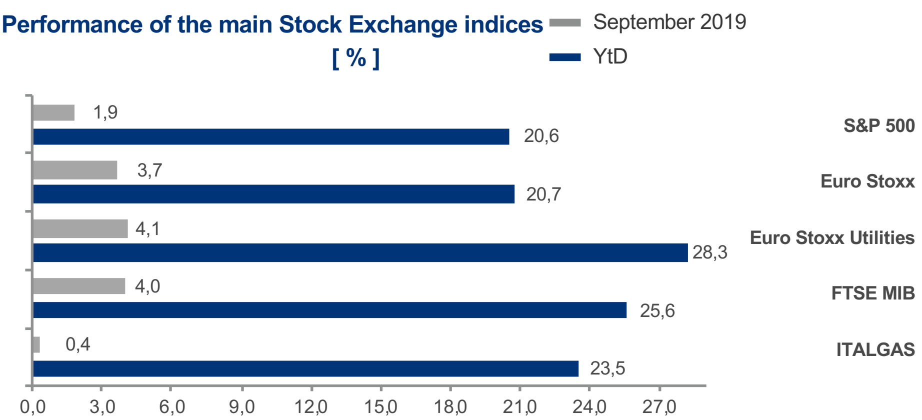
September 2019

Financial Markets Review

Equity rally with global risks mitigated; Euro Stoxx reaches max since 08/2018. Core yields up moderately after the lows reached in August; strong contraction in the spread with more pro-European political developments

Financial markets

Significant Eurozone equity rally in September, reflecting mitigated global risks, particularly: 1) increasing expectations for a solution to the US/China trade conflict, after the parties took conciliatory measures consisting of postponing and removing certain tariffs; 2) formation of a new Italian government, significantly more pro-European than the previous one; 3) improved macroeconomic data, in particular initial unemployment claims and retail sales in the US; 4) approval in the UK of a request for a 3-month extension of the Brexit deadline if an agreement cannot be reached with the EU, with PM Johnson who, after the defection of several conservatives, lost his majority in Parliament. The Euro Stoxx and the FTSE MIB were up by 4%, with the European benchmark back up to its highest levels since August 2018. More moderate rally for the S&P 500 (+2%) due to the decline of the EUR/USD to new lows since May 2017, as well as the proximity of the US index to the all-time highs marked at the end of July (only around 2% below that level). After reaching historical/multiannual lows at the end of August, core yields recorded moderate increases (Bund +13 bps,



Source: Italgas elaboration of Bloomberg data

UST +17 bps) due to the mitigation of global risks mentioned above and improved macroeconomic data, as well as the re-emergence of rumours concerning fiscal relaxation by Germany as well as other EU governments and a less accommodating Fed than expected, with a 25 bps rate cut but increasing divisions on whether further cuts will be implemented by the end of the year. BTP-Bund spread -30 bps with a more pro-European government taking office, confirmation of a new round of QE and reshuffling of the ECB board in a more dovish direction, with the departure of German and French representatives who were against resuming QE. EUR/USD -0.8% (lowest level for 2 and a half years) due to the Fed meeting that was less accommodating than expected, enacting rate cuts but growing divisions on the continuation of monetary easing. EUR/GBP -1.9% with a 3-month extension of the Brexit deadline if an agreement is not reached with the EU and PM Johnson losing his majority in Parliament.

The oil market

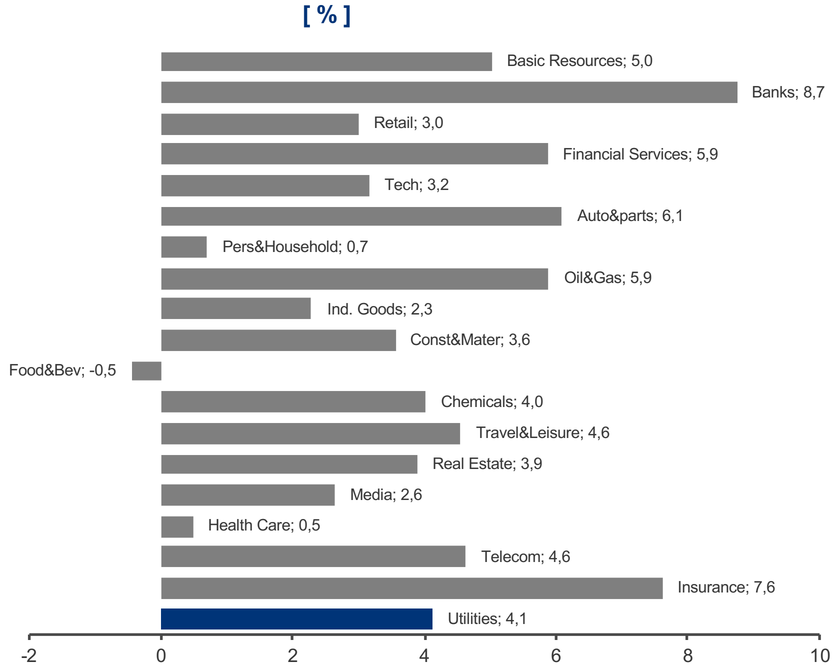
Substantial stability for Brent prices (+1%); the initial strong rally caused by attacks on Saudi oil installations, which generated the largest interruption in output ever due to a single event (roughly 6 mbd, or 6% of global production), and ratcheted up tensions between Saudi Arabia/US and Iran, as well as statements by Russia concerning an expected reduction in national output in September compared to the MoM increase recorded in August, was mitigated by rapid Saudi progress in recovering production capacity, the removal by Trump of the “hawk” John Bolton from his role as national security advisor, and the resulting opening towards a mitigation of sanctions on Iran, as well as the confirmation by the IEA of a global production surplus in 2020 as well.

Trends by segment

Sector trends clearly reflected the equity rally triggered by mitigated global risks, with a resulting rise in core bond yields. The cyclical and financial segments are clearly the best performers, with the banking, insurance and automotive sectors up by 6% to 9%. The sector rotation caused by the above-mentioned factors therefore penalised defensive stocks and bond-proxies, which was particularly apparent in the food segment as well as personal goods, which - also due to profit-taking after being amongst the best performers in the first half of the year - closed basically unchanged.

Sector rotation reflecting mitigated risks; best performers cyclicals and financials compared to defensive stocks at the bottom of indexes

Trend of the main sectors, September 2019



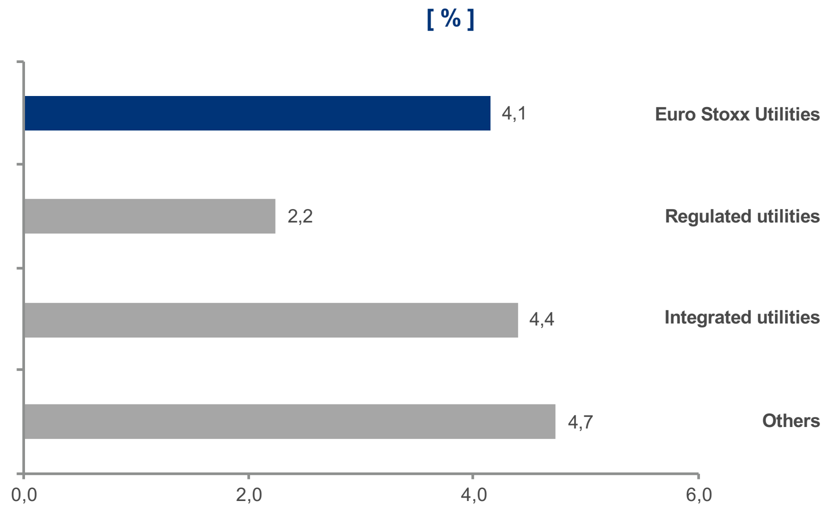
Source: Italgas elaboration of Bloomberg data

Regulated operators underperform the sector, with a mitigation of risks and a rally in core yields

Performance of the utilities segment

Although basically aligned with the Euro Stoxx (+4.1%), the utilities sector index showed a divergence of more than 2 percentage points between the performance of integrated and regulated securities, with the latter evidently penalised by the mitigation of global risks, with a resulting rise in core bond yields. Amongst integrated securities, German operators were up in particular (RWE +11%, EON +5%) after the finalisation of asset swaps and the national government's presentation of its climate plan. Trends in the water/environmental segment were aligned overall with sector trends.

September 2019 - Trend of the sector and sub-sectors

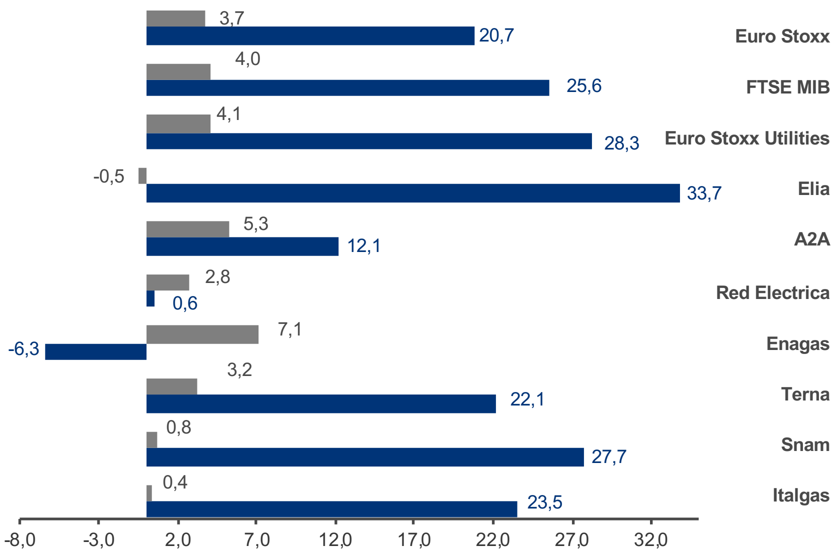


Source: Italgas elaboration of Bloomberg data

The Italgas stock and its peers

Italgas, unchanged, underperforms the market with sector rotation and profit-taking after being a best performer in H1

Italgas was unchanged overall, while the utilities index marked +4%. Despite the decline in the sovereign spread, the security was impacted by the sector rotation triggered by a rise in core yields due to the risk-on phase, and underperformed its peers due to profit-taking after being a best performer in the first half of the year. Amongst other operators, there was in particular a recovery for Enagas (+7%) on expectations of a mitigation in the tariff proposal, with the Council of State raising objections relating to the approval of the regulatory documents.



Source: Italgas elaboration of Bloomberg data

Agenda

Corporate events

7 November	Board of Directors Q3/9M results
8 November	Press Release and Conference Call

Corporate news

Board of Directors approves renewal / increase of EMTN up to EUR 5 bn

On 23 September, the Italgas Board of Directors approved the renewal of the EMTN Programme launched in 2016 and subsequently renewed in 2017 and 2018, simultaneously increasing its maximum amount from EUR 3.5 to 5.0 bn. Before the renewal/increase, bonds were issued for a nominal amount of EUR 3.5 bn as part of the EMTN Programme, which was therefore entirely used.

The Board of Directors also authorised the issue, to be completed within one year of the Programme renewal date, of one or more bonds, to be placed exclusively with institutional investors. The total amount of the bonds outstanding cannot exceed the above-mentioned maximum amount and the newly issued securities may be listed on regulated markets.

Moody's confirms Italgas rating

On 26 September Moody's confirmed the long-term creditworthiness (Baa2) for Italgas with a stable outlook. This rating confirmation reflects the excellent positioning of Italgas within a sector characterised by a stable regulatory framework. Moody's highlights the profitability and cash generation capacity of Italgas, supported by excellent levels of operational efficiency and an extremely low cost of debt; according to the rating agency, the progressive implementation of the new 2019-2025 investment plan and the Company's strong liquidity profile will enable Italgas to maintain a broad competitive advantage when participating in tenders for the assignment of new gas concessions.

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