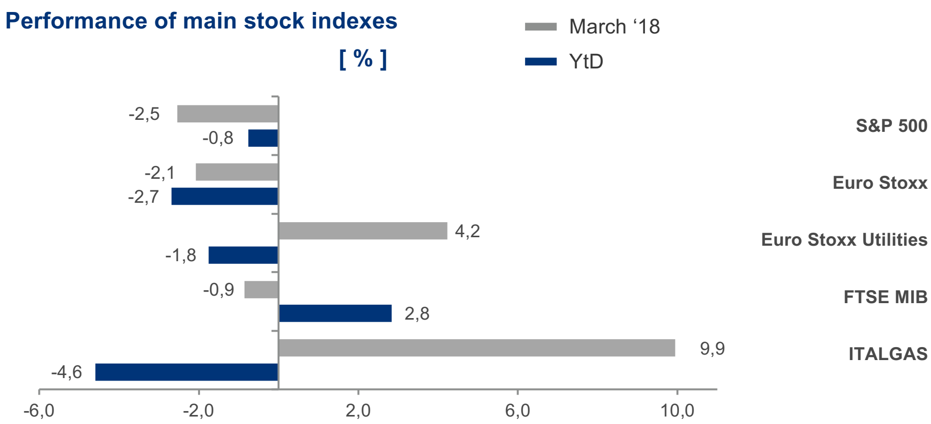
March 2018

Financial Markets Review

Eurozone stock decline continues in March due to fears of restrictions on international trade. Subsequent contraction on sovereign yields which also reflect accommodating positions by central banks

Financial markets

The adjustment of stock indexes continued in March, mainly caused by fears of trade wars subsequently to the introduction of tariffs on aluminium and steel imports by the US. The tariffs were extended include a $50bn cap on the value of Chinese imports. The adjustment of stock indexes was also impacted by the retaliatory Chinese measures on an equivalent amount of US goods. The Euro Stoxx index fell by approximately 2%, mainly because of the DAX (-2.7%) which has a greater exposure to exporters in the manufacturing sector who are more sensitive to commercial tensions. The FTSE Mib outperformed (approximately -1%), supported by Eni's 4% rise (crude price increase and dividend increase) and Telecom Italia (Elliott stake purchase). Despite the dollar's new depreciation, the S&P 500 recorded a 2.5% fall reflecting the impact of US political turbulence. Core sovereign yields registered a broad contraction (10y Bund -16 bps, 10y US Treasury -12 bps) due to 1) the ECB's accommodating stance (despite the formal variation in its QE guidance, the ECB made a downward revision its inflation expectations and confirmed the need for low rates still for a long period of time), 2) the FED's confirmation of three rate increases in 2018 rather than four, 3) US political turbulences, 4) the SPD's vote supporting the renewal of the German government's coalition with the CDU/CSU. The BTP-Bund spread was at -3bps. However, the spread's fall appears to reach 13 bps net of the variation in the BTP's maturity benchmark because of the SPD's endorsement for the formation of a government in Germany, Spain's rating's upgrade by S&P and President Mattarella's decision to give political parties several months to broker a government coalition. The EUR/USD exchange rate is up 1.1% as a result of US political turbulences. The EUR/GBP exchange rate fell by 0.8% because of the outcome of the ECB's meeting, the possibility that the UK might enjoy a transition period post-Brexit and robust UK macro data.



Source: Italgas elaboration from Bloomberg data

The oil market

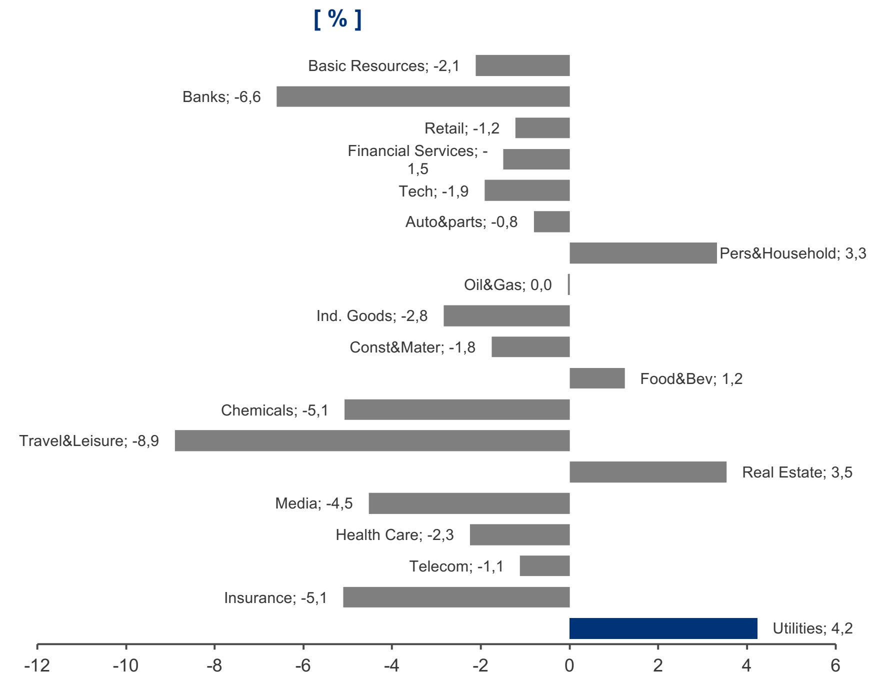
Brent dated listings recovered 7% and entirely compensated the previous month's decline which was caused by expectations of an economic cycle slowdown due to monetary policy normalisation. Despite US output and active drills both reaching three-year highs, oil listings felt the impact of 1) growing expectations for a return of US sanctions against Iran; 2) the resurgence of falling production risk in Venezuela because of the country's financial crisis; 3) expectations around the OPEC and non-OPEC technical committee's estimates for the timing required for oversupply to be reabsorbed and rumours around the potential extension beyond the year's end of OPEC and non-OPEC production cuts of approximately 1.8 mbd.

Sector trends

Sectoral performance have felt the impact of a general context marked by renewed fears around stocks because of growing international trade tensions, which led to sovereign yields' contraction. Defensive compartments and bond-proxies performed the best, with the utilities and real estate sectors positioned respectively in first and second position. (approximately 4%). The personal goods and food sectors come next thanks to their anticyclical profile. All other sectors except for oild&gas (thanks to crude trends) have closed in the red, particularly for the banking and insurance sector because of yield trends and for the tourism sector, thanks to the increase of oil lisings and greater competition between low-cost operators.

Sectoral trend reflected the contraction of sovereign yields. Defensives and bond-proxies were best performers

Main sector trends, March 2018



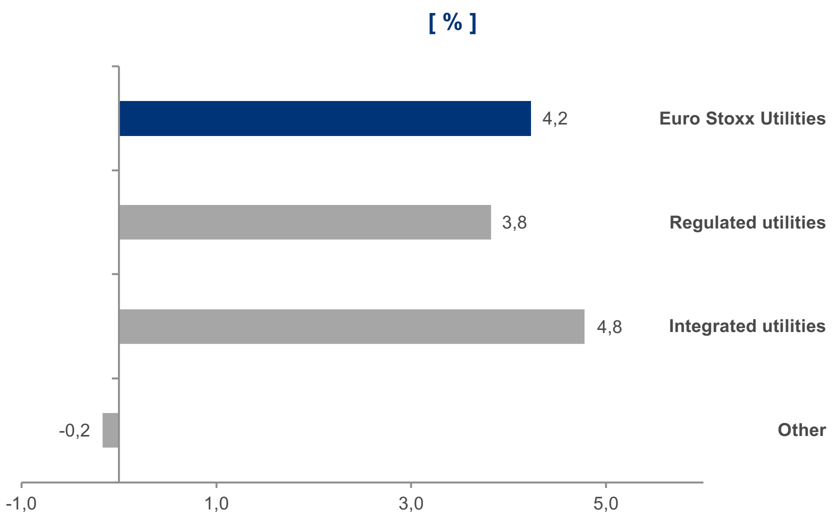
Source: Italgas elaboration from Bloomberg data

Utilities were the best performers in March due to yield trends and M&A newsflows

Utilities sector trend

After the three-month decline caused by fears of a resurgence of sovereign yields as a result of monetary policy normalisation, the utilities sector is back to growth and is the best performing sector. Its performance has nonetheless been mainly supported by integrated stocks, essentially because of the asset and stock exchanges announced by EON (+8%) and RWE (+22%), which includes an offer for Innogy (+17%). Overall, regulated stocks registered overall an increase slightly below 4%, while the residual category "others" closed unchanged because of Veolia's decrease, which felt the impact of share sale by certain shareholders and of disputes in emerging markets.

March 2018 - Sector and subsector trends

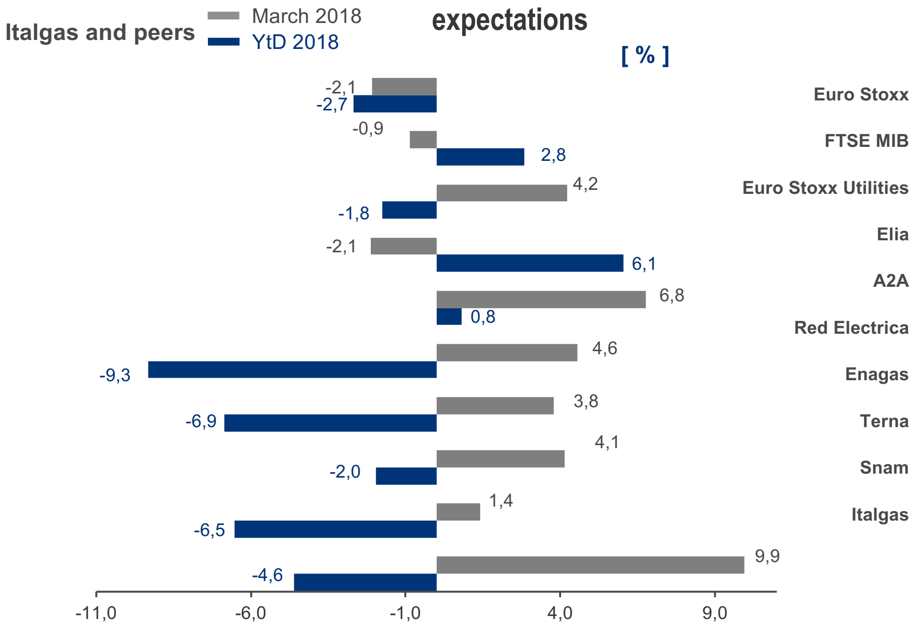


Source: Italgas elaboration from Bloomberg data

Italgas stock and peers

Italgas is the best performer again in March thanks to strong annual results beating guidance and market expectations

With a 10% rise, Italgas has returned at the top of its peer group, and recovered nearly entirely the fall recorded the previous month because of the increase of sovereign yields and lower visibility on gas tenders. In addition to rate contraction, the trend has been supported by strong annual results which outperformed the company's guidance and market expectations. A2A was among the best performers, mainly because of the resurgence of forward electricity prices. The Belgian electricity operator Elia was at the other end of the range, probably because of profit taking after a broad resurgence registered in the first two months of the year.



Source: Italgas elaboration from Bloomberg data

Agenda

Corporate events

19 April	AGM on 2017 Financial Statement
7 May	Board meeting on interim Q1 2018 report
8 May	Press release and conference call

Corporate News

Consolidated results at 31 December 2017 approved

On 12th March, Italgas' board approved the 2017 consolidated results and decided to propose to the AGM the payment of a 0.208 dividend per share. Results showed double-digit growth of all margins and investments for more than €500m, proof that the Industrial plan approved last May is bearing fruit. With 7.5m served redelivery points, Italgas confirmed its position as the sector leader in Italy, with a 34% market share, and as the third in Europe. A significant share of 2017 investments concerned the installation of smart meters to replace traditional meters: 1.66m have been installed, bringing the number of new meters installed to approximately 2.8m unites, which represents 35% of the total number of meters in Italy, which is in line with the target to complete the plan at the beginning of 2020. Paolo Gallo, CEO of Italgas, commented: "The launch of the digitalisation process, the investments and acquisitions that have been made, the completed reorganisation and economic-financial results are proof of the major effort of all of Italgas' employees in carrying out ordinary and extraordinary activities." Main figures include: €1.124m revenue (+4%), €781m adjusted EBITDA (14%), €423m adjusted EBIT (+18%), €296m net adjusted profit (+34%), €3.720m net debt.

Acquisition of Seaside

On 13th March, Italgas completed the acquisition of 100% of Seaside s.r.l., one of the main Italian Energy Service Companies (ESCo). The overall valuation of Seaside's assets (enterprise value) is equal to €8.5m. The company expects to close the 2017 financial year with a production value of approximately €13m and Ebitda of approximately €2.6m. Paolo Gallo, CEO of Italgas, commented: "The acquisition of Seaside is motivated by our strategic choice to gain a know-how in the field of energy efficiency, giving us the possibility to offer local communities efficiency initiatives when the tenders will take place."

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