



CONSOLIDATED
NON-FINANCIAL
STATEMENT
2017



ITALGAS IS WARMTH

Behind simple gestures such as turning on the tap or the heater there are almost two centuries of history.

Italgas's contribute is a committed, reliable and innovative one which arrives into the houses of the Italians in order to bring natural gas warmth, for more then 180 years.

Flipping through these pages, you will find a visual translation of some of the daily moments alternating and being animated also thanks to our people's work.

Consolidated
Non-Financial Statement 2017

Values and mission

Competence, efficiency, innovation, reliability, safety, closeness to people. Every day, for more than 180 years, the work of the men and women at Italgas has drawn inspiration from these values. Italgas has always supported the economic and social development of Italy, encouraging its sustainable growth. Today, Italgas is the first natural gas distributor in Italy and the third largest in Europe. Building on these solid foundations, the Group now looks ahead and aims for stronger market presence. Investments, service quality and digitalisation are the main pillars of the strategy developed to achieve our ambitious goals and to continue generating value. Italgas, over 180 years of history and a successful future yet to be written.

The names Italgas, Italgas Group or Group refer to Italgas S.p.A. and the companies comprised in the area of consolidation.



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Italgas stock in sustainability indices

In 2017, Italgas shares were included in the FTSE4Good index series. The Company was assessed in the June 2017 review and met the rigorous criteria of the independent FTSE Environmental, Social and Governance (ESG) methodology.

Also during the year, CDP (Carbon Disclosure Project) recognised Italgas as an international leader in the implementation of strategies and actions to combat climate change, including it in the “Climate change A-List”.



FTSE4Good



Methodological note

The Italgas Consolidated Non-Financial Statement (hereinafter “Statement”) has been prepared in compliance with the provisions of Italian Legislative Decree no. 254 of 30 December 2016, (hereinafter “Decree 254”) on the “*Implementation of Directive 2014/95/EU of the European Parliament and of the Council’s amending Directive 2013/34/EU of 22 October 2014 concerning the disclosure of non-financial and diversity information by certain companies and large groups*”. Italgas is subject to this legislation as a public interest entity (pursuant to Article 16, paragraph 1, of Italian Legislative Decree no. 39 of 27 January 2010) with limitations on number of employees, balance sheet and net revenues above the thresholds provided in Article 2, paragraph 1 of Decree 254.

The Statement covers, within the scope of the aspects regulated by Decree 254, the issues deemed relevant considering the activities conducted by Italgas and the Group’s characteristics. The Statement highlights the main risks associated with each area, as well as the management policies and methods and the results obtained and monitored using performance indicators. The GRI Standards of the Global Reporting Initiative¹, were used to measure the results, with a GRI-referenced level of compliance. The GRI standards applied are specifically reported in the body of the document and they are in any case listed in the reconciliation table attached to this statement.

The results refer to the financial year ended at 31 December 2017 and to the previous year. The information provided covers the consolidation area of Italgas SpA (for the purposes of the Decree, the parent company) and the subsidiaries Italgas Reti and ACAM Gas (daughter companies). Only the operating data and personnel management data have been gathered from Enerco Distribuzione, a company acquired on 6 December 2017². Any other exceptions are listed in the document.

To make an historical comparison of results, we need to consider that Italgas SpA was incorporated on 1 June 2016 and took full control of operating activities on 7 November 2016 with the spinoff from Snam of Italgas Reti SpA and its subsidiaries. Since the same date Italgas has operated as a Group and is once again listed on the Italian Stock Exchange in the FTSE MIB index.

This document was audited by the Independent Auditors, who issued a certificate of conformity attached to the previous document.

On the proposal of the Sustainability Committee, the Italgas Board of Directors approved the Non-Financial Statement at its meeting of 12 March 2018.

This document is published in the Sustainability section of the Company’s website.

¹ The Global Reporting Initiative is a multi-stakeholder network of thousands of organisations worldwide that use and contribute to the development of the reporting framework.

² Data relating to personnel management including Enerco Distribuzione in the consolidation area: personnel as at 31 December 2011, breakdown of personnel by geographical area, classification, contract type, age bracket, education, average age of employees, and number of women. Operational data: network length.



The Italgas Group

BUSINESS PROFILE AND ACTIVITIES

Italgas was founded 180 years ago and is Italy's main natural gas distributor and the third largest operator in Europe. With a historical presence in the country's major cities including Turin, Rome, Naples and Venice, the company holds a 34% share of the Italian gas distribution market, manages over 66,000 km of network and serves almost 7.5 million Redelivery Points (RPs) in 1,609 concessions³.

Gas distribution, carried out within the wider national system, consists of transporting gas on behalf of sales companies authorised to market it to end customers. The service includes transport through local pipeline networks from the city-gates (reduction and measurement cabins interconnected with the transmission networks), to end customers and measurement activities, which include the collection, processing, validation and making available of consumption data in order to regulate commercial transactions between operators and users.

The Regulatory Authority for Energy Networks and Environment (ARERA) regulates the entire sector, determining the methods of access to infrastructure and the performance of the service and the related fees for the payment of activities performed⁴ Italgas is engaged in a continuous and constructive dialogue with the Regulatory Authority to help define a clear, transparent and stable regulatory framework to encourage the sustainable development of the gas system.

Italgas employs 3,584 people, located in local offices distributed throughout Italy. In the performance of its activities, the Group uses its own operating companies and a supply chain that also extends nationwide. In 2017, about 1,485 suppliers were involved in the procurement of goods, services and contract work.

Italgas, which was split off from the Snam Group in November 2016, is embarking upon a new and important phase in its long history. In June 2017, it presented its seven-year Strategic Plan and, just over a year after its return to the Stock Exchange, it adopted a new internal organisation that is leaner, more efficient and consistent throughout the country. The Company is investing heavily: in the expansion and digitisation of the network, in the consolidation process with the acquisition of new companies and business units in geographical areas of particular interest and with the entry into others, such as Sardinia, not yet served by the gas distribution network.

³ The data indicated also include non-consolidated associated companies.

⁴ For further information on the regulatory aspects, please refer to the chapter "Regulation" in the 2017 Annual Financial Report.

ITALGAS GROUP: REGIONAL PRESENCE AND MAIN OPERATING DATA

GAS DISTRIBUTED

As at 31 December 2017 Italgas distributed 7,767 million cubic metres of gas (7,470 million cubic metres of gas in 2016), through 284 marketing companies (282 in 2016).

DISTRIBUTION NETWORK

As at 31 December 2017, the gas distribution network covered 57,773 kilometres (56,798 kilometres as at 31 December 2016), with an increase of 975 kilometres since 31 December 2016.

CONCESSIONS

As at 31 December 2017 Italgas was the concession holder for the gas distribution service in 1,500 municipalities (1,472 as at 31 December 2016), of which 1,484 were in operation (1,422 as at 31 December 2016).

METERS

As at 31 December 2017, there were 6.586 million meters (6.536 million at 31 December 2016) in use at redelivery points ("PdR").



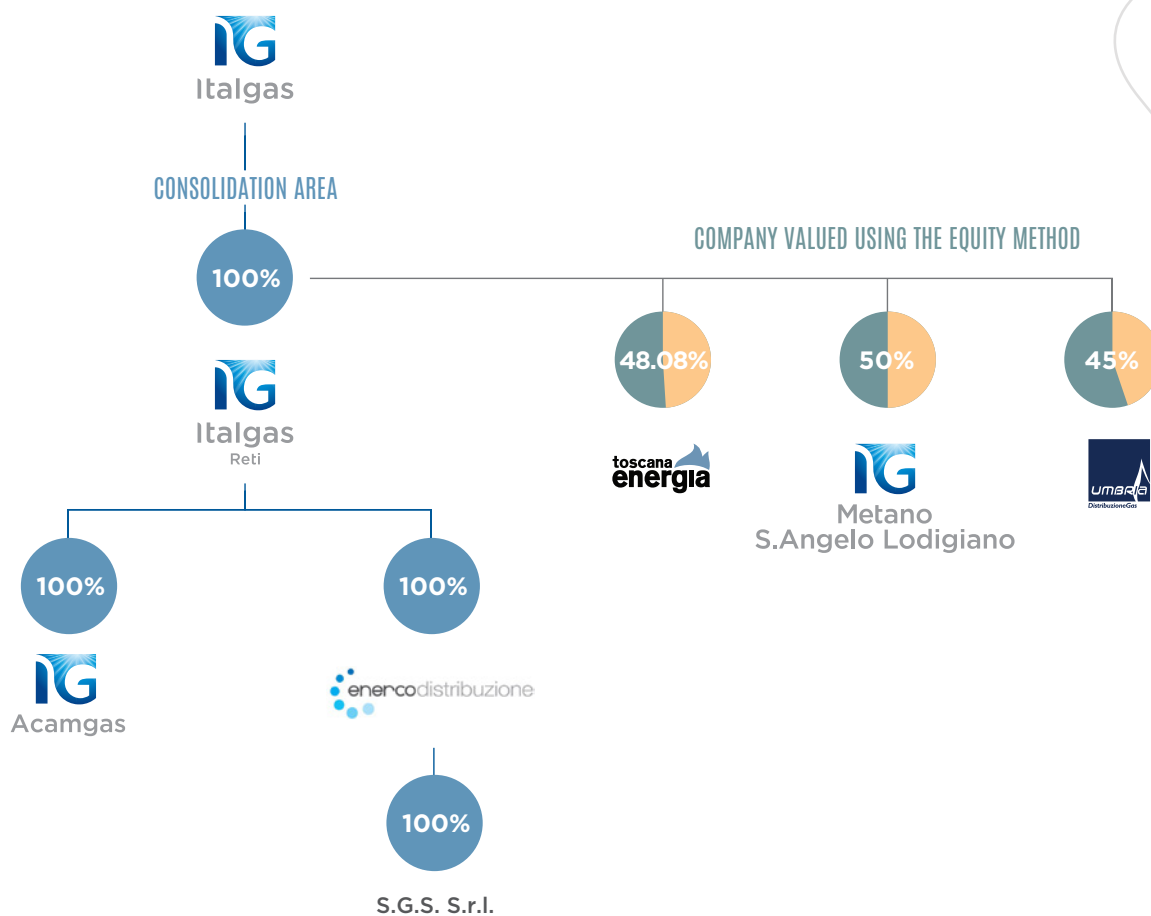
CORPORATE STRUCTURE

As at 31 December 2017 Italgas SpA held 100% of the shares of Italgas Reti SpA, which includes the equity investments in the subsidiaries ACAM Gas SpA and Enerco Distribuzione SpA (the latter in turn controlling SGS Srl), as well as equity investments in the capital of the associated companies Toscana Energia SpA, Metano Sant'Angelo Lodigiano SpA and Umbria Distribuzione Gas S.p.A.⁵.

The main changes in the consolidation area of the Italgas Group compared to 31 December 2016, concern:

- the entry of Enerco Distribuzione SpA and subsidiary SGS Srl in exchange for the acquisition, effective from 6 December 2017, of 100% of the share capital of Enerco Distribuzione SpA.;
- the merger by incorporation, effective as of 1 October 2017, of Napoletanagas SpA into Italgas Reti SpA, which took over all the existing contracts and legal relationships.

ITALGAS GROUP: SUBSIDIARIES AND ASSOCIATE COMPANIES (AT 31-12-2017)



⁵ Toscana Energia, Metano Sant'Angelo Lodigiano and Umbria Distribuzione Gas are associated companies and outside the scope of the Statement.

ORGANISATION OF ACTIVITIES

Italgas SpA includes staff functions, while Italgas Reti SpA is responsible for operational activities. The reorganisation of Italgas Reti's Operations was completed in 2017, with a re-configuration of the centralised (so-called technical staff) and local units.

One of the main rationales of the reorganisation was to create geographical units, on a scale more suitable to ensure a local presence, the strengthening of the role of the centralised units in terms of guidance, control and sharing of best practices; the application of a standard organisational model in all local areas, streamlined by reducing the number of organisational levels; and the definition of a scalable model for tenders and extraordinary operations.

The reorganisation was preceded by an analysis, carried out with the involvement of over 200 personnel, which sought to define how centralised units and local units could best interact, and to begin to simplify and streamline key operational processes.

It was then implemented in three phases, starting with the centralised units and ending with the creation of 14 Regional Centres specialised in the management of operational activities. The last phase, coinciding with the merger by incorporation of Napoletanagas into Italgas Reti, also standardised the organisational models used in the metropolitan areas of Rome and Naples.

ROLE OF SUPPLIERS IN ACTIVITIES AND THEIR MANAGEMENT

Italgas is an extensive company in which the supply chain is of strategic importance for the performance of its operational activities. In procurement practices, Italgas is clear and transparent with its suppliers and, once the supply relationship is established, seeks to help each supplier to achieve sustainable performance over time, with a view to mutual growth and value creation.

Suppliers are required to take note of Model 231 and fulfil the requirements of the relevant legislation (Legislative Decree no. 231/2001), to comply with the principles of the Code of Ethics, and to operate in compliance with the regulations on occupational safety, health protection, environmental protection, as well as international standards on labour law.

In managing procurement, Italgas is subject, for a number of product classes, to the procedures set out in the Tender Code (Italian Legislative Decree no. 50/2016). Italgas' suppliers are required to sign the Ethics and Integrity Agreement if they want to remain active on the suppliers' register.

QUALIFICATION AND SELECTION

Companies that apply to supply goods, services and works for the Italgas Group participate in a selection and qualification process conducted on the basis of a range of requirements, and always in compliance with the principle of equal opportunities. Requests for new quali-

fication, updating or renewal are managed centrally through the Vendor Management and Supplier Performance Evaluation System⁶, under the responsibility of the HSEQ & Vendor Management department of Italgas. Suppliers who pass the qualification phase are therefore awarded a qualification valid for all Group companies⁷.

The technical and managerial skills and economic and financial reliability of suppliers are to be assessed, as well as other aspects more closely connected to sustainability issues. In particular, respect for ethical principles, commitment to the fight against corruption, environmental safeguard and protection, promotion of healthy and safe working conditions, and the absence of forced labour and the economic exploitation of children, are all assessed.

The economic, environmental and social risks associated with each product class give rise to four different levels of supply criticality, on a scale ranging from minimum "D" to maximum "A", which identifies strategic suppliers. The minimum requirements for HSEQ must be met for each criticality level. For A and B class product categories, the selection and qualification procedures include more stringent requirements such as, for example, the supplier's use of management systems certified according to international standards⁸.

6 At the end of November 2017, the system acquired the ACAM vendor list and renewal procedures began to assess suppliers' eligibility according to Italgas criteria.

7 In the context of non-consolidated companies, Toscana Energia also uses the Italgas vendor list.

8 All suppliers with criticality A, those of "Goods" with criticality B and C and "Works" with criticality B are ISO 9001 certified. In addition, all suppliers of "Works" with criticality A and B are certified according to ISO 14001 and OHSAS 18001.

Selection and qualification of suppliers

	GRI standard	Unit of measure	TOTAL	of which on health and safety requirements(*)	of which on environmental requirements	of which on labour protection requirements(*)
Product group: goods						
Total qualified suppliers		no.	458	458	150	458
- <i>who belong to class A and B</i>	308-1; 414-1	no.	55	55	55	55
Total qualified suppliers in 2017		no.	130	130	38	130
		%	n.d.	100	29	100
- <i>who belong to class A and B</i>		no.	15	15	15	15
Product group: works						
Total qualified suppliers		no.	209	209	109	209
- <i>who belong to class A and B</i>	308-1; 414-1	no.	77	77	77	77
Total qualified suppliers in 2017		no.	40	40	40	40
		%	n.d.	100	100	100
- <i>who belong to class A and B</i>		no.	6	6	6	6
Product group: services						
Total qualified suppliers		no.	1136	1136	398	1136
- <i>who belong to class A and B</i>	308-1; 414-1	no.	195	195	195	195
Total qualified suppliers in 2017		no.	225	225	101	225
		%	n.d.	100	45	100
- <i>who belong to class A and B</i>		no.	23	23	23	23

(*) The assessment of the social aspects of suppliers concerns the health and safety and labour protection requirements.

The selection and qualification process includes the performance of various due diligence activities to check the actual possession and maintenance of the requirements by suppliers. In 2017, four audits were carried out on critical suppliers during the qualification phase, while another 192 suppliers were involved in renewal activities and the assignment of new qualifications. During the supplier qualification phase, 192 reputation checks were also completed, using specialised databases, revealing 53 irregularities that led to the following measures:

- 39 warnings;
- 11 reputational alerts;
- 3 suspension measures.



PERFORMANCE MONITORING AND SUPPLIER ASSESSMENT

During the execution of the contract, the services rendered by suppliers are assessed through the collection of feedback questionnaires issued by the contract managers. During 2017, 579 were collected. For each type of product class, the supplier is assessed in three distinct areas: punctuality, behaviour and quality. The quality area includes technical capabilities as well as HSEQ aspects.

If the supplier fails to meet the obligations undertaken during the qualification and assignment of the contract, Italgas reserves the right to limit, suspend, or revoke the qualification and assignment. The assessment in 2017 involved 102 suppliers.

In 2017, the development of the vendor-rating component of the Vendor Management System was completed. The new features allow automatic management of the questionnaires and also the calculation of an overall score for each supplier, also visible to the Procurement Units, obtained by combining the results of the questionnaires with other information from the company information systems responsible for managing the contracts issued. The new system module will be activated in 2018 after internal staff have been trained to use it. Subsequent development involves refining the questionnaire in order to make the evaluation of suppliers faster and even more effective.

SUBCONTRACTING

Within the supply chain, subcontractors are supervised during the tender and/or contract management phases.

As for suppliers, Italgas requires subcontractors to take note of Model 231 and fulfil the requirements of the relevant legislation (Legislative Decree no. 231/2001), to comply with the principles of the Code of Ethics, and to operate in compliance with the regulations on occupational safety, health protection, environmental protection, as well as international standards on labour law. Subcontractors are also required to sign the Pact of Ethics and Integrity.

In the course of 2017, only subcontracts for ancillary works were granted⁹, always within the scope of Italian Legislative Decree no. 50/2016, according to which subcontracting cannot account for more than 30% of the value of the overall contract.

Italgas also carries out audits at the sites where both contractors and subcontractors operate. The Vendor Management System identifies 118 companies, 21 of which are also direct Italgas suppliers, directly qualified.

⁹ Ancillary works: for example, drilling (TOT), pipe jacking, relining, non-destructive welding inspections, special flooring, repairs of road surfaces, cast asphalt, road signs, drying of AP pipes, geological survey activity ahead of drilling works for laying cathodic protection earth electrodes and works for the creation of earth electrodes, and possible laboratory tests on floorings.





Strategic Sustainability Guidelines

Sustainability is a key component of Italgas' business model. It contributes to the definition of strategic and operational choices, and ensures long-term sustainable growth, combining shareholders' expectations with the generation of economic, social and environmental value for all stakeholders.

This commitment is shown in the Sustainability Plan, presented by the Sustainability Committee to the Board of Directors, which approved it at its meeting of 14 December 2017.

The Sustainability Plan defines the strategic guidelines, in terms of commitment and lines of action, to integrate sustainability issues into the business plan. In particular, it defines the strategic objectives and initiatives that will contribute to achieving these objectives. The Plan is the fruit of a participatory process involving Italgas' Top Management, with dedicated meetings seeking to decide the company's priority sustainability issues, and a workshop day held on 19 September 2017, with five macro-thematic working groups (Governance, Human Resources, Innovation, Community, Environment & Supply Chain), to define the objectives to be achieved and the supporting actions.

The five pillars on which the Plan is based are:

- To strengthen and enhance the company's sustainability position, establishing processes for integrating sustainability into the business and working on increasing the culture of sustainability within the company along the entire value chain;
- To prioritise everyone who works for Italgas, protecting and enhancing the company's know-how, increasing the wellbeing of staff and improving accident rates;
- To gain recognition from the region, fostering relations with the local areas and investing in the communities in a way that is consistent and integrated with the business;
- To create value for customers and the gas market by harmonising processes with sales companies and regaining ownership of the relationship with the end customer;
- To contribute to the efficiency and security of the energy system, through the improvement of energy efficiency and the reduction of the carbon footprint, developing gas advocacy and enabling circular economic processes.

The Plan is being implemented, and in this first edition 45 specific actions are to be implemented between 2018 and the end of 2019. The Plan will be reviewed annually.

Material issues and related risks connected with company activities

In 2017, Italgas updated its materiality analysis, reassessing the priority issues related to its activities and the areas covered by the Decree.

The analysis process started by identifying the material issues reported in the materiality matrices of the Company's main peer references in the Electric & Utilities sector and taking into account the main critical risks to which Italgas is subject. This first phase brought out a series of important issues, which were then combined into macro issues on which the following four analyses were based:

- 1) evaluation of the issues in the working groups with top management carried out during the definition of the Sustainability Plan;
- 2) presence of the issues in the Code of Ethics and Policies adopted by Italgas;
- 3) relevance of these issues for the National Strategy for Sustainable Development, measurement of Fair and Sustainable well-being and of the demands of public opinion on the Company;
- 4) perception of the issues from the point of view of external stakeholders, through listening to the managers of the various internal company departments, with the latter recording opinions, doubts, ideas and observations in terms of sustainability and governance from the stakeholders with whom the Company deals on a daily basis.

The joint consideration of internal and external significance enabled the identification of the priority and most important material issues for the Group, which in compliance with the requirements of the Decree are associated with the areas specified by the legislation and the main risks, which are subject to analysis and monitoring within the Enterprise Risk Management (ERM) process.

ITALGAS STAKEHOLDERS

The main categories of Italgas stakeholders, shown below, were identified with the direct contribution of the company departments, which provided a breakdown of existing relationships.

MAP OF STAKEHOLDER



**Table linking:
important issues, scope of the decree and main risks¹⁰ mapped out in the erm process**

Material issues 2017	Scope of Italian Legislative Decree no. 254/2016	Description of risks
<ul style="list-style-type: none"> - Responsible business management - Corporate Governance 	<p>Respect for Human Rights</p> <hr/> <p>Fight against active and passive corruption</p>	<ul style="list-style-type: none"> - Risk of non-compliance due to failure to comply, wholly or in part, with European, national, regional and local regulations that Italgas must follow with, in particular with reference to Corporate Governance and/or the internal control system, protection of health and safety of workers and the environment and the fight against corruption, with possible penalties, even significant, against the company in accordance with the regulations governing the administrative liability of institutions (Italian Legislative Decree no. 231/01);
<ul style="list-style-type: none"> - Energy efficiency - Emissions - Waste - Accident prevention - Supply chain management 	<p>Environment, Health and Safety*</p>	<ul style="list-style-type: none"> - Risks connected to health, safety and environmental protection in relation to current activities and reclamation of contaminated sites, removal and disposal of waste.
<ul style="list-style-type: none"> - Security of operations - Reliability, quality and accessibility of the service - Innovation - Relations with the community - Relations with the Regulatory Authority 	<p>Social</p>	<ul style="list-style-type: none"> - Operational risks of malfunctioning and unexpected interruption of the distribution service caused by accidental events including incidents, breakdowns or malfunctions of equipment or control systems, reduced performance of installations and extraordinary events such as explosions, fires, earthquakes, landslides or other similar events beyond the control of Italgas; - Regulatory risk, in relation to the changes made by European Union and Italian government directives and regulatory provisions, ARERA decisions and possible changes in the regulatory framework governing the criteria for setting the reference tariffs.
<ul style="list-style-type: none"> - Employment and protection of workers' rights - Development and enhancement of human capital - Welfare and equal opportunities 	<p>Personnel</p>	<p>There are no critical risks with a significant impact.</p>

* With regard to water resources, the issue is not reported as water is not used by Italgas in operational activities but exclusively for sanitation purposes.

¹⁰ Main risks means those arising from the application of the Italgas Group ERM methodology with significant impact and/or probability with respect to the identified areas /issues.

Governance and management of activities

Italgas' governance system follows the "traditional" administration and control model. The Board of Directors defines the rules and methods of planning, management and control that make up the corporate governance system in compliance with the regulations to which it is subject as a Listed Issuer, with the Self-Regulatory Code and with the reference national and international best practices.

The Shareholders' Meeting is Italgas' decision-making body. It appoints the Board of Directors (BoD) and the Board of Statutory Auditors, and it performs the tasks assigned to it pursuant to the applicable regulations and the Articles of Association. With the exception of these documents, all ordinary and extraordinary administration is the responsibility of the Board of Directors, the central body in the corporate governance system.

The Italgas Board of Directors will remain in office until the date of the Shareholders' Meeting held to approve the financial statements as at 31 December 2018. It comprises nine members, three of whom are women, in compliance with gender balance criteria, while four meet the requirements of independence. Specific advisory and proposal functions have been assigned to the three committees (Appointments and Remuneration Committee, Control and Risk and Related Party Transactions Committee and Sustainability Committee) set up within the Board of Directors, which appoints their members and regulates their duties and operation.

Diversity in the composition of members of the board of directors

	Standard GRI	Unit of measure	2016	2017
Total members of the BoD		no.	9	9
	405-1	no.	3	3
- of which women		%	33.3	33.3

Composition of members of the board of directors by age group

	Standard GRI	Unit of measure	2016	2017
Age group 30-50		%	33.3	33.3
Age group over 50	405-1	%	66.6	66.6

SUB-COMMITTEES: COMPOSITION AND FUNCTIONS

Sub-committees: composition and functions

Control and Risk and Related Party Transactions Committee	Appointments and Remuneration Committee¹¹	Sustainability Committee
It comprises three non-executive and independent directors.	It comprises three non-executive directors, two of whom are independent.	It comprises three non-executive directors, one of whom is independent.
It plays a proactive and advisory role in relation to the Board of Directors regarding the internal control system, risk management and periodic financial reports	It plays a proactive and advisory role in relation to the Board of Directors regarding the appointment of directors, their remuneration and that of managers with strategic responsibilities	It plays a proactive and advisory role in relation to the Board of Directors regarding all the processes and activities that help promote the company's sustainable development.

The Sustainability Committee, in particular, has a specific function for the areas referred to in the Decree, since one of its main tasks is to examine and evaluate

- sustainability policies, seeking to ensure the creation of value over time for all shareholders and all other stakeholders in the medium to long term, in compliance with the principles of sustainable development;
- the guidelines, objectives, and the consequent sustainability processes and the non-financial reporting submitted annually to the Board of Directors.

From the very start, in addition to the Sustainability Committee, Italgas also set up the Corporate Social Responsibility (CSR) Unit within the External Relations department. The CSR unit oversees sustainability processes and ensures the coordination of the contribution of each company department involved in the various issues. In particular, during 2017, the CSR unit coordinated the implementation of the Sustainability Plan, which will monitor the progress of the actions and the Plan's annual update.

¹¹ The outcome of the merger of the Appointments Committee and the Remuneration Committee into a single body approved on 23 October 2017 by the BoD.

ORGANISATION AND MANAGEMENT MODEL



The Italgas Group operates on the basis of a Corporate Management System, comprising an Organisational System and a Regulatory System. The system defines the roles, responsibilities, powers and rules of conduct to be followed in the performance of company activities.

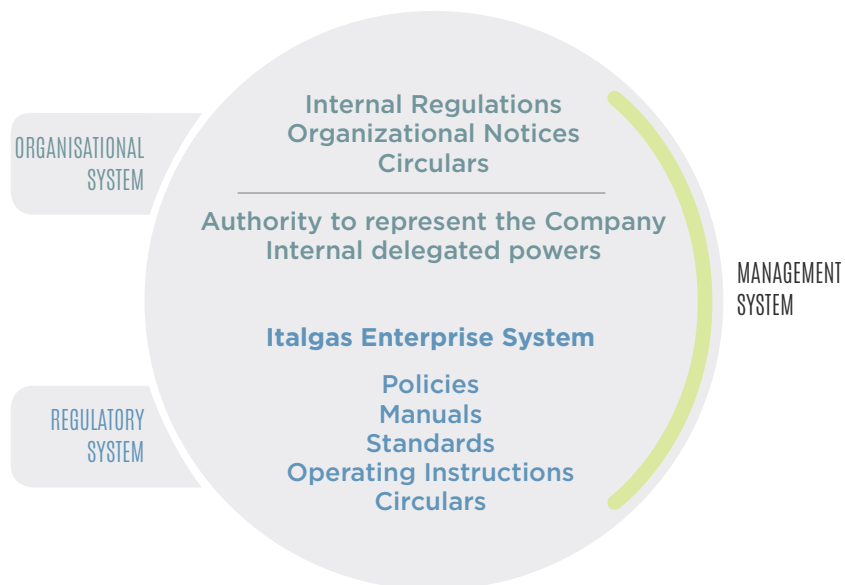
The Corporate Management System is continuously updated in order to ensure the effectiveness and efficiency of processes, the safeguarding of corporate assets and compliance with the regulations that also allow Italgas to direct the management and coordination of its Subsidiaries.

ITALGAS ENTERPRISE SYSTEM

On 1 June 2017, the company formalised the Italgas Enterprise System (IES), a new key part of its regulatory system. The IES provides a complete and accurate description of the company's activities and processes and is an important support to the operations of each Group department. Following the issue of the IES, the regulatory system was revised to adapt the group rules to the principles described.

In particular, the IES mapped out an initial approach to the sustainability model, which aims to provide an approach to corporate social responsibility that combines business objectives with respect for environmental, social and governance issues, and that recognises the central role of stakeholders and their needs to create social value as well as economic value, also with the drive towards innovation.

OUTLINE OF THE ITALGAS CORPORATE MANAGEMENT SYSTEM



The implementation of the regulatory system was accompanied by the awareness raising and training of Italgas people on how the rules and codes apply to their activities and conduct and how to deal with any critical situations.

THE CODE OF ETHICS AND THE ORGANISATION, MANAGEMENT AND CONTROL MODEL 231

The Italgas Code of Ethics¹² is the system of values on which the Group's ethical culture is based. These values inspire the conduct of company activities in line with the principles of sustainability and corporate responsibility considered an integral part of its own corporate management model. Ethics is a guiding factor informing the company's strategic and operational choices and a lever to ensure long-term sustainable growth, while providing the results expected by shareholders and sharing with all its stakeholders the value generated, also from an environmental and social point of view.

The Code of Ethics also defines the guiding principles on which the entire internal control and risk management system is based and is a general principle of the Organisation and Control Model, which is constantly updated in line with the updates to Italian Legislative Decree no. 231, which ensures the prevention of the offences referred to in Italian Legislative Decree no. 231/2001 by directors or employees for the benefit of the company.

The Code of Ethics and Model 231 are periodically updated to remain compliant with the regulations that Italgas is required to follow.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

Italgas is endowed with an internal control and risk management system integrated into the organisational, administrative and accounting structure and, more generally, into the corporate governance system. This system ensures compliance with corporate laws and procedures, protects company assets and contributes to the management of activities by providing solid accounting and financial data.

The Enterprise Risk Management (ERM) unit, which was established under the aegis of the General Manager for Finance and Services, oversees the integrated management of business risks for all Group companies. The ERM's main objectives are to create a standardised and transversal risk assessment model, to identify priority risks, to ensure the establishment of mitigating actions and to develop a reporting system. The ERM methodology adopted by the Italgas Group is in line with the reference models and the existing international best practices (COSO Framework and ISO 31000).

ERM operates within the broader Italgas Internal Control and Risk Management System. Through the ERM, Italgas has chosen to adopt a structured and standardised risk identification, assessment, management and control model for all Group companies. Business risks are managed using three levels of control, involving different operating units with specific responsibilities. The model provides for an integrated, transversal and dynamic risk assessment that improves the management systems already existing in the individual company processes.

¹² The Code of Ethics is available on the Company website <https://www.italgas.it/en/governance/business-ethics/code-of-ethics/>

The results of the main risks and the related management plans are presented to the Control and Risk and Related Party Transactions Committee, in order to allow the assessment of the effectiveness of the Internal Control and Risk Management System, with respect to Italgas' specific characteristics and the risk profile assumed. The results are also used by the Internal Audit department, which exercises its control function by preparing and implementing audit plans. During 2017, six audits and 25 independent monitoring checks were conducted. In 2017, intensive training was provided on Enterprise Risk Management in order to help boost awareness among company staff of the need to develop a culture that is alert to the identification, monitoring and management of the main risks of the company business (Risk Based Thinking). In particular, 250 people from different Italgas and Italgas Reti departments were involved in the 18 training meetings. The initiative will conclude with further meetings during 2018.

Finally, alleged violations of the principles and rules of conduct of corporate activities are also checked by analysing reports received, also anonymously, through the channels provided by the Reporting Procedure¹³, applicable to all Group companies.

In 2017, 19 reports were received (20 in 2016), of which 13 looked at the internal control system and six the ethical and behavioural aspects. As at 31 December 2017, all the reports received during the year had been duly processed, and of these 17 had been closed. In particular, it should be noted that the controls carried out confirmed the validity of all reports regarding the distribution network. The relevant installations have been made safe and notifications sent to the competent local authorities.

Reports received

	Unit of measure	2016	2017
Total reports received no.	no.	20	19
- of which, related to the Internal Control System	no.	12	13
- of which, related to other matters (Code of Ethics, harassment at work, theft, security, etc.)	no.	8	6
Closed notifications	no.	20	17
Reports under examination	no.	0	2

¹³ The Reporting Procedure can be consulted on the Company's website <https://www.italgas.it/en/governance/business-ethics/notification-procedure/>



IG
Italgas
Reti



Responsible conduct of business activities

PREVENTION OF ACTIVE AND PASSIVE CORRUPTION

RELEVANCE TO ITALGAS' ACTIVITIES

Italgas considers corruption a serious threat to the development of economic and corporate relations. It therefore recognises it as a very important issue, linked to the broader material issue of “responsible business management”, and seeks to counteract it at national and international level, both in relations with public officials and with private individuals.

The fight against corruption aims to avoid penalties and repercussions for the business, and to protect the company's reputation. In fact, one of the key factors in the Italgas Group's reputation is its ability to conduct its business with fairness, propriety, transparency, honesty and integrity, in compliance with laws, regulations, similar mandatory requirements, international standards and guidelines.

POLICIES AND COMMITMENTS TO MONITOR THE ISSUE

Italgas fights all forms of corruption at home and abroad. The relevance of the corruption risk for the company's activities is specifically analysed and managed in Model 231.

Anti-corruption measures are contained in a specific Procedure¹⁴ that provides a systemic framework for Italgas' regulatory instruments in this area, inspired by the principles of conduct set out in the Code of Ethics. The Procedure combines the regulatory instruments Italgas has adopted to prevent any form of corruption in relations with third parties, Public Officials and private individuals, both nationally and internationally, to protect the integrity of the business and the reputation of the Group. The Procedure also contains the components of the Anti-Corruption Policy and is adopted in accordance with the tenth principle of the Global Compact¹⁵, the international initiative launched in 2000 by the United Nations to support 10 universal principles covering human rights, work, the environment and the fight against corruption.

Specifically, the Anti-corruption procedure:

- prohibits any form of corruption, either of public officials or private parties;
- pays particular attention to the selection of suppliers and the qualification process, the award of contracts, the management of contracts, standard protection clauses, including those of commitment to comply with Anti-Corruption Laws and verification of the ethical requirements of suppliers;
- establishes that all relations of the Italgas Group with, or referring to or involving a Public Official must be conducted in compliance with the provisions of the Procedure.

The Procedure applies to Italgas Spa and its subsidiaries as part of the management and coordination activities performed by the Group's corporate body. Italgas also requires suppliers, intermediaries and any other person who may be responsible for the matter on the part of Italgas, to comply with anti-corruption measures.

¹⁴ The Anti-Corruption Procedure is available on the Company's website <https://www.italgas.it/en/governance/business-ethics/anti-corruption/>

¹⁵ Tenth principle of the Global Compact: *companies are committed to fighting corruption in all its forms, including extortion and bribery.*

ACTIVITIES AND RESULTS



In 2017, Italgas began the process of certifying the entire Group according to Standard 37001. The standard defines the requirements and a programme to create and update a management system for the prevention of corruption.

Anti-corruption monitoring plays a key role in the preparatory activities, which will need to consider:

- the main aspects of the organisation with a view to compliance with Standard 37001;
- verification of internal regulatory and organisational instruments with a view to compliance with Standard 37001;
- the assessment of the risk of corruption with respect to the organisational context;
- mapping of functions that may have an impact on anti-corruption activities;
- the degree of knowledge and measures envisaged in relation to the risks covered by Regulation 37001;
- control measures and other organisational solutions to be introduced or integrated with respect to the provisions of Standard 37001.

The following are representative indicators of the results of the management of the aspects related to the prevention of corruption:

Anti-corruption				
	GRI standard	Unit of measure	2016	2017
Corruption cases detected	205-3	no.	0	0

In 2017, a total of 899 hours of training were provided on compliance issues, with 331 employees attending.

PROTECTION OF HUMAN RIGHTS

RELEVANCE TO ITALGAS' ACTIVITIES

The protection of human rights is an important and recognised issue for Italgas, and is mainly connected to the wider issue of "Employment and protection of workers' rights".

Italgas pays particular attention to the recognition and safeguard of the dignity, freedom and equality of human beings, worker protection and trade union freedom, health, safety and the environment. In this regard, Italgas operates within the framework of the United Nations Universal Declaration of Human Rights, the fundamental Conventions of the ILO - International Labour Organisation - and the OECD Guidelines for Multinational Enterprises

POLICIES AND COMMITMENTS TO MONITOR THE ISSUE

The Code of Ethics is the main reference for the promotion and protection of human rights in Italgas. Although Italgas does not have a formal policy on the protection of human rights, in the pursuit of both its own business activities and in relation with partners the company is inspired by and adopts practices for the protection and promotion of human rights, the

inalienable and essential prerogatives of human beings and the foundation for the construction of societies based on the principles of equality, solidarity, repudiation of war and for the protection of civil and political rights, social, economic and cultural rights and so-called third generation rights (right to self-determination, peace, development and environmental protection).

ACTIVITIES AND RESULTS

In 2017, on the proposal of the Sustainability Committee, the company embarked upon the procedure for joining the United Nations Global Compact. Italgas has expressed its intention to support the Global Compact and its Principles through the letter of Accession addressed to the Secretary General. At its meeting on 25 January 2018, the Board of Directors of Italgas SpA approved the accession.

In 2018, the issue of human rights will be assessed in order to define its scope with respect to corporate activities and to assess the relative adjustments to the internal regulatory system.

People and organisation

RELEVANCE TO ITALGAS' ACTIVITIES

The main material issues for Italgas related to personnel management concern:

- employment and the protection of workers' rights;
- development and enhancement of human capital;
- welfare and equal opportunities.

Orientation towards efficiency, guaranteed quality of service, environmental protection and occupational safety are the common foundations on which a shared culture of values is based. To achieve these objectives, Italgas develops the skills and abilities of its personnel to ensure their individual growth. The company encourages participation and listening and strives to create a positive working environment.

In particular, people are considered to be the company's most valuable asset. The processes of Selection, Hiring and Training, and that of human resource development are closely related to the Company's strategic guidelines - included in workforce planning. The aim is to ensure the availability of the necessary skills and the development of the skills required by the business.

POLICIES AND COMMITMENTS TO MONITOR THE ISSUE

Italgas' work is based on the growth and development of its people, the protection of health and safety and the creation of a working environment favourable to professional and human growth. Italgas offers all employees and associate workers career opportunities based on merit, professional and managerial skills and active participation in company development and improvement processes. Italgas considers diversity a corporate asset: it respects the dignity of every individual and guarantees equal opportunities in all phases and for all aspects of the employment relationship, preventing any form of discrimination deriving from differences in sex, age, health, nationality, political or religious opinions.



ACTIVITIES AND RESULTS

In line with the strategic objectives of the 2017-2023 Multi-year Plan, Italgas has embarked on a path of growth combined with challenging targets for improving operating efficiency. The HR and organisational policies and the main achievements of 2017 all point in this direction. This area includes:

- definition and implementation of a standard organisational model for the entire company in the Operations area, in order to achieve further productivity gains and encourage the integration of new businesses acquired through M&A operations and tenders in the sector. Based on leaner and more efficient local businesses, it strengthens the dedicated technical structures and introduces skills centres aiming to safeguard the Group's know-how as well as new working methods seeking to continuously improve and simplify operating processes;
- completion of staff organisational structures set up following the spinoff from Snam, ensuring the necessary focus on the Group's development activities as well as the implementation of innovation projects and the digitisation of business processes;
- launch of a major turnover plan, also given the need for generational turnover, which, in addition to everything already achieved in 2017, will be developed over the coming years through the introduction of new skills, the growth of its resources, and the consolidation and development of its know-how. Education, training and internal turnover paths for the acquisition of interfunctional skills will be essential for this purpose;
- personal growth, both through the internal development system and through active participation in the processes of company change, supported by internal communication and networking initiatives;
- continuous dialogue with workers' representatives, through the industrial relations system, starting from the strategic directions pursued and their implications on work organisation;
- improvement of the working environment, procedures and working practices and continuous action to protect workers' health, safety and well-being and to create conditions favourable to professional and human growth. This commitment also translates into a complex system of services and welfare that is constantly expanding to meet new needs and expectations and that has also become a pillar of the remuneration structure.

Reorganisation is a great opportunity for the professional growth of resources, to address the daily problems of the local area and to create centres of expertise for specialised activities and business support. Organisational changes have had an impact on organisation, processes and working methods. In particular during 2017:

- the "Migliora" Continuous Improvement Programme was launched. This programme seeks to increase the efficiency and effectiveness of company activities and processes and implement initiatives that can lead to tangible returns in terms of economic benefits and quality of services offered. In particular, 40 "Work Sites" were launched which, through the involvement of about 130 people, generated innovative ideas and solutions on issues of particular interest to the company presented periodically to the Innovation and Continuous Improvement Committee. Thirty-four construction site leaders received intensive classroom training sessions and about 130 people were involved in the work groups and on-the-job training. A special "Ideas Box" section was also created on the company intranet, accessible to everyone wishing to suggest improvements, in order to involve them at all levels and to collect new ideas and initiatives.
- fifteen "professional families" were created to form a store of technical know-how and to share operating methods, best practices and work tools. Each professional family

comprises a Competence Leader (whose role is to take care of the development of know-how, defining objectives and priorities, convening and managing meetings) and several Core Members (to encourage developments in operating methods), at least one for each of the local centres of the new organisational structure of the operations. The professional families meet and their members interact under the coordination of the Competence Leader, who has a working relationship with the Core Members.

In particular, the 15 professional families, belonging to six different business areas - asset creation, asset management and maintenance, commercial service management, tender management, staff and transversal activities - number about 500 members between Competence Leader and Core Members, who met about 25 times in 2017.

Italgas supported the organisational change by communicating to company staff. It used the direct channel: numerous meetings were held for large groups of people, with the contribution and participation of the top management of the Group companies. One example was the meetings held to share the new organisation of Italgas Reti's Operations and to introduce and share the progress of the new Continuous Improvement Programme.



SMART WORKING

In July 2017, Italgas introduced Smart Working, a new organisational model that allows some work to be performed outside company premises. To date, it has involved the Corporate staff areas, with about 150 voluntary members, and will soon be extended to the Operations.

The objectives:

- to improve the working methods of the staff already based in the area;
- to stimulate digital innovation and the use of information technology;
- to foster a more open and collaborative management culture geared towards delegation and empowerment;
- to boost job satisfaction;
- to help reconcile work and family life;
- to increase sustainability by reducing travel between home and office and between different company locations.

To support the new organisational model, Italgas carried out an internal communication campaign, together with training on objectives, methodology, ICT equipment and services made available by the company and related health and safety aspects. The courses attracted 538 participants who underwent a total of 1,883 hours of training, of which 182 participations and 637 hours dealt with HSE.

EMPLOYMENT AND LABOUR PROTECTION

As at 31 December 2017, the Italgas Group had 3,584 employees. Specifically, 162 people joined the company in 2017, 81 of whom came directly from the job market, 70 returned to service from the Snam Group and 11 were hired after the acquisition of Enerco SpA. On the other hand, 148 people left the Group, of whom 145 for termination of the employment relationship and deaths and 3 for other reasons (e.g. transfers to other companies, etc.). 96% of the company workforce is on a permanent contract, while fixed-term, placement and apprenticeship contracts account for the remaining 4%.

Overall, 11.6% of company employees are women, an increase over the last three years. In particular, 18% of executives are women (two of the three new executives appointed in 2017 were women as were three of the five executives hired from the job market in 2017), while in the management area (Executives and Middle Managers) the figure is 14%, and is a rising trend if we consider that women account for about 30% of new hires from the job market.



Composition of personnel by category

	GRI Standard	Unit of measure	2016	2017
Executives		no.	56	60
Middle Managers		no.	237	251
Office workers	102-8	no.	1,896	1,938
Manual workers		no.	1,381	1,335
Total		no.	3,570	3,584

Composition of personnel by gender

	GRI Standard	Unit of measure	2016	2017
Total		no.	3,570	3,584
men	401-1	no.	3,187	3,168
women		no.	383	416

Employees by age group

	GRI Standard	Unit of measure	2016	2017
< 25		no.	58	70
between 25 and 29		no.	108	127
between 30 and 34		no.	115	132
between 35 and 39		no.	73	88
between 40 and 44	102-8	no.	109	117
between 45 and 49		no.	356	325
between 50 and 54		no.	957	903
between 55 and 59		no.	1,208	1,239
> 60		no.	586	583
Total		no.	3,570	3,584

Turnover rate

	Standard GRI	Unit of measure	2016	2017
Turnover rate (*)		%	1,2	4,00
men		%	n.d.	3.50
women		%	n.d.	0,5
Turnover rate -entries (**)		%	3.14	2.26
<30		%	2.07	1.37
Between 30 and 50		%	0.98	0.86
>50	401-1	%	0.08	0.03
Turnover rate -exits (***)		%	1.26	4.05
<30		%	0	0.14
Between 30 and 50		%	0.14	0.17
>50		%	1.12	3.74

(*) exits/average workforce as at 31.12

(**) exits/total workforce

(***) entries/total workforce

The year 2017 saw continued searching and hiring from the job market of managers, of personnel with specific professional qualifications and of qualified young people, in order to fill the positions offered by the new organisational structure, to strengthen some company areas, and to continue the generational changeover programme. The hiring of graduates at different levels of seniority involved both corporate management and the technical and operational units of Italgas Reti.

In particular, 16 engineers from different degree specialisations were hired. The intention was to channel them into a three-year path of professional diversification and growth in the areas of engineering, investment implementation, local technical services, and planning and operational control.

In the new Regional Centres, technical and network management activities also included the hiring of young qualified technicians (44% of total recruitment). At Group level, 30% of new recruits were in the regions of Southern Italy.

The launch, in 2017, of new partnerships with a number of major Italian universities, allowed the company to acquire best practices, develop training courses of interest to it (regulatory system, economics, project management), and to take advantage of opportunities and services for recruiting candidates to the company or to offer, through specific agreements, company internships to carry out project work on topics of interest.

Italgas' participation in the main Career Day events organised during the year by the Polytechnic University of Milan, the Polytechnic University of Turin and the Catholic University of the Sacred Heart in Milan, provided important opportunities for young people to find out about the Company and more generally to learn about the world of work, giving them some insight into the business and employment opportunities in their areas of activity.

During these meetings, students and graduates spoke with Company line managers and HR managers about study paths, work interests, and career development. The large number of graduates applying for a position at Italgas is important for the company. The CV database of unsolicited applications through the Italgas website grew significantly during the year, constituting one of the main sources of recruitment.

Recruitment from the job market

	GRI Standard	Unit of measure	2016	2017
Graduates		no.	52	51
Secondary school graduates	401-1	no.	60	30
Total		no.	112	81

Entries and departures from the job market by age and rate of recruitment(*)

	GRI Standard	Unit of measure	2016	2017
Entries from the job market and (departures) < 30 years		no.	74(0)	49(5)
Recruitment rate < 30 years		%	44,6	24,9
Entries from the job market and (departures) between 30 and 49 years	401-1	no.	35 (5)	31 (6)
Recruitment rate between 30 and 49 years		%	5,4	4,7
Entries from the job market and (departures) >= 50 years		no.	3 (40)	1 (134)
Recruitment rate >= 50 years		%	0,1	0,04

(*) The recruitment rate by age bracket relates entries from the job market in the age bracket to the total number of employees in the corresponding age bracket as at 31/12.

Recruitment from the market* by age and gender

	GRI Standard	Unit of measure	2016	2017
< 25		no.	36	18
men		no.	36	18
women		no.	0	0
between 25 and 29		no.	38	31
men		no.	33	21
women		no.	5	10
between 30 and 34		no.	19	13
men		no.	16	8
women		no.	3	5
between 35 and 39		no.	9	8
men		no.	5	4
women		no.	4	4
between 40 and 44		no.	4	4
men	401-1	no.	4	2
women		no.	0	2
between 45 and 49		no.	3	6
men		no.	1	3
women		no.	2	3
between 50 and 54		no.	0	1
men		no.	0	1
women		no.	0	0
between 55 and 59		no.	1	0
men		no.	1	0
women		no.	0	0
> 60		no.	2	0
men		no.	2	0
women		no.	0	0
Total		no.	112	81

(*) The data refer to entries from the market.

Departures by age

	GRI Standard	Unit of measure	2016	2017
< 25		no.	0	2
men		no.	0	2
women		no.	0	0
between 25 and 29		no.	0	3
men		no.	0	3
women		no.	0	0
between 30 and 34		no.	1	2
men		no.	1	2
women		no.	0	0
between 35 and 39		no.	1	4
men		no.	1	4
women		no.	0	0
between 40 and 44		no.	2	0
men	401-1	no.	2	0
women		no.	0	0
between 45 and 49			no.	1
men		no.	1	0
women		no.	0	0
between 50 and 54		no.	3	4
men		no.	3	4
women		no.	0	0
between 55 and 59		no.	16	39
men		no.	15	32
women		no.	1	7
> 60		no.	21	91
men		no.	21	81
women		no.	0	10
Total		no.	45	145

Employees by contract type

	GRI Standard	Unit of measure	2016	2017
Open-ended		no.	3,432	3,440
men		no.	3,088	3,066
women		no.	344	374
Fixed-term		no.	1	2
men		no.	1	1
women		no.	0	1
Apprenticeship/internship		no.	96	103
men	102-8	no.	89	93
women		no.	7	10
Part-time		no.	41	39
men		no.	9	8
women		no.	32	31
Full-time*		no.	3,529	3,545
men		no.	3,178	3,160
women		no.	351	385
Contract work		no.	3	3

* All types of contract are considered as full-time (fixed-term, open-ended and apprenticeship).

DEVELOPMENT AND ENHANCEMENT OF PEOPLE

TRAINING PROGRAMMES

The “Managerial skills model”, built with the support of management and consistent with the values of the Code of Ethics, is a tool for people development that helps guide skills and behaviours in support of individual growth. The model is based on seven skills, which contribute to consolidating a shared corporate culture and which influence selection, development, performance management, training and talent management processes across the organization.

Training in Italgas is aimed at ensuring the enhancement of the skills required by business strategies. Specialist know-how, typical of technicians and manual workers, is transferred and promoted through the development of specific skills in network and system maintenance activities. Each professional family and new resources receive dedicated training.

In line with the reorganization of operations and the establishment of the new regional centres, training paths for the various professional figures (technicians and workers) were reviewed and designed along with the scheduling of activities that will take place starting from 2018. The plan includes 5 training paths comprising approximately 40 unique modules addressed to all newly-hired technicians and manual workers and to Italgas personnel requiring professional updating. The team of about thirty trainers, selected from among company experts and specialists, will ensure the teaching and transmission of critical knowledge for this purpose.

In 2017, the training dedicated to young graduates hired by the Group in the past three years continued and was extended to specific initiatives aimed at presenting Italgas history, skills, values and distinctive elements to the new hires. Some of the main topics dealt with, included Italgas strategies and business lines, the Group's history and culture, distribution techniques and operations with on-site visits to expand knowledge of construction sites and plants, budgeting of planned and final investment costs, safety, commercial quality and technical standards, business economics and finance basics, teamwork. Again, in-house teaching was favoured, with company managers involved to transmit their professional values by sharing their personal and working experience with their newly-hired colleagues.

In 2017, the new Italgas Training Campus was set up in Turin, designed to host the various internal training initiatives, workshops and projects in a hospitable and fully equipped facility. Inaugurated at the end of October in the presence of the company's top management, the campus has modern IT and telecommunications facilities and is composed of 3 classrooms for traditional theoretical training, a large conference room, 3 classrooms for technical training as well as refreshment and service areas. Work was also carried out for the construction of test fields (internal and external) for metering, pressure reduction and regulation, and rapid response/dispersion search, which will be completed in early 2018.

In 2017, a total of 66,000 hours of training were provided and each employee averaged approximately 18 hours of training on at least 2 different training courses throughout the year.

The following changes should be noted compared to 2016:

- managerial training initiatives and those supporting organizational change increased;
 - significant projects were carried out involving the review and definition of training paths for the various professional roles and the creation of the new Italgas Training Campus.
- In 2016, the total volume of training activities was characterized by exceptional events and extraordinary training projects as part of the implementation of the new operational model and the related management model.

Training

	GRI Standard	Unit of measure	2016	2017
Total training hours delivered		no.	113,115	66,000
• <i>to women</i>		no.	6,223	5,945
• <i>to men</i>		no.	106,892	60,055
Total no. of participants (*)		no.	14,122	9,175
Average hours of training per employee		no.	32	18
Breakdown of training hours provided by job level	404-1			
Executives		no.	792	2,448
Middle Managers		no.	7,563	5,614
Office workers		no.	79,052	38,050
Manual workers		no.	25,708	19,888
Breakdown of training hours provided by topic / type				
Training on HSEQ topics (**)		no.	29,026	20,701
- <i>participants</i>		no.	5,721	3,049
Training on the Code of Ethics - Model 231 - anti-corruption - anti trust - ERM - regulatory system		no.	3,030	899
- <i>participants</i>		no.	1,505	331
Management Training		no.	3,288	14,038
- <i>participants</i>		no.	335	3,200
Technical /specialized training		no.	75,795	30,363
- <i>participants</i>		no.	6,496	2,595
Training on foreign languages		no.	1,976	n.a.
- <i>participants</i>		no.	65	n.a.

(*) Data may include multiple participations per individual participant.

(**) All health and safety training courses were organized and provided in accordance with the provisions of the State-Regions Agreement of 21 December 2011.

DEVELOPMENT PROGRAMMES

The personal and professional growth of Italgas people is the fundamental cornerstone of Italgas three-pillar commitment:

- managerial skills system, which considers the pro-active attitude, future orientation, interpersonal skills and leadership of each individual;
- performance management, intended as the step of evaluating and collecting feedback from people's own work, in order to combine professional and business objectives;
- potential of every individual, which considers continuous assessment and the provision of adequate incentives as essential to help people strive for excellence.

With regard to these areas, Italgas has completed the overall design of the systems that will be gradually implemented for the various company populations. In the last months of 2017, the Assessment Centre and Development Centre plan was defined, for junior and senior positions, which will see its implementation in 2018.

Given its crucial relevance for the company's current and future needs, the skills development programme for young people has been launched with priority over other programmes, through the mapping of graduates hired in the last seven years, and the organization of individual get-to-know meetings with a sample of 115 employees from various group units, including corporate departments (30 people) and technical-operational functions of Italgas Reti. The areas of investigation focused on motivational aspects, work satisfaction, professional interests and propensity for change. This made it possible to define inter-functional growth and internal mobility paths, designed to ensure to the development of skills and professional experience. 8.7% of interviewed people, with a technical/engineering background, were included in a job rotation plan that involved the technical functions of the headquarters and the Regional Centres, with a view to exchanging and expanding skills and experience.

In 2017, we also launched the first edition of the Young Engineers Project, involving 16 new hires, including 6 women, in a three-year placement and growth program that includes:

- annual job rotation within the Regional Centres and the technical staff functions;
- training and coaching by senior colleagues;
- performance and potential assessment.

The human resources assessment and development steps were also fundamental during Italgas Reti Spa's reorganization process, which allowed for a significant turnover of managers: 60% took on new positions, while 31 individuals took on their first ever responsibility roles.

COMPENSATION SYSTEMS

Italgas places great emphasis on employee commitment and performance using differentiated compensation policies based on performance and professional and managerial skills, taking into account:

- the responsibilities assigned;
- the results achieved;
- the quality of people's professional contribution and development potential.

The compensation systems are periodically updated based on a comparison with the reference pay markets and criteria inspired by meritocracy and internal equity. Specifically, these systems seek to ensure recognition of results achieved, the quality of professional contributions made and people's potential for development.

In 2017, the performance assessment involved 63 Executives, 16% of whom were women.

EQUAL OPPORTUNITIES AND WELFARE

The development of human capital also depends on the enhancement of diversity and respect for each individual. This requires zero tolerance for any type of discrimination, regardless of whether it is based on ethnic, sexual, political, religious, health or age grounds, while at the same time ensuring equal opportunities in all phases and for all aspects of the employment.

It is one of the group's objectives to increase the number of women in the company's population, despite the operational nature of our activity. In Italgas women account for 11.6% of the workforce, with 14% of them holding managerial positions (18% executives, 13% managers).

Female presence

	GRI Standard	Unit of measure	2016	2017
Total	405-1	%	10.7	11.6

Compensation gap

	GRI Standard	Unit of measure	2016	2017
Women / men pay gap (executives)		%	82.01	80.90
Women / men pay gap (managers)	405-2	%	95.30	93.10
Women / men pay gap (office workers)		%	98.31	98

Women/men pay gap (office workers)

	GRI Standard	Unit of measure	2016	2017
Total		no.	182	172
men	405-2	no.	155	147
women		no.	27	25

To protect and promote the well-being of its employees, Italgas provides services and initiatives aimed at ensuring work-life balance. Specifically, the Welfare programme takes into consideration family and childcare requirements, ensuring a good psycho-physical health, taking charge of daily chores that constitute a burden in terms of time and money and the organization of leisure activities and artistic-cultural initiatives.



To identify new action areas and new services to implement, in the course of the year Italgas promoted a special opinion survey involving the entire company population, in which 1,380 employees participated (about 38% of the company's population).

The initial results have revealed that, in addition a general favourable attitude towards current initiatives, great attention is paid on health, income support and family care issues.

Parental leave

	Unit of measure	2016	2017
Total open positions	no.	239	309
<i>of which men</i>	no.	208	261
<i>of which women</i>	no.	31	48
Positions opened in the year	no.	38	33
<i>of which men</i>	no.	34	31
<i>of which women</i>	no.	4	2
Positions closed in the year	no.	201	276
due to return to work	no.	197	231
<i>of which men</i>	no.	170	190
<i>of which women</i>	no.	27	41
Due to termination of employment	no.	4	45
<i>of which men</i>	no.	4	40
<i>of which women</i>	no.	0	5

Absentee rate (*)

	Unit of measure	2016	2017
Absentee rate	%	6.7	6.9
<i>women</i>	%	n.d.	7.2
<i>men</i>	%	n.d.	6.9

(*) The absentee rate includes hours of absence for illness, accidents, unjustified absences, lateness outside of flexible working hours, paid and unpaid leave, parental leave, leave for family illness (Law 104/92), taking university exams and for the death of close relatives. Executives are not included in the calculation.

**MILAN OFFICE: AN OPEN WORK SPACE**

Italgas is based in Milan in via Carlo Bo 11, in the building called Parallelo, which hosts the top management and the Holding functions (Legal, HR, Finance, Real Estate, ICT, External Relations). The building extends horizontally and has offices all on one floor, thus facilitating relations and communication between functions. In terms of energy performance, the building is Class A certified.

INDUSTRIAL RELATIONS

In 2017 Italgas was invited to be part of a Working Group on Industrial Relations set up at the Ministry of Economic Development (MISE).

In addition to the MISE, the Group is made up of the Ministry of Labour and Social Policies and of major companies, thereby reflecting different experiences and interests; its activities focused on analysing current trends in industrial relations in Italy. In particular, the working group has developed a document for the Government that can help define short and medium term legislative and other actions intended to drive the various stakeholders towards an industrial relations approach truly supportive of Italian companies in a scenario marked by significant changes.

In 2017, relations between Italgas and the trade unions focused on the renewal of the national collective labour agreement (CCNL) for the Gas and Water industry applied to the Italgas Group, which was signed on 18 May 2017; numerous topics were discussed in relation to Decree 254, including:

- the introduction of “smart working”;
- introduction of “Solidarity holidays”, i.e. the possibility for employees to give up their paid leaves, permits in lieu of former holidays, and holidays, free of charge, to enable colleagues to take care of their minor children’s and their own needs;
- extension of the “safety” concept to also include respect for the environment and sustainable development of production activities with updating of the role of the Workers’ Safety Representative, who has now become the Workers’ Representative for Safety and the Environment (RLSA);
- extension of contractual aspects covered by the information provided to employees and potential bargaining with trade unions representatives.

The trade unions’ involvement and participation, both at national and regional level, played a crucial role in the signing of important agreements, including:

- the territorial reorganization of Italgas Reti and the establishment of the new Regional Centres;
- the start of smart working in Italgas S.p.A., on an experimental basis. At the end of 2017 an expansion of the aforementioned experimentation was agreed with the trade unions, which in the course of 2018 will also involve Italgas Reti S.p.A.’s Technical Staff;
- extraordinary corporate transactions such as the merger by absorption of Napoletanagas into Italgas Reti, the partial demerger of Italgas Reti for the separation of the water sector and the incorporation of the new company Italgas Acqua S.p.A.;
- definition of the agreement for the Group “Profit Sharing” bonus that will also take into account the new Italgas welfare plan;
- the start of negotiations for the drafting of the new “Protocol on Industrial Relations”.

The launch of the new Operations’ organizational structure resulted in strong involvement of the local units. This is confirmed by the number of meetings with the trade union organizations to ensure employee participation, who were 67 in 2017 (7 national and 60 local).

Employees who are members of a trade union organization

	Unit of measure	2016	2017
Total	%	57	54

On average, the number of judicial disputes with employees and former employees of the Italgas Group was stable over time, although it slightly decreased in 2017. The main cases concern job level and corresponding remuneration, financial claims and appeals against disciplinary measures imposed, including suspension or dismissal.

Employment disputes

	Unit of measure	2016 (*)	2017 (**)
Total Pending disputes (employees / former employees only)	no.	23	18
open in 2017	no.	22	13
closed in 2017	no.	35	21

(*) The 2016 figure did not include Acam Gas.

(**) Italgas Holding did not report any disputes with employees (or former employees).

Social aspects of the business

RELEVANCE TO ITALGAS' ACTIVITIES

The main material issues for Italgas, related to the social impacts generated by the performance of the activities refer to:

- Safety of operations
- Reliability, quality and accessibility of the service
- Innovation
- Relations with the community
- Relations with the Regulatory Authority

For Italgas service quality goes far beyond simple business objectives: continuity, safety, accessibility, rapid response and overall system efficiency truly reflect Italgas commitment towards the regions served and the end customers. In this respect, Italgas pays special attention to strengthening relations with the sales companies, with the aim of harmonizing processes and updating the tools and procedures that enable access to the services. Operational and commercial activities are carried out with increasingly advanced IT systems that ensure fast information flows in contract management. These systems are constantly updated according to the legislation issued by ARERA, which regulates the services provided by the Italgas Group companies.



The digitalization of networks and business processes will be the main challenge Italgas will have to face in the coming years: on the one hand, completion of the smart meters installation plan and installation of a widespread sensor system on the Italian network which will enable managing the network using innovative methods, criteria and algorithms, on the other hand, simplification and the digitalization of business processes through the use of innovative technologies.

In line with the Sustainable Development model and with its strategic growth plans, Italgas invests in the regions in which it operates, promoting social, cultural and environmental actions according to criteria of transparency, fairness and impartiality vis à vis all its stakeholders and confirming its commitment to the values of dialogue, collaboration and environmental protection.

POLICIES AND COMMITMENTS TO MONITOR THE ISSUE

The operational management of quality aspects is regulated through the ISO 9001 certified management systems and is implemented in each individual company.

In support of service safety and quality, Italgas has activated a contact centre system with a series of toll numbers for citizens and users:

- Toll-free number for Gas Emergencies - 800 900 999.

The service is active 24 hours a day, 7 days a week. The Toll-Free Number is unique throughout Italy for all the Municipalities where the respective distribution companies perform their operations and is shown separately on the gas bill of the sales company, on the websites of Italgas and the Group companies and on the telephone directories of the municipalities served. The service is regulated by the Regulatory Authority for Energy Networks and Environment (ARERA). The call is free either from a fixed line or from a mobile phone. When calling the Rapid Response Service, an operator of the Integrated Supervision Centres replies, and the call is never diverted to another number. Handling of the calls is ensured and employees reply within a few seconds. Upon receipt of a report, the operators provide initial instructions on how to behave in the given situation. At the same time, the Rapid Response Unit is activated for any necessary verifica-

tion and technical operations, to safeguard citizens, to ensure the safety of plants and the resumption of normal service conditions in the shortest possible time. The technical intervention is free.

- Toll free number Contact Center - 800 915 150.

Active on weekdays, the toll free number is the same in all the municipalities in which Italgas Reti operates and is visibly displayed on Italgas website and in telephone directories of the municipalities served. The service is regulated by the Regulatory Authority for Energy Networks and Environment (ARERA). The call is free both from a fixed line and from a mobile phone. The Contact Centre service replies via IVR and operators. By contacting the toll-free number, users can change the appointment for the meter replacement, obtain information on gas distribution and general information. The Contact Centre service is also addressed to the sales companies that are partner of Italgas

The Contact Centre has the following objectives:

- improving service quality and being closer to the end customer;
- streamlining and integrating existing contact channels into a single system;
- creating a single point of contact in which incidents are gathered, taken charge of and included in a database that serves as basis to undertake actions for continuous service improvement;
- eliminating the impacts on the Faults and Emergencies service of requests concerning the business/service.

ACTIVITIES AND RESULTS

GAS DISTRIBUTION SAFETY

Every year Italgas inspects tens of thousands of kilometres of network to guarantee the efficiency of the gas distribution network. In this regard, as part of steel pipes inspections, in 2017 monitoring of the cathodic protection was carried out, which remotely detects the “electrical protection” parameters on approximately 9,300 significant points of the network (+11.4% compared to 2016), and about 22,000 specific measurements of cathodic protection were carried out on non-remote controlled points (+ 11.4% compared to 2016)¹⁶.



Quality standards established by arera

	GRI Standard	Unit of measure	ARERA Target	2016	2017
High- and medium-pressure networks subject to inspection*	416-1	%	>100%	53	48.7
Low-pressure networks subject to inspection**		%	>100%	55.4	49.1
Compliance with the maximum time for reaching the call-out site for emergency assistance		%	>90%	96.1	96.2

(*) The target is measured by considering the sum of the percentage quantities achieved in the last three years.

(**) The target is measured by considering the sum of the percentage quantities achieved in the last four years.

¹⁶ Data include Italgas Reti and Napoletanagas.

To perform this important activity, in addition to traditional flame ionization or semiconductor devices, advanced technology instruments are used, such as laser detectors that provide greater selectivity, resolution and work capacity. As part of the innovative actions undertaken by Italgas, the digitalization of the network is of special interest, in that it will enable careful network monitoring and the ability to move from planned maintenance to predictive maintenance. This enables prompt elimination of any gas leaks from the distribution system, including very small ones, and examines the reliability of the network on which to base the scheduling of maintenance and upgrading activities of the pipes.



In support of the network safety, in 2017 the plan for the replacement of grey cast iron pipes with hemp- and lead-sealed joints and with mechanical joints continued; in addition to increasing safety levels, they contribute to reducing gas emissions into the atmosphere. In 2017, about 35 km of grey cast iron pipes were replaced with hemp- and lead-sealed joints and about 40 km with mechanical joints.

In 2017, some technological innovation projects were launched as part of the National Industry 4.0 Plan defined by the Ministry of Economic Development.

Specifically, some action areas have been identified, such as:

- Digitization of gas networks - These are non-interconnected (via antennas) gas distribution networks that will be monitored using transducers, sensors and data acquisition devices that will transmit the information to a supervision centre. The information will be processed through algorithms to predict potential disruptions caused by faults and/or malfunctions of the network, as a whole (prevention of leaks, prevention of failures, monitoring of the quality of distributed gas, balancing of consumption).
- Pressure monitoring - to identify the efficiency parameter of the distribution system of low pressure gas networks.
- Underground piping location using RFID markers - RFID markers are electronic tags consisting of an integrated circuit and an antenna for short-range data transmission; they are positioned close to the underground pipes and are located using a transceiver operated by an operator on the road. They can contain structured information on underground pipes (type of material, installation depth, position, etc.); data exchange with the transceiver occurs by electromagnetic induction; therefore, RFID markers are not powered by electricity sources that run out over time (batteries). The information contained in the Markers can be used by the network owner, by the operating companies or by third parties (accurate reporting of other services adjacent to the gas pipeline).
- Interruption of domestic gas supply due to non-payment - in collaboration with the biorobotics institute of the Scuola Superiore Sant'Anna in Pisa, a robot prototype is currently under development that can move inside the risers to implement the interruption of the gas service to non-paying customers.

In 2017, the company continued to invest in the development of the “Optimisation of the odourising volume injected into the network” project, which involved experiments being carried out at several reduction plants relating to an innovative control system for the degree of odourisation depending on the gas supply conditions or the fluodynamics of the network. Odourisation is indeed a fundamental activity for distribution safety, because it allows the presence of gas to be recognised, which would otherwise be odourless and colourless, in the case of accidental dispersion.

Also in 2017, a project was completed aimed at testing an injection system in the field to optimise the odourisation process in LPG distribution networks with the aim of guarantee-

ing the saturation degree of the TMB odorising mixture in the flow delivered at LPG stations, especially at very low flow rates. Within the Italgas Reti Laboratory in Asti - a centre of technological excellence operating according to ISO 17025 standards - innovative systems and products are being developed for each individual production process along with the monitoring of the various specialist activities related to gas distribution. In 2017, the following activities continued: the rhino-analytical tests; instrumental tests on gas odourisation; the calibration of gas meters and other instrumentation supporting gas distribution activities and mechanical tests on network materials.

In 2017, Italgas Reti LAB carried out a total of 23,585 activities, including 10,382 accredited tests and 32 accredited calibrations.

RELIABILITY, QUALITY AND ACCESSIBILITY OF THE SERVICE

Improving performance in terms of technical and commercial quality depends on the technological component that is provided to both customers and operating personnel.

In this respect, Italgas is committed to the progressive replacement of gas meters with new generation digital equipment with new functionalities. This activity is carried out in compliance with the provisions issued by ARERA, which set the objectives for the commissioning of new meters differentiated by size. Once they are put into operation, they will improve the quality of the measurement service and promote consumption awareness among end customers.

To comply with this obligation, Italgas has planned the replacement of approximately 3.7 million meters by 2018, of which about 1.6 million were replaced in 2017, for a total of about 2.8 million at the end of the year, equal to at 38.8% of the total.



More generally, the technical-commercial activities carried out at the end customers in accordance with specific quality standards established by ARERA, concern the estimate and execution of the works, the activation and deactivation of gas supply, in accordance with the appointments made and with rapid response times, and odourisation checks.

To constantly improve service quality indexes, Italgas has established structured relationships with various consumer associations on an equal footing and mutually beneficial. As a result, a procedure was launched with 14 of the major Consumer Associations recognized by the National Council of Consumers and Users (CNCU). The objective of the agreement

Quality standards established by arera

	Unit of measure	Target ARERA	2016	2017
Compliance with the maximum time set for services subject to specific commercial quality standards	%	100%	97.6	97.7
Punctuality in appointments arranged with end customers	%	100%	98.3	98.3

BK-G16B

Qmax 25 m³/h tm -25°C...55°C
Qmin 0,16 m³/h tg -25°C...55°C
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pmax 0,5bar pb 1013,25hPa
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ELGAS, s.r.o.
Pardubice
Czech Republic

IG Italgas
Reti



is to spread a gas culture with a view to increase consumer awareness and information regarding the correct use of energy resources and the plan for the replacement of traditional gas meters with smart meters. The agreements also aims to identify the most appropriate forms of cooperation to ensure a smooth process and manage reports as soon as possible.

RELATIONSHIPS WITH THE COMMUNITY

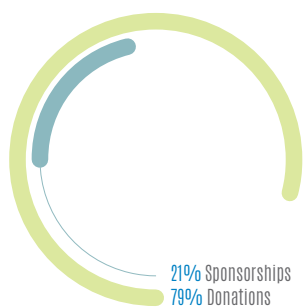
Italgas aims to become a company that promotes an ever closer connection between networks, local environment and the community. An open ecosystem, in which the Company recognizes the centrality of stakeholders and their needs to create social as well as economic value.

For this reason, consistently with its role as gas distribution service concessionaire, and in keeping with the principles of sustainable development and its own growth plans, Italgas is constantly engaged in a direct and continuous dialogue with the communities in which it operates. For this purpose, the company has long put in place a specifically dedicated unit that ensures due attention to and transparency in the information flow.

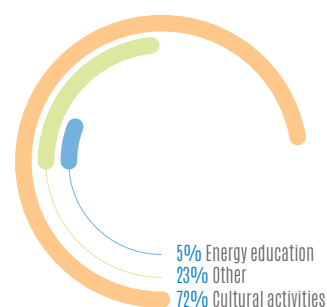
To strengthen its corporate citizenship in the communities and regions in which it operates Italgas cooperates with bodies, associations and foundations, non-profit organizations and other parties in projects and initiatives in specific areas. The initiatives are oriented towards organizations engaged in environmental protection, cultural, social and local safeguard activities in Italy and abroad and in the geographical areas where the Italgas Group has infrastructures and where it invests for the development or upgrading of such infrastructure. The actions undertaken, which must be consistent with the corporate values stated in the Code of Ethics, focus on sustainability, environmental protection, dissemination of culture, technological and scientific innovation, training, research and local promotion. In 2017, 358 thousand euros were invested between sponsorships and donations.



INVESTMENTS IN THE COMMUNITY



INVESTMENT AREAS



Investments in the community

	GRI Standard	Unit of measure	2016	2017
Sponsorships	203-1	K€	92.2	295
Donations		K€	76	76
Total		K€	168.2	358

The grants were mainly addressed to artistic and cultural projects, with a special focus on the activities of Cultural Foundations, on the energy sector, on education and the responsible use of energy.

For decades, Italgas has been involved in the preservation of the historical documentation regarding Italgas itself and its various subsidiaries and associates in almost two centuries of history. The historical archive, classified as being of considerable historical interest, is currently being reorganized and completed; following the acquisition of a new description software, a new web portal will soon be launched enabling consultation of the archive, the library, the periodicals' library and the museum.

Along with the Historical Archive and the Museum, Italgas is locally engaged in several projects including "The Workshop of Memory. Work-related learning on cultural heritage", the purpose of which is to inform and guide high school, technical and professional school students on the peculiarities and functions of the cultural heritage owned by institutions and entities outside the school (including companies) and train them for the management of these assets.

Moreover, in 2017 Italgas renewed its participation in the project conceived by the heritage agency Promemoria, and implemented by the Archivissima Association, entitled "The Night of the Archives": an event created to introduce the public to the historical archives held by public institutions and private companies.

For its 180th anniversary, celebrated in 2017, Italgas decided to open its archives to contemporary art, by gathering the works of 10 young artists (painters, sculptors, videomakers) in the free exhibition *Invisibili Connessioni*, where the artists exhibited works inspired by the history and historical images of the Company, created with the Company's support. Italgas' photographic archive offered the young artists the opportunity to review the various steps that have characterized almost two centuries of history of the Company engaged in the management of a widely spread public service.

The exhibition recorded almost 1,000 visitors.



AN AREA FOR THE COMMUNITY: THE REHABILITATION OF THE FRANCO RUSSOLI PARK

In 2017, Italgas carried out the project for rehabilitation of the Franco Russoli park, south-west of Milan centre, adjacent to the Italgas headquarters, today in a state of poor maintenance. The project involves preserving the park's original setting, while implementing new features to increase the number of users. The main works concern the socialising area with pergola, an outdoor fitness area, a playground with safe flooring, a five-a-side soccer field with synthetic grass built in the existing soccer field, and an enclosed dog area. The entire park is surrounded by areas covered with herbaceous and shrubby species with flowering throughout the various seasons.





Environmental and health issues and work safety

RELEVANCE TO ITALGAS' ACTIVITIES

The main material issues for Italgas related to the environmental impact of its activities and to health and safety at work refer to:

- Energy efficiency
- Emissions
- Waste
- Accident prevention

Italgas most significant environmental impacts are the natural gas emissions from the distribution networks, the emissions deriving from gas combustion in the network systems and those from the fuels used by company cars. Other impacts derive from the waste generated by the construction and maintenance of networks and by the recovery of abandoned industrial areas. The main cause of accidents are road accidents, accidents en route to or from work and accidents while performing operational activities.

Italgas has a responsible and transparent approach that aims to ensure compatibility between its infrastructures and the local environment and efficient management of energy and natural resources, to contain the environmental footprint of its activities and protect the health and safety of its employees and its contractors' staff involved in operations.

In addition, through constant research and technological innovation Italgas can develop and adopt solutions that ensure the least intrusive and most sustainable interaction with the environment. Within this framework, Italgas promotes actions and projects aimed at reducing the environmental footprint attributable to its business processes, improving plant safety conditions, as well as the environmental recovery of the sites affected by previous industrial gas production activities.

As recipient of the Decree of 11 January 2017 of the Ministry of Economic Development, Italgas has fulfilled its obligation by purchasing the Energy Efficiency Certificates in the market sessions managed by GME and through bilateral contracts. In 2017, Italgas purchased 1,197,441 EEC for a total cost of 319.2 million euros and on 31 May 2017 it cancelled 662,410 EEC and another 724,248 EEC in the interim cancellation session of 30 November 2017.

POLICIES AND COMMITMENTS

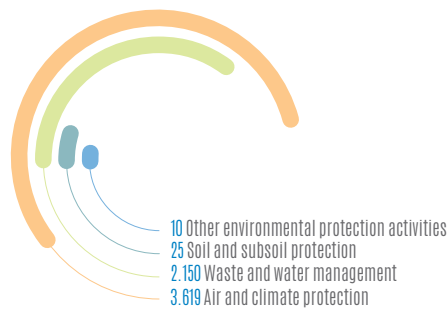
resources and for public and employee safety, as key factors in the sustainable development of the company and the local environment. This approach is explained in Italgas Reti and Acam Gas HSEQ Policy. In keeping with the principles and values stated in the Code of Ethics, the Policy sets forth Italgas' commitments for the protection of people, the protection of the environment, public safety and the provision of quality services. In detail, the policy directions are:

- efficient and effective delivery and accessibility of the service, while protecting workers' health;
- adopting the best plant management technologies for greater environmental protection and lower energy consumption;
- sustainable use of natural resources and waste management;
- development of both personnel and the supply chain through training and awareness raising.

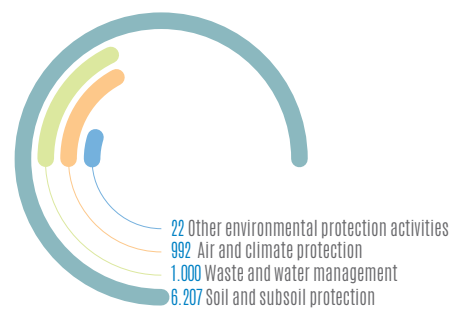
The principles contained in the Policy also guide the selection of suppliers.

The operational management of health, safety, environment and energy efficiency issues is regulated respectively by the OHSAS 18001, ISO 14001 and ISO 50001 certified management systems implemented by Italgas Reti and by the OHSAS 18001 and ISO 14001 certified management systems implemented by Acam Gas, while Italgas HSEQ function and Italgas Reti Energy Manager ensure centralized direction and control. In 2017, 13.144 hours of training were delivered on these issues, with participation of 2,108 employees, and 12 meetings were organized with contractors.

ENVIRONMENTAL EXPENSES IN 2017 (KEURO)

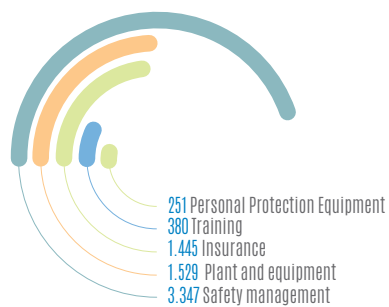


ENVIRONMENTAL INVESTMENTS IN 2017 (KEURO)

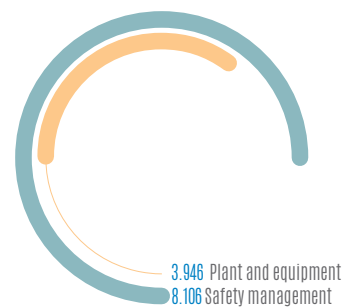


Having regard to environmental management, the total amount of expenses and capital expenditures in 2017 was 14 million and 24 thousand euros, broken down as follows:

SAFETY EXPENSES (KEURO)



SAFETY INVESTMENTS (KEURO)



ACTIVITIES AND RESULTS OF OPERATIONS

ENERGY EFFICIENCY AND EMISSIONS

In Italgas, energy is mainly for industrial use. Natural gas is the most commonly used energy source, followed by electricity and diesel. In 2017 energy consumption stood at 591.4 TJ, slightly up compared with the previous year. A minimum share of the electricity consumed was produced by 10 small photovoltaic systems (39kW of installed power for a production of 36MWh in 2017).



Energy consumption

	GRI Standard	Unit of measure	2016	2017
Direct consumption of primary energy from renewable sources (A)		TJ	0	0
Direct consumption of primary energy from non-renewable sources (B)		TJ	475.6	478.7
- of which natural gas (C)		TJ	378.4	381.4
- of which diesel fuel (D)		TJ	82.8	79.6
- of which petrol (E)	302-1	TJ	14.4	17.7
Purchase of electricity (F)		TJ	99.8	112.7
Electricity self-produced from renewable sources (G)		TJ	0.13	0.13
Electricity sold (H)		TJ	0.06	0.07
Total energy consumption (B+F+G-H)		TJ	575.4	591.4
Energy intensity*	302-3	TJ/10⁶Sm³	77.03	76.14

(*) Total energy consumption out of total distributed gas.

The main greenhouse gas (GHG) effects produced are carbon dioxide (CO₂), produced in combustion processes and directly related to the consumption of fuels and methane (CH₄) contained in natural gas released into the atmosphere during the normal operation of systems. Total GHG emissions (Scope 1 direct, Scope 2 and Scope 3 indirect) were approximately 657 thousand tonnes of CO₂eq, down compared with 2016 as a result of the decrease in scope 3 emissions, almost entirely due to the reduction in supplied volume. Natural gas emissions also decreased slightly compared to 2016 to around 28 million m³, as a result of the gradual replacement of cast iron pipes, characterized by a high emission factor, with more efficient pipes. All of the above, considering the increase in distributed gas volumes, also led to a significant decrease in carbon intensity.

In 2017, implementation of the main programmes for the containment of energy consumption and emissions from the network's plants continued. At the end of the year, there were 65 facilities installed for the equal allocation of capacity in the reduction cabins to optimize the gas pre-heating process, with an average 20% saving in the gas used for this operation. In addition, an experiment was started on the central heating management system of Reduction and Measurement (IPRM) plants, aimed at reducing preheated gas; the system combines the Energy Multivariable Master thermoregulation (EMMa) optimization technology with a gas absorption heat pump.

In 2017, a plan was also started for the natural gas conversion of distribution networks currently LPG operated which envisages the conversion by 2020 of a total of approximately 76 km of network (48.9 km owned by Italgas Reti and 27.4 km owned by Acam), after construction of approximately 160 km of new extensions. In September, conversion of the Castelpoggio and Noceto network sections in the municipality of Carrara (MS) was completed. The carbon dioxide produced by the combustion of natural gas is 15% less than LPG, for the same level of energy consumption.

Lastly, a plan was launched for the replacement of the entire company car fleet with methane powered vehicles and the installation of gas filling stations at the operating sites to also ensure refuelling where the road distribution network is not yet sufficiently widespread. The renewal of the vehicle fleet will be completed in the first few months of 2019: by that date all operating vehicles will be powered by methane gas. Italgas considers methane a valid alternative to traditional automotive fuels. Using methane entails a reduction of nitrogen oxides emissions by about 94%, and of fine particles emissions by about 95% compared to fossil fuels, thereby proving as a fundamental measure to combat pollution, especially in urban centres. In 2017, 10 had been installed in 4 operating sites, in addition to the 7 already operational at the Italgas Reti office in Turin. At the end of 2017, around 33% of the vehicles used by Italgas and Napoletanagas were fuelled by methane gas (28% at the end of 2016).

Emissions into the atmosphere

	GRI Standard	Unit of measure	2016	2017
Natural gas emissions	302-1	10 ⁶ Sm ³	28.4	28
Total GHG emissions			714	657.3
- of which scope I (*)	305-1	10 ³ tonnes CO ₂ eq	520	513.9
- of which scope II	305-2		9	10.4
- of which scope III (**)	305-3		185	133.03
Carbon intensity (***)	305-4	tonnes CO ₂ eq/ 10 ⁶ Sm ³	69.6	66.2
NO _x emissions	305-7	tonnes	32.8	32.2

(*) CO₂eq emissions were consolidated according to the operational control approach. The GHG included in the calculation are CO₂ and CH₄ and emissions were calculated with a methane GWP of 28, as suggested in the scientific study of the Intergovernmental Panel on Climate Change (IPCC) "Fifth Assessment Report IPCC".

(**) Includes emissions related to supplied gas and business travel. As regards the calculation of scope 3 emissions related to supplied gas, an internal methodology was used that uses a factor to convert the value of supplied gas into CO₂ emissions for each product category.

(***) calculated as scope I/distributed gas emissions.



Turin office: towards technologically advanced headquarters

In 2017, Italgas launched a project to renovate the building it owns in Turin, 11 Largo Regio Parco 11. The building has a total area of about 10,000 square meters and extends over a basement and four floors above ground. The project involves the total renovation of systems, finishes and fittings, as well as an upgrading of the supporting structures. After renovation, the building will host Italgas Reti top management and operational functions, as well as staff functions distributed in about 300 workstations.

The ITG Historical Museum will also be housed in the building, and will include a library, a periodicals' library and an exhibition space. After renovation, the building will be highly energy efficient and sustainable: specifically, it will be equipped with thermal insulation for all external structures, new thermal break doors and windows and double glazing with low emission glass, newly designed heat production systems, the use of renewable energy such as aerothermal, solar, thermal, photovoltaic and mechanical ventilation with recovery.

WASTE PRODUCTION AND DISPOSAL

In 2017, Italgas produced around 14,420 tonnes of waste. Waste from reclamation activities amount to 12,804 tonnes (2,600 tonnes of liquid waste), of which 1,456 tonnes are classified as hazardous and 11,347 tonnes as non-hazardous. As for production activities, they generated 1,520 tonnes of waste, of which 52 tonnes classified as hazardous and 1,468 tonnes as non-hazardous. Waste from other activities, such as offices and laboratories, amount to 98 tonnes, of which only a small part are classified as hazardous. About 90% (12,912 tonnes) of total waste produced was classified as non-hazardous, while 5,191 tonnes (36% of the 14,422 tonnes of total waste produced) were recycled. Of these, over 1,440 tonnes derive from the gas distribution process and refer to meter replacement and distribution network maintenance.



In 2017, reclamation, environmental restoration and monitoring activities carried out in compliance with the reclamation process in progress with the Public Administration involved 32 sites, of which only the Naples site falls within the remit of the Ministry of the Environment (site of national interest "Napoli Orientale") from an administrative standpoint.

The waste recovered from production activities largely consist of ferrous material. As regards reclamation activities, in 2016 most of excavation land was recycled, while in 2017, the waste recovered consists of metal waste (consolidation and recovery of gas meters).

Waste

	GRI Standard	2016	2017
Total generated waste	ton	20,498	14,422
- of which hazardous	ton	236	1,510
- of which non-hazardous	ton	20,262	12,912
Total waste generated by operating activities	ton	1,609	1,520
Total waste generated by reclamation activities	ton	18,890	12,804
Total waste for disposal or recycling	ton	20,469	14,380
- of which recycled	%	22.9%	36.1%

ACCIDENT PREVENTION

Italgas places great emphasis on health and safety protection and is strongly committed to preventing injuries and to protecting the health of its employees and its contractors' staff involved in operations.

Training programs are one of the main tools for improving performance in addition to specific awareness-raising actions that involve all operating personnel. In 2017, we focused on the prevention of injury risk associated with staff travel; 50 sessions of the safe driving course were held, which recorded participation of almost 1,000 employees. Other significant good practices should also be noted:

- the organization of “Safety Walks” locally, during which the management and the operating personnel share some significant practical activities, in which safety issues are discussed and commented in addition to the technical aspects;
- initiatives aimed at raising awareness on safety issues, addressed to both internal employees and contractors; both initiatives involved the local management who attended all the numerous meetings organized locally throughout the year.



All the above activities will be replicated next year and, among the initiatives planned in 2017 but scheduled for 2018 and characterized by special attention to communication aspects, the following deserves mentioning:

- structured internal communication activity addressed to all employees, known as the “safety campaign”, which aims to further raise employees’ awareness on safety issues, using images and slogans, to be disseminated through traditional communication tools (totems and posters in the various company’s offices) and IT tools (dedicated area on the company portal).

A growing culture of safety at work is also encouraged through well-established incentive practices that take place annually, such as the “Italgas Safety Trophy” and the “Zero Injuries Award”. The latter is assigned to homogeneous groups that have worked for 365 consecutive days without accidents.

In 2017 the total number of accidents recorded for employees is 24 (23 in 2016), of which 13 accidents at work (14 in 2016) and 11 en route to or from work (9 in 2016). Total accidents resulted in 1,246 days of absence, or 829 excluding accidents en route to or from work. The breakdown of accidents also influences the value of frequency and severity indexes that improved on last year, excluding accidents en route to or from work.

With regard to contractors, 7 occupational accidents were detected in 2017 (8 in 2016) for a total of 449 days of absence. None of the injuries was fatal.

Employee injuries

	GRI Standard	Unit of measure	2016	2017
Total injuries (excluding en route to or from work)		no.	14	13
- of which fatal injuries		no.	0	0
- of which traffic accidents while at work		no.	4	5
- of which professional risks		no.	1	2
- of which generic risks		no.	9	6
Total injuries en route to or from work		no.	9	11
- of which fatal injuries		no.	0	0
Total injuries		no.	23	24
	403-2			
- of which fatal injuries		no.	0	0
- of which occurred to women		no.	n.d.	2
Days of absence due to injury		no.	1,316	1,246
Days of absence due to injury (excluding en route to or from work)		no.	872	829
Frequency index (*)			4.09	4.10
Severity index (**)			0.23	0.21
Frequency index (excluding en route to or from work)			2.49	2.22
Severity index (excluding en route to or from work)			0.16	0.14

(*) Injuries recorded / millions of hours worked; of which in 2017, 3.75 male frequency index and 0.35 female frequency index.

(**) Days of absence due to injuries / thousands of hours worked; of which in 2017, 0.20 male severity index and 0.01 female severity index.

Hours of absence

	GRI Standard	Unit of measure	2016	2017
due to illness	403-2	no.	n.d.	275,657
due to injury		no.	n.d.	7,422

Contractors' injuries

	GRI Standard	Unit of measure	2016	2017
Total injuries (excluding en route to or from work)	403-2	no.	8	7
- of which fatal injuries		no.	0	0
Total injuries en route to or from work		no.	1	2
- of which fatal injuries		no.	0	0
Total injuries		no.	9	9
- of which fatal injuries		no.	0	0
Frequency index		no.	4.28	4.29
Severity index		no.	0.14	0.22
Frequency index (excluding en route to or from work)		no.	3.81	3.34
Severity index (excluding en route to or from work)		no.	0.09	0.21

GRI STANDARD MATCHING TABLE

The reporting standard adopted by the Italgas Group to prepare its Non-financial Statement is the GRI Sustainability Reporting Standards, published in 2016 by the GRI - Global Reporting Initiative. More specifically, according to GRI Standard 101: Foundation, paragraph 3, this document made reference to the Reporting Standards shown in the following table ("GRI-referenced").

NFS = Non-Financial Statement

GRI Standard matching table

GRI Standard	Disclosure	Description	Page number	Notes/Omissions
GRI 102 - General disclosure				
Organization profile	102-1	Name of the organisation	Italgas S.p.A.	
	102-1	Main brands, products and services	11 - 13	
	102-6	Markets served	11, 12	
	102-8	Information on employees and other workers	24, 33 - 50	
	102-9	Supply chain	14 - 18	
Governance	102-18	Governance structure	24 - 28	
Stakeholder engagement	102-40	List of stakeholder groups	22	
Reporting process	102-45	Entities included in the consolidated financial statements	Methodological Note	
	102-47	List of material issues identified	22, 23	
	102-50	Reporting period	Methodological Note	
	102-55	GRI Index	70 - 72	
	102-56	External assurance	73 - 76	
Economic topics (GRI 200)				
GRI 203 Indirect economic impacts	203-1	Investments in infrastructure and supported services	57 - 59	
GRI 205 Anti-corruption	205-3	Confirmed bribery incidents and actions taken	31, 32	

GRI Standard matching table

GRI Standard	Disclosure	Description	Page number	Notes/Omissions
Environmental topics (GRI 300)				
GRI 302 Energy	302-1	Energy consumed within the organization	63	
	302-3	Energy intensity	63	
GRI 305 Emissions	305-1	Direct greenhouse gas emissions (scope I)	64, 65	
	305-2	Indirect greenhouse gas emissions by weight (scope II)	64, 65	
	305-3	Other indirect greenhouse gas emissions (scope III)	64, 65	
	305-4	Carbon intensity	64, 65	
	305-7	NOx, SOx and other significant air emissions by type and weight		SOx emissions were not reported as they are not considered significant
GRI 308 Environmental assessment of suppliers	308-1	New suppliers that have been selected using environmental criteria	15, 16	
Social topics (GRI 400)				
GRI 401 Employment	401-1	New hires and turnover	37 - 43	
	401-3	Rate of return to work after parental leave, by gender	48	
GRI 403 Workers' health and safety	403-2	Type of injury and rate of injuries at work, illnesses, work days lost, absenteeism and total number of deaths	67 - 69	

GRI Standard matching table

GRI Standard	Disclosure	Description	Page number	Notes/ Omissions
GRI 404 Education and training	404-1	Average annual training hours per worker	43 - 46	
GRI 405 Diversity and equal opportunities	405-1	Diversity of governing bodies and workers	24	
	405-2	Percentage of women base salary and remuneration compared to men	47	
GRI 414 Suppliers' assessment in the social field	414-1	New suppliers that have been selected using social criteria	15, 16	
GRI 416 Customers' health and safety	416-1	Assessment of health and safety impacts of products and services	52 - 54	

Letter of Assurance



**RELAZIONE DELLA SOCIETÀ DI REVISIONE INDIPENDENTE
SULLA DICHIARAZIONE CONSOLIDATA DI CARATTERE NON
FINANZIARIO AI SENSI DELL'ARTICOLO 3 DEL DLGS 254
DEL 30 DICEMBRE 2016 E DELL'ARTICOLO 5
DEL REGOLAMENTO CONSOB 20267**

ITALGAS SPA

ESERCIZIO CHIUSO AL 31 DICEMBRE 2017



Relazione della società di revisione indipendente sulla dichiarazione consolidata di carattere non finanziario ai sensi dell'art. 3, c. 10, D.Lgs. 254/2016 e dell'art. 5 Regolamento consob n. 20267

Al consiglio di amministrazione di Italgas SpA

Ai sensi dell'articolo 3, comma 10, del Decreto Legislativo 30 dicembre 2016, n. 254 (di seguito "Decreto") e dell'articolo 5 del Regolamento CONSOB n. 20267, siamo stati incaricati di effettuare l'esame limitato ("*limited assurance engagement*") della dichiarazione consolidata di carattere non finanziario di Italgas SpA e delle sue controllate (di seguito il "Gruppo") relativa all'esercizio chiuso al 31 dicembre 2017 predisposta ex art. 4 del Decreto, e approvata dal consiglio di amministrazione in data 12 marzo 2018 (di seguito "DNF").

Responsabilità degli amministratori e del collegio sindacale per la DNF

Gli amministratori sono responsabili per la redazione della DNF in conformità a quanto richiesto dagli articoli 3 e 4 del Decreto e dai "Global Reporting Initiative Sustainability Reporting Standards" definiti nel 2016 dal GRI - *Global Reporting Initiative* ("GRI Standards"), con riferimento alla selezione di GRI Standards da essi individuato come standard di rendicontazione indicati nel paragrafo "Nota metodologica" della DNF.

Gli amministratori sono altresì responsabili, nei termini previsti dalla legge, per quella parte del controllo interno da essi ritenuta necessaria al fine di consentire la redazione di una DNF che non contenga errori significativi dovuti a frodi o a comportamenti o eventi non intenzionali.

Gli amministratori sono responsabili inoltre per l'individuazione del contenuto della DNF, nell'ambito dei temi menzionati nell'articolo 3, comma 1, del Decreto, tenuto conto delle attività e delle caratteristiche del Gruppo e nella misura necessaria ad assicurare la comprensione dell'attività del Gruppo, del suo andamento, dei suoi risultati e dell'impatto dallo stesso prodotti.

Gli amministratori sono infine responsabili per la definizione del modello aziendale di gestione e organizzazione dell'attività del Gruppo, nonché, con riferimento ai temi individuati e riportati nella DNF, per le politiche praticate dal Gruppo e per l'individuazione e la gestione dei rischi generati o subiti dallo stesso.

Il collegio sindacale ha la responsabilità della vigilanza, nei termini previsti dalla legge, sull'osservanza delle disposizioni stabilite nel Decreto.

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Indipendenza della società di revisione e controllo della qualità

Siamo indipendenti in conformità ai principi in materia di etica e di indipendenza del *Code of Ethics for Professional Accountants* emesso dall'*International Ethics Standards Board for Accountants*, basato su principi fondamentali di integrità, obiettività, competenza e diligenza professionale, riservatezza e comportamento professionale. La nostra società di revisione applica l'*International Standard on Quality Control 1 (ISQC Italia 1)* e, di conseguenza, mantiene un sistema di controllo qualità che include direttive e procedure documentate sulla conformità ai principi etici, ai principi professionali e alle disposizioni di legge e dei regolamenti applicabili.

Responsabilità della società di revisione

È nostra la responsabilità di esprimere, sulla base delle procedure svolte, una conclusione circa la conformità della DNF rispetto a quanto richiesto dal Decreto e dai "Global Reporting Initiative Sustainability Reporting Standards" definiti nel 2016 dal GRI - *Global Reporting Initiative* ("GRI Standards"). Il nostro lavoro è stato svolto secondo quanto previsto dal principio "*International Standard on Assurance Engagements ISAE 3000 (Revised) - Assurance Engagements Other than Audits or Reviews of Historical Financial Information*" (di seguito "*ISAE 3000 Revised*"), emanato dall'*International Auditing and Assurance Standards Board* (IAASB) per gli incarichi *limited assurance*. Tale principio richiede la pianificazione e lo svolgimento di procedure al fine di acquisire un livello di sicurezza limitato che la DNF non contenga errori significativi. Pertanto, il nostro esame ha comportato un'estensione di lavoro inferiore a quella necessaria per lo svolgimento di un esame completo secondo l'*ISAE 3000 Revised* ("*reasonable assurance engagement*") e, conseguentemente, non ci consente di avere la sicurezza di essere venuti a conoscenza di tutti i fatti e le circostanze significativi che potrebbero essere identificati con lo svolgimento di tale esame.

Le procedure svolte sulla DNF si sono basate sul nostro giudizio professionale e hanno compreso colloqui, prevalentemente con il personale della società responsabile per la predisposizione delle informazioni presentate nella DNF, nonché analisi di documenti, ricalcoli ed altre procedure volte all'acquisizione di evidenze ritenute utili.

In particolare, abbiamo svolto le seguenti procedure:

1. analisi dei temi rilevanti in relazione alle attività ed alle caratteristiche dell'impresa rendicontati nella DNF, al fine di valutare la ragionevolezza del processo di selezione seguito alla luce di quanto previsto dall'art. 3 del Decreto e tenendo presente lo standard di rendicontazione utilizzato;
2. analisi e valutazione dei criteri di identificazione del perimetro di consolidamento, al fine di riscontrarne la conformità a quanto previsto dal Decreto;
3. comprensione dei seguenti aspetti:
 - modello aziendale di gestione e organizzazione dell'attività del Gruppo, con riferimento alla gestione dei temi indicati nell'art. 3 del Decreto;
 - politiche praticate dall'impresa connesse ai temi indicati nell'art. 3 del Decreto, risultati conseguiti e relativi indicatori fondamentali di prestazione;
 - principali rischi, generati o subiti connessi ai temi indicati nell'art. 3 del Decreto.
 Relativamente a tali aspetti sono stati effettuati inoltre i riscontri con le informazioni contenute nella DNF e effettuate le verifiche descritte nel successivo punto 4, lett. a).
4. comprensione dei processi che sottendono alla generazione, rilevazione e gestione delle informazioni qualitative e quantitative significative incluse nella DNF.

In particolare, abbiamo svolto interviste e discussioni con il personale della Direzione della Italgas SpA e di Italgas Refi SpA e AcamGas SpA e abbiamo svolto limitate verifiche



documentali, al fine di raccogliere informazioni circa i processi e le procedure che supportano la raccolta, l'aggregazione, l'elaborazione e la trasmissione dei dati e delle informazioni di carattere non finanziario alla funzione responsabile della predisposizione della DNF.

Inoltre, per le informazioni significative, tenuto conto delle attività e delle caratteristiche del Gruppo:

- a livello di gruppo:
 - a) con riferimento alle informazioni qualitative contenute nella DNF, e in particolare a modello aziendale, politiche praticate e principali rischi, abbiamo effettuato interviste e acquisito documentazione di supporto per verificarne la coerenza con le evidenze disponibili;
 - b) con riferimento alle informazioni quantitative, abbiamo svolto sia procedure analitiche che limitate verifiche per accertare su base campionaria la corretta aggregazione dei dati.
- per le seguenti società, divisioni e siti, Italgas Reti SpA e AcamGas SpA, che abbiamo selezionato sulla base delle loro attività, del loro contributo agli indicatori di prestazione a livello consolidato e della loro ubicazione, ci siamo confrontati con i responsabili, abbiamo effettuato procedure di verifica acquisito riscontri documentali circa la corretta applicazione delle procedure e dei metodi di calcolo utilizzati per gli indicatori.

Conclusioni


Sulla base del lavoro svolto, non sono pervenuti alla nostra attenzione elementi che ci facciano ritenere che la DNF del Gruppo Italgas relativa all'esercizio chiuso al 31 dicembre 2017 non sia stata redatta, in tutti gli aspetti significativi, in conformità a quanto richiesto dagli articoli 3 e 4 del Decreto e dai ai "Global Reporting Initiative Sustainability Reporting Standards" definiti nel 2016 dal GRI - *Global Reporting Initiative* ("GRI Standards"), con riferimento alla selezione di GRI Standards da essi individuato come standard di rendicontazione indicati nel paragrafo "Nota metodologica" della DNF.

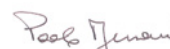
Altri aspetti

Con riferimento all'esercizio chiuso il 31 dicembre 2016, il Gruppo ha predisposto un Bilancio di sostenibilità, i cui dati sono utilizzati a fini comparativi all'interno della DNF. Detto bilancio di sostenibilità era stato sottoposto in via volontaria ad un esame limitato in conformità all'ISAE 3000 da parte di altro revisore, che ha espresso delle conclusioni senza rilievi.

Milano, 23 marzo 2018

PricewaterhouseCoopers SpA


Giulio Grandi
(Revisore legale)


Paolo Bersani
(Procuratore)



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