

Financial Markets Review



A strong decline in the FTSE Mib driven by the rise of sovereign spread, caused by concerns surrounding the new government’s fiscal easing and a potential exit from the Eurozone. Nuclear yields have dropped with the influx of peripheral capital.

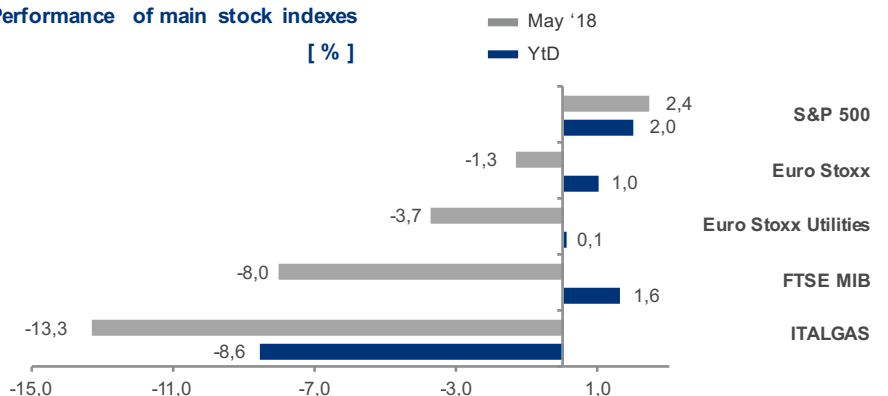
Financial markets

Despite reporting a 10-year high, driven by a positive international economic cycle and crude oil prices, and combined with the highs of the last 3 and a half years, the FTSE Mib has closed with a steep decline this May (-8,0%), suffering from a growth in sovereign spreads due to concerns around slowing fiscal growth from the potential new government, and the subsequent risk of exiting the Eurozone.

The Italian index has particularly suffered as a result of the exposure of stocks penalised by sovereign debt locked into portfolios. Euro Stoxx was more restrained, however, declining (-1,3%). Peripheral derivative tensions were mitigated by oil prices being at a new high for the period, and the depreciation of the EUR/USD to a new 4-month low. It was also mitigated by the general situation of robust macro data and the inflation rate in the USA at a 50-year low, without which inflationary pressures would have been created with wage growth completely below expectations.

The S&P 500 is on the rise, having avoided Eurozone issues and benefitted from macro data that completely defied expectations, one

Performance of main stock indexes
[%]



Source: Italgas analysis of Bloomberg data

of which was the reporting of the unemployment rate in the USA. Sovereign spread has increased sharply (+123 bps), to the highest point since late-2013, which as predicted has suffered from potential derivative deficit as a result of the implementation of the new government’s expansive fiscal policies. The resultant outflow of peripheral capital has trickled down to purchased nuclear sovereigns

(yielding 10y Bunch -22bps, 10y UST -9 bps), which have benefitted from the accommodating approach of the central banks in terms of the expectations for inflation.

The EUR/USD has declined by 3%, which has reflected growing peripheral risks in the Eurozone and a difference in macro data (The German PIL and Eurozone inflation were lower than expected). The EUR/GBP remains substantially unaltered as a result of macro data being below expectations and uncertainty around the outcome of Brexit on the UK’s part.

The oil market

Dated Brent recovered (+3%) after Trump withdrew the USA from the Iranian nuclear deal and reached its highest point since November 2014, anticipating the restoration of sanctions to Middle Eastern countries – an event which would limit OPEC’s offering as a

third-party supplier (with an output of 3.8 mbd, Iran is actually the third biggest producer of the group after Saudi Arabia and Iraq). Prices have also been bolstered by growing manufacturing issues in Venezuela and Libya. At the end of the month, prices were mitigated

by indications from Russia and Saudi Arabia about the potential decision to reduce production cuts currently 1.8 mbd.



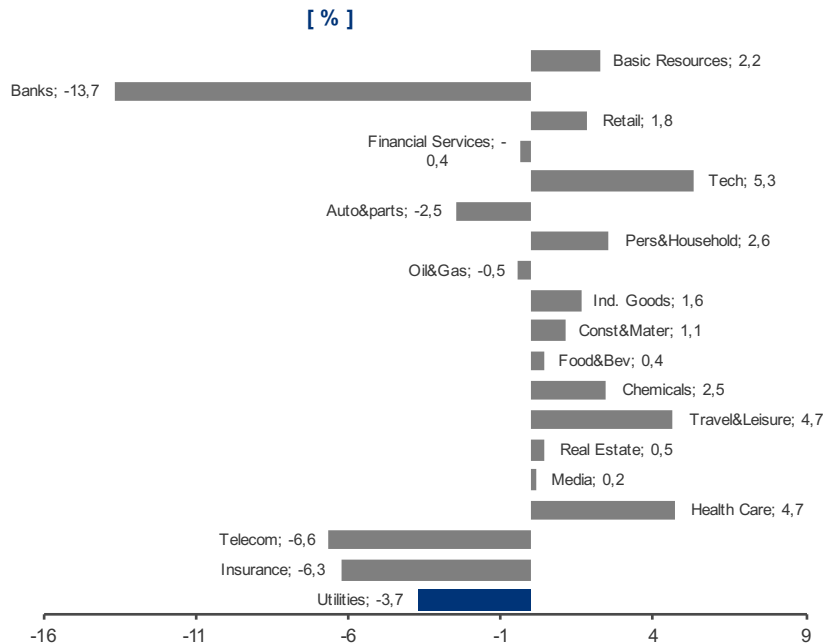
Sector trends

Sector fluctuation reflects the sell-off of Italian sovereign and peripheral debt, driven by fears of fiscal easing and exiting the eurozone, and the potential effects of the decline in nuclear yields on the influx of peripheral capital. Moreover, the banking and insurance sectors are by far and away the worst performers, as a result of exposure to peripheral debt locked into portfolios. The telecom sector has also suffered from a decline in Telecom Italia's stock as a result of the intensifying competitive landscape with the arrival of new low-cost operators. The technology sector has been among the best performers, driven by Apple's results and buy-back announcement; as well as the pharmaceutical sector, owing to quarterly results and a defensive profile with a significant lack of peripheral operators.



Sector fluctuation reflects the rise of peripheral spreads and the decline of nuclear yields; banking were worst performers because of Italy's wide exposure

Main sector trends, May 2018



Source: Italgas analysis of Bloomberg data



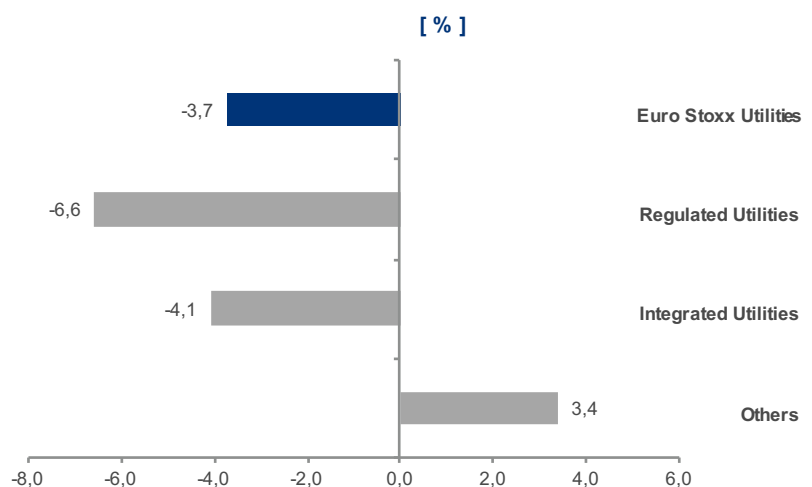
Utilities amongst the worst performers as a result of exposure to the eurozone periphery



Utilities sector trends

The Utility sector is among the worst performers with a decline of almost 4%, suffering from significant exposure to peripheral country operators, particularly Italy as a result of the rise in sovereign spread. The regulated stocks, mainly comprised of Italian and Spanish operators, have consequently underperformed in the integrated securities markets, exacerbated by German stocks and a renewed interest in M&A activity in central Europe, positive quarterly results and a surge in gas prices reflecting the dynamic of oil. Additionally, the Portuguese company EDP reported a 9% increase after its public offering by the Chinese group CTG. The final 'Others' group (essentially Veolia and Suez) is positive however, as a result of strong quarterly reporting and a lack of exposure to peripheral countries.

May 2018 - Sector and sub-sector trends



Source: Italgas analysis of Bloomberg data

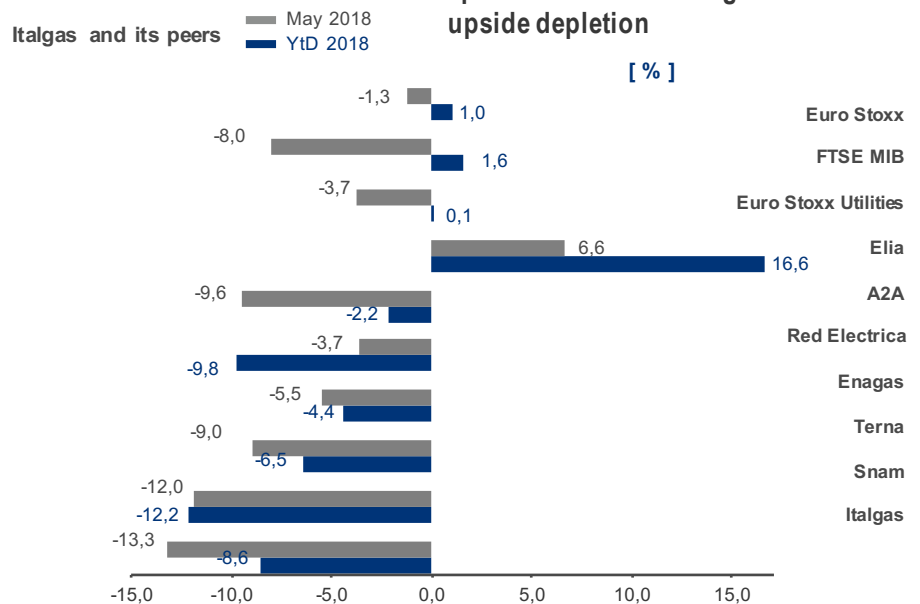


Italgas stocks and its peers on the Stock Market

Despite having been one of the best performers in the first 4 months of this year, Italgas is a worst performer this May, with a decline of 13%, primarily reflective of the rise in sovereign spread, which has in turn strongly impacted the nature of the bond-proxy, despite the possibility of such a rise in rate changing. Moreover, some brokers have downgraded the stock, driven by a lack of additional significant upside, the stock nearing its highest since the listing, a lack of visibility of gas tenders and Q1 results being in line with expectations. All the Italian stocks on the panel have therefore underperformed as a result of the spread. Elia's stock however has risen by 7%, driven by the possibility of it acquiring a minority stake in the German subsidiary 50Hertz.



Italgas was the worst performer in May as a result of the rise in sovereign spread and some downgrades for upside depletion



Source: Italgas analysis of Bloomberg data



Agenda

Corporate events

12 June

BoD strategic plan 2018-2024

13 June

Press release and strategy presentation



Corporate News

Q1 consolidated results approved

On 7 May, Italgas' CdA approved its consolidated Q1 results, which saw profits rise by 1.0% yoy (281 million Euro), EBITDA +2.7% (198 million Euro), EBIT +8.4% (112 million Euro), and a net profit of +4.5% (75 million Euro), and net debt of 3.656 million Euro. The Q1 financial results confirm the positive movement seen in 2017, with a further improvement of margins. Investment programs and subsequent acquisition transactions are in line with the objectives that were pre-announced in the 2017-2023 Industrial Plan. With the goal of completing the internal substitution program in the early months of 2020, 470,000 new meters have been installed in Q1 of 2018, bringing the total number of meters installed to 3.6 million, near to 44% of all traditional meters. Paolo Gallo, CEO of Italgas, commented:

"The Q1 2018 results show an improvement in all the principal economic indicators when compared to the same period in 2017 and are consistent with the results from the year that just ended, signalling a big recovery for the Group, which, while waiting for tenders, continues to improve the competitiveness and quality of the service and allow for the pursuit of growth through external lines in the meantime."

Moody's put rating in review

On 30 May, Moody's Investor Services announced, that following the decision to put Italian government bonds 'in review for downgrade', they had also taken a similar stance on their long-term rating of Italgas, currently at Baa1 level, taking into consideration the connection with regards to sovereign credit.



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