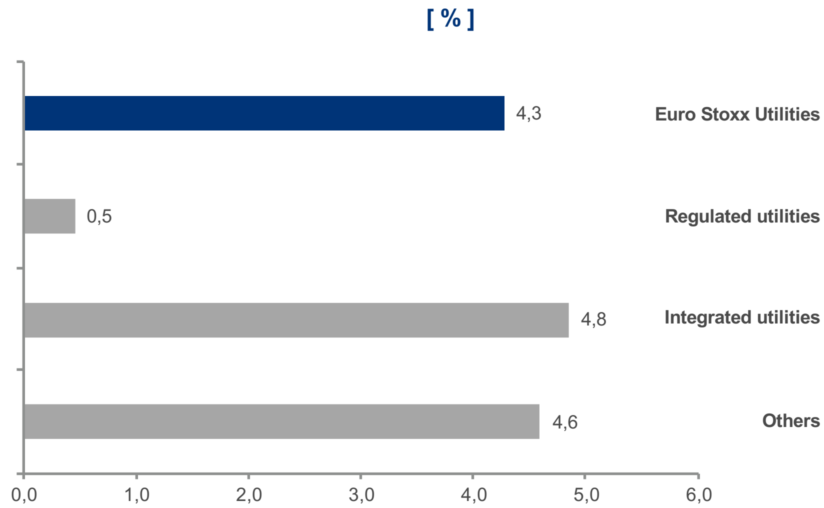
Source: Italgas elaboration of Bloomberg data

Utilities at a eight-year maximum; Italian stocks outperform with a spread contraction

Performance of the utilities segment

There was a 4% rise in the utilities segment, which experienced eight-year highs supported by the contraction in core yields to new historical/multiannual lows. The segment recorded an overall outperformance in Italian stocks following the consistent reduction of the sovereign spread. Enel (+10%) was the best performer, also reflecting the restart of coverage by JPM with a recommendation to buy. There was an overall weakness in regulated stocks following press rumours relating to the Spanish rate table and the slowdown of Snam after an outperforming YTD.

June 2019 - Performance of segment and subsegments

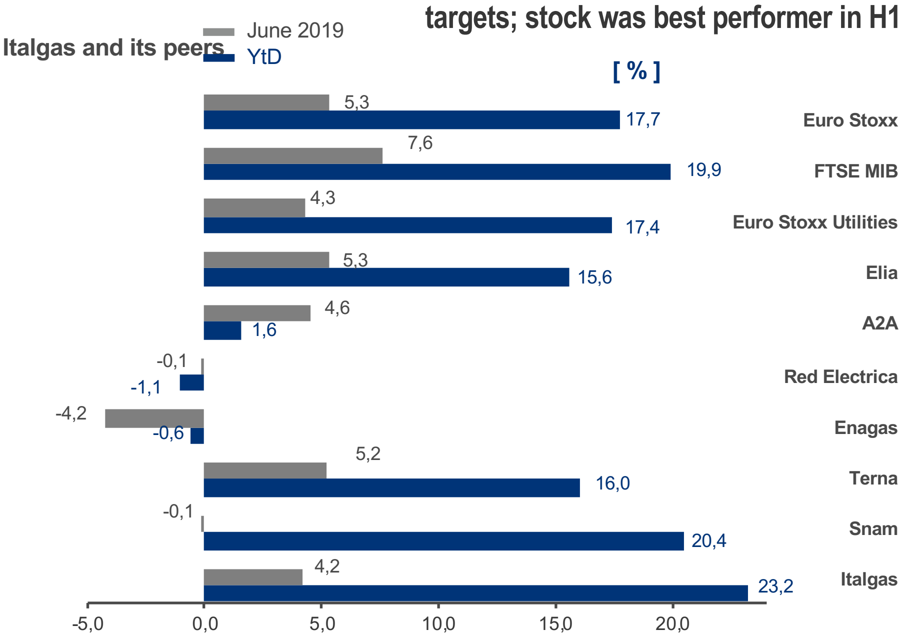


Source: Italgas elaboration of Bloomberg data

The Italgas stock and its peers on the Stock Exchange

Rise of 4% for Italgas, in line with the sector's index. The stock, which recorded maximum price quotations and was the best performer compared to its peers in terms of TSR in H1, was supported by the improved industrial plan targets as well the contraction in core yields, with almost 60% of analysts following the stock, which subsequently saw its target price rise. Spanish operators (Enagas -4%) were on the other side of the spectrum, following press rumours relating to rate table cuts being finalised in the regulatory period.

Italgas (+4%) at price maximums supported by improved industrial plan targets; stock was best performer in H1



Source: Italgas elaboration of Bloomberg data

Agenda
Corporate events

29 July	Board of Directors Q2/H1 results
30 July	Press release and conference call

Corporate events

2019-2025 Strategic Plan introduced

On 12 June Italgas introduced the 2019-2025 Strategic Plan. The Plan is articulated over four key sectors: (i) digital innovation and transformation of the Company through the digitalisation of assets and processes and the development of digital skills for all personnel, (ii) realisation of the natural gas distribution network in Sardinia, (iii) new M&A operations and (iv) further organic growth, in terms of network extension and redelivery points served.

The Plan envisages a significant increase in investment programs of EUR 500 million (+12.5%) compared to the previous one, to bring the Company to the digital era, strengthening its leadership at European level, taking advantage of all development opportunities and creating value for Shareholders.

Overall investments allocated in the period amounted to EUR 4.5 billion, with further investment opportunities for approximately EUR 1.9 billion for the acquisition of networks following sector tenders and relative organic developments. Of these, over EUR 2 billion will be earmarked for the maintenance and extension of the network, while EUR 500 million will be earmarked for the construction of a methane gas distribution network in Sardinia, and approximately EUR 1 billion will be allocated to the digitalisation of networks and company processes.

The current dividend policy was confirmed, which until the 2020 financial year envisages the payment of a dividend of the higher of (i) the amount resulting from the 2017 DPS increased by 4% YoY and (ii) the DPS equivalent to 60% of the consolidated net profit per share.

Paolo Gallo, Chief Executive Officer of Italgas, commented: "This plan has as its main focus the digital transformation of the company. The innovation, which is affecting our sector, will create two categories of companies: cutting edge companies, and followers. Because of its history and size, today Italgas is the leader; tomorrow, thanks to the investments in digitalisation, it will become a cutting edge company, the leader at European level. At the end of this long path Italgas will have one of the most technologically advanced networks, with the application of avant-garde digital solution."

Italgas SpA
Via Carlo Bo 11 - 20143 Milan (MI) Italia
www.italgas.it investor.relations@italgas.it
Tel: +39 02 81872012 - fax: +39 02 81872 291