

Financial Markets Review



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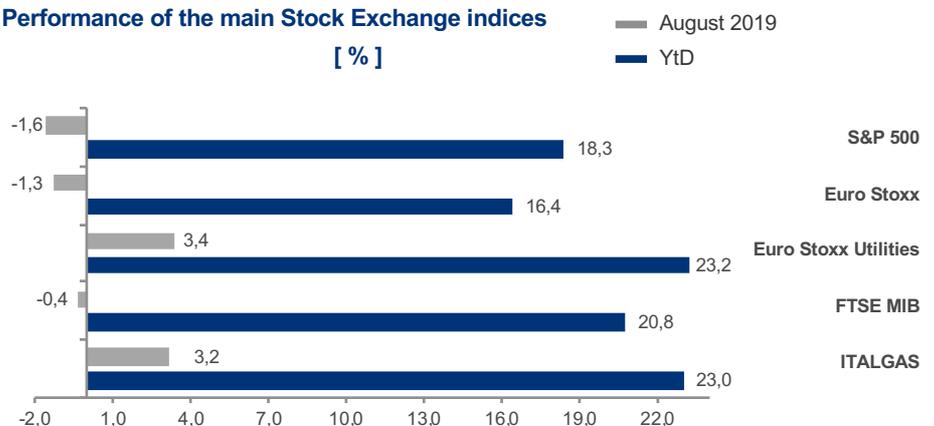


Equity market in moderate correction following trade news flow. Bund yield at historical lows to reflect macro data; contraction of sovereign spread due to mitigated risks of early elections.

Financial markets

Volatile but overall down equity markets in August. After a sharply down start to the month, driven by the re-emergence of trading tensions, with the USA threatening to increase tariffs on Chinese imports and China subsequently outlining retaliatory measures, as well as the persisting weakness of global macro data (quarter on quarter contraction of the German Q2 GDP, contraction of the USA manufacturing ISM and the lowest Chinese industrial output growth in 17 years), stock markets mitigated losses with the support of rumours on the adoption of expansive fiscal policies in Germany, as well as the mitigation of the trade news flow, with the decision of the USA to postpone by a further 3 months the reinstatement of restrictions on the supply of hardware and software to Huawei, and the changed Italian political situation, with the attempt to form a coalition government with a more pro-European base. There was a drop of approximately 1.5% in the EUR Stoxx and the S&P 500 compared to the outperformance of the FTSE MIB (-0.4%) due to the wide contraction of the sovereign spread. In spite of the less than expected dovish outcome of the FED meeting at the end of July (Powell declared that the 25 bps cut did not imply the start of a downward rates trend),

Performance of the main Stock Exchange indices [%]



Source: Italgas elaboration of Bloomberg data

core yields recorded a new strong contraction, with the 10y Bund and the UST down respectively 26 bps and 52 bps, to 3-year historical lows due to the abovementioned macro data and trade news flow. For the first time in history, the German yield curve was entirely in negative territory. The BTP-Bund spread was very volatile; after an initial rise due to the risk-off phase and fears of a new fiscal relaxation, and in spite of the government crisis, the differential returned to the minimum levels of May 2018 (-28 bps),

with mitigation of fears of early elections and the attempt to form a more pro-European government coalition.

The EUR was -0.8% both with respect to the USD (the minimum level since May 2017) and the GBP, reflecting the new historical lows of the Bund yield after the contraction of the German GDP. The attempt of the UK parliament to block a no-deal Brexit was offset by the decision of the government to ask for the suspension of parliament.

The oil market

There was a drop of 8% in oil prices, with Brent at the lowest level since January due to fears affecting both demand and offer. Demand was affected by the abovementioned trade news flow and the continuing weakness of macro data, as well as the expected impact of

Florida, which is the 4th US state in terms of demand for automotive fuels, accounting for over 5% of consumption at national level. On the other hand, the offer was affected by a new expansion in July of Venezuelan production in spite of the USA PdVSA sanctions, the August

the first time since the start of the year, and the expectation of the upturn in the offer by Russia. Furthermore, the drop in prices also reflected the general contraction of the EUR/USD exchange, at its lowest since May 2017.



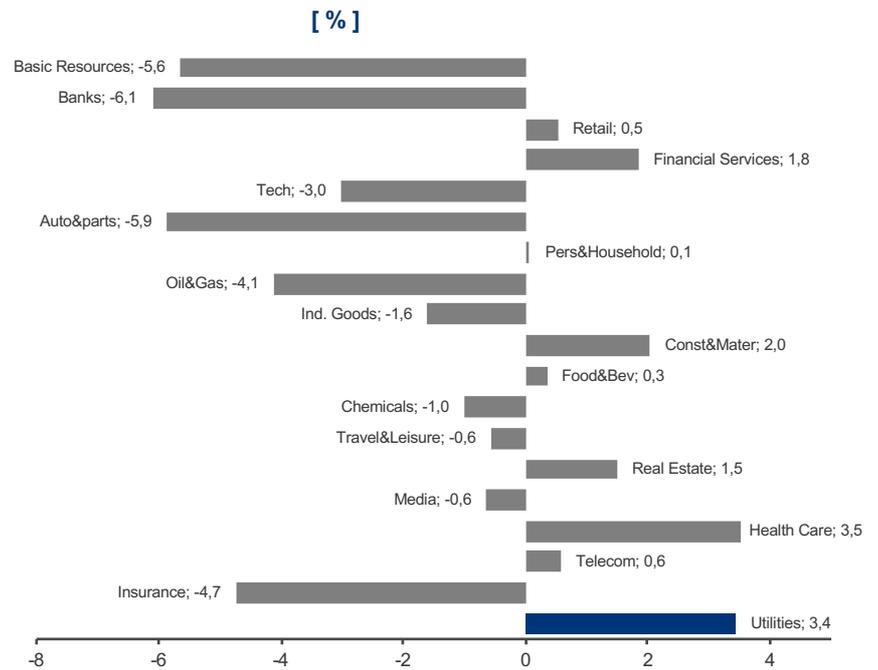
Trends by segment

The sector dynamic continued to highlight the generalised outperformance of defensive stocks reflecting the contraction of core yields to new multi-annual historical lows. With a rise of approximately 3.5%, utilities and pharmaceutical stocks posted the best performance. Among the latter, Bayer in particular stood out (+15%) on expectations of a settlement of the legal disputes in the USA in relation to the presumed risk to health of a herbicide produced by the Monsanto subsidiary. Industrial and financial stocks were at the other end of the scale, reflecting the abovementioned new trading tension escalations, the weakness of macro data and the dynamic experienced by core yields. With a drop of 6%, banking and automotive stocks posted the worst performance.



Contraction of the Bund yield at new historical lows supports defensive outperformers, with banking stocks still the worst performers

Trend of the main sectors, August 2019



Source: Italgas elaboration of Bloomberg data



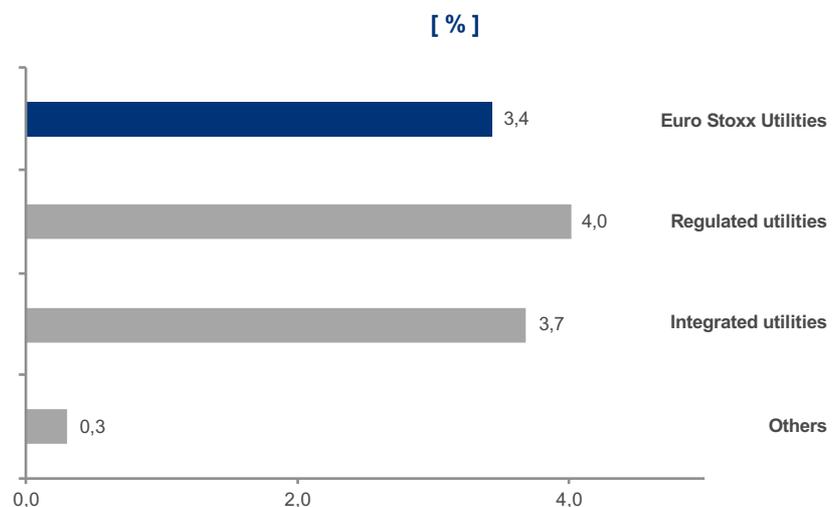
Utilities confirmed among best performing sector reaching new maximum levels for 8 years



Performance of the utilities segment

There was a rise of over 3% in the utilities sector, still among the best performers, reflecting the contraction of core yields at new multiannual historical lows and the contraction of peripheral spreads due to the evolution of the Italian political news flow. The index reached 8-year maximum highs, supported in equal measure by regulated stocks, in function of the abovementioned macro dynamics, and by integrated stocks, due to the growing exposure to renewable sources of Iberdrola and Enel, the main contributors to the index. The hydric/environmental sector underperformed the index, due to the profit taking on Veolia after the marked YTD rise.

August 2019 - Trend of the sector and sub-sectors



Source: Italgas elaboration of Bloomberg data

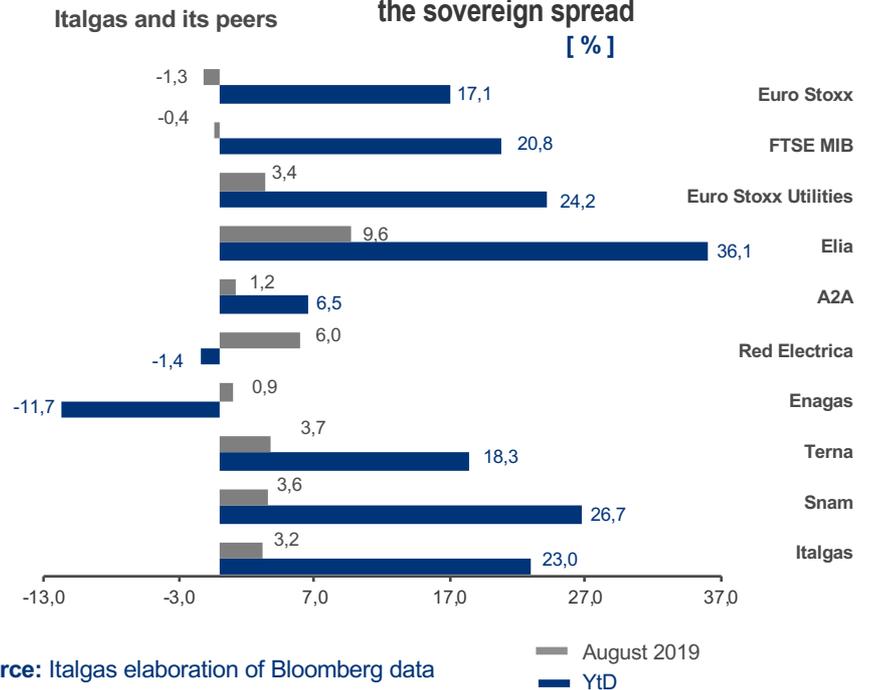


The Italgas stock and its peers on the Stock Exchange

There was a rise of 3% for Italgas, substantially offsetting the drop in July. In line with the sector, the stock has benefitted from the abovementioned contraction in core yields and sovereign spread, offsetting the drop after the downgrade by Goldman Sachs motivated by the presumed unsustainability of Italian regulated returns, as they are at a premium compared to other European regulations also in adjusted terms. With regard to its peers, the almost total recovery of Red Electrica (+6%) is highlighted, after the drop of 7% in July, reflecting the lower than expected tariffs and the continuation of the rally of the Belgian TSO Elia, still supported by the better than expected Q2 results at the end of July.



Italgas, in line with the sector (+3%), recovers from the losses in July, with core yields at new lows and the contraction in the sovereign spread



Agenda

Corporate events

7 November

Board of Directors Q3/9M results

8 November

Press Release and Conference Call



Corporate events

The Marguerite II fund becomes a Medea shareholder

On 1 August the Marguerite II fund signed a contract with Italgas to become a shareholder in Medea and Medea Newco, the Italgas companies that operate in Sardinia in the gas distribution and sale sector. Marguerite II includes among its shareholders the EIB and some of the main European national promotion institutes (the Italian CDP, the French Caisse des Dépôts, the Polish BGK, the German KfW and the Spanish ICO). For the purpose of the operation, the EV on 100% of the assets at the end of 2018 was EUR 91.2 million, to which the value of the acquisitions carried out during 2019 in the Isgas business unit need to be added. The agreement envisages Marguerite II acquiring 48.15% of the share capital of Medea and Medea Newco, through an initial investment of

approximately EUR 25 million and subsequent increases in capital for an approximate overall value of EUR 44 million, earmarked for the financing of pro-quota investments planned for the island in the 2019-2025 Italgas Industrial Plan. The operation is expected to be completed by 2019. Paolo Gallo, Italgas CEO, declared: "the investment in Medea of a high profile European institutional investor with a long term approach such as Marguerite is the recognition of the value and the strategic importance of our 'Sardinia project'. Thanks to a balanced plan of technical acquisitions and investments, in the last two years we have achieved a key role in the island in the realisation of urban energy infrastructure, which represents the precondition for a sustainable development of the territory."

Fitch confirms Italgas rating

On 2 August Fitch confirmed the long-term creditworthiness (BBB+) for Italgas with a stable outlook. The confirmation of the rating takes into account the updating of the 2019-2025 Industrial Plan which further strengthens the strategic and financial objectives of the Group in the medium term, with a growing investment plan compared to the previous one. Italgas can count on a debt structure at a competitive cost made up almost entirely of fixed rate financial instruments, also thanks to the recent bond issue operations and interest rate swaps concluded in July 2019, with a medium and long term maturity which significantly reduce the refinancing risk.



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