

2016 Report on corporate governance
and ownership structure

2016 Italgas

Report on corporate governance and ownership structure

Pursuant to Article 123- *bis* of Legislative Decree No. 58 of 24 February 1998
(traditional administration and control model)

Issuer: Italgas S.p.A.

Website: <http://www.italgas.it/>

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Glossary

Director in charge:	the director in charge of the Internal Control and Risk Management System of Italgas pursuant to Article 7 of the Code of Corporate Governance.
Shareholders' Meeting:	the meeting of Italgas shareholders.
Shares:	the ordinary shares issued by Italgas.
Borsa Italiana:	Borsa Italiana S.p.A.
CDP:	Cassa Depositi e Prestiti S.p.A.
CDP Gas:	CDP Gas S.r.l., a company subject to management and coordination by CDP.
CDP Reti:	CDP Reti S.p.A., a company subject to management and coordination by CDP.
Antitrust Code:	the Antitrust Code of Conduct adopted by the Board of Directors on 18 October 2016.
Code of Corporate Governance:	the latest edition of the Code of Corporate Governance of listed companies, most recently amended in July 2015 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., the ABI, Ania, Assogestioni, Assonime and Confindustria.
Civil Code/ c.c.:	the Civil Code, approved through Royal Decree 262 of 16 March 1942 (as later amended).
Associates/Associate Companies:	the following associate companies of Italgas pursuant to the applicable regulations: <ul style="list-style-type: none"> • Toscana Energia S.p.A.; • Metano Sant'Angelo Lodigiano S.p.A.; • Umbria Distribuzione Gas S.p.A..
Committees:	the Committees set up within the Board of Directors pursuant to Article 13.8 of the By-Laws.
Board/Board of Directors:	the Board of Directors of Italgas.
Subsidiaries/Subsidiary Companies:	the following subsidiaries of Italgas pursuant to the applicable regulations: <ul style="list-style-type: none"> • Italgas Reti S.p.A.; • Napoletanagas S.p.A.; • ACAM Gas S.p.A..
Chief Financial Officer:	the Chief Financial Officer (CFO) pursuant to Article 154-bis of the TUF.
Issuer:	Italgas S.p.A..
Financial year 2016:	the Italgas financial year ended 31 December 2016 to which the Report refers.
Group/Italgas Group:	the group pertaining to Italgas, which, in addition to Italgas, includes Italgas Reti S.p.A., Napoletanagas S.p.A. and ACAM Gas S.p.A..
Italgas:	Italgas S.p.A..
Model 231:	the organisation and management model adopted by the Company pursuant to Legislative Decree 231 of 8 June 2001 (Rules governing administrative responsibility of legal entities, companies and associations, including those without legal personality).
Unbundling Regulation:	the legal provisions on functional, ownership and accounting unbundling that apply to all Italian businesses in the electricity and gas sectors, including (merely by way of example): <ul style="list-style-type: none"> • directive 2009/73/EC; • legislative decree 93 of 1 June 2011; • Prime Ministerial Decree of 25 May 2012 concerning "<i>Criteria, terms and conditions for the adoption by Snam S.p.A. of the ownership unbundling model pursuant to Article 15 of Law 27 of 24 March 2012</i>"; • resolution of 22 May 2014 (231/2014/R/com) of the Electricity, Gas and Water System Authority.
Italgas Separation Transaction:	the entire transaction of the industrial and corporate reorganisation of Snam, executed on 7 November 2016, aimed at separating the gas distribution business in Italy, carried out by Italgas, from the LNG transportation, dispatching and storage businesses in Italy and abroad.
Watch Structure:	the body called upon to supervise the operation of and compliance with Model 231 to take care of its updating.

Italgas Shareholders' Agreement:	the shareholders' agreement signed on 20 October 2016 by Snam, CDP Reti and CDP Gas.
SGEL Shareholders' Agreement:	the shareholders' agreement signed on 27 November 2014 by CDP, on the one side, and State Grid Europe Limited and State Grid International Development Limited, on the other side.
Market Abuse Procedure:	the market abuse procedure approved by the Board of Directors on 5 September 2016.
Italgas Related-Party Transactions Procedure:	the procedure on transactions involving the interests of directors and auditors and related-party transactions approved by the Board of Director on 18 October 2016.
Notification Procedure:	the procedure that establishes a codified system for the collection, analysis, verification and reporting of notifications, anonymous or otherwise, received by Italgas and its subsidiaries, approved by the Board of Directors on 18 October 2016.
Shareholders' Meeting Regulation:	the Regulation of the Shareholders' Meetings adopted by the Ordinary Shareholders' Meeting on 4 August 2016.
Issuers' Regulation:	the Regulation issued by Consob through Resolution 11971 of 1999 (as later amended) on the subject of issuers.
Market Regulation:	the Regulation issued by Consob through Resolution 16191 of 2007 (as later amended) on the subject of markets.
Consob Related-Party Regulation:	Regulation issued by Consob through resolution 17221 of 12 March 2010 (as later amended) on related-party transactions, implementing Article 2391-bis of the Civil Code.
Report:	the report on corporate governance and the ownership structure of Italgas pursuant to Article 123-bis of the TUF.
SGEL:	State Grid Europe Limited.
SGID:	State Grid International Development Limited.
Internal Control and Risk Management System:	the internal control and risk management system adopted by Italgas pursuant to Article 7 of the Code of Corporate Governance.
Corporate Reporting Internal Control System/SCIS:	the internal control and risk management system in relation to the financial reporting process of the Italgas Group.
Snam:	Snam S.p.A..
Company:	Italgas S.p.A..
By-Laws:	the by-laws of Italgas S.p.A..
Consolidated Finance Act/TUF:	Legislative Decree 58 of 24 February 1998 (as later amended).





1. Profile of the issuer

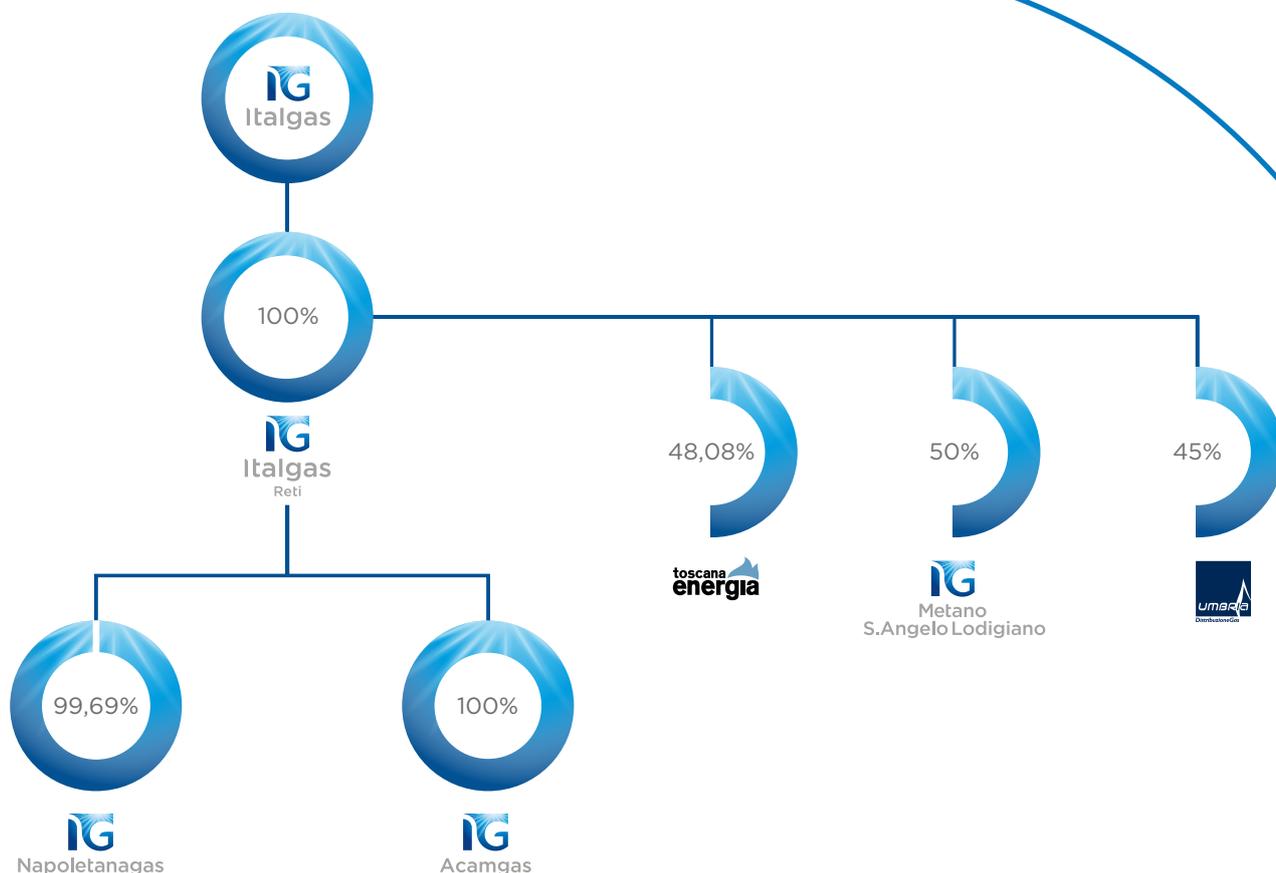
1.1 INTRODUCTION

On 7 November 2016 Italgas, after 13 years of absence, returned to the Italian share market through listing on the Borsa Italiana FTSE MIB index.

The new listing process went through a structured and complex journey which led to the investments in the operating companies focused on the gas distribution business moving from the previous parent company Snam to a new independent party which became known as Italgas S.p.A.. This new party was established on 1 June 2016 with the name of ITG Holding S.p.A. and its legal office is currently in Milan, Via Carlo Bo, 11, VAT registration number and Milan Companies Register 09540420966.

Taking into consideration the specific nature of the businesses and the various development opportunities in the respective market contexts, Snam and Italgas chose to separate in order to strengthen both companies and create further value for shareholders and stakeholders.

The Group that was created now includes, in addition to the parent company Italgas, Italgas Reti (previously called Italgas), a direct subsidiary of Italgas, Napoletanagas S.p.A. and ACAM Gas S.p.A., subsidiaries of Italgas via Italgas Reti. The companies not included in the scope of consolidation also include the 48.08% stake in Toscana Energia S.p.A., a leading company in the gas distribution sector in Tuscany, and stakes of 50% in Metano Sant'Angelo Lodigiano S.p.A. and 45% in Umbria Distribuzione Gas S.p.A..



The Italgas Group, including its own investee companies, currently manages over 68,000 km of network and more than 7.3 million gas redelivery points, served by 1,582 concessions, and its market share in the gas distribution business in terms of redelivery points is approximately 34%.

For more information see the 2016 Financial Report approved by the Italgas Board of Directors at the same time as the approval of this Report.

1.2 VALUES AND MISSION

Expertise, efficiency, innovation, reliability, security, proximity to the people. Every day, for 180 years, the work of the men and women at Italgas has drawn inspiration from these values.

Italgas always accompanies the economic and social development of the country promoting sustainable growth. It is currently the leading natural gas distributor in Italy and number three in Europe.

On these strong foundations, the Italgas Group is now looking forward and striving to strengthen its market presence. Investments, developments, continuous improvement and quality of service are the main channels of the strategy implemented to achieve these goals and to continue to generate value.

Italgas, 180 years of history and a successful future yet to be written.

1.3 HISTORY

1837 - Birth: The history of Italgas relates to the history of the gas industry in Italy which began in Turin in 1837 with the establishment of the Società Anonima Compagnia di Illuminazione a Gaz della Città di Torino.

In 1851, when the doors of the Turin stock exchange opened up, the Company was among the 7 “Private Funds” admitted for listing.

In 1863, straight after the Italian unification, the company changed its company name and became known as Società Italiana per il Gaz.

1900 - Expansion: In 1900 it joined the Milan stock exchange.

The growth of electricity replacing gas for public lighting drove the Company to seek new commercial outlets for domestic uses, starting with cooking food and then heating and then the production of hot water.

In the Twenties an extensive buyout programme of gas companies operating in several Italian cities was launched, including Venice (1924), Rome (1929) and Florence (1929), with the goal of creating a large industrial group.

1967 - Joining Eni: The block of shares that ensured control of Italgas was purchased by Eni, already at that time one of the major global energy groups.

With the progressive affirmation of natural gas and the development of gas pipeline transportation networks from the 1970s, the company focused on the construction of new networks for urban distribution and the modernisation of existing ones, taking on the leading role in Italy’s growth of methanisation.

In 2003, under the scope of a reorganisation process, Eni delisted Italgas shares from the stock exchange.

2009 - Italgas is acquired by Snam: Snam took over the entire Italgas block of shares from Eni under the scope of a transaction aimed at creating an integrated group overseeing all regulated natural gas transportation, distribution, storage and regasification activities.

2016 - Separation from Snam and return to the stock exchange: On 7 November 2016, with the completion of the industrial reorganisation of the Snam Group, the Italgas stock went back to being listed on the Borsa Italiana FTSE MIB index.

1.4 SEPARATION OF THE GAS DISTRIBUTION ACTIVITY FROM SNAM AND ITALGAS' ADMISSION TO TRADING ON BORSA ITALIANA

On 7 November 2016, the separation of Italgas Reti from Snam took effect and, at the same time, the shares of Italgas (previously ITG Holding S.p.A.) were listed on the Mercato Telematico Azionario organised and managed by Borsa Italiana (the "**Italgas Separation Transaction**"). The reorganisation operation was implemented through the following three steps which took place simultaneously:

- the contribution in kind by Snam to Italgas of a shareholding equal to 8.23% of the share capital of Italgas Reti following the allocation to Snam of 108,957,843 newly issued shares of Italgas, in order to enable Snam to hold, post-demerger, a stake of 13.5% in Italgas;
- the sale by Snam to Italgas of 98,054,833 Italgas Reti shares, equal to 38.87% of the share capital, for a consideration of €1,503 million, following the assumption of a debt of the same amount pertaining to Italgas;
- the partial and proportional demerger with the allocation to Italgas of 52.9% of the stake held by Snam in Italgas Reti and consequent allocation to Snam shareholders of the remaining 86.5% of the share capital of Italgas. As a result of the demerger, Italgas issued and assigned one Italgas share for every five Snam shares owned to Snam S.p.A. shareholders.

The deed of demerger was recorded in the Milan Companies Register on 3 November 2016 following the issuing by Borsa Italiana of the admission to listing on the Mercato Telematico Azionario, issued on 2 November 2016, and the judgment of equivalence by Consob, pursuant to Article 57, paragraph 1, letter d) of the Issuers' Regulation, for the Information Document relating to the demerger, issued on 3 November 2016. As a result of the transaction, the entire equity investment held by Snam in Italgas Reti, equal to 100% of the share capital of Italgas, was transferred to Italgas.

1.5 ITALGAS' CORPORATE GOVERNANCE SYSTEM

Italgas' corporate governance system is a collection of rules and planning, management and control processes necessary for the operation of the company and was outlined by

the Board of Directors on 4 August 2016 with regard to the provisions of the Civil Code and the Consolidated Finance Act and the Unbundling Regulation, in conformity with the application principles and criteria of the Code of Corporate Governance and with reference to national and international best practices.

This system is based on certain key principles, such as proper, transparent business management implemented through the identification of information flows between corporate bodies and an efficient definition of the internal control and risk management system (for more information, see Chapter 11 of this Report).

Italgas has adopted the so-called traditional administration and control system pursuant to the applicable regulatory provisions and the By-Laws, which involves:

- a Board of Directors, in charge of the routine and extraordinary management of the company and with the right to carry out all acts it deems appropriate for the implementation and achievement of the corporate purpose, with the exception of acts which pursuant to applicable regulations and the By-Laws are reserved to the Shareholders' Meeting;
- the Board of Statutory Auditors, with supervisory tasks, specifically (i) the observance of the law and the By-Laws; (ii) respect for the principles of proper administration in carrying out corporate activities; (iii) the adequacy of the company's organisational structure in relation to its remit, the internal control system and the administrative-accounting systems, as well as the reliability of the latter in properly representing operational events; (iv) the methods for specific implementation of the rules of corporate governance provided for by the Code of Corporate Governance, that the company adheres to. Additionally, pursuant to Legislative Decree 39 of 27 January 2010, the Board of Statutory Auditors also performs supervisory functions in its capacity as "*Committee for internal control and account auditing*";
- the Shareholders' Meeting, the competent body for discussion tasked with, among other things, in both ordinary and extraordinary sessions: (i) the appointment and removal of members of the Board of Directors and the Board of Statutory Auditors and the establishment of their compensation, as well as resolving on any responsibilities; (ii) the approval of the financial statements, including the allocation of the profits for the period; (iii) resolving with regard to the purchase of treasury shares, amendments to the By-Laws and the issuing of convertible bonds.

The Board of Directors appoints the Chairman, if the Shareholders' Meeting has not already done so, delegates its powers to one or more of its members and may set up committees for providing advice and recommendations on specific issues. Specifically, on 4 August 2016, the Board of Directors created the following committees, in compliance with the Code of Corporate Governance and the By-Laws:

- Remuneration Committee;
- Appointments Committee;
- Control, Risk and Related-Party Transactions Committee;
- Sustainability Committee.

1.6 SOCIAL RESPONSIBILITY

Italgas believes that sustainability forms an integral part of its business model. It is in fact a leading factor in defining the company's strategic and operational decisions and a lever for long-term sustainable growth. Meanwhile it delivers the shareholders' expected results, sharing the value generated with all of its stakeholders including in terms of environmental and social issues.

Italgas bases the day-to-day conduct of its activities on the principles of transparency, honesty, correctness and good faith in full compliance with the rules to protect competition. These principles are listed in the Code of Ethics adopted by all the Group companies, which are the basic tools for guiding the conduct of personnel and for responsible management of relationships with the stakeholders.

The Italgas Group uses specific, certified management systems with the objective of overseeing the processes and business activities in accordance with the health and safety of workers, environmental protection and the quality of services offered.

Since the time of its establishment, Italgas has prepared its own Sustainability Report produced in conformity with the (GRI-G4) guidelines published by the Global Reporting Initiative. The Sustainability Report, approved by the Board of Directors at the same time as this Report, examines the activities carried out in terms of economic efficiency, environmental protection and social responsibility, dealing with all the material issues through which the business is measured and compared publicly.

The Sustainability Report is also the reference document for complying with the requirements of Legislative Decree 254 of 30 December 2016, issued to implement Directive 2014/95/EU on the disclosure of non-financial information by large businesses and groups.

For more information on the issues dealt with, refer to the Sustainability Report.

2. Information on the ownership structure

2.1 STRUCTURE OF THE SHARE CAPITAL

At the date of the approval of this Report, the share capital of Italgas stood at €1,001,231,518.44 and is divided into 809,135,502 registered ordinary shares (ISIN: IT0005211237), with no par value, as indicated in the table below.

Structure of the share capital

	No. of shares	% compared with share capital	Listing market	Rights and obligations
Ordinary shares	809,135,502	100	Mercato Telematico Azionario of Borsa Italiana S.p.A.	Owners of shares can exercise their ownership and dividend rights pursuant to the By-Laws and applicable regulations. Each share is indivisible and gives the right to one vote.

The company has not issued special categories of shares, shares with multiple votes, shares with the right to a limited vote or without voting rights, financial instruments which give the right to subscribe new issue shares (such as convertible bonds and warrants).

2.2 RESTRICTIONS ON THE TRANSFER OF SHARES AND VOTING RIGHTS

The By-Laws do not include any restrictions on the transfer of company shares and/or limits on the ownership of shares or any restrictions on exercising voting rights.

2.3 SIGNIFICANT SHAREHOLDINGS

The table below lists the owners of significant shareholders in the share capital of Italgas higher than the level laid down by Article 120 of the TUF (i.e., 3%) at the date of the approval of this Report, in accordance with the information disclosed to the company pursuant to said Article 120 of the TUF.

Significant shareholdings

Declarant	Direct shareholder	Proportion of ordinary share capital (%)	Proportion of voting share capital (%)
CDP	CDP Reti ⁽¹⁾	25.076	25.076
	CDP Gas ⁽²⁾	0.969	0.969
	Total	26.045	26.045⁽³⁾
Snam	Snam	13.50	13.50
Lazard Asset Management Llc	Lazard Asset Management Llc	5.038⁽⁴⁾	5.038
Norges Bank	Norges Bank	3.094	3.094
Romano Minozzi	Granitifiandre S.p.A.	0.482	0.482
	Finanziaria Ceramica Castellarano S.p.A.	0.225	0.225
	Iris Ceramica Group S.p.A.	1.471	1.471
	Romano Minozzi	1.669	1.669
	Totale	3.847	3.847

⁽¹⁾ The following own stakes in CDP Reti: CDP 59.102%, State Grid Europe Limited (SGEL) 35%, State Grid Corporation of China and the remaining part is owned by several Italian institutional investors.

⁽²⁾ CDP Gas is wholly-owned by CDP. Based on the information available to the company, note that on 25 January 2017 the members of the corporate bodies of CDP and CDP Gas approved a merger by incorporation of CDP Gas into CDP. At the date of this Report this merger is not yet effective.

⁽³⁾ Taking into account the share indirectly owned by CDP in Snam, equal to 30.1% (respectively, the 28.98% owned by CDP Reti and the 1.12% owned by CDP Gas), CDP indirectly owns a total stake of 30.1% in Italgas.

⁽⁴⁾ Stake owned by way of discretionary investment management.

2.4 SHARES WHICH CONFER SPECIAL RIGHTS

The company has not issued shares which confer special controlling rights.

2.5 EMPLOYEE SHARE OWNERSHIP SYSTEM: MECHANISM FOR EXERCISING VOTING RIGHTS

There are no plans for an employee share ownership system.

2.6 SHAREHOLDER AGREEMENTS

As far as agreements between shareholders are concerned, pursuant to Article 122 of the TUF, as far as Italgas is aware, the following is noted.

a) Italgas Shareholders' Agreement

On 20 October 2016, Snam, CDP Reti and CDP Gas signed a shareholders' agreement (the "**Italgas Shareholders' Agreement**") in order to ensure a stable and transparent ownership structure of Italgas. The Italgas Shareholders' Agreement took effect on the completion date of the Italgas Separation Transaction and the simultaneous admission to listing of Italgas shares on 7 November 2016 and involves all the shares owned by parties in the company.

The Shareholders' Agreement is for three years and is automatically renewed for further three-year periods, unless one of the parties gives 12 months' notice. The Italgas Shareholders' Agreement governs, among other things:

- the exercising of voting rights associated with shares covered by the shareholders' agreement, with the establishment of an advisory committee;
- the obligations and methods for submitting a joint list for the appointment of members of the company's Board of Directors, with the rights of each party with regard to the designation of candidates;
- restrictions on the transfer of shares covered by the shareholders' agreement and the purchase of further shares.

A copy of the Italgas Shareholders' Agreement was filed at the Milan Companies Register on 11 November 2016 and an excerpt can be consulted on the company's website: <http://www.italgas.it/investitori/azionariato/patti-parasociali/>

b) SGEL Shareholders' Agreement

On 27 November 2014, CDP, on the one side, and State Grid Europe Limited ("**SGEL**") and State Grid International Development Limited ("**SGID**"), on the other side, signed a shareholders' agreement (the "**SGEL Shareholders' Agreement**") under the scope of the sales agreement concluded between these parties on 31 July 2014, pursuant to which on 27 November 2014 SGEL bought a stake of 35% of the share capital of CDP Reti from CDP.

On 23 December 2014 the parties amended the SGEL Shareholders' Agreement to reflect the changes that had taken place in the meantime to CDP's equity investment in Snam.

Consistent with the effectiveness of the Italgas Separation Transaction and at the same time as the listing of Italgas shares on 7 November 2016, SGEL, SGID and CDP changed and supplemented the SGEL Shareholders' Agreement further, also extending the application with regard to the stake held by CDP Reti in Italgas, making provision, among other things, that the SGEL rights with regard to the designation of one of the members of the advisory committee set out by the Italgas Shareholders' Agreement to be expressed by CDP Reti and the designation of a candidate to be included in the list of candidates for the office of Italgas director to be submitted by CDP Reti at the time of the appointment of the Board pursuant to the Italgas Shareholders' Agreement. Pursuant to the SGEL Shareholders' Agreement, SGEL has undertaken to ensure that the director appointed by it to the company's Board of Directors if and to the extent that said director is not independent pursuant to Article 148 of the TUF shall abstain, to the maximum extent permitted by law, from receiving information and/or documentation from Italgas in relation to matters on which there is a conflict of interest for SGEL and/or any affiliated party, in relation to business opportunities in which Snam, on the one hand, and SGEL and/or an affiliated party, on the other, have an interest and may be in competition. Furthermore, said director may not take part in the discussions of Italgas' Board of Directors concerning these issues.

The SGEL Shareholders' Agreement is for three years from the initial signing (i.e., from 27 November 2014) and is automatically renewed for further three-year periods, unless one of the parties gives 6 months' notice.

A copy of the SGEL Shareholders' Agreement was filed at the Milan Companies Register on 11 November 2016 and an excerpt can be consulted on the company's website: <http://www.italgas.it/investitori/azionariato/patti-parasociali/>

2.7 CHANGE-OF-CONTROL CLAUSES AND STATUTORY PROVISIONS ON TAKEOVER BIDS

a) Change of control clauses

Italgas is part of significant agreements which enter into effect, may be amended or may be cancelled in the event of the acquisition of control over the company by an entity or entities, acting jointly, other than the Italian Republic or CDP, namely Italgas ceases to own a level defined by Italgas Reti.

Specifically, this involves loan agreements which include the right of the counterparty to cancel the agreement early following either the acquisition of control over Italgas by an entity or entities acting jointly, other than the Italian Republic or CDP, or if the Italian Republic ceases, directly or indirectly (also via CDP) to own a portion of the share capital of Italgas equal to a certain level, and if Italgas ceases to be the majority shareholder of the share capital of Italgas Reti. In some of these agreements, the above-mentioned early extinguishment can be requested if the change of control of Italgas follows a downgrading of its credit rating.

b) Statutory provisions on takeover bids

With regard to takeover bids, the Italgas By-Laws do not make any provision for exceptions to the passivity rule provisions of Article 104, paragraphs 1 and 1-*bis* of the TUF nor do they involve the adoption of the neutralisation rule pursuant to Article 104-*bis*, paragraphs 2 and 3 of the TUF.

2.8 POWERS TO INCREASE THE SHARE CAPITAL AND AUTHORISATIONS TO BUY TREASURY SHARES

The Board of Directors was not given the power to increase the share capital pursuant to Article 2443 of the Civil Code. The Shareholders' Meeting did not authorise the purchase of treasury shares pursuant to Article 2357 *et. seq.* of the Civil Code.

2.9 MANAGEMENT AND COORDINATION ACTIVITIES

No shareholders claim to exert management and coordination activities over Italgas pursuant to Article 2497 of the Civil Code. CDP has stated it has de facto control over Italgas pursuant to international accounting principle IFRS 10 (Consolidated Financial Statements) by way of CDP's stakeholding held indirectly in Italgas, via CDP Reti, CDP Gas and Snam, and the provisions of the Italgas Shareholders' Agreement.

Italgas is the parent company of the Italgas Group and exercises management and coordination activities over subsidiaries pursuant to Article 2497 *et. seq.* of the Civil Code.

2.10 FURTHER INFORMATION

The information relating to the agreements between the company and directors that provide for indemnification (in the event of dismissal or termination of employment without just cause or if their employment is terminated following a takeover bid) can be found in the Remuneration Report that will be submitted by the Board of Directors to the Shareholders' Meeting pursuant to Article 123-*ter* of the TUF under the terms established by the applicable regulations.

The information required pursuant to Article 123-*bis*, paragraph 1, letter I) of the TUF (the rules applicable to the appointment and replacement of directors and to the amendment of the By-Laws, if different from the legislative and regulatory provisions that are additionally applicable) can be found in the section of this Report dedicated to the Board of Directors see Chapter 4 of this Report).

3. Compliance with the code of Corporate Governance

On 4 August 2016 the Italgas Board of Directors approved compliance with the Code of Corporate Governance.

In order to enable the company structures to carry out suitable enquiries, with the comprehensive involvement of the newly appointed committees, at the same meeting on 4 August 2016 the Board of Directors deemed it appropriate to make provision for: (i) the definition of guidelines for the Internal Control and Risk Management System; (ii) the approval of the remuneration policy for directors and senior managers with strategic responsibilities; (iii) the adoption of a guideline on the number of offices that can be held.

At the date of the approval of this Report, the Board of Directors completed this process, as referred to in the respective chapters of this report (see chapter 11 for the Internal Control and Risk Management System; Chapter 4.8 for the remuneration policy and Chapter 4.2 for the Board guideline on the number of offices that can be held).

Until the adoption of the Italgas Internal Control and Risk Management System, the company and the Italgas Group are subject to the guidelines and the regulatory system of Snam, the company which, until 7 November 2016, owned 100% of the share capital of the company and carried out the management and coordination activities of the subsidiaries.

The Code of Corporate Governance is accessible to the public on the website of the Corporate Governance Committee, <http://www.borsaitaliana.it/comitato-corporate-governance/codice/2015clean.pdf>

4. Board of Directors

4.1 APPOINTMENT, REPLACEMENT AND SUCCESSION PLANS FOR EXECUTIVE DIRECTORS

a) Appointment and replacement

Pursuant to the By-Laws, the company is run by a Board of Directors composed of 9 members appointed by the Shareholders' Meeting in compliance with the *pro tempore* regulations in force governing gender equality, which establishes the term of office for no more than three financial years. Each office ends on the date of the Shareholders' Meeting called for the approval of the financial statements for the latest year of the office. Directors can be re-elected.

As laid down in the By-Laws:

- at least three directors must possess the requirements of independence established by the TUF (i.e., pursuant to Article 147-*ter*, paragraph 4, of the TUF, the requirements of independence established for auditors of listed companies pursuant to Article 148, paragraph 3, of the TUF);
- all directors must possess the requirements of integrity required by existing regulations (i.e., pursuant to Article 147-*quinquies*, paragraph 1, of the TUF, the requirements of integrity required for auditors of listed companies);
- the directors cannot hold any office in the management or control body, nor can they hold any management functions at Eni S.p.A. or its subsidiaries, nor have any relations, direct or indirect, of a professional or financial nature with these companies, as also laid down by the Prime Ministerial Decree of 25 May 2012 concerning "*Criteria, terms and conditions for the adoption by Snam S.p.A. of the ownership unbundling model pursuant to Article 15 of Law 27 of 24 March 2012*".

If, during the financial year, the office of one or more directors should be vacated, the provisions of Article 2386 of the Civil Code apply. During the renewal of the entire Board of Directors, directors are appointed on the basis of the list voting mechanism. The statutory provisions governing list voting for the appointment of the Board of Directors are listed below.

List voting for the appointment of the Board of Directors (Article 13 of the By-Laws)

Lists are filed at the registered office by the twenty-fifth day prior to the date of the Shareholders' Meeting called to decide on the appointment of the members of the Board of Directors and made available to the public by the methods provided for by law and by Consob regulations, at least twenty-one days prior to the date of the Shareholders' Meeting.

Each shareholder may submit or be involved in submitting only one list and may vote on only one list, according to the terms provided for by the above-mentioned legal and regulatory provisions.

Each candidate may feature on only one list; otherwise their candidacy is declared void.

Only shareholders who alone or together with other shareholders represent 2% or are the owners overall of another percentage of shares stipulated by Consob regulations shall be entitled to submit lists¹. The ownership of the minimum percentage necessary for the submission of lists is determined considering the shares registered in the shareholder's favour on the date on which the lists are filed at the Company.

For purposes of corroborating ownership of the number of shares necessary for the submission of lists, shareholders must produce the respective certification issued in accordance with the law by authorised intermediaries by the deadline provided for publication of the lists by the Company.

At least three directors must possess the requirements of independence established for auditors of listed companies.

Candidates meeting the aforesaid independence requirements must be specifically identified on the lists.

All candidates must also meet the integrity requirements provided for by applicable legislation.

Lists with three or more candidates must contain candidates of each gender, in accordance with the notice of call for the Shareholders' Meeting, in order to comply with the applicable laws on gender equality. When the number of representatives of the less represented gender must, by law, be at least three, lists for the appointment of the majority of members of the Board should include at least two candidates of the less represented gender on the list.

Together with each list, subject to its inadmissibility, a curriculum vitae must be filed for each candidate and the candidates' statements accepting their candidacy and certifying, under their own cognisance, the lack of grounds for ineligibility or conflict of interest, as well as the fact that they satisfy the honesty and possible independence requirements.

Directors are elected as follows:

- a) from the list that obtains a majority vote of the shareholders, seven directors will be taken, in the consecutive order that they appear on said list;
- b) the remaining two directors shall be taken from other lists that are not linked in any way, even indirectly, to the shareholders that presented or voted for the list coming first by number of votes. To this end, the votes received by the lists will be successively divided by one and two. The quotients thus obtained will be assigned

¹ Consob through its resolution 19856 of 25 January 2017 decided pursuant to Article 147-ter, paragraph 1 and Article 148, paragraph 2 of the TUF and Article 144-septies, paragraph 1, of the Issuers' Regulation, that the minimum level of investment required for the presentation of lists of candidates for the election of Italgas management and control bodies was 1%.

progressively to candidates from each of these lists, according to the order shown therein. The quotients thus assigned to candidates from the different lists will be arranged in a single decreasing gradation. Those obtaining the highest quotients will be elected. If several candidates obtain the same quotient, the candidate from the list that has not yet elected any director or that has elected the smallest number of directors will be elected. If none of these lists has yet elected a director or if all have elected the same number of directors, the candidate from the list obtaining the greatest number of votes will be elected. If the voting on lists is tied and the quotient is also tied, the entire Shareholders' Meeting will be asked to vote again, and the candidate winning a simple majority of votes will be elected;

- c) if, after applying the procedure described above, the minimum number of independent directors required by the bylaws is not appointed, the quotient of votes to be attributed to each candidate taken from the lists is calculated by dividing the number of votes for each list by the consecutive number of each of these candidates; non-independent candidates with the lowest quotients among the candidates taken from all the lists shall be replaced, starting from the lowest, by the independent candidates taken from the same list as the candidate being replaced (following the order in which they are listed); otherwise, they shall be replaced by persons who meet the independence criteria and appointed in accordance with the procedure mentioned under d). If candidates taken from different lists have obtained the same quotient, the candidate from the list from which the highest number of directors has been taken shall be replaced, or, alternatively, the candidate taken from the list with the fewest votes shall be replaced, or, if the number of votes is the same, the candidate who receives the fewest votes in a dedicated resolution by the Shareholders' Meeting shall be replaced; if no Shareholder Lists have been submitted, the remaining three directors will be appointed by the Shareholders' Meeting in accordance with the legal majority, with the Excluded Relative Majority Shareholders still not allowed to take part in the vote.

c-bis) if the procedure described in points a) and b) above does not allow for compliance with the law on gender representation, the quotient of votes to be attributed to each candidate taken from the lists shall be calculated by dividing the number of votes for each list by the consecutive number of each of these candidates; the candidate of the most represented gender with the lowest quotient among the candidates taken from all the lists shall be replaced, notwithstanding compliance with the minimum number of independent directors, by the candidate of the least represented gender (with the highest consecutive number) taken from the same list as the replaced candidate; otherwise, the candidate shall be replaced by the person appointed in accordance with the procedure mentioned under d). If candidates from different lists have obtained the same lowest quotient, the candidate from the list from which the greater number of directors has been taken shall be replaced, or, alternatively, the candidate taken from the list with the fewest votes shall be replaced, or, if the number of votes is the same, the candidate who receives the fewest votes in a dedicated resolution by the Shareholders' Meeting shall be replaced;

- d) for the appointment of directors not appointed for any reason by the above procedures, the Shareholders' Meeting shall resolve by statutory majority to ensure that the composition of the Board of Directors is consistent both with the law and with the By-Laws.

Additional binding legal provisions, including regulatory rules, remain unchanged in any case.

If the majority of the directors should vacate their offices, the entire Board shall be understood to have resigned, and a Shareholders' Meeting must be called without delay by the Board of Directors in order to replace it.

The directors appointed must inform the Company of any loss of the independence and honesty requirements, as well as the occurrence of causes of ineligibility or conflict of interest. The Board shall periodically evaluate the independence and integrity of the Directors, as well as the lack of grounds for ineligibility or incompatibility. If one of the directors does not fulfil or no longer fulfils the established independence or integrity requirements imposed by law, or if there are grounds for ineligibility or incompatibility, the Board will dismiss the director and arrange for him or her to be replaced, or will ask that the grounds of incompatibility be removed within an established period of time, otherwise he or she must forfeit the post.

b) Succession plans for executive directors

Taking into consideration the recent completion of the Italgas Separation Transaction and the listing of the company, the Board of Directors has not yet evaluated the opportunity of adopting succession plans for executive directors.

4.2 COMPOSITION, CURRICULA VITAE, GUIDELINES ON THE MAXIMUM NUMBER OF OFFICES AND INDUCTION PROGRAMME

a) Composition

The Italgas Board of Directors in office at the close of 2016 was appointed by the Ordinary Shareholders' Meeting of 4 August 2016 on the recommendation of the sole shareholder at the time, Snam, and in conformity with the provisions of the Civil Code. At the Shareholders' Meeting of 4 August 2016 the term of office was set at three financial years, expiring on the date of the Shareholders' Meeting that will be called for the approval of the financial statements for the year ending 31 December 2018. The Board of Directors appointed in this way is composed of nine directors, all first appointments, including:

- one sole executive director, seven non-executive directors and a chairman without managerial powers;
- four independent directors on the basis of both the requirements of independence of the TUF (Article 147-ter, paragraph 4 and Article 148, paragraph 3 of the TUF) and the Code of Corporate Governance (Article 3);
- three female members, in compliance with the regulation in force on gender equality.

The table below lists the directors in office at the 2016 year-end, the offices held on the Board of Directors and directors classed as independent pursuant to the provisions of the TUF and the Code of Corporate Governance.

Name	Post	Independent in accordance with the TUF and the Code of Corporate Governance
Lorenzo Bini Smaghi	Non-executive chairman	No
Paolo Gallo	CEO	No
Nicola Bedin	Non-executive director	Yes
Barbara Borra	Non-executive director	Yes
Maurizio Dainelli	Non-executive director	No
Cinzia Farisè	Non-executive director	Yes
Yunpeng He	Non-executive director	No
Paolo Mosa	Non-executive director	No
Paola Annamaria Petrone	Non-executive director	Yes

From the 2016 year-end until the date of the approval of this Report there were no changes to the composition of the Board of Directors.

The Italgas Board of Directors in office from 1 June 2016, the date of establishment of Italgas, until 4 August 2016 was appointed pursuant to the provisions of the Civil Code by the founder shareholder Snam and was composed as follows:

Name	Post
Marco Reggiani	Chairman
Luca Schieppati	Director
Antonio Paccioretti	Director

b) *Curricula vitae*

Below is a summary of the *curricula vitae* of each member of the Board of Directors in office at the 2016 year-end and at the date of approval of this Report.

Lorenzo Bini Smaghi (Chairman)

Born in Florence in 1956, he gained a degree in Economics from the University of Lovanio. He then gained an M.Sc. in Economics at the University of Southern California and a Ph.D in the same subject at the University of Chicago. He is Chairman of the Board of Directors of Société Générale S.A. and Chiantibanca - Credito Cooperativo, as well as a member of the Board of Directors of Tages Holding S.p.A. He is the Chairman of the Italian Association of the University of Chicago Alumni and, since 2012, he has been the Visiting Scholar at the Centre of International Affairs at Harvard University. Previously, he was Chairman of the Palazzo Strozzi Foundation from 2006 to 2016, a member of the Executive Committee of the European Central Bank from 2005 to 2012, Director General for International Financial Relations at the Ministry of Economy from 1998 to 2005 and Director of the Policy Division at the European Monetary Institute. From January 2012 until November 2012 he was Chairman of Snam Rete Gas. He was also Chairman of the Board of Directors of Snam until April 2016. In addition, he worked as an economist at the Bank of Italy between 1983 and 1994.

Paolo Gallo (CEO and General Manager)

Born in Turin in 1961, he gained a degree in Aeronautical Engineering at the Polytechnic of Turin. He later gained an MBA from the Università degli Studi di Torino. From 2014 to 2016 he was CEO of Grandi Stazioni, where he finalised the privatisation. Previously (2011 - 2014) he was firstly General Manager and then CEO of Acea S.p.A. one of the leading Italian multi-utility companies, listed on the Milan stock exchange. From 2002 to 2011 he was part of the Edison Group, first as Director of Strategy and Innovation and later (2003 - 2011) as General Manager and then CEO of Edipower.

He began his career at Fiat Avio S.p.A. in 1988 where he held various positions of responsibility for 13 years. In 1997 he began to get involved in the energy sector developing new initiatives in Italy, India and Brazil and later combined all the electricity generation activities for the Fiat Group at Fiat Energia (where he was CEO until 2002), the vehicle through which the Fiat Group bought Montedison in July 2001.

Between 1992 and 1993 he was Director of the MBA course at the School of Business Management of the University of Turin, teaching "The economic-financial evaluation of industrial investments" until 2002, and he was the co-author of important publications in the industry.

Nicola Bedin (Director)

Born in Montebelluna (TV) in 1977. Since 2005 he has been the CEO of the Gruppo Ospedaliero San Donato which, with revenues of €1.5 billion is the leading Italian operator in the hospital sector. He has also been the CEO of the Ospedale San Raffaele since May 2012, the date it joined the scope of consolidation of the Group. Since 2015 he has also been the CEO of the Vita-Salute San Raffaele University. He gained a degree in Business Administration from the Bocconi University. He spent the fourth year of high school in the United States, where he returned during his university studies, to the University of Texas, Austin and the University of California, Berkeley. He began his career as a financial analyst at Mediobanca, in 2001. He is a visiting professor at the Vita-Salute San Raffaele University and at the University of Pavia, teaching health economics and applied economics. He has been a member of the national board of AIOP (Associazione Italiana Ospedalità Privata - Italian Association of Private Hospitals) since 2012 and the Executive Committee of AIOP Lombardy since 2005. He has been a member of the Board of the Assolombarda Gruppo Sanità since March 2010, as well as the Assolombarda Advisory Board Life Science since May 2015.

Barbara Borra (Director)

Born in Turin in 1960, she gained a degree in Chemical Engineering at the Polytechnic of Turin. She later gained an MBA at the INSEAD Business School. She is currently Chairman of the Board of Directors of Ansaldo Energia S.p.A. and Shanghai Electric JV, as well as a member of the Board of Directors of Randstad Holding NV and Brembo S.p.A. From 2015 to 2016 she was Head of Industrial for the Asia Pacific area of Pirelli Tyre Co. Between 2005 and 2014 she worked for Whirlpool Co., holding the office of Chairman of Whirlpool France S.A.S from 2005 to 2007 and Vice Chairman of Global Cooking from 2007 to 2011 and from 2011 to 2014 she was Vice Chairman and General Director of Whirlpool China Co. Ltd. Previously, from 2001 to 2004 she was European Director of Rhodia S.A., a company in which she also held the office of Vice Chairman of the Polyamide Fibers Technical and Consumer Division in 2004.

She worked for GE Lighting Ltd. from 1989 to 2001, holding down various posts of increasing responsibility, culminating in the appointment in 2000 as Vice Chairman of the EMEA Marketing Division. Her career began in Montedison USA, working from 1984 to 1986 as a Process Engineer.

Maurizio Dainelli (Director)

Born in Rome in 1977, he gained a degree in Jurisprudence from the University of Rome. Since August 2003 he has been entitled to practise law on the legal profession. From June 2010 he has been working at CDP Legal Services where he is currently head of the M&A and Private Equity Department. Before that, he practised professional forensic law from 2004 to 2010 at Bonelli Errede Pappalardo Studio Legale, and was seconded for six months to the London office of the investment bank J.P. Morgan, as Visiting Foreign Lawyer. He began his career at Andersen Legal, where he worked from 2000 to 2004.

Cinzia Farisè (Director)

Born in Niardo (BS) in 1964, she gained a degree in Economics and Business from the University of Brescia. She is the CEO of Trenord S.r.l, a post she has held since 2014. From 2006 to 2011 she was Vice Chair of the Associazione Italiana Industrie Cavi e Conduttori Elettrici. Previously, she worked at the Prysmian Group: from 2005 to 2011 as Sales and Marketing Director of Prysmian Italia S.p.A., from 2011 to 2014 as CEO of Prysmian India and for two years from 2013 to 2014 as Vice Chairman of the Energy and Infrastructure Business Unit, at the Prysmian offices in Milan. Before that, she worked for the Ferrovie Nord Milano group from 1990 to 2005, covering the following posts: Assistant to the Chairman (1990-1993), Sales and Promotions Manager (1993-1997), Marketing Manager (1997-2000) and Sales and Marketing Director of Ferrovie Nord Cargo (2001-2005). From 1989 to 1990 she was the Key Account Manager of Barclays Bank in France. She began her career in 1987 at BOBST S.A.

Yunpeng He (Director)

Born in Batou (China) in 1965, he gained a degree in Electrical Systems and Automation from the University of Tianjin. After this, he gained a Master's Degree in Technology Management from the Rensselaer Polytechnic Institute (RPI). He is currently on the Board of Directors of CDP Reti, Terna S.p.A. and Snam S.p.A. He held the office of Deputy General Manager of the European Representative Office of the State Grid Corporation of China from January 2013 until December 2014. He has held the following posts at the State Grid Tianjin Electric Power Company: Vice Chief Technical Officer from December 2008 to September 2012, Director of the Economic and Legal Department from June 2011 to September 2012, Director of the Planning and Development Department from October 2005 to December 2008, Director of the Planning and Design Department from January 2002 to October 2005. Lastly, he was Head of the Tianjin Binhai Power Company from December 2008 to March 2010 and Chairman of the Tianjin Electric Power Design Institute from June 2000 to January 2002.

Paolo Mosa (Director)

Born in Cremona in 1960. Bachelor of Mechanical Engineering from the Polytechnic University of Milan. Since November 2016, he has headed the Snam's Commercial, Regulation and Development Business Unit Commerciale. He began his carrier at

Snam Group in 1987. Between 2000 and 2001, he was responsible from coordinating Snam's foreign subsidiaries, owners of the transport infrastructure required for importing natural gas into Italy. During this period, he served as CEO of TMPC Ltd. and was a member of the board of directors of TAG GmbH, TENP GmbH, TTPC Ltd. and Transitgas SA. Until 2002, he was also a member of the Board of Directors of TIGAZ, one of the main gas distribution companies in Hungary. In 2001, he was appointed Director responsible for network development investment planning activities at Snam Rete Gas, as well as being responsible for managing transport contracts and relations with the Italian Authority for Electricity and Gas. From 2009 to 2012, he was part of the Board of ENTSOE (European association of gas transport companies). Until 2008, he was also a member of the board of directors of GNL Italia, the company that manages the LNG regassification plant located in Panigaglia (La Spezia). From 2010 to 2014, he was CEO of Italgas. From 2014 to 2016, he was CEO of Snam Rete Gas. Since December 2014, he has been Chairman of the Supervisory Board of Tag GmbH and is also currently a member of the Board of Directors of Snam Rete Gas S.p.A.

Paola Annamaria Petrone (Director)

Born in Milan in 1967, she gained a degree in Modern Languages and Literature from the IULM University of Milan. She later gained an MBA from the SDA Bocconi School of Management, Milan. She is currently a member of the Board of Directors of AAMPS S.p.A. She was the General Manager of AMSA of the A2A Group from 2012 to 2015. Previously, she worked for the FCA Group, firstly as Global Director Outbound Logistics and CEO of I-Fast Automotive Logistics and later on, from 2010, as Global Senior Vice President Supply Chain Management of FCA and Chair of I Fast Container Logistics. Between 2003 and 2008 she worked at Trenitalia, holding various posts, most recently as Director of Regional Transport for Lombardy. From 2000 to 2002 she worked as a Manager at Roland Berger Strategy Consultants. She started out on her career at the Siemens Group, firstly as Inbound Logistics Coordinator of the Milan Industrial Automation Division, then as Key Account Logistics Manager for Italy at the parent company in Germany.

c) Maximum accumulation of offices held at other companies

On 20 December 2016 the Italgas Board of Directors, at the suggestion of the Appointments Committee and with the support of the company's Legal & Corporate Affairs and Compliance Department, adopted guidelines on the maximum number of offices a director or auditor can hold in other "significant companies" not belonging to the Italgas Group, in compliance with the provisions of the Code of Corporate Governance. Specifically, the Board of Directors has set the following limits and prohibitions.

For the CEO (and any other executive directors) of the company:

- no other post as executive director;
- maximum of one other office of non-executive director and/or auditor (and/or member of another control body), with exemptions permitted, of up to three offices in total, with the favourable opinion of the Board of Directors.

For non-executive directors of the company:

- a maximum of two other offices as executive director and five offices of non-

- executive director and/or auditor (and/or member of another control body); or
- a maximum of eight offices as non-executive director and/or auditor (and/or member of another control body); or

A “significant company” is any company, Italian or foreign, where at least one of the following qualifications exists:

- issuer company (in Italian or foreign regulated markets);
- company operating in the insurance, banking or financial sectors (e.g., asset management company, brokerage company);
- company with shareholders’ equity of more than €1 billion.

If the above limits indicated are exceeded, the director involved should promptly inform the Board of Directors, which shall evaluate the situation in light of the Company’s interest and ask the director to take the resulting decisions.

Consistent with the prohibition of interlocking directorate, laid down by criterion 2.C.5 of the Code of Corporate Governance, the CEO of Italgas cannot take on the position of member of the Board of Directors of another issuer company not belonging to the Italgas Group, where another member of the Board of Directors of Italgas is the CEO.

The directors in office at the date of the approval of this Report comply with the guidelines approved by the Board of Directors on the issue of the maximum number of offices.

Based on the declarations made by the directors, the following table lists the other important positions held by directors of the company pursuant to the Code of Corporate Governance and the relevant recommendations issued by the Board of Directors.

Director	Other important positions held
Lorenzo Bini Smaghi	<ul style="list-style-type: none"> Chairman of the Board of Directors of Société Générale Chairman of the Board of Directors of Chiantibanca - Credito Cooperativo Director of Tages Holding
Barbara Borra	<ul style="list-style-type: none"> Director of Brembo S.p.A. and Randstad Holding NV
Yunpeng He	<ul style="list-style-type: none"> Director of Terna S.p.A, Snam S.p.A and CDP Reti S.p.A
Paolo Mosa	<ul style="list-style-type: none"> CEO and director of Snam Rete Gas S.p.A.

d) Induction Programme

In 2016 the members of the Board of Directors and the Board of Statutory Auditors were able to be part of an induction programme promoted by the Chairman and approved by the Board of Directors, organised in two modules on the following subjects: the business plan of the Italgas Group; the judicial administration of Italgas Reti. The induction programme involved meetings held between September and November 2016.

4.3 ROLE OF THE BOARD OF DIRECTORS

a) Operation of the Board of Directors

In 2016 the Board of Directors met nine times, specifically:

- the Board of Directors in office until 4 August 2016 met 3 times, with each meeting lasting an average of twenty-eight minutes;
- the Board of Directors currently in office appointed on 4 August 2016 met six times, with each meeting lasting an average of 119 minutes;

The table in Annex 1 lists the attendance of each member at the Board of Directors' meetings in 2016.

For the current business year nine meetings of the Board of Directors are scheduled, including three which have already been held at the date of the approval of this Report. The Financial Calendar which can be consulted on the company's website (<http://www.italgas.it/media-relations/calendario-eventi/>) indicates the corporate events and dates of disclosure to the public of the economic-financial results which will be examined by the Board of Directors in 2017.

At the Board of Directors' meetings held in 2016, the members of the Board of Statutory Auditors attended frequently and the competent heads of company functions were regularly invited to attend meetings where the items on the agenda were relevant to them.

Board of Directors meetings are called by the Chairman or, in his absence or incapacity, by the Chief Executive Officer or, in his absence or incapacity, by the most senior director in age, when he deems it necessary or when requested in writing by at least two directors. The Board can meet through tele- or video conferencing, under the conditions set out in the By-Laws.

The meetings of the Board of Directors are presided over by the Chairman or, if they are absent or unable to do so, by the CEO, or, finally, if they are absent or unable to do so, by the eldest Board member.

The Chairman of the Board of Directors also ensures that directors have all the necessary information on the individual items on the agenda.

On 4 August 2016 the Board of Directors approved its own regulations (the "**Board Regulation**"), which governs the operation and organisation of Board meetings. This regulation also requires, among other things, at least five days' notice for calling meetings, except in urgent cases, and that the documentation on the agenda items is made available to directors and standing auditors within the same period - except in exceptional circumstances (e.g., if the documents contain price sensitive information). This documentation is usually made available to directors in a reserved area of the web which can be accessed remotely. In 2016 the minimum notice for calling meetings and sending important documentation was generally complied with. Pursuant to the provisions of the SGEL Shareholders' Agreement, the Board Regulation requires that the director appointed by SGEL, if and to the extent that said director is not independent pursuant to Article 148 of the TUF shall abstain, to the maximum extent permitted by law, from receiving information and/or documentation from Italgas in relation to matters on which there is a

conflict of interest for SGEL and/or any affiliated party, in relation to business opportunities in which Snam, on the one hand, and SGEL and/or an affiliated party, on the other, have an interest and may be in competition. In such an event, this director should promptly give written notice to the secretary to the Board and they cannot take part in the discussions of the Italgas Board of Directors concerning these matters. On the Board in office at the date of the approval of this Report there is one director appointed by SGEL who is not independent pursuant to Article 148 of the TUF.

b) Tasks of the Board of Directors

Pursuant to the By-Laws, the Board of Directors is vested with the widest-ranging powers for the routine and extraordinary management of the company and has the right to carry out all acts it deems appropriate for the implementation and achievement of the corporate purpose, with the sole exception of acts reserved by law or the By-Laws to the Shareholders' Meeting.

Additionally, pursuant to the By-Laws, the Board of Directors is responsible for resolving on the following matters:

- merger by incorporation of wholly-owned companies or at least 90%-owned and demerger in the same scenarios;
- institution, modification and elimination of secondary offices;
- the reduction in share capital when a shareholder withdraws;
- compliance of the By-Laws with regulatory provisions;
- the transfer of the registered office within Italy.

The Board of Directors can delegate assignments to one or more of its members determining the limits of the delegation pursuant to Article 2381 of the Civil Code and appointing the CEO. At the proposal of the Chairman, the Board of Directors, in agreement with the CEO, can confer powers for individual acts or categories of acts on other members of the Board of Directors.

The Board of Directors can always give directives to the CEO and recall transactions coming under its jurisdiction, in the same way as it can, at any time, revoke the proxies conferred, proceeding, in the case of the revocation of proxies conferred on the CEO, at the same time to appoint another CEO.

At the meeting of 4 August 2016, the Board of Directors reserved specific assignments pursuant to Article 2381 of the Civil Code for its exclusive area of responsibility, as well as those which cannot legally be delegated and those required by the Code of Corporate Governance. The list of these assignments reserved exclusively to the Board of Directors can be consulted on the company's website: http://www.italgas.it/up/italgas/Attribuzioni-riservate_CdA.pdf. Under the scope of these exclusive assignments, the Board of Directors, among other things, is expected:

- to define strategic guidelines and objectives for the company and the Group, including sustainability policies, at the recommendation of the CEO. In compliance with the Unbundling Regulation, the Board examines and approves the strategic, business and financial plans of the company and the Italgas Group, monitoring their implementation on an annual basis, as well as the Company's strategic agreements;

- reviewing and approving the budget of the Company and the group;
- defining the system and rules of corporate governance of the company and of the Italgas Group;
- on the recommendation of the CEO, it resolves on the transactions of the Company and its subsidiaries, in terms of the exercise of management and coordination activities, that have a significant strategic, economic, capital and financial importance for the Company and the Italgas Group. This is without prejudice, in each case, to compliance with the confidentiality obligations relating to the commercial relations between the subsidiary and the Company or third parties. Additionally, the activities and processes carried out by the Subsidiary Italgas Reti in relation to identifying natural gas distribution tenders in which to participate, and in relation to preparing the technical and financial bids for these tenders, are not discussed or subject to prior approval by Italgas' Board of Directors.

Pursuant to the resolution of the Board of Directors of 4 August 2016, the following are considered transactions of strategic, economic, capital and financial importance:

- acquisitions, disposals, sales, transfers of companies or business units (including rent and usufruct), real estate and/or equity investments worth more than €100 million;
- contracts for the sale of goods and/or services used for commercial and administration purposes by the Company and its subsidiaries for amounts greater than €1 billion and/or for a term of more than 15 years;
- contracts relating directly to the activities indicated in the corporate objective and/or relating to the day-to-day management of corporate activities worth over €100 million and/or with a duration of over 15 years;
- the stipulation, modification and termination of credit contracts for sums exceeding €2 billion and/or with a duration of over 15 years;
- the disbursement by the company and its subsidiaries of loans to third parties other than Italgas and its subsidiaries;
- sureties and other forms of personal guarantee, as well as letters of patronage, in relation to commitments assumed or to be assumed by companies in which the Company directly or indirectly holds an equity investment, for amounts greater than €100 million and in any event if the amount is not proportional to the investment held therein;
- sureties guaranteeing obligations assumed or to be assumed by the Company with third parties, worth over €100 million;
- the company's brokerage contracts.

Following the decision to adhere to the Code of Corporate Governance on 4 August 2016, at the same meeting and at subsequent meetings the Board adopted provisions aimed at adapting the corporate governance system, including the Internal Control and Risk Management System, to the executive principles and criteria of the Code of Corporate Governance (see Chapter 3 of this Report).

In 2016 the Board evaluated the general performance of operations, on the basis of the regular information from the CEO (see Chapter 4.4c) of this Report with regard to reporting to the Board).

On 20 December 2016, at the recommendation of the Appointments Committee, the

Board of Directors resolved to appoint the independent external consultant, Egon Zehnder, on a two-year contract, for board evaluation activities. The external consultant was appointed through a competitive procedure handled by the Legal & Corporate Affairs and Compliance Department, with the support of the Director of Human Resources & Organization.

In the months of January and February 2017 the board evaluation activities were directed at the size, operation and composition of the Board and its Committees with regard to the period between the appointment of the current Board in office and the end of the 2016 financial year. The board evaluation was conducted through questionnaires and structured interviews with each director as well as with the Chairman of the Board of Statutory Auditors, on specific subjects of interest and making comparisons with best practices.

At the end of the board evaluation, the external consultant expressed a positive opinion with regard to the Board's compliance with the provisions of the Code of Corporate Governance. The report of the external consultant also highlighted that the Board offers a solid governance foundation as far as the composition of the Board and the committees are concerned and clear positive development with regard to its operation, albeit in the limited amount of time the current Board has been in office.

The Shareholders' Meeting has not authorised, in general or as a preventive measure, any exemptions from the prohibition on competition pursuant to Article 2390 of the Italian Civil Code.

4.4 CEO, CHAIRMAN AND REPORTING TO THE BOARD

a) CEO

On 4 August 2016, the Italgas Board of Directors appointed Paolo Gallo as CEO, conferring on him all functions and powers, with the exclusion of those provided for otherwise by law and in the By-Laws and not reserved to the Board of Directors or the Chairman (see Chapter 4.3 of this Report).

With effect from the completion of the Italgas Separation Transaction, Paolo Gallo also took up the office of General Manager of Italgas, while on the same date Antonio Paccioretti took up the post of General Manager of Finance and Services.

There is no interlocking directorate in place, as defined in criterion 2.C.5 of the Code of Corporate Governance, in relation to the CEO.

The CEO also has the role of Director in Charge pursuant to the Code of Corporate Governance (see Chapter 11.2 of this Report).

Pursuant to the By-Laws, the CEO, as well as the Chairman, represents the company to any judicial or administrative authority and with regard to third parties, as well as having signing authority.

b) Chairman of the Board of Directors

The Italgas Ordinary Shareholders' Meeting of 4 August 2016 appointed Lorenzo Bini Smaghi as Chairman of the company's Board of Directors.

The Chairman is responsible for the tasks pursuant to the Civil Code, the By-Laws and the Code of Corporate Governance. Specifically, pursuant to Article 14.2 of the By-Laws, the Chairman:

- represents the Company to any judicial or administrative authority and with regard to third parties, as well as having signing authority;
- chairs Shareholders' Meetings, performing the duties provided for by law and by the Shareholders' Meeting Regulation;
- calls and presides over the Board of Directors' meetings and sets their agendas and coordinates the proceedings;
- ensures the directors are provided with adequate information on the items on the agenda.

The Chairman does not have executive powers and does not have a specific role in the development of corporate strategies.

The Chairman as well as the CEO, represents the company to any judicial or administrative authority and with regard to third parties, as well as having signing authority.

c) Reporting to the Board

In conformity with the By-Laws, in 2016 the CEO informed the Board of Directors and the Board of Statutory Auditors at Board meetings on the general performance, outlook, transactions of economic, financial and capital significance to the company and its subsidiaries.

The By-Laws also require that, at the meetings and at least on a quarterly basis, the Board of Directors and the Board of Statutory Auditors are informed, by the Chairman or any directors who are delegated the necessary powers, also with regard to transactions in which directors have an interest on their own account or that of third parties or are affected by a party that exercises management or coordination activities (where applicable).

4.5 OTHER EXECUTIVE DIRECTORS

With the exception of the CEO and General Manager, Paolo Gallo, there are no other members of the Board of Directors who qualify as executive directors pursuant to the Code of Corporate Governance.

4.6 INDEPENDENT DIRECTORS

The Board of Directors in office at the 2016 year-end date and as of today is composed of nine members, four of whom are independent pursuant to the requirements of independence pursuant to the Consolidated Finance Act (Article 147-ter, paragraph 4 and Article 148, paragraph 3 of the TUF) and the requirements of independence laid down by the Code of Corporate Governance (Article 3), specifically:

- Nicola Bedin, who also holds the posts of Chair of the Sustainability Committee and member of the Appointments Committee;
- Barbara Borra, who holds the posts of Chairman of the Remuneration Committee and member of the Control and Risks and Related-Party Transactions Committee;
- Cinzia Farisè, who holds the posts of Chairman of the Appointments Committee and member of the Control and Risks and Related-Party Transactions Committee;

- Paola Annamaria Petrone, who holds the posts of Chairman of the Control and Risks and Related-Party Committee and member of the Remuneration Committee;

The parties involved declared they were in possession of the requirements of independence at the time of appointment and this was confirmed by the Board of Directors at the first opportunity based on the criteria laid down in the Consolidated Finance Act and the Code of Corporate Governance. Following the outcome of the investigations made, Snam, which at the time was the parent company of Italgas, notified the market by issuing a press release. Additionally, the correct application of the verification criteria and procedures adopted by the Board to assess the independence of its members was verified by the Board of Statutory Auditors and the outcome was positive. The existence of the requirements of independence is also scrutinised regularly by the Board of Directors or when specific circumstances that could result in the loss of the requirements of independence of one or more directors occur.

The presence of a reasonable number of non-executive and independent directors is aimed at ensuring that suitably reasoned decisions are taken, (also) subject to examination by directors to define matters extraneous to the operations of Italgas and, among other things, remote from significant relations with both management and shareholders. The limited term of the 2016 financial year and the completion of the Italgas Separation Transaction have not allowed independent directors to hold a specific meeting without the other directors. However, it is expected that meetings of just independent directors will be held in 2017.

4.7 LEAD INDEPENDENT DIRECTOR

The Board of Directors of Italgas has not designated one of the independent directors as the lead independent director, not resorting to the pre-conditions which require this appointment to be mandatory pursuant to the Code of Corporate Governance.

4.8 REMUNERATION OF DIRECTORS (REFERENCES)

The Remuneration Report pursuant to Article 123-ter of the TUF, which was approved by the Board of Directors and will be made available to the public at the same time as the publication of this Report, describes the company's policies with regard to the remuneration of members of the Board of Directors, General Managers and Senior Managers with strategic responsibilities, gives the pay of members of the Board of Directors and Board of Statutory Auditors, General Managers and Senior Managers with strategic responsibilities and information on any agreements between the company and members of the Board of Directors that provide for indemnification in the event of dismissal or termination of employment without just cause or if their employment is terminated following a takeover bid.

5. Handling of company information and publication of quarterly financial information

5.1 MARKET ABUSE PROCEDURE

On 5 September 2016 the Board of Directors adopted a “market abuse procedure” (**“Market Abuse Procedure”**), based on a recommendation from the CEO. The Market Abuse Procedure describes the rules on the prevention of market abuse, pursuant to and in accordance with Article 114 of the TUF, (EU) Regulation 596/2014 and Directive 2014/57/EU, which the company and its related parties must comply with. The Market Abuse Procedure governs, among other things:

- the treatment, internal and intergroup management and disclosure to the outside of inside information, including keeping a register of persons who have access to inside information and the promotion of market surveys by the company;
- operations in shares or debt instruments issued by the company or derivative instruments or other associated financial instruments by certain parties holding a very senior position or persons closely related to them (internal dealing), including the obligations to abstain pertaining to these persons holding very senior positions and the Company (black-out periods).

The Market Abuse Procedure also applies with regard to other Italgas Group companies under the scope of the management and coordination activities exercised by Italgas. The Market Abuse Procedure can be consulted on the Italgas website: <http://www.italgas.it/governance/controllo-interno-compliance/procedura-market-abuse/>

5.2 PUBLICATION OF QUARTERLY FINANCIAL INFORMATION

Italgas has disclosed its intention to voluntarily publish financial information in addition to the Annual and Half-year Financial Reports, consistent with the development of the reference regulatory framework and taking into account the requirements of stakeholders. Specifically, in 2017 the Board of Directors will approve quarterly information with regard to at least the following indicators and publish it in a press release in accordance with the times scheduled in the financial calendar:

- key operating figures;
- total revenue;
- gross operating income for the period;
- operating income for the period;
- net result for the period;
- investments;
- free cash flow and change in the net financial debt.

The press release may also contain further qualitative and quantitative information to explain the development of the business properly. The financial calendar in force at the date of the approval of this Report can be consulted on the company’s website: <http://www.italgas.it/media-relations/calendario-eventi/>

6. Board Committees

Pursuant to Article 13.8 of the By-Laws the Board of Directors can set up internal committees for providing advice and recommendations on specific issues, appointing and, if necessary, removing members and the Chairman.

On 4 August 2016 the Board of Directors set up the following committees pursuant to the Code of Corporate Governance and approved the regulations governing the composition, tasks and operating methods:

- Appointments Committee;
- Remuneration Committee;
- Control, Risk and Related-Party Transactions Committee;
- Sustainability Committee.

The members of the Committees established in this way were appointed by the Board of Directors on 5 September 2016, in conformity with the applicable regulations and the recommendations of the Code of Corporate Governance.

As governed by the respective regulations, the Chairman of each committee calls and oversees the meetings and the meetings are quorate if the majority of members in office are present and the absolute majority of those present can take decisions, with the Chairman having the casting vote in the case of a tie. If the Chairman is absent or incapacitated, the most senior member of the committee present in terms of age chairs the meeting.

The committees have the right to access information and the necessary company functions to carry out their duties.

The Committees are also given the necessary financial resources by the Board of Directors to fulfil their tasks and, under the terms established from time to time by the Board of Directors, they can seek recourse to external consultants not in a position to compromise the independence of the opinion.

7. Appointments Committee

7.1 COMPOSITION AND OPERATION

Pursuant to the regulation, the Appointments Committee is composed of three non-executive members, two of whom must be independent as required pursuant to the Code of Corporate Governance.

The table below describes the members of the Committee, as appointed by the Board of Directors on 5 September 2016 in office until the date of the approval of this Report.

Member	Position
Cinzia Farisè - Chairman	Independent non-executive ⁽¹⁾
Nicola Bedin	Independent non-executive ⁽¹⁾
Maurizio Dainelli	Non-executive

⁽¹⁾ Independent pursuant to the TUF and the Code of Corporate Governance

Written minutes of the meeting are taken by the Head of the Legal and Corporate Affairs and Compliance Department, who acts as secretary and assists the Chairman in carrying out his/her duties.

The Chairman of the company and, for matters relevant to him/her, the Chairman of the Board of Statutory Auditors, or a standing auditor designated by the latter, can attend committee meetings. The CEO can also attend meetings and, at the invitation of the committee, other parties can attend to provide information and express an opinion on individual agenda items.

7.2 TASKS

Pursuant to the regulation, the Appointments Committee provides advice and recommendations to the Board of Directors, specifically:

- it proposes candidates to the Board for the office of director if the office of one or more directors is vacated during the period;
- at the recommendation of the CEO, with the approval of the Chairman, it submits candidates to the Board for the corporate bodies of the subsidiaries;
- it prepares and proposes:
 - procedures for the annual self-assessment of the Board and its Committees;
 - directives concerning limitations and restrictions on the number of positions that can be held by directors of Italgas and its Subsidiaries;
 - criteria for assessing both the requirements of professionalism and independence of the directors of Italgas and its Subsidiaries as well as competing activities performed.

The Committee reports to the Board of Directors:

- at the first meeting of the Board after each of its own meetings, with regard to subjects dealt with and the observations, recommendations and opinions formulated;
- at least every six months and by the deadline for approval of the annual and half-year financial report, at the meeting indicated by the Chairman of the Board of Directors, on the activities carried out.

The Head of Human Resources and Organisation takes part in meetings of the Appointments Committee relating to the proposal to the Board of candidates for the office of director and candidates for the corporate bodies of subsidiaries.

The Head of Legal and Corporate Affairs and Compliance is responsible for investigations relating to the annual self-assessment procedures of the Board and Committees, directives on the limits and prohibitions on the number of offices that can be held by directors of Italgas and its Subsidiaries and the criteria for assessing the professional and independence requirements that apply to directors of Italgas and its Subsidiaries and their competitive activities.

7.3 ACTIVITIES IN 2016

In 2016 the Appointments Committee carried out the following activities:

- it proposed the adoption of its guidelines to the Board of Directors with regard to the limits and prohibitions on the number of offices that can be held by members of the Board of Directors pursuant to the Code of Corporate Governance;
- it proposed, to the Board of Directors, the appointment of an external consultant for a two-year period for board evaluation activities;
- it proposed, to the Board of Directors, candidates for the Board of Directors of the subsidiaries Italgas Reti S.p.A. and Napoletanagas S.p.A. and it proposed the appointment of an advisor for identifying two independent directors to appoint when the administrative body of Italgas Reti S.p.A. is renewed.

The Appointments Committee met twice in 2016, with each meeting lasting, on average, fifty minutes. The table in Annex 1 lists the attendance of each member at the Appointments Committee meetings in 2016. In addition to the Chairman of the Board of Directors, depending on the subject matters, the CEO and the Head of Human Resources and Organisation also attended the meetings.

Pursuant to the regulation, the Appointments Committee meets with the necessary frequency to carry out its activities. In the current business year and until the date of the approval of this Report, two meetings of the Appointments Committee have already been held.

The Appointments Committee Regulations can be consulted on the company website: http://www.italgas.it/up/italgas/ITGH_Regolamento-Comitato-Nomine.pdf

8. Remuneration Committee

8.1 COMPOSITION AND OPERATION

Pursuant to the regulation, the Remuneration Committee is composed of three non-executive members, all of whom must be independent as required by the Code of Corporate Governance. Alternatively, the Committee can be composed of three non-executive members, two of whom must be independent as laid down by the Code of Corporate Governance, including the Chairman. At least one member of the Committee holds adequate knowledge and experience in financial matters or remuneration policies, as assessed by the Board of Directors at the time of the appointment. The table below describes the members of the Remuneration Committee, as appointed by the Board of Directors on 5 September 2016 in office until the date of the approval of this Report.

Member	Position
Barbara Borra - Chairman	Independent non-executive ⁽¹⁾
Maurizio Dainelli	Non-executive
Paola Annamaria Petrone	Independent non-executive ⁽¹⁾

⁽¹⁾ Independent pursuant to the TUF and the Code of Corporate Governance.

At the meeting on 5 September 2016, the Board of Directors acknowledged that Barbara Borra possesses adequate knowledge and experience in financial matters and remuneration policies, as required by the Code of Corporate Governance for at least one member of the Committee. Written minutes of the meeting are taken by the Head of Human Resources and Organisation, who acts as secretary and assists the Chairman in carrying out his/her duties. No director takes part in the meetings of the Remuneration Committee at which proposals to the Board are submitted in relation to their own remuneration. The Chairman of the Board of Statutory Auditors or a standing auditor designated by the latter can attend meetings of the Remuneration Committee. Other parties can also attend meetings, at the invitation of the committee, to provide information and express an opinion on individual agenda items.

8.2 TASKS

Pursuant to the regulation, the Remuneration Committee provides advice and recommendations to the Board of Directors, specifically:

- it submits the Remuneration Report for the approval of the Board of Directors, with particular regard to the Remuneration Policy for directors and managers with strategic responsibilities, so that it may be presented to the Shareholders' Meeting;
- it reviews the vote on the Remuneration Report taken by the Shareholders' Meeting in the previous financial year and expresses an opinion to the Board of Directors;
- it prepares proposals regarding the remuneration of the Chairman and the Chief Executive Officer, with regard to the various forms of compensation and economic treatment;
- it makes proposals concerning the compensation of members of the committees;
- to examine information reported by the Chief Executive Officer regarding:
 - the general criteria for the remuneration of managers with strategic responsibilities;

- general guidelines for the remuneration of other managers of the company and its subsidiaries;
- annual and long-term incentive plans, including share-based plans;
- it examines the proposals of the CEO regarding the definition of performance targets, the aggregation of company results; it proposes the definition of claw-back clauses related to the implementation of incentive plans and the determination of the variable remuneration of directors with powers;
- it proposes the definition, in relation to directors with powers, of:
 - the indemnification to be paid in the event of termination of their employment;
 - non-compete agreements;
- to monitor the application of the decisions taken by the Board; it periodically evaluates the adequacy, overall consistency and practical application of the remuneration policy for directors and managers with strategic responsibilities, submitting proposals to the Board on the subject;
- it performs any duties that may be required by the procedure concerning related-party transactions carried out by the company (the Italgas Related-Party Transactions Procedure);
- it reports on the exercising of its functions to the Shareholders' Meeting called for the approval of the financial statements.

The Remuneration Committee reports to the Board of Directors:

- at the first meeting of the Board after each of its own meetings, with regard to subjects dealt with and the observations, recommendations and opinions formulated;
- at least every six months and before the deadline for approval of the annual and half-year financial report, at the meeting indicated by the Chairman of the Board of Directors, on the activities carried out.

8.3 ACTIVITIES IN 2016

In 2016 the activities of the Remuneration Committee were focused on the definition of the remuneration policy for the Chairman, the CEO, the directors specifically, on account of their participation in the committees and preparation of the guidelines for the remuneration policy for senior managers with strategic responsibilities.

The Remuneration Committee met three times in 2016, with each meeting lasting, on average, 75 minutes. The table in Annex 1 lists the attendance of each member at the Remuneration Committee meetings in 2016. The Chairman of the Board of Statutory Auditors, occasionally accompanied by other members of the Board of Statutory Auditors regularly attended the Remuneration Committee meetings.

Five meetings are scheduled for the current business year, three of which have already been held at the date of the approval of this Report. Pursuant to the regulation, the Remuneration Committee meets with the necessary frequency to carry out its activities, usually four times a year.

Under the scope of its activities relating to the remuneration policy for the CEO, the Remuneration Committee enlisted the help of independent advisors.

The Remuneration Committee Regulations can be consulted on the company website: http://www.italgas.it/up/italgas/ITGH_Regolamento-Comitato-per-la-Remunerazione.pdf

9. Control and Risks and Related-Party Transactions Committee

9.1 COMPOSITION AND OPERATION

Pursuant to the regulation, the Control and Risks and Related-Party Transactions Committee is composed of three non-executive members, all of whom must be independent as required by the Code of Corporate Governance. At least one member of the Control and Risks and Related-Party Transactions Committee must have adequate experience in accounting and financial matters or risk management, assessed by the Board of Directors at the time of appointment.

The table below describes the members of the Control and Risks and Related-Party Transactions Committee, as appointed by the Board of Directors on 5 September 2016 in office until the date of the approval of this Report.

Member	Position
Paola Annamaria Petrone - Chairman	Independent non-executive ⁽¹⁾
Barbara Borra	Independent non-executive ⁽¹⁾
Cinzia Farisè	Independent non-executive ⁽¹⁾

⁽¹⁾ Independent pursuant to the TUF and the Code of Corporate Governance

At the meeting on 5 September 2016, the Board of Directors verified that at least one member of the Committee possesses adequate experience in accounting and financial matters and risk management, as required by the Code of Corporate Governance.

Written minutes of the meeting are taken by the Internal Audit Manager who acts as secretary and assists the Chairman in carrying out his/her duties.

In addition to members of the Board of Statutory Auditors, the following can attend meetings of the Control and Risks and Related-Party Transactions Committee at its invitation:

- the Chairman and the Director in Charge;
- other parties in order to provide information and express opinions with regard to individual items on the agenda.

9.2 TASKS

The Control and Risks and Related-Party Transactions Committee makes proposals and provides advice to the Board to support decisions concerning the Internal Control and Risk Management System, as well those relating to the approval of financial reports. In particular, the Committee has the following functions:

- it evaluates, together with the CFO and having consulted the Independent Auditors and the Board of Statutory Auditors, the proper use of accounting standards and their consistency for the purpose of preparing the consolidated financial statements;
- it expresses opinions on specific aspects involving the identification of the main risks to the Company;

- it carries out further tasks assigned to it pursuant to the Italgas Related-Party Transactions Procedure;
- it examines the periodic reports relating to the evaluation of the Internal Control and Risk Management System, as well as those of particular importance prepared by the Internal Audit Manager;
- it monitors the independence, suitability, effectiveness and efficiency of the Internal Audit Department;
- it may ask the Internal Audit Manager to carry out inspections of specific operational areas, giving notice thereof to the Chairman of the Board of Statutory Auditors, the Chairman of the Board of Directors and the Director in charge;
- it expresses a binding opinion on the proposals made by the Director in Charge, in agreement with the Chairman, to the Board of Directors regarding the appointment, dismissal and remuneration of the Internal Audit Manager, aimed at ensuring that this individual has the appropriate skills and resources;
- it supports, making suitable enquiries, the assessments and decisions of the Board of Directors regarding the management of risks resulting from prejudicial events that have come to the knowledge of the Board of Directors or which the Committee has brought to the attention of the Board of Directors.

The Control and Risks and Related-Party Transactions Committee expresses its opinion to the Board of Directors for the purpose of:

- defining the guidelines of the Internal Control and Risk Management System;
- periodically evaluating, at least annually, the adequacy and effectiveness of the Internal Control and Risk Management System with respect to the characteristics of the company and the risk profile it has adopted;
- periodically approving, at least once a year, the audit schedule prepared by the Internal Audit Manager;
- describing, in the Report the main features of the Internal Control and Risk Management System as well as evaluating the adequacy of the system;
- evaluating the conclusions presented by the Independent Auditors in any suggestion letters and in the report on key matters arising from the external audit.

The Control and Risks and Related-Party Transactions Committee reports to the Board of Directors:

- at the first meeting of the Board after each of its own meetings, with regard to subjects dealt with and the observations, recommendations and opinions formulated;
- at least every six months and by the deadline for approval of the annual and half-year financial report, at the meeting indicated by the Chairman of the Board of Directors, on the activities carried out and the adequacy of the internal control and risk management system.

The Control and Risks and Related-Party Transactions Committee constitutes part of an integrated system of internal controls and risk management for Italgas. In this sense, the regulation establishes specific information flows between the committee and other bodies and functions with specific tasks with regard to internal controls and risk management.

9.3 ACTIVITIES IN 2016

The Control and Risks and Related-Party Transactions Committee carried out the following activities in 2016:

- analysis of the Regulation approved by the Board of Directors;
- examination of the candidates proposed by the company for members of the Watch Structure;
- analysis of the Enterprise Management System (“ERM”) applied by the company;
- activities involving the Internal Audit Manager and the Internal Audit function, specifically:
 - examination of the “*Board of Directors’ guidelines on internal audit activities*”;
 - examination prior to the appointment of the Internal Audit Manager and the definition of the fixed and variable components of remuneration by the Board of Directors;
 - analysis of the activities conducted by Internal Audit, the methods used and the information flows consistent with the indications in the “*Board of Directors’ guidelines on internal audit activities*”;
 - examination of the results of the Quality Assurance Review of the Internal Audit function;
 - analysis of the proposed audit plan for 2017 prepared by Internal Audit;

In 2016 the Control and Risks and Related-Party Transactions Committee met twice, with each meeting lasting, on average, 83 minutes. The table in Annex 1 lists the attendance of each member at the Control and Risks and Related-Party Transactions Committee meetings in 2016. During 2016, external parties attended meetings of the Control and Risks and Related-Party Transactions Committee at the invitation of the committee, in order to provide information and explanations, as well as the Chairman of the Board of Statutory Auditors and/or other statutory auditors who routinely attended.

Pursuant to the regulation, the Control and Risks and Related-Party Transactions Committee meets with the necessary frequency to carry out its activities, at least quarterly. Seven meetings are scheduled for the current business year, three of which have already been held at the date of the approval of this Report.

The Committee reports regularly on its activities to the Board of Directors at the first appropriate meeting, as required by the Code of Corporate Governance.

The Regulation of the Control and Risks and Related-Party Transactions Committee can be consulted on the company website:

http://www.italgas.it/up/italgas/ITGH_Regolamento-Comitato-Controllo-e-Rischi.pdf

10. Sustainability Committee

10.1 COMPOSITION AND OPERATION

Pursuant to the regulation, the Sustainability Committee is composed of three non-executive members.

The table below describes the members of the committee, as appointed by the Board of Directors on 5 September 2016 and in office until the date of the approval of this Report.

Member	Position
Nicola Bedin - Chairman	Independent non-executive ⁽¹⁾
Yunpeng He	Non-executive
Paolo Mosa	Non-executive

⁽¹⁾ Independent pursuant to the TUF and the Code of Corporate Governance.

Written minutes of the meeting are taken by the Head of the Corporate Affairs and Governance Department, who acts as secretary and assists the Chairman in carrying out his/her duties.

The Chairman of the company, the CEO, the Chairman of the Board of Statutory Auditors or a Standing Auditor designated by the latter are invited to attend meetings of the Sustainability Committee. Other parties who are not members of the committee can attend meetings, at the invitation of the Committee, to provide information and express an opinion on individual agenda items. Additionally, preliminary investigation activities for sustainability issues that the Committee is responsible for are taken care of by the competent function for sustainability, which attends the Committee meetings.

10.2 TASKS

The Committee carries out proposal and consultation functions with regard to the Board of Directors on matters of sustainability, understood as the processes, initiatives and activities intended to oversee the commitment of the Company to sustainable development along the value chain. Specifically, the Committee:

- examines and evaluates:
 - the sustainability policies aimed at ensuring the creation of value over time for shareholders and for all other stakeholders in the medium-/long-term with regard to the principles of sustainable development;
 - the guidelines, objectives and consequent processes, of sustainability and the sustainability reporting submitted annually to the Board of Directors;
- monitors the positioning of the Company with regard to financial markets involving sustainability, with special reference to the placement of the Company on the ethical sustainability indices;
- monitors national and international initiatives with regard to sustainability and the participation of the company in them, aimed at consolidating corporate reputation internationally;
- examines any sustainability initiatives in agreements submitted to the Board of Directors, also with regard to the subject of climate change;

- examines the profit and non-profit strategy, as well as the gas advocacy of the Company;
- expresses, at the request of the Board, an opinion on other matters regarding sustainability;

The Committee reports to the Board of Directors:

- at the first meeting of the Board after each of its own meetings, with regard to subjects dealt with and the observations, recommendations and opinions formulated;
- at least every six months and before the deadline for approval of the annual and half-year financial report, at the meeting indicated by the Chairman of the Board of Directors, on the activities carried out.

10.3 ACTIVITIES IN 2016

The Sustainability Committee did not meet in 2016.

Pursuant to the regulation, the Control and Risks and Related-Party Transactions Committee meets with the necessary frequency to carry out its activities, at least quarterly. In the current business year and until the date of the approval of this Report, three meetings of the Sustainability Committee have already been held.

The Sustainability Committee Regulations can be consulted on the company website: http://www.italgas.it/up/italgas/All.G_ITGH_Bozza-Regolamento-Comitato-Sostenibilita%CC%80-di-ITG-1.pdf

11. Internal Control and Risk Management System

11.1 INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

a) Adoption of the Internal Control and Risk Management System

Following the decision to adhere to the Code of Corporate Governance on 4 August 2016 the Board of Directors, with the support of the Control and Risks and Related-Party Transactions Committee, adopted its own Internal Control and Risk Management System, understood as a set of rules, procedures and organisation structures for Italgas aimed at allowing the identification, measurement, management and monitoring of the main risks. In this context, as well as for the purpose of implementing the provisions of the Code of Corporate Governance, on 1 December 2016 Italgas created an Enterprise Risk Management function (“ERM”), reporting directly to the General Manager of Finance and Services, with the task of drawing up a methodology for identifying, measuring, managing and monitoring the main corporate risks (until the effective date of the Separation Transaction of Italgas, the company and the subsidiaries under the scope of application of the Internal Control and Management System of the Snam Group).

The Internal Control and Risk Management System involves:

- the **Board of Directors**, which performs a guiding role and (having heard the opinion of the Control and Risks and Related-Party Transactions Committee) evaluates, at least once a year, the adequacy and effectiveness of the internal control and risk management system with regard to the characteristics of the Company and the Group and the risk profile adopted;
- the **CEO** identified by the Board as the “*director in charge of the internal control and risk management system*”, pursuant to the Code of Corporate Governance, who is required to establish and maintain an effective internal control and risk management system, in accordance with the corporate and procedural objectives, and is also responsible for ensuring that the risk management procedures correspond to the containment plans defined;
- the **Control and Risks and Related-Party Transactions Committee**, established within the Board with the task of making suitable enquiries to support assessments and decisions made by the Board of Directors concerning the Internal Control and Risk Management System, as well as those relating to the approval of financial reports;
- the **Board of Statutory Auditors**, also in its capacity as the “*Internal Control and Audit Committee*” pursuant to Legislative Decree 39 of 27 January 2010, which oversees the effectiveness of the internal control and risk management system;
- the **Head of the Internal Audit Function**, responsible for ensuring the functionality and adequacy of the internal control and risk management system;
- the **other corporate functions and roles with specific duties regarding internal control and risk management**, structured according to the size, complexity and risk profile of the company;

The guiding principles on which the Internal Control and Risk Management System is based, as defined by the Board of Directors in the Code of Ethics approved on 18 October 2016, are:

- the separation of activities between persons responsible for authorisation, executive or control procedures;
- the existence of company regulations that can provide general benchmark principles for governing corporate processes and activities (specifically a Regulatory System);
- the existence of formal rules for the exercise of signatory powers and internal powers of authorisation;
- traceability (guaranteed through the adoption of information systems that can identify and reconstruct sources, information and checks carried out in support of the formation and implementation of the Company's decisions and financial resources management procedures).

The Internal Control and Risk Management System is updated regularly by the Director in Charge and the Board of Directors, with the support of the Control and Risks and Related-Party Transactions Committee, under their respective spheres of responsibility, in order to guarantee constant suitability to oversee the main risk areas of business activities.

b) Breakdown of the Internal Control and Risk Management System

The Italgas Internal Control and Risk Management System is based on an integrated control model with the identification of the tasks of each body and function involved and concrete coordination procedures between them, as specifically governed in the precise rules and procedures that are part of the Internal Control and Risk Management System.

Management is primarily responsible for applying the Control and Risk Management System since control activities are an integral part of managerial processes.

Management must therefore foster an atmosphere that is actively orientated towards control and, in particular, oversee "line controls", which are all the control activities that the individual operating units or companies carry out on their processes.

Specifically, Italgas' risk management system comprises the following three levels of internal control:

Level One:	Identification, evaluation and monitoring of risks inherent to the individual Group processes. The Italgas Group departments that bear the individual risks, and are responsible for identifying, measuring and managing them as well as for implementing the necessary controls, are located at this level.
Level Two:	Monitoring of the main risks to ensure that they are effectively and efficiently managed and processed, and monitoring of the adequacy and functioning of the controls put in place to protect against these risks; support for Level One in defining and implementing adequate management systems for the main risks and related controls. This level contains Italgas Group personnel charged with coordinating and managing the main control systems (corporate administrative responsibility, disclosure, anti-corruption, anti-trust).
Level Three:	independent and objective verification of the operating effectiveness and adequacy of Levels One and Two, and in general of the overall risk management methods. This is carried out by the Internal Audit function, whose activities are directed and guided by the Guidelines approved by the Board of Directors.

c) Italgas Enterprise Risk Management

The ERM system adopted by Italgas uses existing international best practices as a benchmark (specifically the COSO framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission, and ISO 31000) and makes it possible to identify, measure, manage and monitor the main risks starting from the analysis of company processes as governed by the Corporate System Framework.

The methodology adopted involves an integrated, transverse and dynamic evaluation of the enterprise risks, in tune with the existing specific risk assessment systems (health and safety, financial, corporate information, etc.). Specifically, risk measurement is aimed, through scales for classifying probabilities and impacts concerning both quantitative aspects (e.g. economic and financial impacts) and more qualitative and intangible aspects (e.g., impacts relating to reputation). Management strategies are identified for all risks, as well as any mitigation measures and a time frame for their implementation.

The risk assessment is dynamic and regularly reviewed according to the prioritisation of the risks and it is at least once a year for low-priority risks.

The mapping of the risks and management interventions is regularly presented to the Control and Risks and Related-Party Transactions Committee, the Board of Statutory Auditors and the Watch Structure of Italgas and its subsidiaries for the assessments they are responsible for.

The third level of control (i.e. the Internal Audit function), which also makes use of the assessments of the ERM risks for the preparation of the annual audit plan and for risk-based planning of audit interventions.

d) Principal characteristics of the existing risk management and internal control systems in the financial reporting process

The internal control and risk management system and the corporate reporting process of the Italgas Group are elements of the same "System" (the "**Corporate Reporting Internal Control System**" or "**SCIS**"), which aims to ensure the reliability, accuracy, dependability and timeliness of corporate disclosure with regard to financial reporting and the ability of the relevant business processes to produce this information in keeping with generally accepted accounting standards.

The reporting in question consists of all data and information contained in the periodic accounting documents, including consolidated, required by applicable regulations (the annual financial report, the half-year financial report, as well as the interim directors' report) as well as in any other accounting document or external communication (such as press releases and prospectuses prepared for specific transactions) covered by the statements provided for by Article 154- *bis* of the TUF. This reporting includes both financial and non-financial data and information, where the latter aims to describe significant aspects of the business, comment on the financial results for the year and/or describe future prospects.

Italgas has adopted a body of rules that defines the regulations, methodologies, roles and responsibilities for designing, establishing, maintaining and assessing the effectiveness of the Group's Corporate Reporting Control System, which applies to Italgas and its subsidiaries, taking into account their significance.

The internal control and risk management model adopted by Italgas and its subsidiaries with regard to corporate reporting was defined in accordance with

the provisions of the above-mentioned Article 154-*bis* of the TUF and is based, in methodological terms, on the “COSO Framework” (“Internal Control – Integrated Framework”, issued by the Committee of Sponsoring Organisations of the Treadway Commission), the international reference model for the establishment, updating, analysis and assessment of the internal control system, for which an update was published in May 2013.

The planning, institution and maintenance of the Corporate Reporting Internal Control System are achieved through the activities of scoping, identifying and assessing the risks and controls (at the business level and process level through the activities of risk assessment and monitoring) and the related information flows (reporting).

The control system structure provides for entity-level controls, which apply across the entire entity in question (group/individual company), and process-level controls. The latter are subdivided into:

- specific controls aimed at preventing, identifying and correcting errors or irregularities occurring during the execution of operative activities (process-level controls);
- pervasive controls to define a general context that promotes the correct execution and control of operating activities. Pervasive controls include those related to the segregation of duties and IT general controls.

The controls, both at the entity level and process level, are subject to regular evaluation (monitoring) to verify the adequacy of the design and actual operability over time. To this end, ongoing monitoring activities have been entrusted to the management responsible for significant processes/activities, and separate evaluations have been entrusted to the Internal Auditor, who operates in accordance with a plan agreed with the CFO that aims to define the scope and objectives of their actions via agreed audit procedures.

Italgas’ Board of Directors also appointed independent auditors Ernst & Young S.p.A. to examine the adequacy of the internal control system in relation to the preparation of financial information for the production of the separate and consolidated financial statements of Italgas S.p.A., by conducting independent checks on the effectiveness of the design and functionality of the control system.

The results of the monitoring activities, the checks made on the controls and any other information or situations relevant to the Corporate Reporting Internal Control System are subject to periodic reporting on the state of the control system, which involves all levels of the organisational structure of Italgas and its major subsidiaries, including operational business managers, heads of department, administrative managers and chief executive officers.

The assessments of all controls instituted within Italgas and its subsidiaries are brought to the attention of the Chief Financial Officer, who, on the basis of this information, draws up half-yearly and annual reports on the adequacy and effective application of the Corporate Reporting Internal Control System. These are shared with the Chief Executive Officer and communicated to the Board of Directors, after informing the Control and Risks and Related-Party Transactions Committee and the Board of Statutory Auditors, when the separate and consolidated financial statements, and the consolidated half-year report, are approved, to allow the Board of Directors to perform

its supervisory functions and to conduct the assessments that fall to its responsibility with regard to the Corporate Reporting Internal Control System.

11.2 DIRECTOR IN CHARGE

On 4 August 2016, the Italgas Board of Directors identified the Chief Executive Officer as the “*director in charge of the internal control and risk management system*”, pursuant to the Code of Corporate Governance. In this context, the CEO is assigned the tasks and powers pursuant to the Code of Corporate Governance.

The Director in Charge of the internal control and risk management system reports any issues and problems arising during the performance of his/her duties or brought to his/her attention to the Control and Risks and Related-Party Transactions Committee in good time.

11.3 INTERNAL AUDIT MANAGER

On 26 January 2017 the Board of Directors confirmed Silvio Bianchi as Internal Audit Manager for Italgas and the Group, who had held the post of Internal Audit Manager of the Italgas Group and Snam in 2016.

The Internal Audit Manager is appointed and removed by the Board of Directors, following the favourable opinion of the Control and Risks and Related-Party Transactions Committee and having consulted with the Board of Statutory Auditors, on the recommendation of the Director in Charge, in agreement with the Chairman of the Board of Director. The appointment of the Internal Audit Manager is open-ended. At least once during the term of office determined by the Shareholders’ Meeting, the Board of Directors assesses whether the Internal Audit Manager should be confirmed in the role, based *inter alia* on rotation criteria.

The role, duties and responsibilities of the Internal Audit Manager are defined and formalised by the Board of Directors within the “*Internal Audit Guidelines*” (or “*Guidelines*”) approved at the meeting on 20 December 2016. At the same meeting, the Board of Directors approved the Audit Plan of Italgas and its subsidiaries as well as the budget for 2017. The Internal Audit Plan relating to Italgas and the Italgas Group, approved by the Snam Board of Directors, was completed in 2016.

The remuneration of the Internal Audit Manager is approved by the Board of Directors, at the proposal of the director in charge of the internal control and risk management system, in agreement with the Chairman of the Board of Directors, in line with corporate policies and following a favourable opinion from the Control and Risks and Related-Parties Committee. The proposal is also subject to examination by the Remuneration Committee as it comes under its area of responsibility.

The Internal Audit Manager, within the organisational structure that reports to the CEO, carries out audit activities both with regard to the company and its subsidiaries, totally independently, in accordance with the instructions of the Board of Directors and consistent with the application criteria of the Code of Corporate Governance. The Control and Risks and Related-Party Transactions Committee supervises the activities of the Internal Audit Manager.

The Internal Audit Manager performs his activities while maintaining the necessary independence and due objectivity, competence and professional diligence, as laid down in the International Standards for the Professional Practice of Internal Auditing and in the Code of Ethics issued by the Institute of Internal Auditors², and in compliance with the principles laid down in the Italgas Code of Ethics. As part of the process of approving the audit schedule, once a year the Board of Directors approves the budget required for the Internal Audit department to fulfil its responsibilities. The Guidelines stipulate that the Internal Audit Manager shall have autonomous spending powers in order to scrutinise, analyse and assess the internal control and risk management system and/or perform related activities, and that the Internal Audit Manager, in exceptional and urgent situations that require the availability of funds exceeding the budget, may propose that the Board of Directors approve the extra budget of the Internal Audit department so that it may carry out the duties assigned to it.

The Internal Audit Manager:

- verifies, both on a continual basis and in relation to specific requirements, in compliance with international standards, the functioning and suitability of the internal control and risk management system via an audit schedule, approved by the Board of Directors;
- is not responsible for any particular operational area, and has direct access to all information that is useful for carrying out his duties;
- prepares regular reports containing adequate information on its activity, the methods through which risk management is conducted, as well as the compliance of the plans made for their containment; the regular reports contain an evaluation of the suitability of the internal control and risk management system;
- prepares timely reports on events of particular importance;
- submits the reports to the Chairpersons of the Board of Statutory Auditors, the Control and Risks and Related-Party Transactions Committee and the Board of Directors, as well as to the director in charge of the internal control and risk management system;
- verifies, in the context of the audit schedule, the reliability of the IT systems used, including the accounting systems.

The director in charge of the internal control and risk management system may request that the Internal Auditor perform checks on specific operational areas and on compliance with internal rules and procedures in the execution of corporate transactions, informing the Chairpersons of the Board of Directors, the Control and Risks and Related-Party Transactions Committee and the Board of Statutory Auditors of said request. In accordance with the Guidelines, the Head of Internal Audit implements other audit measures not in the Audit Plan based on requests also coming from:

- the Board of Directors;
- the Control and Risks and Related-Party Transactions Committee and the Board of Statutory Auditors, with reciprocal communication;

² The international standards for the professional practice of the Internal Audit are available at the following address: http://www.unesco.org/new/fileadmin/MULTIMEDIA/HQ/IOS/temp/IPPF_Standards%20ENG.pdf.

- the Chairman of the Board of Directors and the director in charge of the internal control and risk management system, with communication to the Control and Risks and Related-Party Transactions Committee and the Board of Statutory Auditors;
- the Watch Structure.

Additionally, Internal Audit performs other tasks assigned to it pursuant to the procedures adopted by Italgas, including the activities laid down by Model 231 in order to ensure the necessary support for the Watch Structure, the independent monitoring activities required by the Corporate Reporting Internal Control System, supporting the CFO, organising and overseeing the management of the reporting channels (including anonymously), pursuant to the reporting procedure (see Chapter 17 of this Report). In 2016, the Internal Audit department performed its scheduled activities relating to the Italgas Group, as expected. Specifically, these were:

- drawing up the 2017 draft audit plan based on the identification and prioritisation of the main risks facing the company, carried out by the Snam ERM unit;
- executing the audit interventions in the 2016 audit plan;
- performing the independent-monitoring programme drawn up with the CFO as part of Snam's Corporate Reporting Control System;
- managing the channels used to provide notification, anonymous or otherwise, of problems relating to the internal control and risk management system, to corporate administrative responsibility, to irregularities or to fraud (whistleblowing);
- activities involving relations with the independent auditors, with special reference to overseeing the process for the allocation of appointments and ensuring there are no grounds for incompatibility.

Additionally, in 2016:

- the Head of Internal Audit, verified, in the context of the 2016 audit plan, the reliability of the IT systems used, including the accounting systems of the Italgas Group;
- following the specific appointment of a leading specialist independent company, a Quality Assurance Review (QAR) of the Internal Audit function, which is conducted every 5 years under the international standards issued by the Institute of Internal Auditors, was carried out; the analysis revealed full compliance of the practices adopted by the Internal Audit function with the international audit standards.

11.4 ITALGAS REGULATORY SYSTEM

The Italgas Group adopted its own "Regulatory System", which breaks down into three hierarchical levels:

- level one: Corporate System Framework;
- level two: procedures;
- level three: operating instructions.

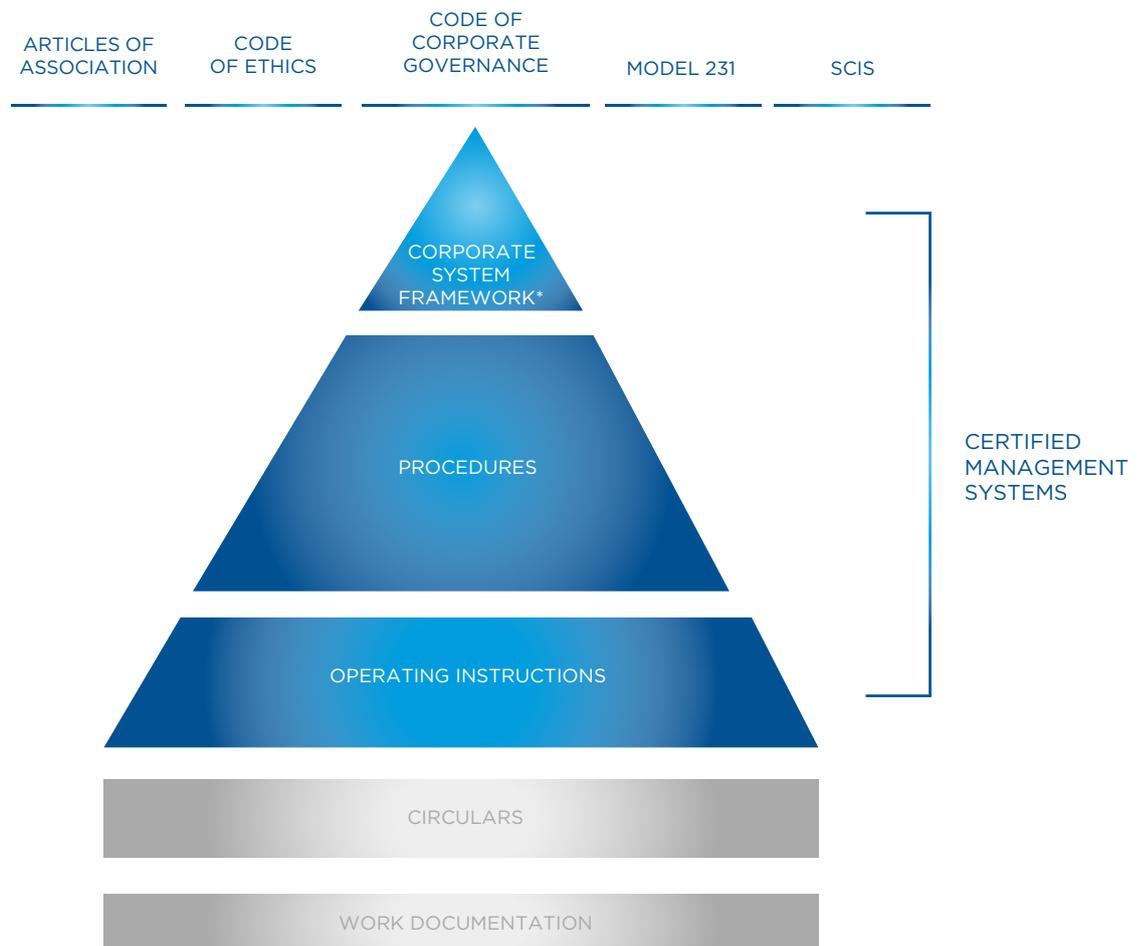
The Regulatory System also includes, as an integral part, the documents from the certified

management systems regarding health, safety, the environment and quality (HSEQ):

- policies and manuals (level one);
- operating procedures and instructions (levels two and three).

Lastly, there are circulars governing specific subjects.

The By-Laws, Code of Ethics, Code of Corporate Governance, Model 231 and the Corporate Reporting Internal Control System (or SCIS) are within the general reference framework of the Regulatory System, because, as they are specific instruments, the inspiring principles are recognised as the underlying principles of the behaviour of the Italgas Group and, therefore, part of the general reference framework of the entire Regulatory System. Additionally, the Code of Ethics and Model 231 specifically constitute references of the Corporate System Framework, which describes the organisational and governance model, the corporate management system and the operation of Italgas and its subsidiaries. The Anti-trust Code, the Anti-corruption Procedure and the Reporting Procedure adopted by the Company constitute part of the “Regulatory System” (see Chapter 17 of this Report).



* The top of the regulatory pyramid also includes policies and manuals issued within the HSEQ Management Systems

11.5 INDEPENDENT AUDITORS

In conformity with applicable regulations, on 4 August 2016 the Ordinary Shareholders' Meeting, based on a reasoned proposal from the Board of Statutory Auditors, appointed Ernst & Young S.p.A. as the independent auditors to carry out the statutory audit for 2016-2024 from the date the application for admission to trading was filed with Borsa Italiana (which took place on 12 September 2016), establishing their fees.

11.6 CHIEF FINANCIAL OFFICER

The Board of Directors appointed the Chief Financial Officer, on the recommendation of the CEO, in agreement with the Chairman, following the favourable opinion of the Board of Statutory Auditors.

The CFO may not be a member of the administrative or control bodies, or hold senior management positions, at Eni S.p.A. and its Subsidiaries, nor may they have any direct or indirect professional or financial relationship with said companies. Further subjective requirements are set out for the post of CFO in Article 16.4 of the By-Laws.

The Board of Directors must ensure that the CFO has the necessary powers and means to perform their duties and that they comply with administrative and accounting procedures. On 18 October 2016 the Italgas Board of Directors, on the recommendation of the CEO, in agreement with the Chairman and following the favourable opinion of the Board of Statutory Auditors, appointed Claudio Ottaviano as CFO.

11.7 OTHER CORPORATE ROLES AND FUNCTIONS

In addition to the bodies and functions described previously, the following organisational structures carry out specific tasks with regard to internal control and risk management under the scope of the Italgas and Italgas Group Internal Control and Risk Management System:

a) Legal and Corporate Affairs and Compliance, which, among other things, carries out the following tasks:

- ensures the management and coordination for Human Resources & Organization area activities, defining the Group guidelines;
- guarantees, in conjunction with all corporate functions, that the organisation, corporate processes, size of the headcount and expertise of the human resources responds to the corporate strategic business and development requirements;
- oversees the operation of corporate bodies, agencies and committees, the corporate secretarial activities and the conferral/revoking of powers;
- oversees the updating of corporate standards and principles and their compliance with applicable laws, regulations and provisions, as well as connecting, coordinating and controlling compliance activities;
- oversees the identification, monitoring and analysis of the legislative and regulatory provisions of interest to the Italgas Group, as well as national case-law;

- promotes, in conjunction with the *Human Resources & Organization* department, the creation of a corporate culture relating to regulations of corporate interest as well as with regard to compliance, supporting their dissemination;
- ensures legal support for all corporate functions;
- oversees the definition of the criteria and instruments for recourse to external advice on legal, corporate and compliance issues and the valuation of the contributions provided, conferring the appointments.

b) Finance and Services, which, among other things, carries out the following tasks:

- promotes and supports the growth of the Italgas Group contributing to the definition and development of corporate strategy, ensuring the necessary support for reaching company targets;
- oversees activities in the Enterprise Risk Management area, defining and updating the Group model and ensuring the correct consolidation, measuring and monitoring of Italgas Group risks;
- oversees activities in the Administration, Finance and Control area, guaranteeing the budgeting process, planning and control, general accounting, draft and consolidated financial statements, guaranteeing the mandatory communications for listed companies, to Borsa Italian and Consob, in compliance with the civil and fiscal regulations in force and ensuring the optimum level of debt and composition (type, rate and duration) of financial resources, analysing and planning medium-/long-term interventions that are consistent with the development of the financial and business scenario;
- oversees the activities of the HSEQ area, ensuring the preparation, updating and application of the Group HSEQ integrated management system, guaranteeing the definition and implementation of quality certification programmes and promoting awareness raising and training initiatives, disseminating the culture of workplace safety, in collaboration with Human Resources & Organization, at all levels of the company and at suppliers;
- oversees the activities of the vendor management area, coordinating and guaranteeing the supplier qualification process, the vendor rating system management and updating as well as the continuous monitoring of actual suppliers through audit initiatives.

c) Corporate Information Internal Control System, established within the Finance and Services department, which carries out, among other things, the following tasks:

- drawing up rules and methodologies related to the establishment and maintenance of the Corporate Reporting Control System (“SCIS”);
- managing the risk assessment process related to corporate reporting and the implementation of controls;
- managing information flows, control assessments, statements and reports on the state of the Corporate Reporting Control System and providing methodological and operational support to the departments involved in implementing it;
- performing activities related to the examination and assessment of the Corporate Reporting Control System, as well as drawing up reports on assessment results and preparing information on the System for the CFO and the supervisory bodies.

12. Interests of Directors and Related-Party Transactions

a) Italgas Related-Party Transactions Procedure

On 18 October 2016 the Board of Directors approved a procedure which establishes the principles and rules which Italgas and its Subsidiaries should adhere to in order to ensure the transparency and essential and procedural correctness of transactions conducted by Italgas Group companies with related parties or “parties of interest” (the “**Italgas Related-Party Transactions Procedure**”).

The Italgas Related-Party Transactions Procedure implements the provisions of the Consob Related-Parties Regulation and the interpretations of the issue according to Consob, also in accordance with the Unbundling Regulation.

The Related-Party Transactions Procedure also applies with regard to other Italgas Group companies under the scope of the management and coordination activities exercised by Italgas.

b) Transactions with related-parties involving large transactions, small transactions and negligible transactions

The Italgas Related-Party Transactions Procedure involves a differentiated arrangement governing related parties, distinguishing between “large transactions”, “small transactions” and “negligible transactions”.

For the purpose of the Italgas Related-Party Transactions Procedure, “large transactions” are transactions with related-parties in which at least one of the following “significance indicators” is above the level of 5% (or 2.5% in the case of transactions with a listed parent company):

- value significance indicator: or
 - the ratio between the value of the transaction and the net equity taken from the most recent consolidated statement of financial position published by the Italgas Group;
 - or, if it is greater, the capitalisation of the Company measured at the close of the last day the market is open in the reference period of the most recent periodic accounting document published (annual or half-year financial report, or interim directors’ report);
- assets significance indicator: meaning the ratio between the total assets of the organisation that is the subject of the transaction and the total assets of the Italgas Group, in accordance with what is indicated in the most recent consolidated statement of financial position published by the Italgas Group;
- liabilities significance indicator: meaning the ratio between the total liabilities of the entity purchased and the total assets of the Italgas Group, in accordance with what is indicated in the most recent consolidated statement of financial position published by the Italgas Group; where possible, similar data should be used for calculating the total liabilities of the company or the business unit purchased.

“Small transactions” are transactions with related parties other than “large transactions” and “negligible transactions”.

The Italgas Related-Party Transactions Procedure establishes the criteria and levels for identifying “negligible transactions”, in other words transactions with related-parties which, in consideration of the size of the Italgas Group, do not involve any appreciable risk to the protection of investors and the integrity of Italgas’ capital

and which are, therefore, excluded from the scope of application of the Italgas Related-Party Transactions Procedure.

Types of transactions are specified in the Italgas Related-Party Transactions Procedure which, in conformity with the Consob Related-Parties Regulation, are excluded from the scope of application.

c) Approval process for related-party transactions

The Italgas Related-Party Transactions Procedure establishes specific information flows prior to the approval of related-party transactions and requires the issuing by the competent committee of a reasoned opinion on the interest of the Company in completing the transaction and its expediency and the essential correctness of the related conditions. This reasoned opinion is binding in the case of “large transactions”. The responsibility for approving “large transactions”, where they do not come under the scope of the Shareholders’ Meeting pursuant to the law and By-Laws, is reserved to the Board of Directors.

Similar provisions to those described above apply in the case of related-party transactions which come under the scope of the Shareholders’ Meetings.

The Italgas Related-Party Transactions Procedure includes specific obligations of transparency in relation to the public with regard to transactions with related-parties, in conformity with the Consob Related-Parties Regulation.

d) Committee responsible for issuing the reasoned opinion

The Committee responsible for issuing the reasoned opinion is usually identified as the Control and Risks and Related-Party Transactions Committee. However, in the case of transactions involving the remuneration of directors and managers with strategic responsibilities, this board committee is the Remuneration Committee, with the Control and Risks and Related-Party Transactions Committee being responsible for checking the conformity of the approval process for the Italgas Related-Party Transactions Procedure transaction.

If the Control and Risks and Related-Party Transactions Committee is not made up entirely of unrelated directors, the Committee is to be supplemented by a number of unrelated and independent directors in order of seniority until it is made up entirely by unrelated directors. If supplementation of this type is not possible, the Control and Risks and Related-Party Transactions Committee must inform the Board of Directors, which shall engage an independent expert.

e) Transactions with “significant parties”

Also in conformity with Article 2391 of the Civil Code, the Italgas Related-Party Transactions Procedure includes a specific framework applicable to transactions in which a director or a statutory auditor has a personal interest or an interest on behalf of others, and transactions to be conducted with “parties of interest”, defined as parties, other than related parties, such as directors and statutory auditors, in relation to whom there may directly or indirectly be an interest, including a potential one, in relation to the activity carried out by Italgas and its Subsidiaries or in connection with certain transactions.

Under this scope the Italgas Related-Parties Transactions Procedure directors and statutory auditors are required to declare potential interests that they have in relation

to the Italgas Group every six months, and/or when changes in said interests occur; they also inform the Chief Executive Officer (or the Chairman, in the case of the Chief Executive Officer's interests), who in turn informs the other directors and the Board of Statutory Auditors, of individual transactions that the Italgas Group intends to carry out and in which they have an interest.

The Italgas Related-Party Transactions Regulation can be consulted on the company website: http://www.italgas.it/up/italgas/ItalGas_PartCorrelate.pdf

13. Appointment of auditors

Pursuant to the By-Laws, the Board of Statutory Auditors is composed of three standing auditors and two alternate auditors appointed by the Shareholders' Meeting, which also decides on remuneration in compliance with the *pro-tempore* regulations in force including gender equality.

Statutory auditors must possess the requirements of integrity and professionalism established by the applicable regulations, specifically Decree 162 of 30 March 2000 of the Ministry of Justice. For the purpose of applying this decree and as laid down by Article 20.1 of the By-Laws, issues closely related to the activities of the Company are commercial law, business administration and corporate finance, and the sector closely related to the activities of the Company is the engineering and geology sector.

The limits on the number of posts that statutory auditors can take as members of the board of directors and board of management of other companies are established by Consob regulations.

Pursuant to the By-Laws and the Decree of the President of the Council of Ministers of 25 May 2012, on "*Criteria, conditions and procedures for adopting Snam S.p.A.'s separation of ownership model, pursuant to Article 15 of Law no. 27 of 24 March 2012*", Italgas auditors cannot hold any office in the management or control body, nor can they hold any management functions at Eni S.p.A. or its subsidiaries, nor have any relations, direct or indirect, of a professional or financial nature with these companies. When the entire Board of Statutory Auditors is renewed, auditors are appointed according to the lists submitted by shareholders.

The statutory provisions governing list voting for the appointment of the Board of Statutory Auditors are listed below.

List voting for the appointment of the Board of Statutory Auditors (Article 20)

The Board of Statutory Auditors is appointed by the Shareholders' Meeting, in compliance with the applicable laws regarding balance between genders and based on the lists presented by the shareholders in which the candidates are listed by progressive number, and in a number not to exceed the members of the body to be elected.

Lists are filed at the registered office by the twenty-fifth day prior to the date of the Shareholders' Meeting called to decide on the appointment of the members of the Board of Statutory Auditors and made available to the public by the methods provided for by law and by Consob regulations, at least twenty-one days prior to the date of the Shareholders' Meeting.

Each shareholder may submit or be involved in submitting only one list and may vote on only one list, according to the terms provided for by the above-mentioned legal and regulatory provisions.

Only shareholders who alone or together with other shareholders represent 2% or are the owners overall of another percentage of shares stipulated by Consob regulations shall be entitled to submit lists³.

The ownership of the minimum percentage necessary for the submission of lists is determined by the shares registered on the date on which the lists are filed at the Company. Shareholders must also produce the certification issued pursuant to the law by authorised intermediaries.

The lists break down into two sections: the first for candidates to the office of standing auditor, and the second for candidates to the office of alternate auditor. At least the first candidate in each section must be included in the Register of Auditors and must have a minimum of three years' experience as an external auditor.

In order to comply with the applicable law on gender representation, lists with candidates for both sections which contain three or more candidates presented for appointment of the majority of the Board of Statutory Auditors' members must contain candidates of each gender in the section for the appointment of standing auditors, in accordance with the notice of call of the Shareholders' Meeting. If the section of alternate auditors on these lists has two candidates, they must be of different genders.

Two standing auditors and one alternate auditor are taken from the list that wins the majority of the votes. The remaining two auditors shall be taken from other lists that are not linked in any way, even indirectly, to the shareholders that presented or voted for the list coming first by number of votes. To this end, the votes received by the lists will be successively divided by one and two. The quotients thus obtained will be assigned progressively to candidates from each of these lists, according to the order shown therein and will be arranged in a single decreasing gradation.

Those obtaining the highest quotients will be elected. If several candidates obtain the same quotient, the candidate from the list that has not yet elected any director or that has elected the smallest number of directors will be elected.

³ Consob through its resolution 19856 of 25 January 2017 decided pursuant to Article 147-ter, paragraph 1 and Article 148, paragraph 2 of the TUF and Article 144-septies, paragraph 1, of the Issuers' Regulation, that the minimum level of investment required for the presentation of lists of candidates for the election of Italgas management and control bodies was 1%.

If none of these lists has yet elected a director or if all have elected the same number of directors, the candidate from the list obtaining the greatest number of votes will be elected. If the voting on lists is tied and the quotient is also tied, the entire Shareholders' Meeting will be asked to vote again, and the candidate winning a simple majority of votes will be elected;

Where the application of the above procedure fails to ensure compliance with the law on gender representation for the standing auditors, the quotient of votes to be attributed to each candidate taken from the standing auditor sections of the different lists shall be calculated by dividing the number of votes for each list by the order number of each of these candidates; the candidate of the most represented gender with the lowest quotient among the candidates taken from all the lists shall be replaced by the candidate of the least represented gender (with the highest consecutive number) from the same standing auditor section of the list of the replaced candidate, or, failing this, from the alternate auditor section of the same list as the replaced candidate (who, in this case, takes the place of the alternate auditor that they have just been replaced by), if this does not allow compliance with the regulations on gender equality, they are replaced by the person appointed by the Shareholders' Meeting with a legal majority to ensure that the composition of the Board of Statutory Auditors complies with the law and the By-Laws.

Where candidates from different lists have obtained the same quotient, the candidate from the list from which the greater number of Statutory Auditors has been taken shall be replaced, or, if these numbers of Statutory Auditors are the same, the candidate taken from the list with the fewest votes shall be replaced, or, if the number of votes is the same, the candidate who receives the fewest votes in a dedicated resolution by the Shareholders' Meeting shall be replaced.

In the event of the replacement of a statutory auditor from the list that wins the majority of the votes, they are replaced by the alternate auditor from the same list; in the event of replacement of a statutory auditor from other lists, they are succeeded by the alternate auditor from these lists. If the replacement does not allow compliance with the regulation on gender equality, the Shareholders' Meeting should be called as soon as possible to guarantee compliance with this regulation.

14. Composition and operation of the Board of Statutory Auditors

a) Composition

The Italgas Board of Statutory Auditors in office at the end of 2016 was composed of three standing auditors and two alternate auditors, appointed by the Ordinary Shareholders' Meeting of 4 August 2016, pursuant to the Civil Code on the recommendation of the sole shareholder at the time, Snam. The Board of Statutory Auditors appointed in this way remains in offices for three financial years, expiring on the date of the Shareholders' Meeting called for the approval of the draft financial statements for the year ending 31 December 2018.

The provisions of the By-Laws involving the appointment of the Board of Statutory Auditors through list voting and the appointment of at least one statutory auditor from the minority list apply from the renewal of the current Board of Statutory Auditors.

Each of the members of the Board of Statutory Auditors has been certified at the time of appointment as being in possession of the requirements of independence required by the Consolidated Finance Act (Article 148, paragraph 3, of the TUF) and by the Code of Corporate Governance (specifically pursuant to Article 3 and Article 8 of the Code of Corporate Governance), there being no grounds for ineligibility, incompatibility or forfeiture, as well as the existence of the requirements of professionalism and integrity and compliance with the limit on the number of posts that can be held pursuant to the applicable regulations and the By-Laws.

At the first opportunity after its appointment, the Board of Statutory Auditors should verify and confirm the possession of the requirements of independence laid down pursuant to the Consolidated Finance Act and the Code of Corporate Governance and the requirements of professionalism and integrity of its members and it should notify the Board of Directors of the Company of the outcome. Following the outcome of the investigations made, Snam, which at the time was the parent company of Italgas, notified the market by issuing a press release. At the time of appointment, the Chairman of the Board of Statutory Auditors and the other standing auditors should confirm that they can dedicate the necessary time to carrying out their tasks diligently pursuant to the Code of Corporate Governance.

The table below lists the statutory auditors in office at the end of 2016.

Name	Post
Gian Piero Balducci	Chairman
Giandomenico Genta	Standing auditor
Laura Zanetti	Statutory auditor
Marilena Cederna	Alternate auditor
Walter Visco	Alternate auditor

From the 2016 year-end until the date of the approval of this Report there were no changes to the composition of the Board of Statutory Auditors.

The Italgas Board of Statutory Auditors in office at the date of the establishment of the Company, 1 June 2016, until 4 August 2016, was appointed by the founder shareholder, Snam, and was composed as follows.

Name	Post
Roberto Lonzar	Chairman
Stefania Mancino	Statutory auditor
Paolo Piccatti	Statutory auditor
Venanzio Cassi	Alternate auditor
Gabriele Bisceglie	Alternate auditor

b) *Curricula vitae*

Below is a summary of the *curricula vitae* of each member of the Board of Statutory Auditors in office at the 2016 year-end and at the date of approval of this Report.

Gian Piero Balducci (Chairman of the Board of Statutory Auditors)

Born in Turin in 1961. He graduated in Economics and Business Studies from the University of Turin. From 1986 he worked as a tax and corporate advisor. From 1986 to 1989 he worked at the Turin offices of Arthur Andersen. In 1989 he joined Studio Palea, becoming a partner in 1993. He is often called upon as an expert witness in judicial proceedings for accounting and tax matters at the Civil and Criminal Court of Turin, and is a member of the Register. He is a member of the teaching profession of practising Tax Advisors for the Association of Certified Accountants of Turin, Ivrea and Pinerolo. In addition, he is currently a member of the Technical Scientific Committee of RSM Palea Lauri Gerla and part of the “International Relations” group and “I 231/2001” group of the Association of Certified Accountants of Turin, Ivrea and Pinerolo. He is on the North West Territorial Technical Committee of UBS (Italia) S.p.A. He is on the Register of the Association of Certified Accountants of Turin and the Register of Statutory Auditors. He is the Chairman of the Board of Statutory Auditors and a Standing Auditor of companies operating in the areas of large-scale retail, asset management, pharmaceuticals and holding companies.

Giandomenico Genta (Standing Auditor)

Born in Valdagno (VI) in 1957. He is an accountant who gained a degree in Economics and Business Management from the Universitas Mercatorum of Rome. He worked from 1984 as a freelancer, as owner of the Studio Amministrativo and Tributario Genta & Cappa with offices in Cuneo. Currently, among other things, he holds the post of Chairman of the Board of Statutory Auditors and standing auditor of the following companies: Finanziaria Sviluppo Impresa S.p.A., Autostrade per l'Italia S.p.a., Equitalia S.p.a.. He is the Chairman of the Board of Directors of Satsipay S.p.A. (an innovative start-up) and of the Fondazione Cassa di Risparmio di Cuneo. He is a member of the supervisory body of Ferrero Industriale Italia S.r.l. He also lectures as an adjunct professor at the University of Gastronomic Sciences. He is also an expert for the Scientific Disciplinary, Economics and Business Management Sector, Management Department of the University of Turin. He is a Registered Auditor and a Statutory Auditor. He is also on the register of court-appointed experts at the Chamber of Commerce, Industry, Agriculture and Artisanry of Cuneo, the Register of Technical Consultant of the Judge of the Court of Cuneo, the order of journalists in the list of publicists, as well as a member of the consultants of the Provincial Employment Department of Cuneo.

Laura Zanetti (Standing Auditor)

Born in Bergamo on 26 July 1970 and gained a degree in Business Administration from the Bocconi University of Milan with honours and recommended for publication. Laura Zanetti is an Associate Professor of Corporate Finance at the Milan Bocconi University where she teaches Corporate Valuation. She is the director of the degree course in Economics and Finance, a member of the Management Council of the Department of Finance, a Research Fellow of CAREFIN, Center for Applied Research in Finance, of the Bocconi University and the author of numerous publications on finance and corporate valuation. She was the director of the Master of Science in Finance of the Bocconi University, Visiting scholar at MIT (Massachusetts Institute of Technology), LSE (London School of Economics and Political Science), HKUST (Hong Kong University of Science and Technology). She has been a Certified Accountant since 1996 and a Statutory Auditor since 1999, she is currently a member of the Board of Directors of Italmobiliare, Coima Res, Chairman of the Maria Zanetti non-profit foundation and an Auditor for Inim, Omni Re and Stella Italia.

Marilena Cederna (Alternate Auditor)

Born in Sondrio in 1957, she gained a degree in Economics and Business Studies from the Bocconi University of Milan. She began her professional career at PricewaterhouseCoopers in 1981, where she was promoted over the years culminating in her appointment as Partner in 1994. She gained significant experience in auditing in large national and international groups, including listed companies on regulated markets, in various industrial sectors, including the energy sector. She is on the Register of the Association of Certified Accountants and the Register of Statutory Auditors.

Walter Visco (Alternate Auditor)

Born in Uzwill (Switzerland) in 1969. He graduated in Economics and Business Studies from the LUISS Guido Carli, in 1994. He has been on the register of the Association of Certified Accountants of Isernia since 1996 and has been a member of the board since 2013. He has been on the register of Statutory Auditors since 1999 and on the register of Local Authority Auditors since 2012. He is a court-appointed expert witness and receiver for the Court of Isernia. An expert in financial accountancy, municipality and province budgets and local authority personnel; he is an expert in extraordinary corporate transactions and the management and control of businesses and public authorities. He has held the post of Chairman of the Board of Statutory Auditors at C.S.S. Cooperativa Servizi Sanitari (non-profit organisation) from 2004 to 2008 and from 2008 to 2011. He has also been an alternate auditor at the Chamber of Commerce, Industry, Agriculture and Artisanry of Isernia from 2001 to 2005.

c) Operation

In 2016 the Board of Directors met ten times, specifically:

- the Board of Statutory Auditors in office from 1 June 2016 to 4 August 2016 met four times, with meetings lasting an average of sixty minutes each;
- the Board of Statutory Auditors in office at the date of the approval of this Report was appointed on 4 August 2016 and met six times, with each meeting lasting, on average, eighty-seven minutes.

All standing auditors attended all the Board of Statutory Auditor meetings in 2016 as shown in the table in Annex 1.

Ten meetings are scheduled for the current business year, three of which have already been held at the date of the approval of this Report.

d) Induction Programme

As described above (see 0), in 2016 the members of the Board of Statutory Auditors could take part in an induction programme promoted by the Chairman of the Board of Directors (see chapter 4.2d) of this Report).

e) Interests of auditors

The Italgas Related-Party Transactions Procedure includes specific reporting obligations with regard to any interests, a personal interest or an interest of behalf of others, of auditors in relation to Company transactions (see Chapter 12 of this Report).

f) Coordination with the Control and Risks and Related-Party Transactions Committee and the Internal Audit function.

The Board of Statutory Auditors and the Control and Risks and Related-Party Transactions Committee exchange relevant information for carrying out their respective functions and meet at least quarterly in order to evaluate the results. To ensure optimum collaboration, the Chairman of the Board of Statutory Auditors frequently attends the meetings of the Control and Risks and Related-Party Transactions Committee. In 2016 the Board of Statutory Auditors took part in the work of the Control and Risks and Related-Party Transactions Committee.

The Board of Statutory Auditors and the Control and Risk and Related-Party Transactions Committee receive and collect information, at least quarterly, from the control functions (Internal Audit, Risk Management, Compliance) and from the Independent Auditors about checks carried out and any weaknesses or critical areas or anomalies discovered.

In 2016 the Board of Statutory Auditors met with the Internal Audit department and closely examined the guidelines of the Board of Directors on Internal Audit activities, the role, activities, methodologies and information flows of the function, as well as the 2017 draft audit plan for the Italgas Group.

15. Relations with Shareholders

An active engagement policy with regard to investors is considered by Italgas to be a strategic element capable of creating value in terms of satisfying its shareholders, understanding their expectations concerning corporate governance and a mutual enhancement of knowledge.

Italgas adopts a communication policy aimed at guaranteeing constant dialogue with the entire financial community; the Company's goal is to establish a relationship of trust with shareholders, investors, analysts and all financial market operators, and to provide them with regular, complete and prompt information to ensure an excellent understanding of the Italgas Group's performance and strategy.

On 26 September 2016 the Board of Directors, under the scope of the Italgas organisational structure, appointed Marco Porro as Investor Relator, pursuant to the Code of Corporate Governance.

The Company has areas of specific interest on its website (www.italgas.it) reserved to shareholders and investors (“Governance”, “Investors” and “Media”) which contain information on the corporate governance of the Company (e.g., the By-Laws, composition of the corporate bodies, policies on business ethics and internal control), information of an economic-financial nature (e.g., financial statements and financial reports, presentations to the financial community, performance of the Company shares) as well as press releases and the financial calendar of the Company.

16. Shareholders’ meetings

16.1 SHAREHOLDERS’ MEETING

The Shareholders’ Meeting represents all shareholders and its resolutions oblige shareholders, even if they did not take part, abstained or dissented.

There are Ordinary and Extraordinary Shareholders’ Meetings, pursuant to the law, held in a single call or convened through a call notice to be published in accordance with the terms and conditions required by law and are validly constituted and resolve through the legally-required majority. The By-Laws do not provide for derogations from the percentages established pursuant to the applicable regulations for the exercise of the actions and prerogatives put in place for the protection of minorities.

The Ordinary Shareholders’ Meeting on 4 August 2016, on the recommendation of the Chairman of the Board of Directors, approved the Regulation governing the orderly and effective conduct of shareholders’ meetings, guaranteeing the right of each shareholder to speak on the agenda items being discussed. The Shareholders’ Meetings Regulation can be consulted on the company website: <http://www.italgas.it/up/italgas/Regolamento-delle-assemblee-degli-azionisti-ITGH.pdf>

16.2 POWERS OF THE SHAREHOLDERS’ MEETING

The Shareholders’ Meeting resolves on the legally-required issues. However, as permitted by law, the By-Laws give the Board of Directors the power to resolve on the following issues:

- merger by incorporation of wholly-owned companies or at least 90%-owned and demerger in the same scenarios;
- institution, modification and elimination of secondary offices;
- the reduction in share capital when a shareholder withdraws;
- compliance of the By-Laws with regulatory provisions;
- the transfer of the registered office within Italy.

16.3 RIGHT TO ATTEND

The right to attend Shareholders' Meetings is governed by law, the By-Laws and the provisions contained in the notice of call.

Pursuant to the applicable regulations, entitlement to attend a Shareholders' Meeting and exercise the right to vote is certified by a notification to the party with the right to vote, sent to the Company by the intermediary and issued based on the accounting evidence at the end of the seventh day the market is open prior to the date set for the Shareholders' Meeting (the "record date").

Whoever has the right to vote can, within the limits of the law, be represented through a written proxy, which the Company should be notified of by certified electronic mail. In order to facilitate the verification of the representation powers, the Shareholders' Meeting Regulation requires that those who take part in the Shareholders' Meeting as legal or voluntary representatives of those entitled to attend and exercise voting rights can present the documentation proving their entitlement to the Company Secretary, through the methods and terms indicated in the notice of call.

The By-Laws indicate that the company must provide space to shareholder associations which satisfy the pertinent regulatory requirements, according to the terms and conditions agreed from time to time with their legal representatives, for communicating and gathering proxies from employee shareholders of the company and its subsidiaries.

In order to ensure the correctness of the discussion and the right to speak of those having this right, the Shareholders' Meeting Regulation gives the chairman of the meeting the task of managing proceedings and authorising powers. Specifically, when opening the proceedings the chairman of the meeting establishes the maximum duration of each speech, usually not more than fifteen minutes. Each person entitled to speak at the meeting and exercise the right to vote or their representative can only speak once on each agenda item and can submit a request to speak to the office of the chairman from the time the Shareholders' Meeting is established and until the chairman of the meeting opens the discussion on each agenda item. When inviting people to speak, the chairman of the meeting usually follows the order the requests to speak were submitted in. Speeches in reply are not permitted. When the discussion is closed, only short declarations of the voting are allowed.

Shareholders may ask questions about agenda items both prior to and during the Meeting. Pursuant to the Shareholders' Meetings Regulation, if shareholders have submitted questions before the start of the proceedings of the meeting for which the Company has not yet given a reply, the Chairman responds during the meeting, at the end of all the speeches on each specific item on the agenda, provided that: (i) the questions are related to the items on the agenda; (ii) the information request is not already available in the "question and answer" format in the dedicated section of the Company's website. The Company can provide a single response to questions having the same content.

The Shareholders' Meetings Regulation includes the possibility of experts, financial analysts, journalists and representatives of the independent auditors providing assistance at the meeting, with the consent of the chairman. The request to take part must be received by the Company Secretary, in accordance with the methods set out in the notice of call, at least two days before the meeting.

16.4 SHAREHOLDERS' MEETINGS AND CHANGES TO MARKET CAPITALISATION

After the execution date of the Italgas Separation Transaction and admission of the Italgas shares to the Mercato Telematico Azionario of Borsa Italiana and until the date of the approval of this Report, no Shareholders' Meetings were held.

There were no significant changes in 2016 in the market capitalisation of Italgas shares except for adjustments and a momentarily more accentuated fall in the stock compared with the losses in the sector immediately following admission to trading.

17. Further corporate governance practices

17.1 ORGANISATIONAL MODEL PURSUANT TO LEGISLATIVE DECREE 231 OF 8 JUNE 2001

On 18 October 2016 the Italgas Board of Directors approved its organisational, management and control model pursuant to Legislative Decree 231 of 8 June 2001 ("**Model 231**").

In 2017 the Company will launch a risk assessment project aimed at the preparation of the "*Processes, Sensitive Activities and Control Standards of Model 231*" which will supplement Model 231 with the safeguards adopted with regard to each type of offence under the scope of the application of Legislative decree 231 of 8 June 2001. Model 231 is a support tool and key element of the Code of Ethics and is intended for members of Italgas corporate bodies, management and employees, as well as those operating to achieve Italgas objectives.

Pursuant to Model 231 the Board of Directors appoints a Watch Structure with the task of supervising the operation of and compliance with Model 231 and its updating, having consulted with the opinion of the Control and Risks and Related-Parties Committee and the Board of Statutory Auditors and on the recommendation of the CEO in agreement with the Chairman. The Watch Structure has independent initiative and control powers and governs its own operation through regulations.

Model 231 establishes the information flows from the various corporate functions and each recipient of Model 231 to the Watch Structure and from the latter to the company top management and, specifically, the CEO, Chairman, Control and Risks and Related-Party Transactions Committee and the Board of Statutory Auditors.

The Italgas Watch Structure is composed of three external members, one of whom, as the Chairman was chosen from academics and professionals with proven expertise and experience on legal and corporate issues and corporate economics and organisation.

The term of office of members of the Watch Structure is aligned with that of the Board of Directors which appointed them. The term of office of the members expires on the date of the Shareholders' Meeting called for the approval of the financial statements for the last year of their office, although they continue to carry out their functions in the interim until new members of the Watch Structure are appointed.

The Italgas Board of Directors on 20 December 2016 appointed the following members of the Watch Structure: Prof. Carlo Piergallini, Chairman and Professors Francesco Profumo and Eliana La Ferrara.

In addition to the tasks of the Watch Structure, Model 231 also requires the CEO to implement and update Model 231, while the Board of Directors must update the general irrevocable principles of Model 231.

Each Subsidiary independently adopts its own organisational, management and control model pursuant to Legislative Decree 231 of 8 June 2001, based on the specific nature of the company, taking the principles of Italgas' Model 231 as a benchmark and taking into account the indications and implementation methods laid down by Italgas with regard to the organisational and operating structure of the Italgas Group. Additionally, each Subsidiary sets up an autonomous and independent Watch Structure. Model 231 requires specific information flows between the Watch Structures of the Subsidiaries and those of Italgas.

Model 231 is available on the Company's website:

http://www.italgas.it/up/italgas/ItalGas_modello231.pdf

17.2 THE CODE OF ETHICS AND THE SUPERVISOR

On 18 October 2016 the Board of Directors approved its Code of Ethics, which is a collection of the values that the Company recognises, accepts and shares and the responsibilities it assumes within and outside of its organisation. The stated values in the Code of Ethics define a shared value system which expresses Italgas' business ethics culture. It forms the basis for the Company's strategic line of thought and the conduct of its corporate activities. The Code of Ethics represents an irrevocable general principle of Model 231 and contains the fundamental principles to which Italgas aspires, such as compliance with the law, fair competition, honesty, integrity, correctness and good faith with regard to all parties it has relations with. It also contains the general principles of business sustainability and responsibility, as well as recalling the principles which should be complied with on the subjects of the workplace, relations with stakeholders and suppliers and the matter of personal data protection.

The Code of Ethics applies with regard to "Italgas people" or directors, auditors, management and employees of Italgas, as well as all of those who work to achieve the objectives of Italgas, each within the scope of their functions and responsibilities. The representatives indicated by Italgas on the corporate bodies of investee companies, consortia and joint ventures promote the principles and contents of the Code of Ethics within their areas of responsibility.

The Watch Structure also acts as the Code of Ethics "Supervisor", with the task of:

- promoting the implementation of the Code of Ethics and issuing the reference procedures;
- promoting initiatives that are helpful in disseminating and raising awareness of the Code of Ethics also in order to avoid the repetition of violations;
- promoting communication and training programmes for Italgas management and employees;

- examining notices of possible violations of the Code of Ethics, promoting the most suitable checks and intervening, even in response to reports from “Italgas people”, in cases of notification of possible violations of the Code deemed to be not duly dealt with or retaliations suffered by the same person following reports;
- notifying the competent structures of the results of important checks for the adoption of any disciplinary proceedings and informing the line structures/competent areas of the results of important checks in order to implement appropriate measures.

The Italgas Watch Structure also presents a half-year report to the Control and Risks Committee and the Board of Statutory Auditors as well as to the Chairman and the CEO, who report back to the Board of Directors, on the implementation and any need to update the Code of Ethics.

The Code of Ethics is available on the Company’s website:

http://www.italgas.it/up/italgas/ItalGas_CodiceEtico.pdf

17.3 ANTITRUST CODE

On 18 October 2016 the Board of Directors approved its Antitrust Code of Conduct (the “**Antitrust Code**”) which defines the guidelines of the behaviour which all employees of Italgas and Subsidiaries should conform to in order to guarantee the compliance of Italgas and its Subsidiaries with the principles dictated by the applicable regulations on antitrust issues.

The Antitrust Code applies to the entire Italgas Group as part of Italgas’ management and coordination activities, and is one of the initiatives aimed both at protecting competition as part of the business culture and at implementing suitable procedures and systems for minimising the risk of violations of antitrust laws, under the broader umbrella of the compliance initiatives of the Italgas Group.

Pursuant to the Antitrust Code, an antitrust unit has been established under the scope of the Legal Department, to which each person in the Group can turn for communications concerning the interpretation and application of the Antitrust Code and at any time there is a potential antitrust risk situation.

The Antitrust Code is available on the Company’s website:

http://www.italgas.it/up/italgas/ItalGas_CodiceAntitrust.pdf

17.4 ANTICORRUPTION PROCEDURE

On 18 October 2016 the Italgas Board of Directors adopted the Anticorruption Procedure for the purpose of providing a systematic reference framework of rules and procedures on anticorruption issues. The Anticorruption Procedure is an integral part of the Corporate Information Internal Control System.

The Anticorruption Procedure, in line with the Italgas Code of Ethics, prohibits corruption, in any form with regard to any public or private individual and introduces a specific system of rules aimed at guaranteeing the compliance of Italgas with the best international standards in the fight against corruption, also protecting Italgas’ reputation,

in compliance with the tenth principle of the Global Compact⁴ which Italgas adheres to. Pursuant to the Anticorruption Procedure a Legal Anticorruption Function was established, with the task of monitoring the adoption of the Anticorruption Procedure, updating it and educating personnel.

There are specific information flows to the competent corporate functions with regard to requests for a public and/or a private official to establish cases of corruption or a specific reporting system with regard to any suspected violation of the anticorruption laws or the Anticorruption Procedure.

The Anticorruption Procedure applies to the Italgas Group under the scope of the management and coordination activities exercised by the Company.

The Anti-Corruption Procedure is available on the Company's website:
http://www.italgas.it/up/italgas/ItalGas_Anticorruzione.pdf

17.5 NOTIFICATION PROCEDURE

On 18 October 2016 the Board of Directors approved a notification procedure consistent with the best practices on the matter (the "**Notification Procedure**"), which regulates the process of receiving, analysing and dealing with notifications from whoever sends or transmits, including confidentially and anonymously, reports or any irregularities or violations of the applicable regulations and internal procedures (whistleblowing).

The Notification Procedure responds to the provision of Model 231, constituting a regulatory tool pursuant to Italgas' Anticorruption Procedure and it is an integral part of the Corporate Information Internal Control System.

The Notification Procedure applies in Italgas and its Subsidiaries under the scope of Italgas' management and coordination activities. The management of notifications and the related data processing for privacy purposes is carried out by Italgas, including in the interest of its Subsidiaries, in compliance with the principles of proper business management of the same Subsidiaries, while respecting their decision-making independence and in compliance with the regulations in force and the internal privacy policy, thereby also fulfilling the confidentiality requirements underlying the performance of preliminary investigation activities.

The Notification Procedure establishes the criteria and procedures for establishing suitable information channels, and is entrusted to the Internal Audit function, to ensure the receipt, analysis and processing of notifications made by employees (including senior managers), members of corporate bodies or third parties, including in confidential or anonymous form.

Each notification is analysed by the Notifications Committee, composed of the Director of Human Resources & Organization, the Director of Legal and Corporate Affairs and Compliance and the Internal Audit Manager, which ensures the necessary requirements of independence, confidentiality and competence. Once this analysis has been completed,

⁴ The Global Compact is an international initiative launched in July 2000 by the United Nations to support ten universal principles relating to human rights, work, the environment, and the fight against corruption, which unites governments, businesses, agencies of the United Nations, employment organisations and civil society, with the goal of creating "a more inclusive and sustainable global economy" introducing compliance with and the application of shared values.

the notifications received are classified according to issues relating to the internal control system, corporate information, administrative liability of the company, fraud, corrupt behaviour or other issues (breaches of the Code of Ethics, mobbing, thefts, security, etc.). It is the responsibility of the Internal Audit department to promptly inform the senior management of the company concerned and to forward notifications to the company's Watch Structure for the relevant evaluations and actions. The investigations are carried out by the Internal Audit department or by the business units responsible for carrying out specialised checks (Security, Technical Audit, Legal, Personnel, etc.), while always ensuring that the necessary independence requirements are met.

Responsibility for assessing the merits or otherwise of the notifications falls to the Watch Structure or the Notifications Committee, as well as any decision to impose sanctions upon employees of Group companies or third parties in business relationships with those companies (suppliers, customers, consultants, partners, etc.), or to take other measures to strengthen the internal control system.

The Internal Audit department ensures the maintenance and updating of a specific computer archive, using appropriate tools and procedures to ensure the necessary levels of security and confidentiality, as well as the preparation of periodic reporting that includes information about the notifying party, the notified matter, the content and type of the notifications, the unit responsible for the conduct of investigations and their outcomes, the final assessment on the merits or otherwise of the notification, and any decisions taken. The report on the notifications received is prepared quarterly and sent by the Internal Audit department to the following bodies and departments of the Company:

- Chairman;
- Chief Executive Officer;
- General Manager;
- Board of Statutory Auditors;
- Control, Risk and Related-Party Transactions Committee;
- Watch Structure:
- Independent Auditors;
- Anticorruption Legal.

With reference to notifications relating to the Subsidiaries, the reports, insofar as they are relevant, are sent to the Chief Executive Officers of each Subsidiary concerned, as well as to the related Control and Supervisory Bodies.

The widest circulation of information about the Notification Procedure is ensured, both internally (through publication on the corporate intranet and postings on notice boards, as well as in the context of internal training activities, particularly with regard to newly appointed employees) and externally.

All Italgas organisational units/positions and the Subsidiaries involved in receiving and dealing with notifications should guarantee the complete privacy and anonymity of the persons making the reports, using the criteria and communication methods suitable for protecting the integrity of the persons mentioned in the notifications, as well as the anonymity of those doing the reporting, so that they are not subjected to any form of retaliation.

The Notification Procedure is available on the Company's website:
http://www.italgas.it/up/italgas/ItalGas_segnaIazioni_anonime.pdf

18. Changes since the end of the reference year

From the close of 2016 to the date of the approval of this Report there have been no changes in the corporate governance structure of the Company.

Annex 1

Table of the Chairman of the Board of Directors and Board of Statutory Auditors

Board of Directors

Post	Members	Year of birth	Date of first appointment *	Term start date	Term end date	List **	Executive	Non-executive	Independent Code
Chairman	Bini Smaghi Lorenzo	1956	04/08/16	04/08/16	31/12/2018	n/a		•	
Chief Executive Officer*∧	Gallo Paolo	1961	04/08/16	04/08/16	31/12/2018	n/a	•		
Director	Bedin Nicola	1977	04/08/16	04/08/16	31/12/2018	n/a		•	•
Director	Borra Barbara	1960	04/08/16	04/08/16	31/12/2018	n/a		•	•
Director	Dainelli Maurizio	1977	04/08/16	04/08/16	31/12/2018	n/a		•	
Director	Farisè Cinzia	1964	04/08/16	04/08/16	31/12/2018	n/a		•	•
Director	He Yunpeng	1965	04/08/16	04/08/16	31/12/2018	n/a		•	
Director	Mosa Paolo	1960	04/08/16	04/08/16	31/12/2018	n/a		•	
Director	Petrone Paola Annamaria	1967	04/08/16	04/08/16	31/12/2018	n/a		•	•

NOTES

• This symbol indicates the director responsible for the internal control and risk management system.

∧ This symbol indicates the person with chief responsibility for the management of the issuer (Chief Executive Officer or CEO).

* The date of first appointment of each director means the date on which the director was unanimously appointed for the first time to the Board.

** This column indicates the list from which each director was taken ("M": majority list; "m": minority list; "CdA": list submitted by the Board).

*** This column shows the number of directorships and statutory auditor offices held by the person in question in other companies listed in Italy or in other regulated markets, in financial companies, banks, insurance firms or other large companies. Details of the offices concerned are given in full.

(*). This column indicates the attendance of directors at Board and Committee meetings, respectively.

(**). This column indicates the director's role on the committee concerned: "C": Chairman; "M": member.

Independent TUF	Other posts ***	Board of Directors (1)	Control Risks and Related-Party Transactions Committee		Remuneration Committee		Appointments Committee		Sustainability Committee	
			(1)	Post	(1)	Post	(1)	Post	(1)	Post
	3	6/6								
		6/6								
•		5/6					1/2	M	n/a	C
•	1	6/6	1/2	M	3/3	C				
		6/6			2/3	M	2/2	M		
•		6/6	2/2	M			2/2	C		
	1	6/6							n/a	M
	1	6/6							n/a	M
•		6/6	2/2	C	3/3	M				

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Board of Directors

Directors no longer in office during the reference period (appointed before adherence of the Company to the Code of Corporate Governance)

Board of Directors

Post	Members	Year of birth	Date of first appointment *	Term start date	Term end date	List **	Executive	Non-executive	Independent Code
Chairman	Reggiani	1968	2016	01/06/2016	04/08/2016	n/a	n/a	n/a	n/a
Director	Paccioretti	1964	2016	01/06/2016	04/08/2016	n/a	n/a	n/a	n/a
Director	Schieppati	1964	2016	01/06/2016	04/08/2016	n/a	n/a	n/a	n/a
No. of meetings held during the year: 9							Control Risks and Related-Party Transactions Committee: 2		

Quorum required for the submission of lists by minority shareholders for the election of one or more members (pursuant to Article 147-ter of the TUF): 1%

Structure of the Board of Statutory Auditors

Post	Members	Year of birth	Date of first appointment *	Term start date
Chairman	Gian Piero Balducci	1961	04/08/16	04/08/16
Standing Auditor	Giandomenico Genta	1957	04/08/16	04/08/16
Standing Auditor	Laura Zanetti	1970	04/08/16	04/08/16
Alternate auditor	Marilena Cederna	1957	04/08/16	04/08/16
Alternate auditor	Walter Visco	1969	04/08/16	04/08/16
Statutory Auditors no longer in office during the reference period (appointed before adherence of the Company to the Code of Corporate Governance)				
Chairman	Roberto Lonzar	1953	01/06/2016	01/06/2016
Standing auditor	Stefania Mancino	1963	01/06/2016	01/06/2016
Standing auditor	Paolo Piccatti	1957	01/06/2016	01/06/2016
Alternate auditor	Venanzio Cassi	1951	01/06/2016	01/06/2016
Alternate auditor	Gabriele Bisceglie	1976	01/06/2016	01/06/2016

No. of meetings held during the year: 10

Indicate the quorum required for the submission of lists by minority shareholders for the election of one or more members (pursuant to Article 148 of the TUF): 1%

NOTES

* The date of first appointment of each statutory auditor means the date on which the statutory auditor was unanimously appointed for the first time to Italgas' Board of Statutory Auditors.

** This column indicates the list from which each auditor was taken ("M": majority list; "m": minority list).

*** This column indicates the attendance of auditors at meetings of the Board of Statutory Auditors.

**** This column shows the number of directorships and auditor posts that the party is bound to disclose pursuant to Article 148-bis of the TUF and its implementing provisions contained in the Consob Issuer Regulations. The full list of posts is published by Consob on its own website pursuant to Article 144-quinquiesdecies of the Issuer Regulations.

Independent TUF	No. of other posts ***	Board of Directors (*)	Control Risks and Related-Party Transactions Committee		Remuneration Committee		Appointments Committee		Sustainability Committee		
			(*)	Post	(*)	Post	(*)	Post	(*)	Post	
n/a	n/a	3/3	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	3/3	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	3/3	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Remuneration Committee: 3			Appointments Committee: 2			Sustainability Committee: 0					

Term end date	List **	Independent Code	Attendance at Board meetings ***	No. of other posts ****
31/12/2018	n/a	•	6/6	0
31/12/2018	n/a	•	6/6	0
31/12/2018	n/a	•	6/6	0
31/12/2018	n/a	•	n/a	n/a
31/12/2018	n/a	•	n/a	n/a
04/08/16	n/a	n/a	4/4	n/a
04/08/16	n/a	n/a	4/4	n/a
04/08/16	n/a	n/a	4/4	n/a
04/08/16	n/a	n/a	n/a	n/a
04/08/16	n/a	n/a	n/a	n/a





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