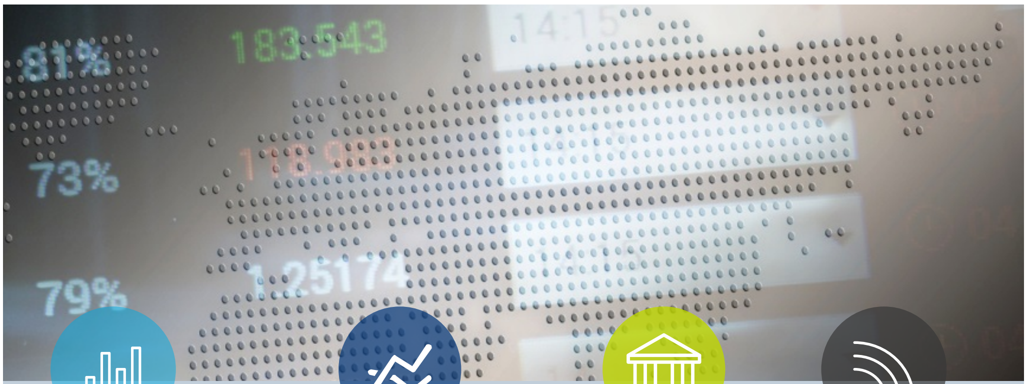
July 2018

Financial Markets Review



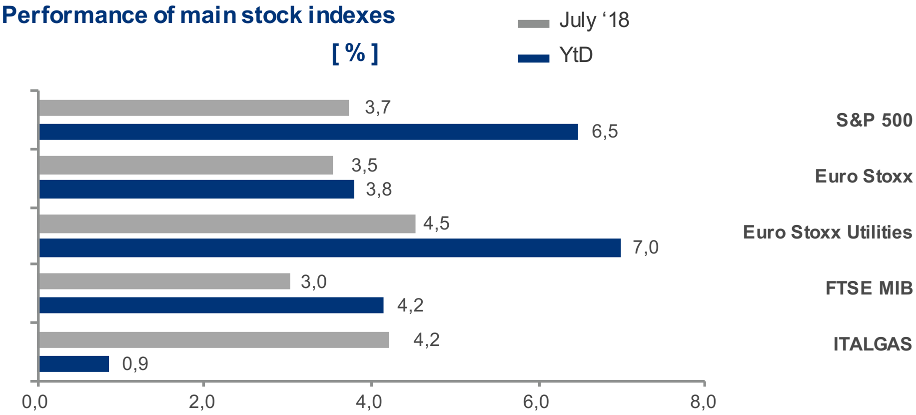
European exchange boosted by decreasing commercial tensions, supportive approach from the ECB over rates, quarterly trends. Nuclear yields rising marginally

Financial markets

There has been a significant surge in the global exchange, driven by decreasing commercial risks after the US came to an agreement with the EU to avoid the introduction of further customs duties, in addition to the ECB confirming that interest rates would remain constant until at least summer 2019.

Markets were likewise supported by quarterly results that were generally above expectations, as well as China's introduction of an economic incentive package aimed at counteracting slowing growth caused by American tariffs, along with the Chinese central bank's attempt to avoid an excessive depreciation of the national currency, which has mitigated the risks of a trade war.

Performance of main stock indexes [%]



Fonte: ***Italgas analysis of Bloomberg data***

Trends were broadly aligned between Euro Stoxx and the S&P 500, with a 3.5% increase. The DAX returned to be the best performer in the eurozone, with an increase of 4%, driven by manufacturing exports which have benefitted from the aforementioned mitigation of commerical tensions between the EU and US. The two were also broadly aligned with the FTSE Mib (+3.0%) despite the decline in the FCA and STM, which was due to Quarterly results being below expectations and a worsened outlook.

There was a moderate increase for sovreign nuclear yields due to exchange trends and expectations over monetary restrictions from the Japanese central bank.

At the net of the extension of the maturity benchmark, Bund's yield has risen from 8bps to +10bps for the Treasury.

The ECB has confirmed rates will remain constant until the end of summer 2019, while the FED, in line with consensus, has brought the number of expected tax increases to 4 in 2018.

The BTP-Bund spread has contracted slightly (-4bps), benefitting from a recent decrease in volatility.

EUR/USD remains relatively constant as a result of consistent trends in sovreign yields.

EUR/GBP is at its highest in 8 months (+0,7%) Driven by the growing risk of May's government collapsing and UK macro data below expectations (CPI and retail sales).

The oil market

The dated Brent listing has fallen by 7%, after 4 months of uninterrupted increases, reaching highs only previously recorded in November 2014, suffering as a result of a surge in productivity in June reported in Saudi Arabia (the highest it's been in the last 5 years) as well as an expected increase in output from the OPEC+ bloc starting from July, and the end of the force majeure on Libyan ports on the Eastern coast and the potential issuance of strategic reserves from the US to mitigate a rise in price.

Russia has also shown its readiness to increase its production above the levels agreed in OPEC+'s June meeting.

Sector trends

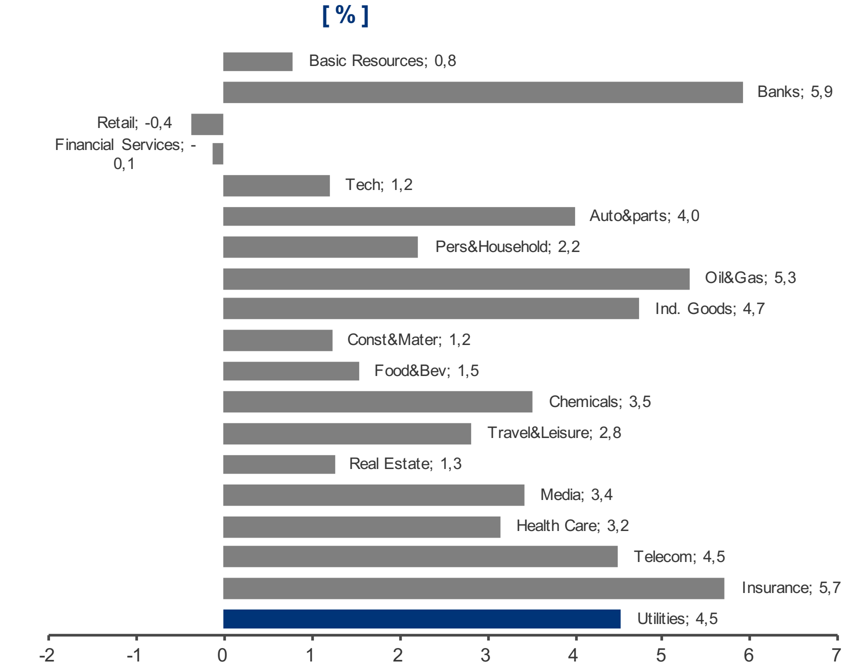
Sectoral trends have demonstrated a general outperformance of cyclical stocks as a result of improving sentiment following the EU/USA's trade agreement. The banking sector was the best performer, benefitting from a cyclical profile and the main operators reporting results that were above expectations, marking a recovery from May's sharp decline caused by an increase in peripheral spreads.

Insurance and Oil and Gas also performed well, driven by positive quarterly results, with the weakness of oil prices being compensated by the increase in output and the acceleration in shareholder buybacks.

On the other hand mining, retail and financial services were amongst the worst performers, driven by profit taking following the rally at the beginning of the year, fears of Chinese economic slowdown and quarterly results below expectations.

General outperformance of cyclical sectors with decreasing commercial tensions and a returned propesity for risk

Main sector trends, July 2018



Fonte: Italgas analysis of Bloomberg data

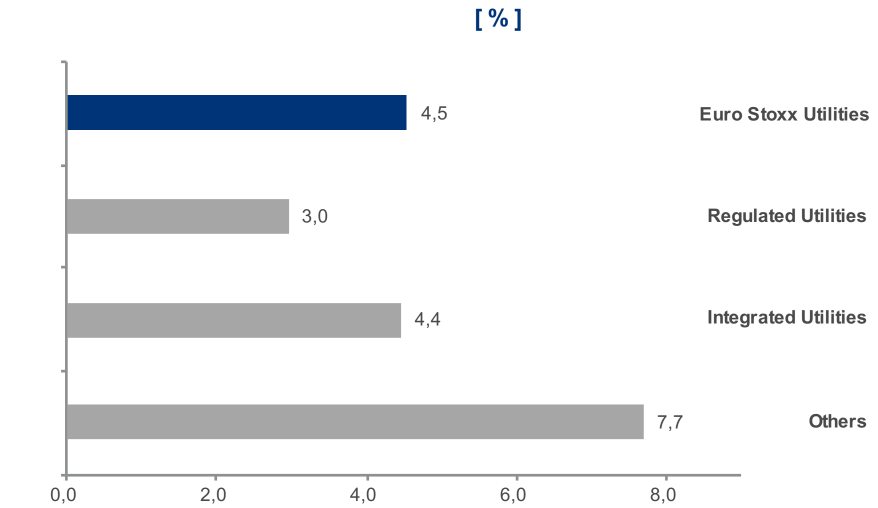
Utilities sector supported by a rally in CO2 price and quarterly results

Utilities sector trends

The utilities sector is among the best performers, primarily driven by the water and environmental sectors, as well as the integrated operators, such as Suez and Veolia, who have benefitted from results that were above expectations. They have also benefitted from being awarded new contracts and ceasing activity in non-core markets. The integrated operator performance has reflected the highest electricity prices in central Europe in nearly 6 years, driven by CO2 prices and upgrades in German securities as a result of the deal between EON and RWE based on the exchange of shares and assets.

Reulated securities have underperformed the sector, consistent with market trends that have favoured cyclical sectors.

July 2018 – Sector and sub-sector trends

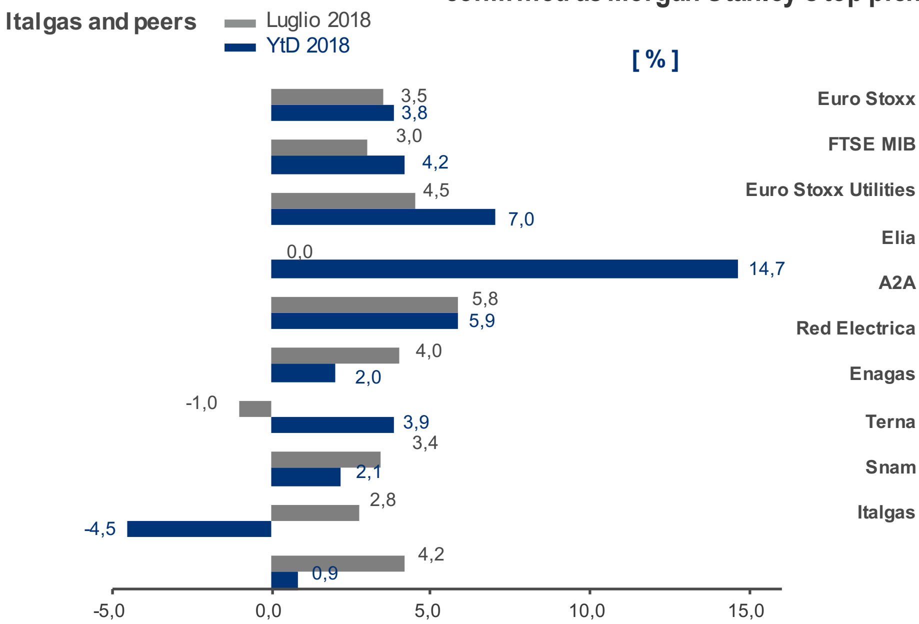


Source: Italgas analysis of Bloomberg data

Italgas stocks and its peers on the stock market

Italgas (+4%) outperformed its regulated peers with strong Q2 results and confirmed as Morgan Stanley's top pick

With a 4% increase, Italgas is aligned to the sectoral index and has outperformed its regulated peers, driven by strong Q2 results and an increase in target price, as well as being confirmed as Morgan Stanley's top pick in light of the likely increase in allowed WACC as part of tariff revisions at the end of the year. A2A was the best performer as a result of its exposure to electricity generation, while as Enagas has suffered from profit-taking following a surge in June, despite Q2 results being in line with planned targets.



Source: Italgas analysis of Bloomberg data

Agenda

Corporate events

05 November	Q3 results
06 November	Press release and conference call

Corporate News

Q2/H1 Results

On 30 July, Italgas' BoD announced its half year results, with profits of 591m euro (+4,7% y/y), EBITDA of 424 m euro (+8,7% y/y), a net profit of 151 m euro (+8,0% y/y), R&D spend of 228m euro and a net debt of 3.6bn euro, a 0.1bn euro decrease in comparison to the end of 2017.

Italgas' 2018 half year financial results confirm 2017's postive performance, with a further improvement on margins, investment programs and the refinement of recent acquisitions being in line with the 2018-2024 Industrial Plan's objectives.

A noteworthy investment was the installation of smart meters to replace traditional measures. In the first half of 2018, taking into consideration its associate companies, approximately 1 million meters were installed, of which 915,000 were replacing traditional measures, bringing the total to 3.98 million, equal to 49.1% of all traditional meters. The objective is to complete the replacement plan by early 2020.

The first six months of the year saw Italgas' objective to strengthen its presence in the gas distribution sector driven forward, finalising several corporate transactions, some of which were announced in 2017.
The requirements related to the net investments of the first half of 2018 have been wholly covered by the positive net cash flow from operations, close to 632m euro, with a Free Cash Flow – before M&A activity – close to 393m euro.

Paolo Gallo, CEO of Italgas, commented:
"The results from the first half of the year confirm Italgas' strong commitment to investment in networks, digitalisation and in acquisitions, in line with the 2018-2024 Strategic Plan's objectives. On 30 June, we achieved the Authority's target to replace traditional meters with smart meters six months early: 50% of the meters managed by Italgas and its associates is a smart meter, which represents the widest digitalisation project in the network."

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