

# Financial Markets Review



Financial markets  
Page 1

Performance by  
Sector page 2

Italgas stock  
and its peers  
page 3

Corporate News  
page 3

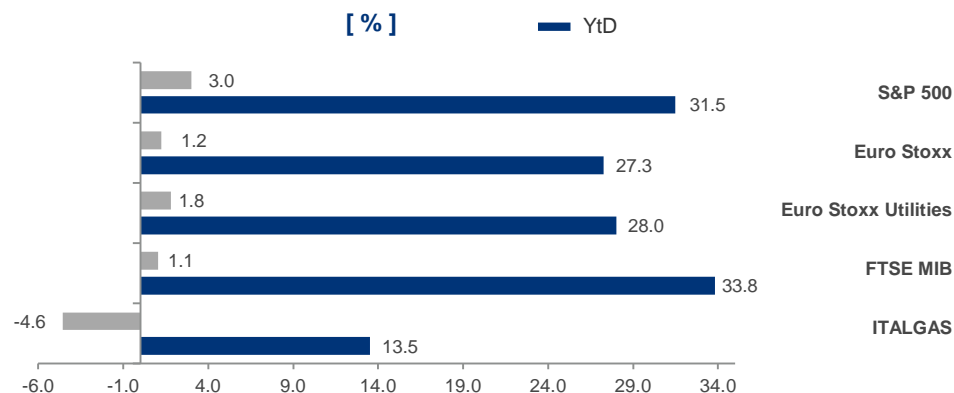


Equity markets reached historical / period highs with US / China trade agreement. Core yields continue to rise from the lows of August with risk-on; peripheral spreads contract for the same reason

## Financial markets

Moderate rise in global equities, with Wall Street at all-time highs and the Eurozone at 12-year highs. The move was mainly supported by improved commercial outlook, with the US / China agreement that avoided the application of new custom duties originally scheduled for mid- December. The parties also agreed on further reciprocal concessions, with the US reducing taxation on some of the Chinese imports, and Beijing committing to increase US-made imports. The Euro Stoxx and the FTSE Mib moved up by c1%, while the S&P 500 was up +3%, with the difference explained by the currency trend (appreciation of the EUR / USD). Despite the Fed's accommodative approach – they did not anticipate any rate hike for 2020 despite the overall improvement in the macro picture – core yields moved up reaching new highs in the period (Bund +17 bps at -0.19%, FSO +14 bps at 1.92%). In particular, the Bund hang up on the previous historical lows of July 2016 (immediately after the Brexit referendum) in function of the overall reduction of global risks, the before-mentioned improved commercial outlook and mitigated fears of no-deal Brexit.

### Main stock exchange indices



Source: Italgas' elaboration of Bloomberg Data

Adjusted for the extension of the maturity of the BTP, the BTP-Bund spread closed down 10 bps (to 160 bps), with the ongoing uncertainty on the stability of the government coalition offset by the risk-on phase, the dovish approach of the central banks and the TLTRO auction, whose liquidity has been partially transferred to the peripheral bond markets.

On the ECB side, the new President did not

provide any signal of discontinuity vs. Mr Draghi. On the currency side, the euro was up 1.8% against the dollar (to 1.12) due to the dovish approach of the FED. The Euro declined instead by 0.7% against the pound (to 0.85) in function of the UK election outcome, which opened the doors to an orderly Brexit by January avoiding risks of nationalizations.

## The oil market

The oil price rose by 8% (Brent at 66 USD / b), with monthly closing at the highest since April. The move was supported by (i) OPEC+ decision. Instead of simply asking for greater compliance to the production limits to some members (in particular Russia, Iraq, Nigeria and

Kazakhstan), they agreed to increase output cuts from 1.2 to 1.7 mbd starting from January, with a further potential cut of 0.4 mbd by Saudi Arabia. (ii) The general positive market mood, with overall reduction of global risks induced by the improved commercial outlook, mitigated

fears of no-deal on Brexit and confirmation the accommodative stance by central banks.



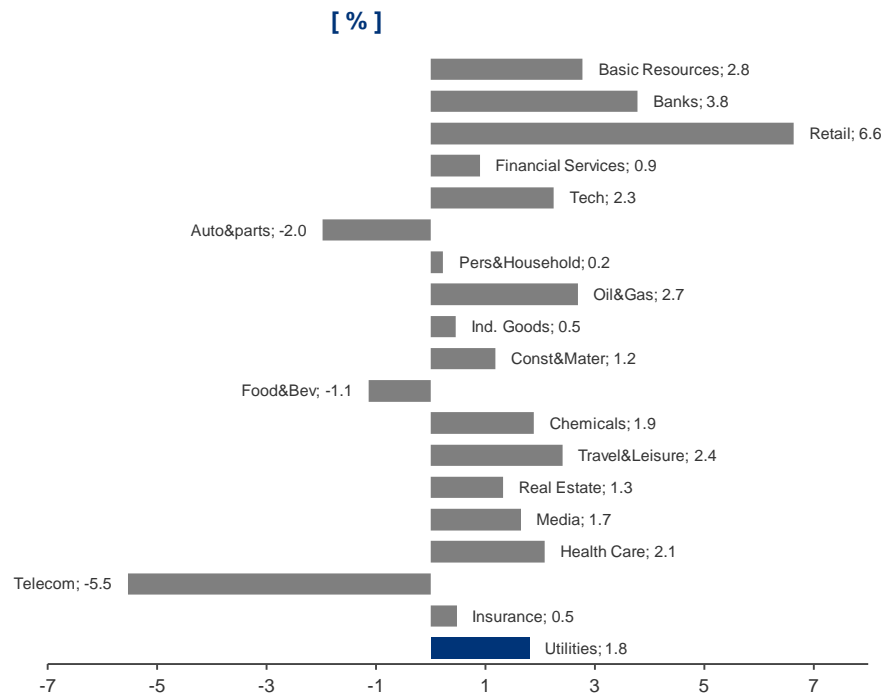
## Performance by Sector



The sector dynamics advantaged cyclicals and financials thanks to improved risk appetite

### Performance of the main sectors, December 2019

In line with the global risk reduction framework, the sector dynamic saw the outperformance of cyclicals and financials. Banks, oil & gas and mining rose between 3% and 4%. The auto sector was the outlier to this trend. Despite the US / China commercial dispute resolution and the increase in registrations, the higher compliance costs with the new rules on emissions and the migration to electric vehicles continued to negatively affect the sector. Telecoms kept suffering from competitive pressure from low cost operators remaining among the worst performers. They were also negatively impacted by Orange's industrial plan (-11%) which came below expectations. On the other hand, despite their defensive characteristics, retailers were the best performers thanks to the 16% increase of Zalando (prices doubled over the year) due to exponential increase in online sales.



Source: Italgas' elaboration on Bloomberg data



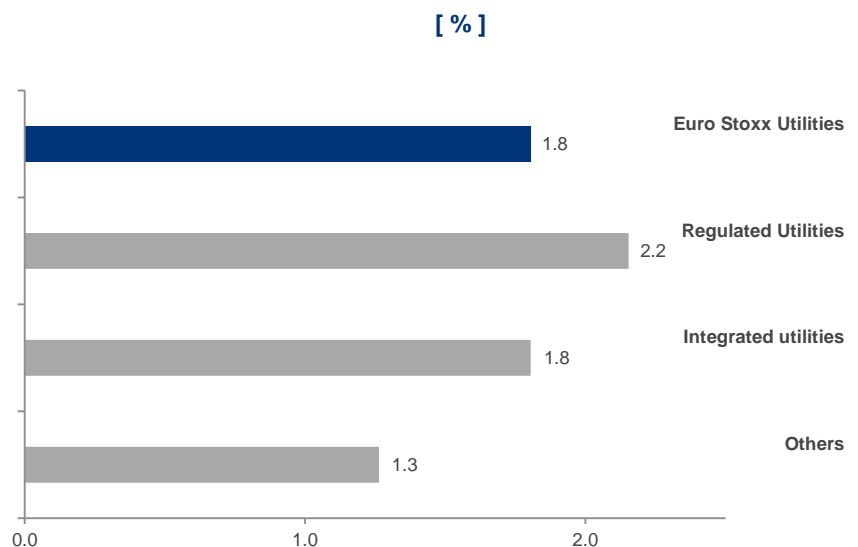
Utilities in line with Euro Stoxx; spread contraction balanced by core yields reduction



## Utilities sector performance

With a rise of c2%, the utilities sector closed up substantially in line with the general eurozone index. Despite growing core yields, no significant differences emerged between integrated and regulated utilities, thanks also to the contraction of peripheral spreads induced by the risk-on phase and central banks accommodating approach. The initial weakness of Italian regulated utilities was attributable to fears of potential re-introduction of IRES tax rate increases. Those concerns were lately reabsorbed after the publication of the final provision which excluded the sector from the application of the aforementioned tax increase, leaving it only to transport infrastructure operators.

### December 2019 – Trend of the sector and subsectors



Source: Italgas' elaboration on Bloomberg data

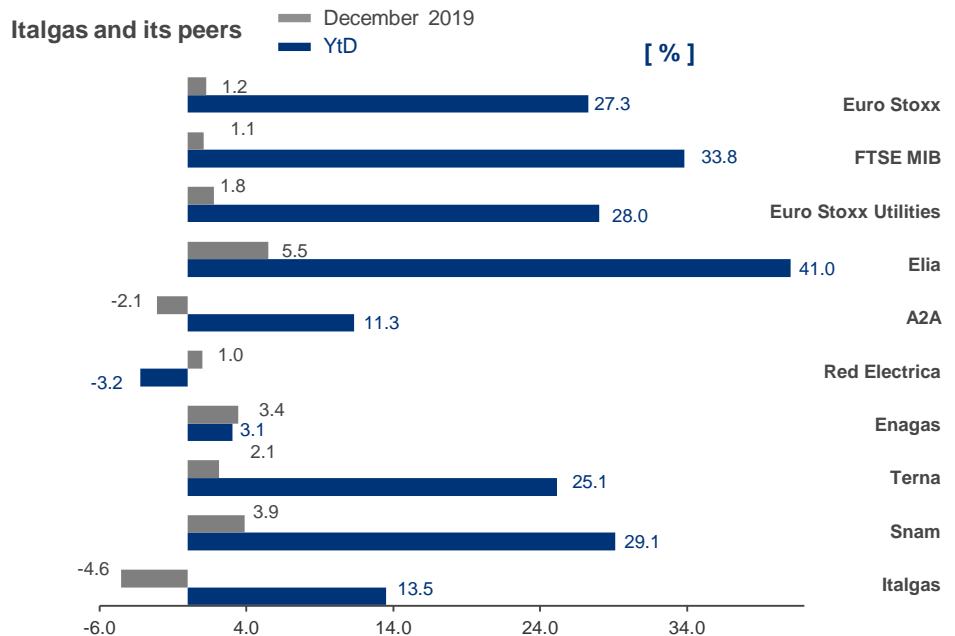


## Italgas and its peers on the Stock Exchange

Italgas dropped by almost 5% (to 5,444 euros), underperforming the sector and its peers as a function of: 1) lack of visibility on sector consolidation, with Lombardy TAR cancelling the tender for Atem Milano-1, as well as the announcement of legal actions by other bidders following the assignment of the AEM of Belluno to Italgas; 2) worse than expected outcome of the regulatory review (resolution 570/19). A2A (-2%) was also among the worst performers, probably due to uncertainty emerging following the before-mentioned cancellation of the Atem Milano-1 assignment. On the opposite side, the Belgian TSO Elia was up 5% (best performer of the year) following the confirmation of the 2020 guidance despite a reduction in allowed returns on domestic activities on the back of the contraction of sovereign yield.



5% drop in Italgas due to lower visibility on sector consolidation and regulatory review outcome



Source: Italgas' elaboration on Bloomberg data



## Agenda

Corporate events

11 march

Board meeting Q4/FY; dividend proposal 2019

11 march

Press release and conference call



## Corporate News

### Finalised agreement with Marguerite Fund

Italgas and the Marguerite II fund finalised an agreement for the fund's entry into the shareholding structure of Medea and Gaxa (formerly Medea Newco), the Group companies operating in Sardinia in the distribution and sale of sale of LPG, propane air and, after the necessary authorisations, also natural gas. For the purposes of

the transaction, the enterprise value attributed to 100% of the assets was equal to EUR 91.2 million euros, to which should be added the value of the acquisitions made in 2019 of the going concern of Isgas.

The agreement involves the acquisition by Marguerite II of 48.15% of the share capital of

Medea and Gaxa, with the payment of approximately EUR 25 million and subsequent capital increases for a total of approximately 44 million, of which approximately 11 million paid today, intended to provide pro-quota equity funding for the investments planned for the island in the Italgas 2019-2025 Business Plan.

### Bonds issuance and repurchase

On December the 2nd Italgas successfully priced a new fixed rate note issue, with December 2031 maturity for an amount of 500 mn euros with an annual coupon of 1% under its EMTN Programme. The new issue represents for Italgas its longest tenor and has gathered more than 1.5 bn euros of orders from a high

quality and geographically diversified investors base. The relevant proceeds have been used to repurchase two out of its outstanding bonds with notional equal to 750 mn euros (due 2022) and 650 mn euros (due 2024), through a Tender Offer ended on December the 10th with extremely positive outcome, having registered a

percentage of attendance higher than 60% for Notes due January 2022 and higher than 25% for Notes due March 2024. Overall, the nominal value of repurchased notes amounts to approximately 651 mn euros.



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