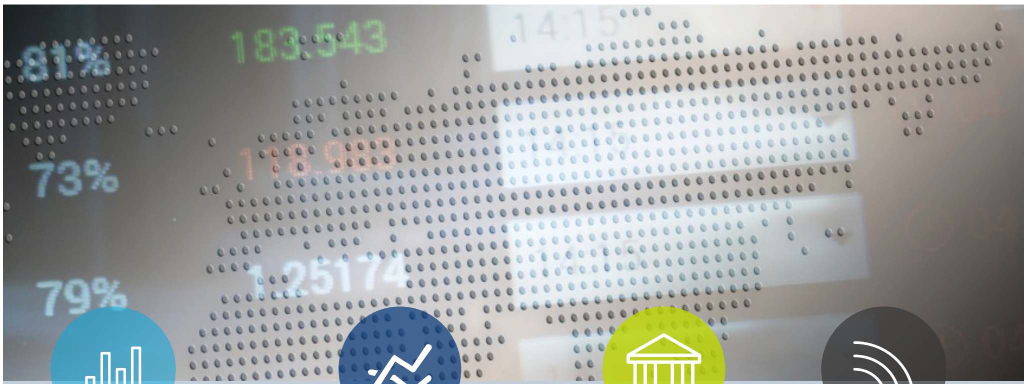
June 2018

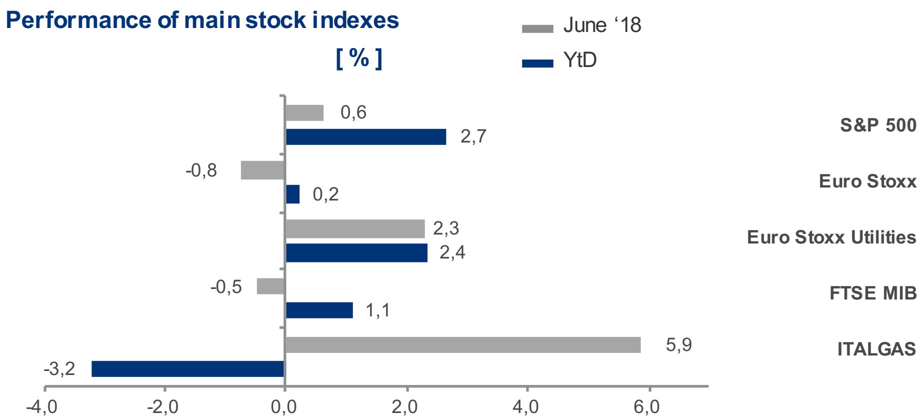
Financial Markets Review



Eurozone index has marginally declined as ECB's accomodating approach on taxes is offset by rising trade tensions. Core yields remain stable.

Financial markets

The Eurozone index remains relatively unchanged. An initial surge was driven by the ECB's accommodating approach, announcing rates will remain unchanged until at least the end of summer 2019 despite the decision to terminate the QE at the end of the year, in addition to assurances from the Italian Ministry of Economy over the government's intention to respect the EU budgetary constraints, which have reduced the risk of an uncontrolled rise in debt and a subsequent Italian exit from the EU. Indexes then dropped as a result of trade tensions after the US announced the imposition of customs duties on products imported from China and the EU, which generated equivalent counter-measures from the corresponding countries. Euro Stoxx -0,8% is closely aligned with FTSE Mib (-0,5%). DAX (-2,4%) was the worst performer, burdened by the automotive sector which was largely exposed by the threat of the new tarrifs introduced by the US. The S&P 500 (+0,6%) has continued to benefit from strong macro data, in addition to the unemployment rate in the US being at its lowest in almost 50 years.



Source: Italgas analysis of Bloomberg data

Sovereign core yields remain largely unchanged, with 10y Bund decreasing by 4 bps and 10y UST stable. The ECB's decision to end QE at the end of the year, with monthly purchases that will halve from October, has been offset by the decision to keep interest rates unchanged until at least the end of summer 2019. Similarly, the restrictive approach of the FED in the US has raised rates and increased the probability of two more rises before the end of the year. This was offset by the reemergence of the aforementioned trade tensions. The BTP-Bund spread was down -8 bps as a result of the mitigation to sovereign risk mentioned previously.

There was little movement of the EUR/USD, driven by the stability of sovereign yields, while as the EUR/GBP rose by 0,6% as a result of PMI manufacturing in the UK exceeding expectations, reflecting growing tensions within the Conservative party over Brexit planning.

The oil market

The dated Brent listings have been revised to their highest level since November 2014 (+3%) after OPEC reported productivity gains that were below expectations. Saudi Arabia has indicated its expectations of a 1 mbd increase from July, which could be reduced to 0,7 mbd as a result of the fact that some members of the cartel aren't able to increase production, lower than initial expectations of increases by as much as 1,5 mbd. Furthermore, despite fears of an economic downturn driven by escalating trade tensions, listings were subsequently reinforced by pressures from the USA in its confrontations with countries allied to suspend oil supplies from Iran by November, in addition to production issues encountered in Canada and Libya.

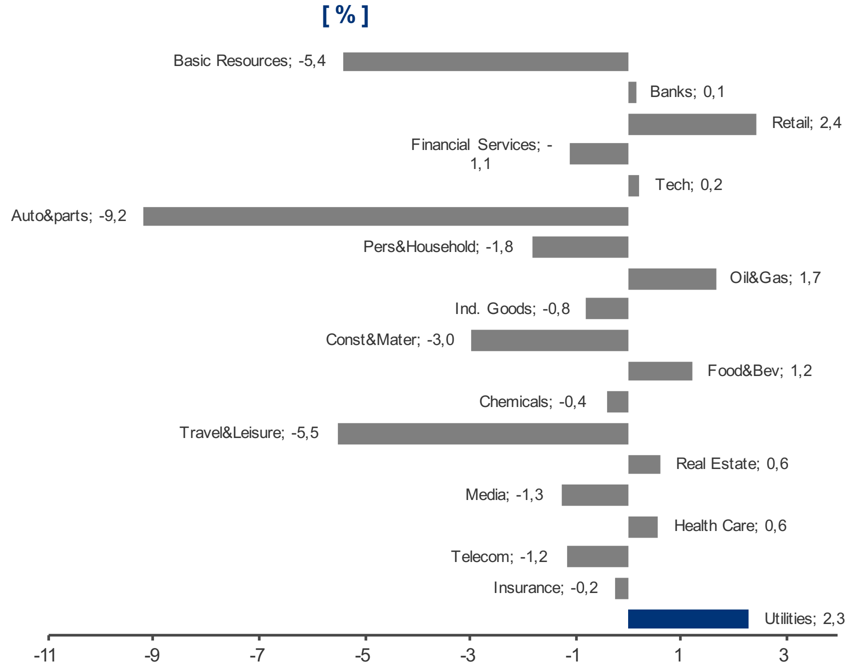
Sector trends

Sector trends have reflected the intensfication of international trade tensions, with the automotive sector the worst performer as a result of the American threat to tighten import tarrifs on vehicles manufactured in the EU. The automotive sector was subsequently burdened with a profit warning from Daimler, attributed to a lower sales guidance in the Chinese market of vehicles produced in the US as a result of the aforementioned trade tensions between the countries. The basic resources sector also suffered from fears of an economic downturn driven by trade tensions, while the tourism sector has suffered from increased costs caused by a rise in oil prices.

Conversely, utilities and counter-cycle sectors were the opposite, driven by the reduction of perhipheral spreads and concerns of economic slowdown.

Sector trends reflected intensifying trade tensions; automotive and utilities/counter-cycle sectors worst and best performers respectively

Main sector trends, June 2018



Source: Italgas analysis of Bloomberg data

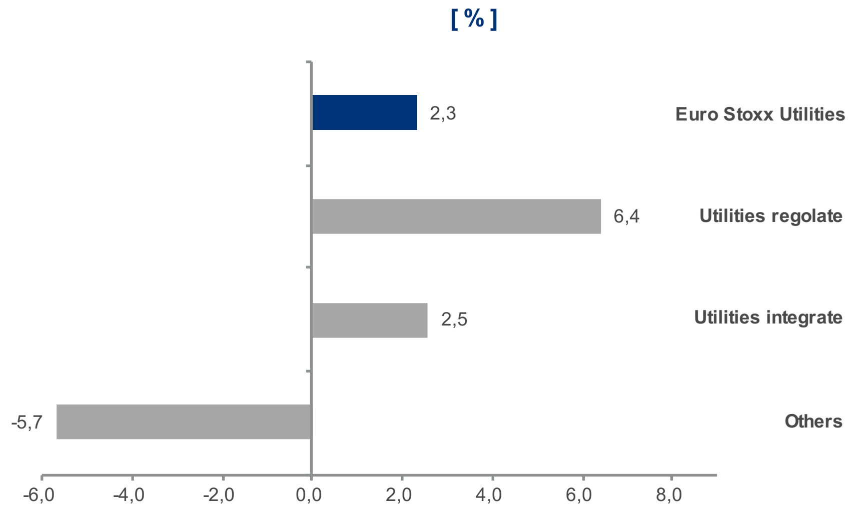
Utilities best performers with a slowdown in spread and fears of economic slowdown

Utilities sector trends

After a decline in May driven by a rise in peripheral spreads, the utilities sector is June's best performer, supported by a slowdown of the same spreads and a portfolio reallocation on low-beta and counter-cycle sectors driven by fears of economic slowdown.

The dynamic was similarly fuelled by the additional rise in electricity prices caused by the price of CO2, gas and coal. As a result of the reduction in spread and a preference for low-beta, regulated stocks have outperformed the sector, while as the 'others' category (essentially Veolia and Suez) has suffered from the most cyclicity and exposure to emerging markets.

June 2018 – Sector and sub-sector trends



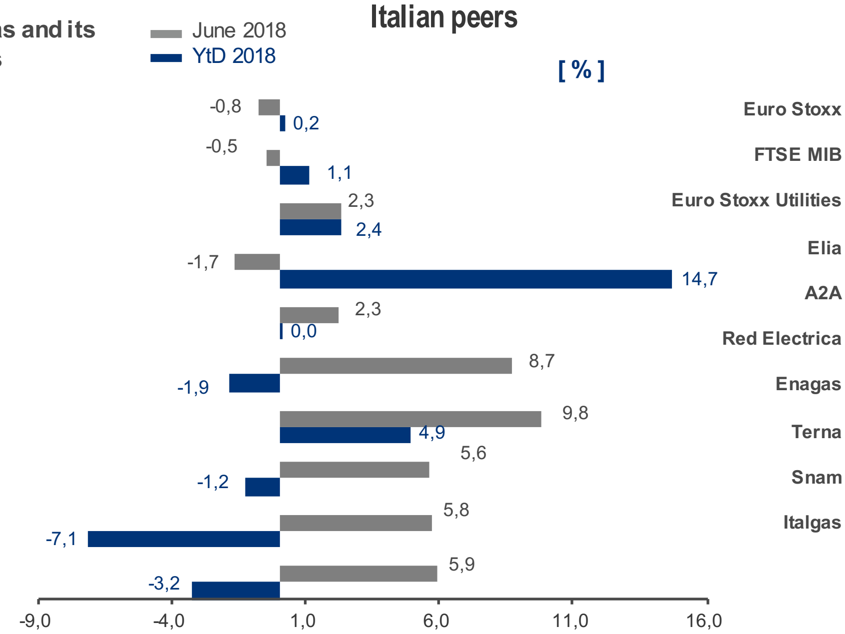
Source: Italgas analysis of Bloomberg data

Italgas stocks and its peers on the stock market

With a monthly increase of 6%, driven by the aforementioned slowdown of the spread and a repositioning towards low-beta stocks, Italgas has outperformed the sectoral index, aligning substantially with regulated Italian peers. Spanish stocks demonstrated even bigger increases, benefitting from expectations that the new Socialist-leaning Iberian government would not be able to progress any significant regulatory framework because of a lack of a sufficient majority in Parliament. Conversely, A2A's performance was mostly in line with integrated stocks, while as Elia, the Belgian electricity transmission operator closed at a drop, suffering due to profit-taking following an increase at the beginning of the year.

Italgas (+6%) outperformed the sector and was aligned with its regulated Italian peers

Italgas and its peers



Source: Italgas analysis of Bloomberg data

Agenda

Corporate events

30 July	BoD Q2 Results
31 July	Press release and conference call

Corporate News

Strategic Plan Presentation 2018-2024

On 13 June, Italgas presented their Strategic Plan for 2018-2024. The key areas of focus were: 1) a 4bn euro investment plan, including acquisitions; 2) further 1,6 bn investments in third party acquisitions following tenders; 3) network and corporate digitilisation program and launch of the Digital Factory; 4) Dividends increase above the annual 4%, with a potential upside net consolidated income of 60%. The 4bn euro investment plan (a 30% increase on the previous plan) provides 2 bn to develop and inprove networks, approximately 0,8 bn for technological innovation and digitalisation, including the completion of the smart meters installation plan, 0,45 bn for the construction of a methane supply network in Sardinia and 0,42 bn for growth through M&A and subsequent investments to the networks of new acquistions.

The number of meters managed grew from 6,6 mn (end of 2017) to 7,1 mn (at the end of the plan, exluding affiliates), or 8,5 mn when considering gas concessions.

The implementation of scheduled organic investments will increase the RAB consolidated annual average of 3,2% over the course of the plan and by an annual average of 5,3% when considering the planned evolution for tenders. The plan confirms a continued focus on optimising operating costs, with a goal to improve fixed efficiency targets from the regulator, in addition to improving financial structure. Italgas aim to fully cover the investment plan, thanks to a significant influx of operating capital, the remuneration of capital risk, also guaranteering financial flexibility to support development.

Controlled Acquisiton of EGN

On 22 June, Italgas signed a binding agreement with CPL Concordia to acquire 1) a majority stake (60%) in EGN, which manages approximately 60K customers and 37 licenses for gas distribution in Sicily, Calabria and Campania; 2) 100% of Naturgas, the methane gas distribution provider to San Giuseppe Vesuviano (NA), with approximately 2,7K customers; 3) 100% of Fontenergia, the gas distributer for Bacino 22 in the Sardinian region, with the other 7K of customers served by GPL.

The operation's EV was established at 116 million Euro. The acquistion agreement for EGN includes a put & call option on the remaining 40% held by the seller, exerciseable six months after the closing date of the process.

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