May 2019

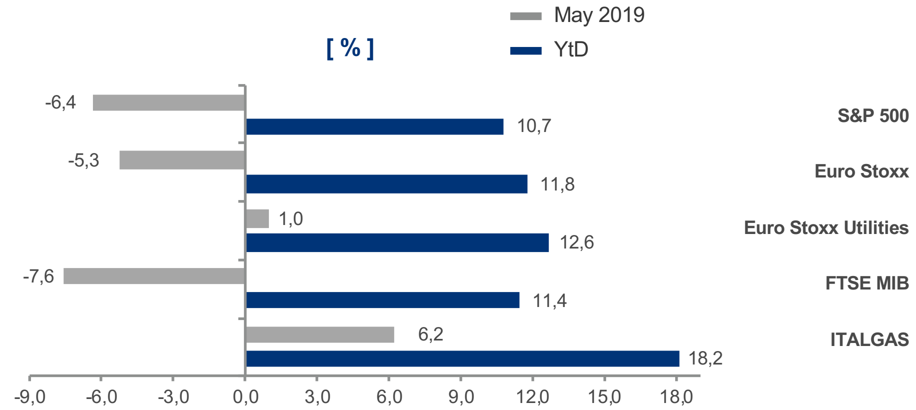
Financial Markets Review

Global stock market sharply down following the escalation of the USA-China trade war and the persisting weakness of macro data. Bund yield at historical lows; spreads increase with risk-off and new fears of a fiscal relaxation

Financial markets

The global stock market is sharply down following the escalation of the trade war between the USA and China, with the reciprocal increases in customs duties, as well as the decision of the USA government to cut technology supplies to the Huawei group, and China responding by cutting the export of rare earths to the USA. This trade news flows, whose impact was accentuated by Wall Street historical maximum levels, was compounded by macro data overall lower than expected, in particular the USA SME manufacturing sector index, at the lowest level for approximately 10 years, and essential the halving of the German 2019 GDP estimates by the EU Commission, following the abovementioned trade tensions and the risks related to a no-deal Brexit. The Euro Stoxx closed 5% down compared to the -6% of the S&P 500 and the -8% of the FTSE MIB, affected by the new increase in the sovereign spread. Core yields were also sharply down following the abovementioned trade news flows and the weakness of the macro data, with the 10y Bund yield (-22 bps) at historical lows and the UST (-38bps) at the lowest level for the last 18 months;

Performance of the main Stock Exchange indices



Source: Italgas elaboration of Bloomberg data

the inversion of the US yield curve, an indicator of an economic slowdown/recession, was at the highest level for the last 10 years, with the number of cuts to the FED rates estimated to rise from 2 to 3 in the next 12 months, and the probability of a 4th cut in June 2020 of around 40%. BTP-Bund spread +33 bp following: 1) the increase in risk aversion; 2) Italian macro data below expectations (composite Purchasing Manager's Index and a new reduction in GDP estimates by the EU Commission); 3) re-emergence of tensions on the launch of the procedure relating to infractions for excessive deficit and declarations by government representatives in favour of the extension of the agreement for the Eurozone stability.

EUR/USD in marginal contraction (-0.4%) reflecting the re-emergence of tensions relating to Italy and the overall greater weakness of the Eurozone macro data. EUR/GBP +2.8%, at the highest level in the last four months following the growing opposition, also within the Conservative Party, to the Brexit plans, which have led to the resignation of the PM May and increased the risk of a no-deal.

The oil market

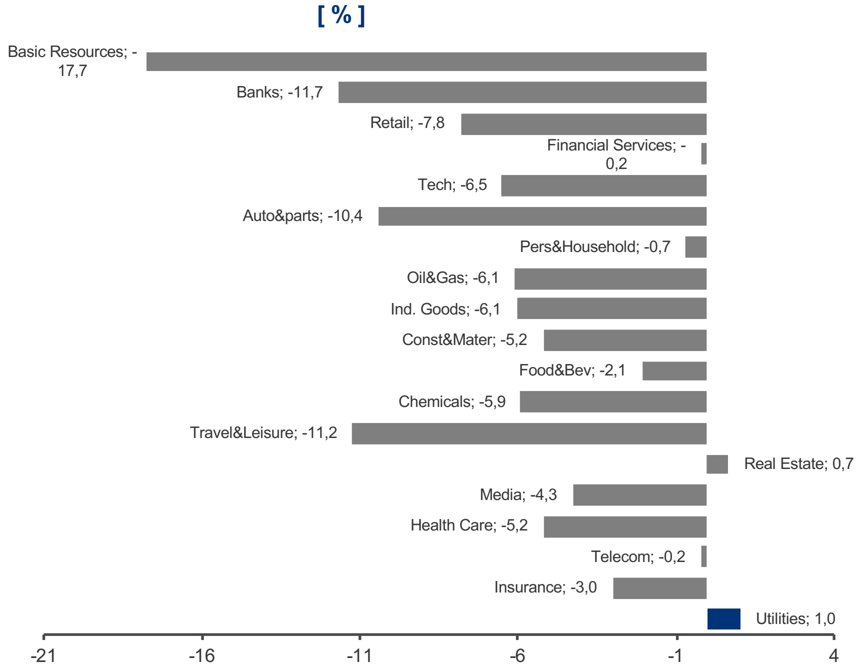
In spite of growing tensions in the Persian Gulf area, with Iran being accused of sabotage actions against Saudi Arabian oil installations, the Brent index recorded a sharp drop (-12%) following the abovementioned risk-off phase induced by the deteriorated trade outlook and expectations of a slowdown/recession implicit in the inversion in the US yield curve. This dynamic was accentuated by higher than expected USA petrol and crude oil stocks (the latter at maximum levels for almost two years), as well as new historical maximum levels for the US output and the failed achievement of the production cuts agreed by Russia with OPEC+.

Trends by segment

Due to the risk-off phase, the segment dynamics provided a net advantage for defensive and bond-proxy titles, with real estate and utilities the best performers (+1% approximately), while on the other hand cyclical and financial stocks, with particular reference to minerals, banking and automotive, recorded drops of between 10% and 18%. With a drop of 31%, the steel group ArcelorMittal was the worst performer in the Euro Stoxx, also penalised by lower than expected Q1 results. In spite of the drop in oil prices in May, the energy component representing the main cost item for air carriers, the tourism segment was 11% down following the persisting competitive pressure from low-cost operators, with Air France-KLM down by 25%, in this case also affected by Q1 results.

Cyclical and financial worst performers with risk-off vs bond-proxy phase supported by new historical lows for Eurozone core yields

Performance of the main segments, May 2019



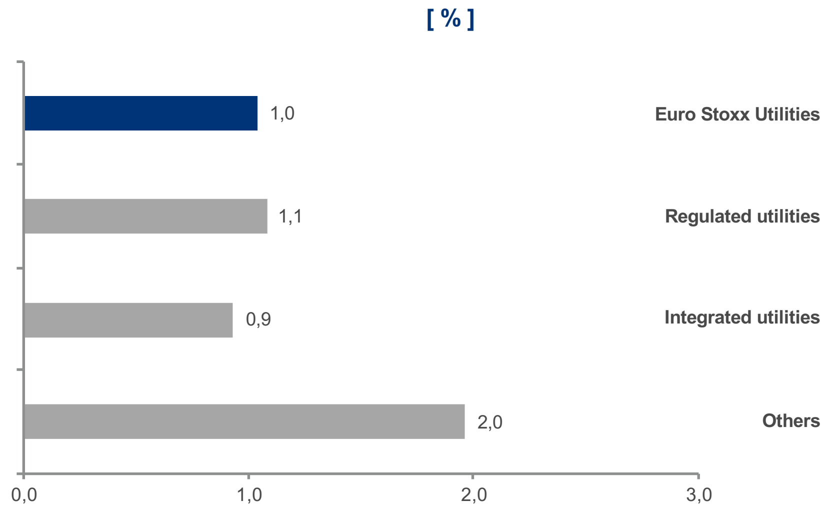
Source: Italgas elaboration of Bloomberg data

Utilities (best performers) at maximum levels for eight years

Performance of the utilities segment

There was a 1% increase in the utilities segment which, together with real estate, proved to be the best performing segment in the Eurozone, reaching eight years highs following the contraction of core yields to absolute/period minimum levels. This dynamic was substantially similar for the various segment, with the overall underperformance of Italian stocks (Enel -1.2%, Snam -0.7%) following the increase in the sovereign spreads. Iberdrola and Veolia, both up by about 3%, were among the highest risers in the main components of the segment index, supported by higher than expected Q1 results.

May 2019 - Performance of segment and subsegments

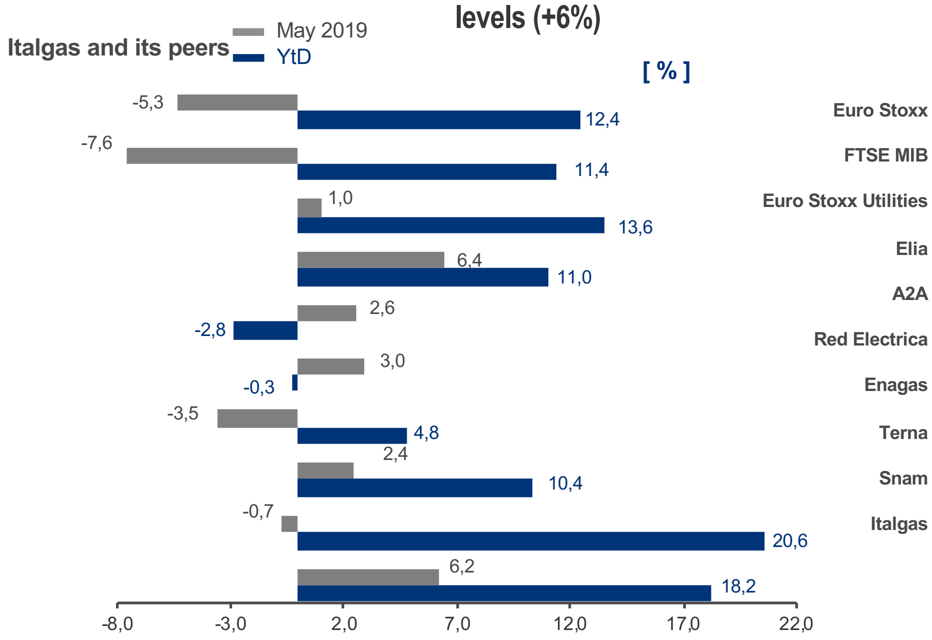


Source: Italgas elaboration of Bloomberg data

The Italgas stock and its peers

Supported by Q1 results and industrial plan expectations, Italgas at highest levels (+6%)

A rise of 6% for Italgas, supported by higher than consensus Q1 results, expectations relating to the update of the industrial plan and the contraction to historical/period lows of core yields. The stock, which was confirmed best performer against its peers together with the Belgian Elia, has completely recovered from the detachment of the dividend, reaching maximum quotation levels also in the non dps adjusted version. Among the other peers, the different performance of Enagas vs Red Electrica (respectively -4% and +3%) reflected the partial YTD realignment which had to date seen the latter among the worst performers following the acquisition of Hispasat and the expectations of regulatory review.



Source: Italgas elaboration of Bloomberg data

Agenda
Corporate events

11 June Strategic Plan of the Board of Directors

12 June Presentation of the Strategic Plan

Corporate events

Approved consolidated Q1 2019 results

As at 13 May the Board of Directors of Italgas approved the 2019 Q1 consolidated results, which saw revenues of EUR 311 million (+10% y/y), EBITDA of EUR 219 million (+11% y/y), operating profit of EUR 124 million (+10% y/y) and net profit of EUR 86 million (+16% y/y). Capital expenditure was of EUR 152 million, up by 44% y/y, with indebtedness of EUR 3.7 billion, down EUR 0.1 billion compared to the end of 2018. In particular, over 50% of capital expenditure was earmarked for maintenance and the extension of the network (170 km against 40 in the previous year), while the installation of smart meters continued, in line with the previous year, to replace traditional meters, a replacement that will be completed in the first half of 2020. With approximately 410,000 meters installed in the first three months of 2019, the overall number, also including related companies, is of approximately 5.4 million units, equivalent to 63.9% of the total number of meters. Paolo Gallo, CEO of Italgas, commented: "The results of the first quarter of 2019 also confirm the virtual path undertaken by Italgas since November 2016: all the indictors highlight double digit increases, to demonstrate the excellence of the acquisitions made and of the significant efficiency actions implemented in the last two years. The process has also continued for the installation of smart meters, which will be completed in the first half of 2020, and the greatest network digitalisation project, which will contribute to the strengthening of the leadership of Italgas in Italy and in Europe. To recognise our role, two important partnership agreements were signed in the last few weeks: with State Grid Corporation of China, the largest utility company in the world, and with the American Picarro, leading company in the provision of intelligent software for the monitoring of networks."

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