


2017 Compensation Report



2017 Italgas Compensation Report

Approved by the Board of Directors on 23 March 2017

The Report is published in the “Ethics and Governance” section of the Company’s website (www.italgas.it)



The Italgas compensation system recognises the responsibilities assigned and the results achieved, by valuing the quality of the professional contribution and personal development of the management team.

The compensation system is based on the criteria of merit, fairness and moderation and accompanies the growth of Italgas and its economic performance, contributing to the alignment of the shareholders' and stakeholders' interests with the actions of management, promoting the creation of value over the medium to long-term. Italgas ensures the greatest possible transparency in the quality of its remuneration systems and in the results of its application.



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Letter from the Chairman of the Compensation Committee

Dear Shareholders,

I am pleased to present the Compensation Report which, for the first time, is published by Italgas and submitted to a vote of the Ordinary Shareholders' Meeting.

In the second half of 2016, after appointing the Board of Directors and in view of the stock exchange listing, the Compensation Committee worked hard to advise the Board to adopt, under the existing laws, all the decisions necessary to implement a compensation system in line with national and international best practices and appropriate to ensure the Company's development.

Having decided, for purposes of continuity, to adopt Snam's robust and consistent compensation system architecture certainly facilitated this process.

It was therefore possible to address, I think effectively, all the topics that characterise the compensation system structure of a publicly traded company and, in the meantime, to ensure its first implementation in a manner consistent with the characteristics of Italgas, its strategic plan, and its prospects for development. This also meant including those demands for moderation in compensation and for a close link with business results that emerged from public debate and stakeholders' expectations.

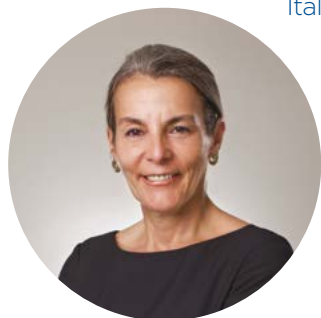
With this in mind, the Compensation Committee, among other things, proposed resolutions to the Board of Directors relating to the fixed remuneration of the Chairman and the Chief Executive Officer; the Directors' remuneration for participating in Board Committees; the adoption of a variable remuneration system for the short and long-term for the Chief Executive Officer and managers with strategic responsibilities; setting indicators to assess corporate performance for 2017; the 2017 compensation policy guidelines; etc.

The 2017 Compensation Report summarises the decisions made and the guidelines adopted.

In 2017, the Compensation Committee will systemically address topics concerning the full application of the variable compensation system. Further, and more generally, it will seek to continuously improve the existing system's alignment with international best practices, stakeholders' expectations, and the indications and the suggestions made by those who have examined the Compensation Report.

With these proposals, and with the satisfaction deriving from the conviction of having contributed to the work undertaken in recent months, to Italgas' success and to its prospects for development and growth, the Compensation Committee is therefore delivering the 2017 Compensation Report to all stakeholders and the Shareholders' Meeting, which is asked to cast a non-binding vote on the first section, with the hope that even this first edition will also fully explain and describe Italgas' remuneration system and its contribution to the creation of shared value, which is the Company's ongoing goal.

I thank Directors Paola Petrone and Maurizio Dainelli for their constant and significant efforts put forth in their role of Committee members.



Barbara Borra

Chairman of the Compensation Committee

Summary framework - 2017 Compensation Policy

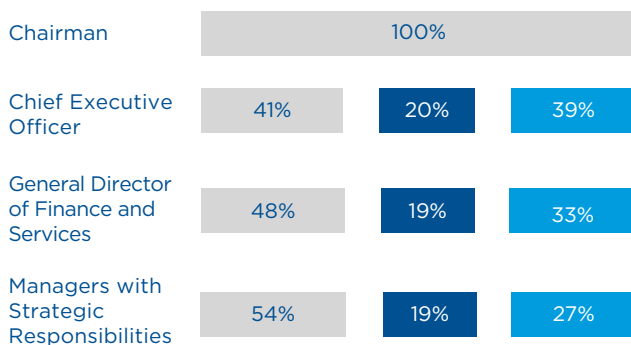
Component	Purpose and characteristics	Criteria and conditions for implementation	Amounts
Fixed remuneration	Adequately compensates the skills, professionalism and contribution required for the position held, with the aim of providing motivation including for the purposes of retention.	Fixed remuneration is determined based on the position and responsibilities assigned with respect to levels used for equivalent positions in the market, and with possible annual adjustments established for merit (continuation of individual performance) or for promotions or increased responsibilities	<p>Chairman: € 238.000 (including the fixed annual compensation for Directors set by the Shareholders' Meeting)</p> <p>Chief Executive Officer: € 725,000 (including the fixed annual compensation for Directors set by the Shareholders' Meeting)</p> <p>GM Finance and Services: € 400,000</p> <p>MSR*: commensurate with powers and position held</p>
Short-term variable incentives (IMA Annual Monetary Incentive)	<p>Reserved for <i>managers</i> who have achieved the individual targets set in the previous year.</p> <p>Paid annually in cash, this is a useful tool to motivate and guide management activities over the short-term in keeping with corporate goals established by the Board of Directors.</p> <p>The amount of the short-term annual incentive is based on the position held and the corporate and individual performance achieved.</p>	<p>Corporate/CEO Grid Objectives:</p> <ul style="list-style-type: none"> • Net financial position (30%) <ul style="list-style-type: none"> • Investments (30%) • Profitability (25%) • Sustainability (15%) <p>General Manager Finance and Services: 50% of IMA is determined by the results of objectives assigned to the CEO, and the remaining 50% by individual objectives (focused on financial, operational and industrial performance, internal efficiency and sustainability issues).</p> <p>MSR: 50% of IMA is determined by the results of objectives assigned to the CEO, and the remaining 50% by individual objectives (focused on financial, operational and industrial performance, internal efficiency and sustainability issues).</p> <p>Claw Back clauses are provided</p>	<p>Incentives according to the results achieved in the previous year and assessed according to a performance scale of 70/130 points, with a minimum threshold for an incentive equal to overall performance of 85 points</p> <ul style="list-style-type: none"> • CEO: 50% of gross annual compensation (GAC) for target performance (100 points); 65% of GAC for max performance (130 points); • GM Finance and Services: 40% of GAC for target performance (100 points); 52% of GAC for max performance (130 points); • MSR: 35% of GAC for target performance (100 points); 45.5% of GAC for max performance (130 points).
Long-term variable incentives (IMD - Deferred Monetary Incentive)	<p>Reserved for <i>managers</i> who have achieved the individual targets set in the previous year.</p> <p>Supports management activities over the medium to long-term, in keeping with the strategic plan's objectives, and they also ensure retention.</p>	<p>Plan with annual assignment and three-year vesting period.</p> <ul style="list-style-type: none"> • Indicator: Italgas Group's EBITDA measured from the result expected on the budget • Award of incentive: according to the position held • Payment of incentive: according to the three-year average of EBITDA performance, and assessed on a linear scale of 70/170 with the target (130) equal to budget <p>Claw Back clauses are provided</p>	<p>CEO: 45.5% of GAC for target performance; 77.4% of GAC for max performance</p> <p>GM Finance and Services: 35% of GAC for target performance; 59.5% of GAC for max performance</p> <p>MRS: 25% of GAC for target performance; with a maximum of 42.5% of GAC for max performance</p>

Component	Purpose and characteristics	Criteria and conditions for implementation	Amounts
Long-term variable incentives (IMLT - Long-Term Monetary Incentive)	Reserved for those holding positions with the most direct responsibility for the company's results; they ensure the best alignment between the interests of the shareholders and management's conduct.	<p>Plan with annual assignment and three-year vesting period</p> <ul style="list-style-type: none"> • Indicators: Adjusted net profit (60%); TSR (40%) <p>Award allocation: according to the position held</p> <ul style="list-style-type: none"> • Payment of incentive: for both indicators, the average performance in the three-year vesting period: <ol style="list-style-type: none"> 1. Adjusted net profit calculated in respect of the budget on a linear scale 70/130 (0 for values lower than budget -5%; 70 for values equal to the budget -5%; 100 for values equal to the budget; 130 for values greater than or equal to the budget +5%); 2. TSR relative to a peer group of another six listed European utilities companies: <ul style="list-style-type: none"> 1st place 130 2nd place 120 3rd place 110 4th place 100 5th place 0 6th place 0 7th place 0 <p>Claw Back clauses are provided</p>	<p>CEO: 50% of GAC for target performance; 65% of GAC for max performance;</p> <p>GM Finance and Services: 35% of GAC for target performance; 45.5% of GAC for max performance</p> <p>MRS: 25% for target performance; 32.5% of GAC for max performance</p>
Benefits	These are assigned to all executive staff and are an integral part of the compensation package. These are focused mainly on social security and pension components	<ul style="list-style-type: none"> • Supplementary Pension Fund; • Supplementary Healthcare Fund; • Life and disability insurance coverage; • Automobile for both business and personal use. 	

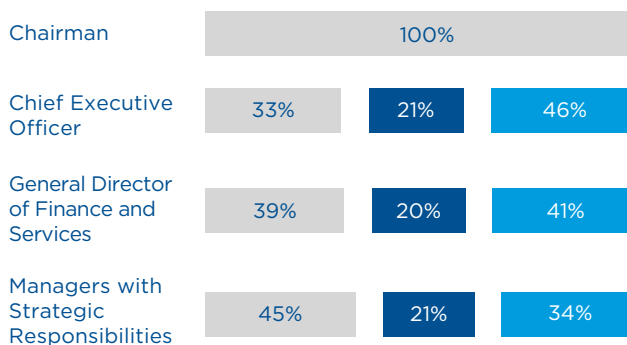
Pay mix

The 2017 Compensation Policy guidelines call for a pay mix consistent with the managerial position held. In the case of the CEO, there is a greater emphasis on the variable component and it prevails over the fixed component even if results are equal to target.

Target pay mix



Pay mix for maximum results



■ Fixed remuneration

■ Variable short-term (IMA)

■ Variable long-term (IMD + IMLT)

* MSR - Managers with Strategic Responsibilities

** the panel consists of: Enagas, Red Electrica, Terna, Snam, A2A, Elia System Operator

Introduction



This Report, approved by the Board of Directors at the proposal of the Compensation Committee, on 23 March 2017, in accordance with current legislative and regulatory requirements¹, defines and describes:

- in the first section, the policy adopted for 2017 by Italgas S.p.A. (hereinafter “Italgas” or the “Company”) for the compensation of Directors, the General Manager Finance and Services and Managers with strategic responsibilities², while setting out the general objectives of the Company, the bodies involved and the procedures utilised for adopting and implementing the Policy; the general principles and guidelines defined in

the Italgas Policy also apply for the purposes of determining the compensation policies for companies directly and indirectly controlled by Italgas;

- in the second section, the compensation paid in 2016 to Directors, Statutory Auditors (individually), and Italgas Managers with strategic responsibilities (collectively). The compensation policy outlined in this Report has also been adopted by the Company, as provided by Consob Regulation No.17221/2010 on the subject of related-party transactions, and pursuant to Article 3.7 of the Procedure “Transactions with the interests of Directors and Statutory Auditors and Related-Party Transactions” (“Procedure for Related Parties”) approved by the Board of Directors on 18 October 2016.

The policy described in the first section of the report was prepared in accordance with the compensation recommendations in the Code of Corporate Governance introduced by Borsa Italiana S.p.A. (“Code of Corporate Governance”), as amended in the edition of July 2015, and these recommendations were adopted by the Board of Directors on 4 August 2016.

The text of this Report is made available to the public at the Company’s registered office and on its website³ and the website of Borsa Italiana no later than 21 days prior to the date of the Shareholders’ Meeting called to approve the financial statements for financial year 2016 and give its opinion, though a non-binding decision, on the first section of this Report in accordance with current regulations⁴.

¹ Article 123-ter of Legislative Decree 58/98 and Article 84-quater of the Consob Issuers’ Regulations (Resolution No. 11971/99 and subsequent amendments and additions).

² The definition of “managers with strategic responsibilities” as per Article 65, paragraph 1-quarter of the Issuers’ Regulations, covers persons who have the power and responsibility, directly and indirectly, for planning, management and control of Italgas. Italgas managers with strategic responsibilities, other than the Directors and Statutory Auditors and besides the General Manager Finance and Services, are: Senior Vice President Legal, Corporate and Compliance Affairs, Senior Vice President Commercial Development, Senior Vice President Human Resources & Organisation.

³ The text is published in the “Ethics and Governance” section of the Company’s website (www.italgas.it)

⁴ Article 123-ter of Legislative Decree No. 58/98, sixth paragraph.

Sec. I



2017
Compensation Policy



Section I - 2017 Compensation Policy

1. GOVERNANCE OF THE COMPENSATION PROCESS

1.1 Bodies and parties involved

The Policy concerning compensation of the Italgas Board of Directors members is defined in accordance with statutory and regulatory provisions, according to which:

- the Shareholders' Meeting: (i) determines the compensation of the members of the Board of Directors at the time of their appointment and for their entire term of office, (ii) passes resolutions, on the recommendation of the Board of Directors, on compensation plans based on financial instruments;
- the Board of Directors, on the recommendation of the Compensation Committee, and after consulting with the Board of Auditors, determines the compensation of the Directors vested with specific duties and for participation in Board Committees.

In line with the Italgas' corporate governance rules⁵, the Board also:

- determines compensation policy for the directors, general managers and managers with strategic responsibilities in the Company and its subsidiaries and compensation systems after examining the proposals of the Compensation Committee;
- determines the compensation of the Internal Audit Manager in keeping with the Company's remuneration policies, after approval by the Compensation Committee;
- implements the compensation plans based on shares or financial instruments that have been approved by the Shareholders' Meeting;
- approves the Compensation Report to be submitted to the Shareholders' Meeting;
- assesses, after a mandatory opinion of the Compensation Committee, the content of the vote on the Compensation Report cast by the Shareholders' Meeting and the Committee's proposals concerning the adequacy, overall consistency and application of the Compensation Policy adopted for Directors and Managers with strategic responsibilities.

In complying with the recommendations contained in the Code of Corporate Governance, the Board of Directors is assisted in matters of compensation by a Committee of Independent Non-Executive Directors (Compensation Committee) having both a consulting and advisory function in this regard.

1.2 Italgas Compensation Committee

1.2.1 Composition, appointment and tasks

The Compensation Committee, established by the Board of Directors on 5 September 2016, in line with the recommendations of the Code of Corporate Governance, consists of three non-executive Directors, the majority of whom are independent, with the Chairman elected from among the independent Directors. At least one member of the Committee has adequate knowledge and experience in financial or compensation policies, as assessed by the Board at the time of

⁵ For more information on Italgas' governance structure, please refer to the "Report on corporate governance and ownership structure" published in the "Ethics and Governance" section of the Company's website.

appointment. The Board of Directors, on 5 September 2016, made this assessment. The Compensation Committee is composed, since its establishment, by the following Directors: Barbara Borra (non-Executive and Independent Director), acting as Chairman, Maurizio Dainelli (Non-Executive Director) and Paola Petrone (Non-Executive and Independent Director).

The Senior Vice President Human Resources & Organisation of Italgas serves as Secretary of the Committee.

The composition, tasks, and operating methods of the Committee are governed by specific rules⁶, approved by the Board of Directors on 4 August 2016.

The Committee has the following consulting and advisory functions with regard to the Board of Directors:

- it submits to the Compensation Report to the Board of Directors for approval and, specifically, the Policy for the Compensation of Directors, the General Manager Finance and Services and Managers with strategic responsibilities, for presentation to the Shareholders' Meeting called to approve the financial statements within the time frame established by law;
- it assesses the vote cast by the Shareholders' Meeting on the Compensation Report in the previous financial year and gives an opinion to the Board of Directors;
- it periodically assesses the appropriateness, overall consistency and practical application of the Policy adopted, by formulating proposals to the Board in this regard;
- it makes proposals concerning the compensation of the Chairman and the Chief Executive Officer, with regard to the various forms of compensation and pay arrangements;
- it makes proposals relating to the compensation of members of the Committees of Directors established by the Board;
- it examines the information reported by the Chief Executive Officer and proposes:
 - general criteria for the compensation of managers with strategic responsibilities;
 - general guidelines for the compensation of other managers of Italgas and its Subsidiaries;
 - annual and long-term incentive plans, including share-based plans;
- it proposes the definition of performance targets, the final calculations of company results and the definition of claw-back clauses, linked to the implementation of incentive plans and for the determination of the variable compensation for executive Directors;
- in connection with the executive directors, it proposes the definition: i) of indemnities to be paid in case of employment termination; ii) non-compete agreements;
- it monitors the implementation of the decisions made by the Board;
- it reports to the Board on its activities at least every six months, and within the deadline for the approval of the financial statements and half-year report, at the Board meeting indicated by the Chairman of the Board of Directors.

In exercising these functions the Committee presents any opinions that may be required by the current company procedure concerning related-party transactions, within the time frame set out by that procedure.

In accordance with the decisions made by the Board of Directors, the

⁶ The rules governing the Compensation Committee are available in the "Ethics and Governance" section of the Company's website.

Compensation Committee annually examines the compensation structure for the Internal Audits Manager, while ensuring its compliance with the general criteria approved by the Board for executives and informing the Chairman of the Control, Risk and Related Parties Transactions Committee thereof, according to its opinion which it is required to give to the Board.

The Committee, in agreement with the Control, Risk and Related Parties Transactions Committee, has provided the Internal Audit Manager with: (i) an MBO (Management By Objective) grid, solely with measurable functional objectives, excluding economic and financial targets; (ii) the determination of the annual monetary incentive totally dependent on the results as per that grid; (iii) the assignment of minimums/target/maximums performance levels and the assessment of the achieved results, by the Control, Risk and Related Parties Transactions Committee; and (iv) the standardisation of other forms of deferred and long-term monetary incentives for all managers.

For the effective performance of its analysis and investigatory function, the Compensation Committee utilises the relevant Company departments and through these structures, may make use of the support of external consultants who are not in a position that would compromise their independence of judgement.

In 2016, the Chairman of the Board of Auditors was regularly invited to the Committee meetings.

1.2.2 Activity cycle for the Compensation Committee

The Committee's activities are conducted through the implementation of an annual programme that involves the following steps:

- definition of proposals for the compensation Policy and proposals relating to the performance objectives linked to the short and long-term incentive plans;
- proposals regarding the implementation of existing variable incentive plans, short and long-term, subject to verifying the results achieved in relation to the performance targets established in the same plans;
- preparation of the Compensation Report to be submitted each year, following approval of the Board of Directors, to the Shareholders' Meeting;
- verification of the adequacy, overall consistency and practical application of the Policy adopted in the previous year, in relation to the results achieved and the compensation benchmarks supplied by highly skilled providers.

1.2.3 Activities carried out and scheduled

In 2016, the Compensation Committee met a total of 3 times. The attendance of its members was 89%.

In the meetings held in 2016, the Committee focused its activities on defining the compensation of the Chairman, the Chief Executive Officer, the Directors for participating in Board Committees and preparing the guidelines for the Compensation Policy for Managers with strategic responsibilities.

1.2.4 Main issues dealt with in 2016

September

1. Compensation Systems: aims and tools;
2. The Management compensation structure;
3. Compensation Committee activities and timetable of meetings;
4. Compensation Policy Guidelines: Chairman’s compensation; compensation to Directors for participating in Board Committees.

November

1. Compensation Policy Guidelines: Chief Executive Officer’s compensation;

December

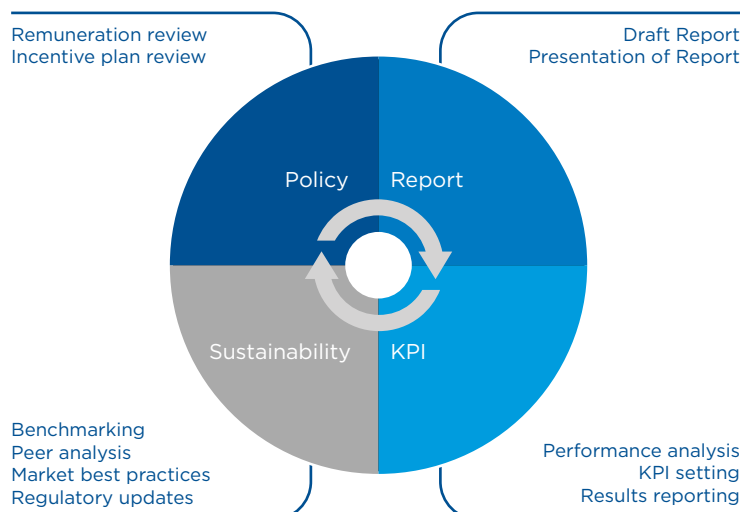
1. Compensation Policy Guidelines: Chief Executive Officer’s compensation;
2. Managers with Strategic Responsibilities: General Manager Finance and Control;
3. Compensation of Internal Audit Manager: opinion for the Control, Risk and Related Parties Transactions Committee.

For 2017, the Committee has five meetings scheduled. As of the approval date of this Report, the first three meetings were already held, the first (25 January 2017) dedicated to defining the proposed compensation for the Chief Executive Officer and the company’s performance indicators applicable to the variable incentive systems; the other two meetings will be dedicated to the periodic assessment of compensation policies implemented in 2016 for the purposes of defining Policy proposals for 2017, as well as the examination of this Report for its subsequent approval by the Board of Directors.

The Committee reports on the procedures for carrying out its functions to the Shareholders’ Meeting called to approve the year’s financial statements, via the Committee Chairman, in accordance with its own Rules, complying with the Code of Corporate Governance and with the aim of establishing an appropriate channel for dialogue with shareholders and investors.

The disclosure of compensation for Directors and management is further ensured by

Figure 3 - The compensation committee’s activities broken down by issue



updating the pages specifically dedicated to these topics under the section “Ethics and Governance” on the Company’s website.

1.3 Approval procedure for the 2017 Compensation Policy

The Compensation Committee, at its meeting of 23 February 2017 and in consistency with the recommendations of the Code of Corporate Governance, has defined the structure and contents of the Compensation Policy for the purposes of preparing this Report.

The aforementioned activities were carried out following an assessment of the legislative framework in terms of compensation, as well as the practices observed at the national and international levels for the preparation of the compensation report. Italgas’ Compensation Policy for 2017 for Directors, the General Manager Finance and Services and Managers with strategic responsibilities was then approved by the Board of Directors, at the recommendation of the Compensation Committee, at its meeting on 23 March 2017, at the same time as the approval of this Report.

The compensation policies, defined in line with the instructions of the Board of Directors, are implemented by the delegated bodies, supported by the relevant company departments.

2. PURPOSE AND GENERAL PRINCIPLES OF THE COMPENSATION POLICY

2.1 Purpose

Italgas’ Compensation Policy is defined in accordance with the governance model adopted by the Company and with the recommendations of the Code of Corporate Governance, in order to attract and retain staff with high professional and managerial skills and to align management interests with the primary objective of creating shareholder value in the medium to long-term.

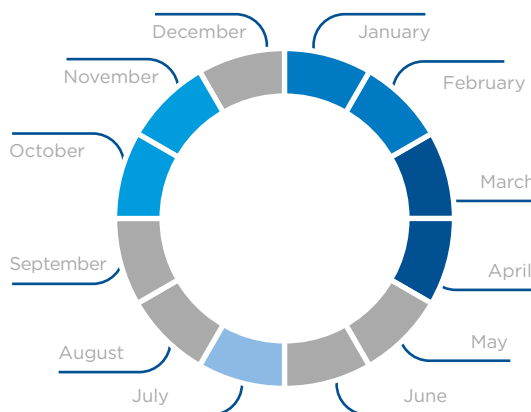
Figure 4- Activity cycle of the compensation committee

October - November

Implementation of Long-term monetary incentive plan
 Details on issues subject to attention by shareholders and proxy advisors

July

Implementation of Deferred monetary incentive plan
 Analysis of results of shareholders’ meeting vote on the “Remuneration Report”



January - February

Periodic assessment of policies adopted last year
 Definition of Remuneration Policy
 Final results and definition of objectives correlated with Variable Incentive Plans
 Implementation of Annual monetary incentive plans
 Preparation of the Remuneration Report

March - April

Presentation of the Remuneration Report at the Shareholders’ Meeting

Within the policy adopted, the variable, results-linked component takes on particular importance. This component is implemented through incentive systems linked to the achievement of economic/ financial, business development and operational objectives, defined in terms of the sustainability of the results, in line with the Strategic Plan of the Company.

Specifically, Italgas' Compensation Policy contributes to the achievement of its corporate mission, values and business strategies by: i) promoting activities and behaviours in line with the Company's culture, while respecting the principles of diversity, equal opportunity, and the development of knowledge, professionalism, equality and non-discrimination as provided for in Italgas' Ethics Code and in the Corporate System Framework; ii) recognising the responsibilities assigned, the achievements and quality of the professional contribution made, while taking account of the reference context and the remuneration markets.

2.2 General Principles

In implementing the aforementioned aims, the compensation of the Directors, the General Manager Finance and Services and Managers with strategic responsibilities is defined in accordance with the following principles and criteria:

- compensation structure that will attract, retain and motivate people with high professional qualities;
- non-executive directors' salaries commensurate with the effort involved in relation to participating on Board Committees, with different compensation for the Chairman than the members of each Committee, with respect to the position attributed thereto, for coordinating the work and liaising with the corporate bodies and corporate functions;
- compensation structure, for the Chairman, consisting of a fixed fee consistent with the position held;
- compensation structure, for the Chief Executive Officer, the General Manager Finance and Services and Managers with strategic responsibilities, with a suitable balance between a fixed component in line with the powers and/or responsibilities assigned and a variable component defined within maximum limits and aimed at linking remuneration to the defined performance targets;
- consistency of overall remuneration with respect to applicable market benchmarks for comparable responsibilities or for positions at a similar level in terms of responsibility and complexity, as part of the corporate panel comparable to Italgas, using specific remuneration benchmarks applied with the support of leading consulting firms;
- variable compensation for executive positions that consist of a short-term component and a medium to long-term component, characterised by appropriate deferral of incentives by providing for at least a three-year vesting period;
- significant weighting, for executives with a greater influence on business outcomes, of the long-term variable components, with a view to the sustainability of results and the creation of value for shareholders in the medium to long-term;

- variable compensation linked with predetermined, measurable and definite targets so as to ensure compensation for performance over the short or medium term by:
 - (i) setting targets for short-term incentive plans based on a balanced scorecard that enhances the performance of the business and of the individual, in relation to the specific targets in their area of responsibility and, as regards those that are responsible for internal control functions, consistent with the tasks assigned to them;
 - (ii) setting targets for deferred or long-term incentive plan based in ways that allow an assessment of company performance in absolute terms, with reference to the ability to generate increasing and sustainable levels of profitability, both in relative terms compared to a peer group of listed companies in the European utilities sector, and with reference to the ability to generate value;
- evaluation of assigned performance targets, excluding the effects of external impacts stemming from the development of the benchmark scenario, in order to enhance to the actual contribution to the achievement of the assigned performance targets;
- adoption of *claw-back* mechanisms aimed at recovering the variable part of the compensation that is not payable since it was received on the basis of targets achieved as a result of intentional misconduct or gross negligence or on data that have proven to be manifestly incorrect;
- benefits in line with market benchmark compensation practices and consistent with current regulations, so as to supplement and enhance the total compensation package, taking into account the position and/or responsibilities assigned, while focusing on the social security and insurance components;
- any supplementary indemnities in severance pay for termination of employment and/or executive positions known to be of a “temporary” nature, or with increased risks of competitive recruitment, consistent with the compensation;
- any use of non-compete agreements pursuant to Article 2125 of the Italian Civil Code intended to protect corporate interests in the event of terminating employment with the company, with the provision of appropriate penalties in the event of their non-compliance.

3. 2017 COMPENSATION POLICY GUIDELINES

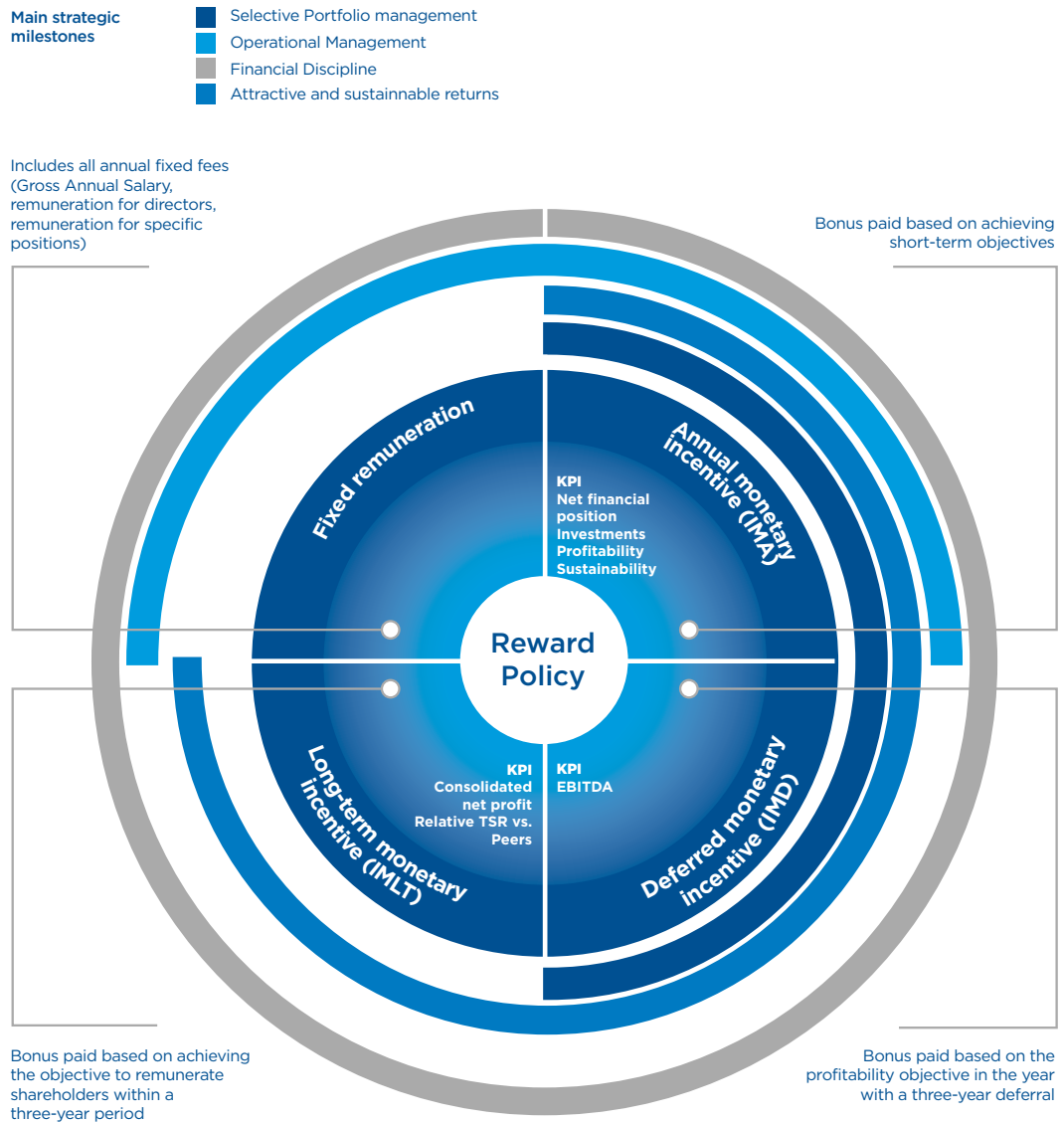
Guidelines for 2017 reflect the decisions adopted for compensation of executive Directors by the Board of Directors in 2016.

For the General Manager Finance and Services and the Managers with strategic responsibilities, the 2017 Compensation Policy specifically identifies the short and long-term incentive plans that are strictly consistent with those of top management, leading to better orientation and alignment of managerial actions in the short and long-term with those targets defined in the Company’s annual performance plans and the Strategic Plan.

The 2017 Compensation Policy guidelines were defined in line with the declared aims and general principles, and were evaluated by the Compensation Committee as being consistent with the applicable market benchmarks.

The monetary compensation instruments will be summarised and explained in the following chart:

Figure 5 - Reward policy



3.1 Chairman

3.1.1 Compensation for the position and powers and other indemnities

According to the provisions of the Board of Directors at its meeting on 26 September 2016, the compensation of the Chairman of the Board of Directors currently in office provides for a gross annual fixed salary for the position of €238,000, including the fixed annual compensation for Directors established by the Shareholders' Meeting, in addition to reimbursement of the costs incurred in connection with the position. In view of the nature of this position, there are no: i) short or long-term variable

incentive components; ii) agreements on severance indemnities.

The Compensation Committee, in its meeting of 26 September 2016, analysed the positioning of the Chairman's compensation. At the meeting of the Board of Directors on 26 September 2016 it was stated that such compensation falls within the market median.

3.2 Non-executive directors

3.2.1 Compensation determined by the Shareholders' meeting

On 4 August 2016, the Shareholders' Meeting approved the Directors' compensation at a gross annual fixed compensation for the office of €40,000, in addition to reimbursement for costs incurred in connection with the position.

The Compensation Committee, having analysed the compensation positioning of non-executive Directors at its meetings on 23 February 2017 and on 23 March 2017, using a specific benchmark with the companies in the FTSE MIB, revealed to the Board of Directors on 23 March 2017 that the compensation paid is positioned lower than the market median (-30%).

In the light of the recommendations under Article 6.C.4 of the Code of Corporate Governance, the compensation of non-Executive Directors is not linked to the economic results achieved by the company, nor are they the beneficiaries of share-based incentive plans.

No distinction is provided in terms of compensation for the independent Directors.

3.2.2 Compensation for participating in Board Committees

The non-executive directors, as decided by the Board of Directors on 26 September 2016, are provided an additional annual compensation for participating in Board Committees:

- the Control, Risk and Related Parties Transactions Committee, in connection with the important role exercised in safeguarding against business risks, was provided compensation respectively of €30,000 for the Chairman and €20,000 for the other members;
- the Compensation Committee was provided compensation respectively of €20,000 for the Chairman and €15,000 for the other members;
- the Appointments Committee was provided compensation respectively of €20,000 for the Chairman and €15,000 for the other members;
- the Sustainability Committee was provided compensation respectively of €20,000 for the Chairman and €15,000 for the other members;

The Compensation Committee, at its meeting of 26 September 2016, analysed the position of non-executive Directors, including with regard to compensation for participating in Board committees. At the meeting of the Board of Directors on 26 September 2016 it was stated that such compensation falls within the market median.

3.2.3 Severance indemnities and severance pay

There are no agreements for severance indemnities for non-executive directors or that provide for indemnity in the event of resignation or dismissal without just cause or if the employment relationship is terminated due to a takeover bid.

3.3 Chief Executive Officer

3.3.1 Fixed compensation

The Chief Executive Officer's compensation was determined by the Board of Directors on 23 January 2017, at the proposal of the Compensation Committee and with the approval of the Board of Auditors.

The Compensation Committee reviewed the subject at its meetings on 26 September 2016, 28 November 2016, 20 December 2016 and 25 January 2017. It started by acquiring the study, carried out by Mercer, for the market compensation for Chief Executive Officers with respect to a panel composed of companies listed on the FTSE-MIB, excluding financial and insurance companies.

Numerous quantitative analyses were performed subsequently by broadening the panel of other companies considered, not members of the FTSE-MIB, whose business was considered contiguous or comparable to that of Italgas.

Finally, it commissioned Spencer Stuart for a further analysis on the "complexity" of Italgas business compared to its major peers.

In light of the findings of the articulated path followed for determining the compensation of the Chief Executive Officer, the Compensation Committee at its meeting on 25 January 2017, adopted the following synthetic position:

- for determining the compensation of the Chief Executive Officer, it considered the panel defined by Mercer and formed by FTSE-MIB companies, supplemented with other companies operating in sectors that are contiguous to that of gas distribution;
- with respect to this benchmark panel, the fixed compensation of the Chief Executive Officer should be set close to the median;
- however, in a context of prudence and moderation of compensation, it was considered appropriate, for the time being, to set the fixed compensation close to the first quartile (Q1).

On this basis, the Compensation Committee decided to propose to the Board of Directors to set the fixed compensation at €725,000 gross per year, including the compensation for Directors provided by the Shareholders' Meeting; maintenance of the gross up for the automobile is also provided.

As an Italgas executive, the Chief Executive Officer is the recipient of indemnities for work-related travel, domestically and abroad, in line with the provisions of the CCNL [National Collective Labour Agreement] and supplementary corporate agreements.

3.3.2 Short-term variable incentives

The annual variable component (Annual monetary incentive plan - IMA) is determined with reference to a target incentive level (performance = 100) and a maximum (performance = 130) equalling 50% and 65% respectively of the fixed remuneration, in connection with the performance achieved for Italgas in the previous year in relation to the defined targets. A threshold level is set (performance = 85) below which the short-term incentive is not paid.

The 2017 targets approved by the Board of Directors meeting on 26 January 2017 are focused on the economic, financial and operational performance of the company, on investments as well as sustainability issues.

The net financial position is represented by the gross financial debt less cash and cash equivalents as well as financial receivables not related to operating assets, without taking into account the non-cash adjustments, compared to the estimated budget value. The investment target is measured by: spending on investments at the budgeted level. The profitability target is measured by the EBITDA compared to the value set in the budget.

Finally, the sustainability item is composed of two targets: (i) the accident frequency index of employees and contractors, measured in terms of the number of accidents that have occurred for every million hours worked during the year; and (ii) the number of institutional investors met during the year, depending on the consolidation of the company's shareholder base.

3.3.3 Long-term variable incentives

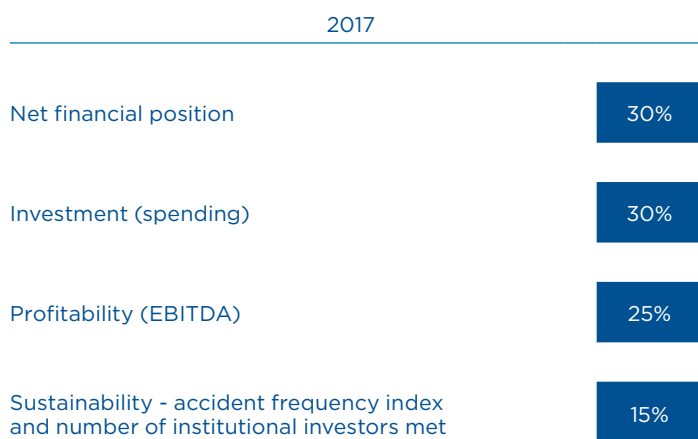
The long-term variable component is characterised by deferral of the incentive with a view to ensuring sustainability in the creation of value for shareholders in the medium to long-term. The variable long-term component is divided into two distinct plans:

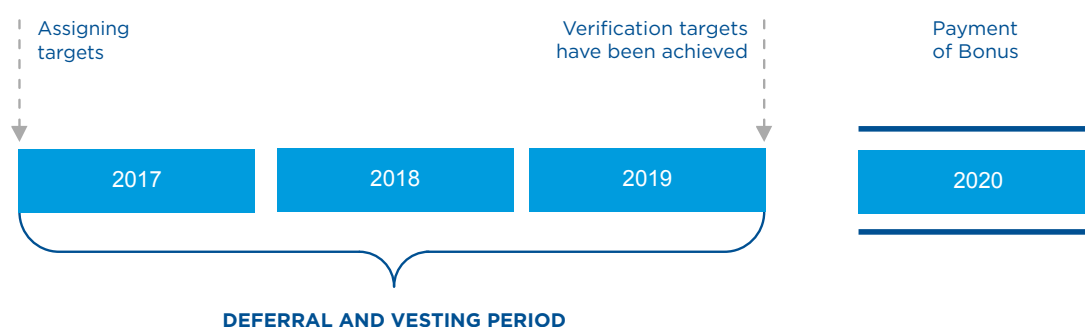
- the 2017 Deferred Monetary Incentive Plan (IMD) in relation to the Company's performance measured in terms of EBITDA⁷, a parameter widely used in large industrial companies as a summary indicator of the results achieved and consistent with the strategy of growing/strengthening of Italgas' current positioning in its business areas; the base incentive to be allocated is set at 45.5% of the fixed remuneration; the incentive to be disbursed at the end of the three-year reference period (vesting period) is determined, in relation to the results achieved in each of the three years following the allocation year, in a percentage between 0 and 170% of the awarded amount⁸; the 2017 EBITDA targets were approved by the Board of

⁷ Earnings before interest, tax, depreciation and amortization.

⁸ The percentage is determined by the average of the results obtained over the three years starting from the allocation year, valued according to a linear scale, which provides: 170% if the result obtained is equal to or greater than the budget + 5%; 130% if it is equal to the budget; 70% if it is equal to the budget -5%; 0% if it is less than the budget -5%.

FIGURE 6 - Annual Monetary Incentive Targets 2017





Directors on 25 February 2017 at the proposal of the Compensation Committee, in line with the Strategic Plan.

- The 2017 Long-Term Monetary Incentive Plan (IMLT), provided for managers who have a greater impact on the corporate results, which provides for the annual allocation of an amount equal to 50% of the fixed compensation, and payment of the incentive after three years (vesting period), as a percentage ranging from 0 to 130% based on the weighted change in the parameters of consolidated net profit (60%) and total shareholder return (40%).

Performance, in terms of consolidated net profit, is calculated with reference to the budget amounts⁹. Performance in terms of total shareholder return is calculated depending on the positioning of Italgas in the panel comprising a peer group made up of the following companies listed on Euro-zone markets (also relevant for the purposes of the P4P method) belonging to the EURO STOXX TMI utilities index: Snam, Terna, A2A (Italy); Red Eléctrica and Enagas (Spain); Elia System Operator (Belgium).

Placement in first place involves a score of 130, 120 in second place, 110 in third place, 100 in fourth. The score is 0 for placements below average (5th, 6th, 7th place).

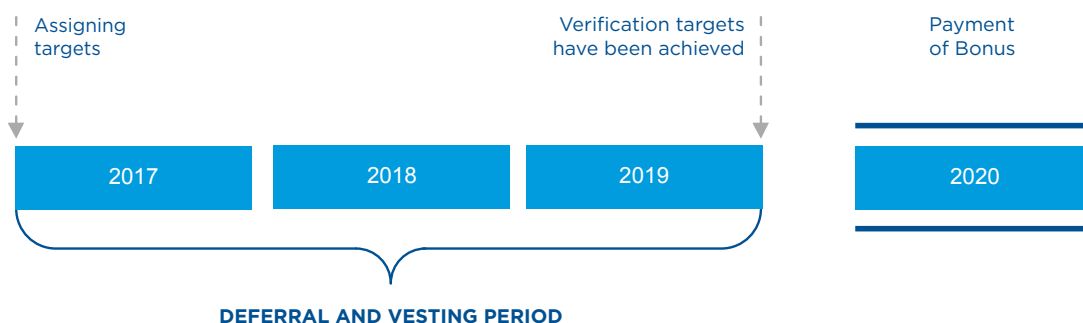
3.3.4 Indemnities for termination of office or employment

For the Chief Executive Officer in office, in accordance with the reference market practices, an indemnification is provided for the termination of the directorship and executive position.

If the term of office is not renewed when it expires, or if it is terminated in advance, two years of the fixed annual compensation are payable plus the average from the Annual Monetary Incentive paid over the last three years.

The indemnity is not payable if the termination of employment is for just cause or due to dismissal with notice for subjective grounds involving the notion of justifiability in accordance with the collective bargaining agreement or in the event of a resignation.

⁹ The performance is assessed according to a linear scale that includes: 130% if the result obtained is equal to or greater than the budget + 5%; 100% if it is equal to the budget; 70% if it is equal to the budget -5%; 0% if it is less than the budget -5%.



The effects of any employment termination of the Chief Executive Officer's relationship on the benefits assigned under existing long-term incentive plans based on financial instruments are described in the relevant allocation rules.

3.3.5 Non-compete agreements

Non-compete agreements are provided to protect the corporate interest. It is provided, based on the standards used by companies of equivalent *standing* and in compliance with the provisions of Article 2125 of the Italian Civil Code, in relation to the obligation assumed by the Chief Executive Officer in office not to perform, for a period of one year after terminating employment, any kind of activity that could be in competition with that performed by Italgas, the payment of one year's compensation of only the fixed remuneration. For the protection of the company penalties are provided for non-compliance, without prejudice to the right to claim further damages.

3.3.6 Benefits

In compliance with the provisions of the national collective bargaining and supplementary agreements for Italgas company executives, the Chief Executive Officer will be enrolled in the Supplementary Pension Fund (PREVINDAI)¹⁰, and in integrated health care Funds (FISDE and CassaPrevint)¹¹, as well as forms of insurance coverage against the risk death and disability, and shall also be assigned a passenger car for both business and private use.

3.4 General Manager Finance and Services

3.4.1 Fixed compensation

The fixed compensation is determined based on the position and responsibilities assigned considering the average remuneration levels in the market and providing a recovery for competitiveness with variable components. The Compensation Committee assessed the consistency with the corporate compensation policy and

¹⁰ Contractual pension fund with defined and individual capitalisation contribution, www.previndai.it.

¹¹ Funds that provide reimbursement of health care costs for retired executives and their family members, www.fisde-eni.it; www.cassaprevint.it

salary benchmark made by Mercer, with reference to the Italian market. The fixed compensation is therefore equal to €400,000 gross.

Also, as an Italgas executive, the General Manager Finance and Services is the recipient of indemnities for work-related travel, domestically and abroad, in line with the provisions of the CCNL [National Collective Labour Agreement] and supplementary corporate agreements.

3.4.2 Short-term variable incentives

The Annual Monetary Incentive Plan (IMA) provides for a compensation determined with reference to the Italgas and individual performance results with a level of incentive targets (performance = 100) and maximum (performance = 130) equalling 40% and 52% respectively of the fixed compensation. A threshold level is set (performance = 85) below which the short-term incentive is not paid.

For the General Manager, the annual variable incentive is determined, in one part (50%) from the company results compared with the targets assigned to the Chief Executive Officer by the Board of Directors on 25 January 2017 and, the other part (50%), by a series of individual targets assigned in relation to the scope of responsibilities in the position held, in accordance with the provisions of the Company's Performance Plan.

3.4.3 Long-term variable incentives

The General Manager, in accordance with the provisions for the Chief Executive Officer, participates in long-term incentive plans with the following characteristics:

- 2017 Deferred Monetary Incentive Plan (IMD), in relation to the Company's performance measured in terms of EBITDA, which maintains the same performance conditions and characteristics described in the section dedicated to the compensation of the Chief Executive Officer. For the General Director, the incentive basis to be allocated is equal to 35% of the fixed compensation. The incentive to be disbursed at the end of the three-year reference period (vesting period) is determined in a percentage between 0 and 170% of the awarded amount, in relation to the results achieved.
- The 2017 Long-Term Monetary Incentive Plan (IMLT) is provided for managerial positions with greater impact on business outcomes. This plan has the same performance conditions and characteristics of the plan provided for the Chief Executive Officer. For the General Director, the incentive basis to be allocated is equal to 35% of the fixed compensation. The incentive to be disbursed at the end of the three-year reference period (vesting period) is determined in a percentage between 0 and 130% of the awarded amount, in relation to the results achieved.

3.4.4 Indemnities provided in the event of termination of office or employment

For the General Director of Finance and Services, there is an indemnity for termination of employment as director.

Upon the consensual termination of the employment, if this occurs by 31.12.2018, two years of the fixed annual compensation are paid supplemented by the average of the Annual Monetary Incentive paid over the last three years and except that resulting from the application of the provisions of the National Directors Contract for companies producing goods and services.

The effects of any termination of the General Manager's relationship on the benefits assigned under existing long-term incentive plans based on financial instruments are described in the relevant allocation rules. Specifically, the Deferred Monetary Incentive Plans (IMD) and Long-Term Monetary Incentive (IMLT), contemplating clauses aimed at promoting the retention of personnel, provide, in the event of consensual termination of employment during the vesting period, that the beneficiary remains entitled to incentives at a reduced level for the period between the granting of the base incentive and the occurrence of the termination. Additionally, no provision is due in cases of unilateral termination by the Company or for voluntary resignation or for just cause or achieving objectively inadequate results.

3.4.5 Benefits

In compliance with the provisions of the national collective bargaining and supplementary agreements for Italgas company executives, the General Manager Finance and Services will also be enrolled in the Supplementary Pension Fund (FOPDIRE), in the integrated health care Fund (FISDE), and in forms of insurance coverage against the risk death and disability, and shall also be assigned of a passenger car for business and personal use.

3.5 Other Managers with Strategic Responsibilities

3.5.1 Fixed compensation

For Managers with Strategic Responsibilities, other than the General Manager Finance and Services, the fixed compensation is determined based on the position and responsibilities assigned considering the average compensation levels in the market of major Italian companies for positions at a similar level of managerial responsibility and complexity and by providing for recovery of competitiveness with the variable components. This compensation may be adjusted periodically in the context of the annual salary review as part of the process that applies to all managerial staff. The 2017 Guidelines, in view of the global context and the current market trends, provide selective criteria while maintaining high levels of competitiveness and motivation. In particular, the proposed actions regard adjustment operations aimed at those holding positions that have increased in scope of responsibility and/or with positioning below the median market benchmarks.

Also, as Italgas executives, the Managers with Strategic Responsibilities are the recipients of indemnities for work-related travel, domestically and abroad, in line with the provisions of the CCNL [National Collective Labour Agreement] and supplementary corporate agreements.

3.5.2 Short-term variable incentives

The Annual Monetary Incentive Plan (IMA) provides for a compensation determined with reference to the Italgas and individual performance results with a level of incentive targets (performance = 100) and maximum (performance = 130) equalling 35% and 45.5% respectively of the fixed compensation. A threshold level is set (performance = 85) below which the short-term incentive is not paid.

For the Managers with strategic responsibilities, the annual variable incentive is determined, in one part (50%), from the company results compared with

the targets assigned to the Chief Executive Officer by the Board of Directors on 25 January 2017 and, for the other part (50%), by a series of individual targets (focused on economic/financial, operational and industrial performance, internal efficiency and sustainability issues) assigned in relation to the scope of responsibilities in the position held, in accordance with the provisions of the Company's Performance Plan.

3.5.3 Long-term variable incentives

The Managers with strategic responsibilities, in accordance with the provisions for the Chief Executive Officer, participate in long-term incentive plans with the following characteristics:

- 2017 Deferred Monetary Incentive Plan (IMD), in relation to the Company's performance measured in terms of EBITDA, which maintains the same performance conditions and characteristics described in the section dedicated to the compensation of the Chief Executive Officer. For the Managers with strategic responsibilities, the incentive basis to be allocated is equal to 25% of the fixed compensation. The incentive to be disbursed at the end of the three-year reference period (vesting period) is determined in a percentage between 0 and 170% of the awarded amount, in relation to the results achieved.
- The 2017 Long-Term Monetary Incentive Plan (IMLT) is provided for managerial positions with greater impact on business outcomes. This plan has the same performance conditions and characteristics of the plan provided for the Chief Executive Officer. For the Managers with strategic responsibilities the incentive basis to be allocated is equal to 35% of the fixed compensation. The incentive to be disbursed at the end of the three-year reference period (vesting) is determined in a percentage between 0 and 130% of the value attributed, in relation to the results achieved.

3.5.4 Indemnities provided in the event of termination of office or employment

Managers with strategic responsibilities are provided with indemnities for termination of employment as established by the national collective agreement and any supplementary indemnities agreed individually with the termination according to the criteria established by Italgas for incentivised exit.

The effects of any employment termination of the Managers with strategic responsibilities on the benefits assigned under existing long-term incentive plans based on financial instruments are described in the relevant allocation rules. Specifically, the Deferred Monetary Incentive Plans (IMD) and Long-Term Monetary Incentive (IMLT), contemplating clauses aimed at promoting the retention of personnel, provide, in the event of consensual termination of employment during the vesting period, that the beneficiary remains entitled to incentives at a reduced level for the period between the granting of the base incentive and the occurrence of the termination. No compensation is due in cases of unilateral termination by the Company or for voluntary resignation or for just cause or achieving objectively inadequate results.

3.5.5 Benefits

For the Managers with strategic responsibilities, in compliance with the provisions of the national collective bargaining and supplementary agreements for Italgas company executives, the enrolment is provided into the Supplementary Pension Fund (FOPDIRE), enrolment in integrated health care Fund (FISDE), forms of insurance coverage against the risk of death and disability, and the assignment of a passenger car for business and personal use.

3.6 Claw-back mechanisms

All the variable incentive systems (annual monetary incentive, deferred monetary incentive and long-term monetary incentive) have been provided with a claw-back clause whereby the company, within the legal term of limitation (ten years) may repossess sums disbursed in cases where it is established that the targets were achieved due to intentional misconduct or gross negligence or, howsoever, or produced in violation of the regulations of reference.

3.7 Market benchmarks and pay-mix

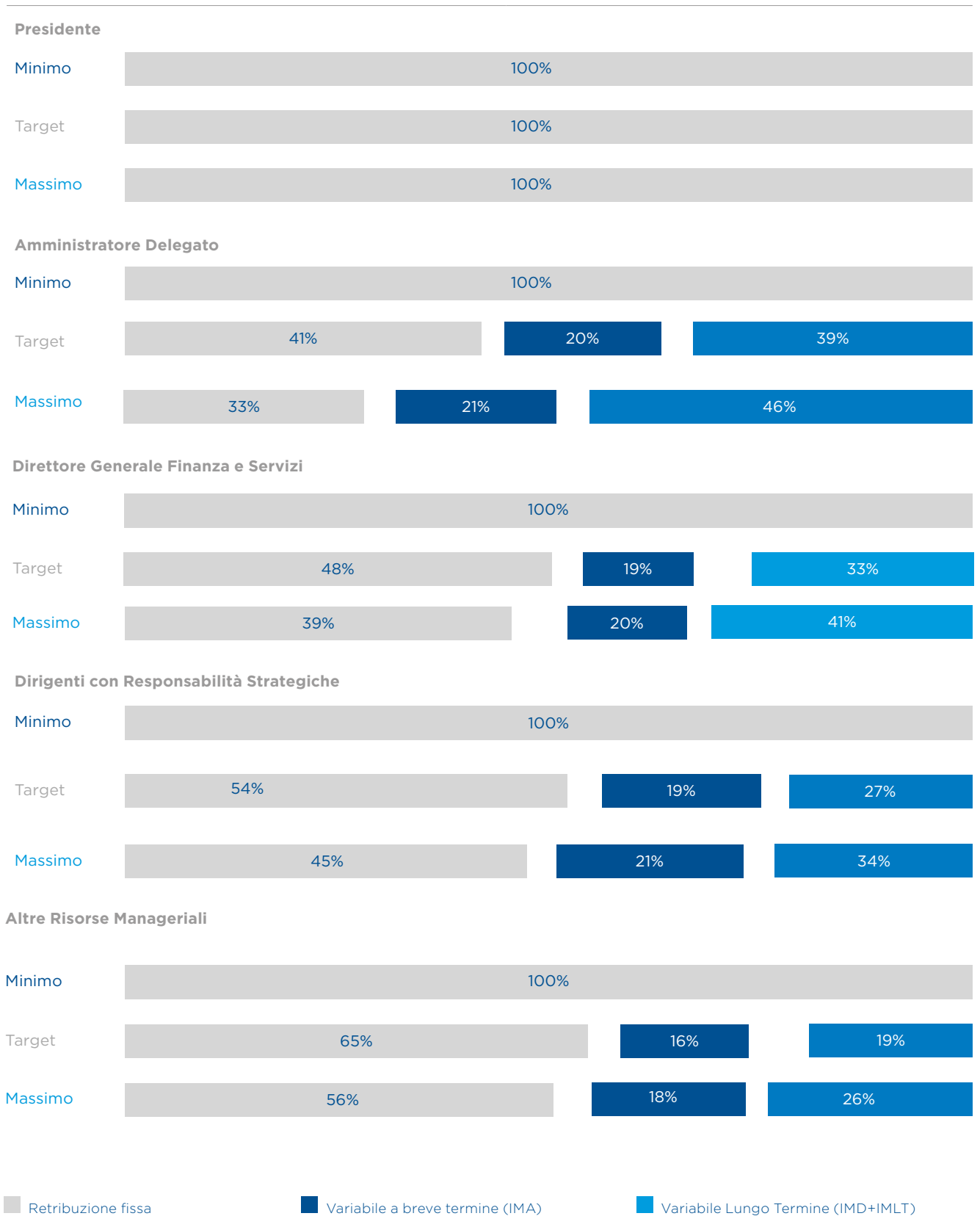
The preparation of the guidelines and evaluation of the policies implemented are performed with the support of independent and highly specialised advisors, using specific salary benchmarks (Mercer, Spencer Stuart). The compensation benchmarks used for the different types of positions are shown in the following table.

Figure 7 - Panels used for Compensation Benchmarks

	Mercer	Spencer Stuart
Chief Executive Officer	Panel of listed companies comparable with Italgas based on capitalisation and turnover or similar in terms of business (17 companies)	Panel of listed companies comparable with Italgas based on business complexity
Chairman	Panel of listed companies comparable with Italgas based on capitalisation/turnover (13 companies)	-
General Finance and Services Director	Executive Remuneration Guide	-
Other Managers with Strategic Responsibilities	Executive Remuneration Guide	-

The 2017 Compensation Policy guidelines call for a pay mix consistent with the managerial position held, with greater weighting on the variable component for positions typically having a major impact on business outcomes, as evidenced in the pay-mix chart below, and calculated considering the value of short and long-term incentives in the event of on-target results, in terms of a minimum level (not achieving the threshold value provided by all the short and long-term variable incentive plans) and at a maximum level.

Figure 8 - Minimum, Target and Maximum Pay Mix Benchmarks



Sec. II



A construction worker wearing a white hard hat with the 'IG' logo, a grey work jacket with blue accents, and grey work pants with blue stripes on the cuffs, is walking in front of a brick building. The image is framed by a large, semi-transparent white circle. The text 'Compensation and other information' is overlaid in white on the right side of the circle.

Compensation and other information

Section II - Compensation and other information

1. COMPENSATION PAID IN THE YEAR 2016

Below is a description of the compensation paid in 2016 for the Chairman of the Board of Directors, the Non-Executive Directors, the Chief Executive Officer, the General Manager Finance and Services, and Managers with Strategic Responsibilities.

The payments considered start on 4 August 2016 (the Board of Directors is appointed by the Ordinary Shareholders' Meeting).

In view of the process that has characterised, during 2016, the demerger from Snam and Italgas' listing on the Milan Mercato Telematico Azionario [Electronic Stock Exchange], the compensation disbursed relates to the periods specified below:

- Chairman of the Board of Directors and Non-Executive Directors:
 - from 4 August 2016 to 31 December 2016;
- Chief Executive Officer:
 - from 4 August 2016 to 31 December 2016;
- Managers with Strategic Responsibilities:
 - from 1 January 2016 to 31 December 2016 if employed by Italgas Group Companies also before the date of demerger from Snam (2 Directors);
 - from 1 November 2016 to 31 December 2016 if employed by Snam Group Companies also before the date of demerger from Snam (2 Directors);

The Compensation Committee, during the periodic evaluation provided for by the Code of Corporate Governance, verified the position of the compensation paid during 2016 compared to the reference markets, though unable to perform, for all involved, a complete evaluation for the compensation policy guidelines that were completed progressively between September 2016 and January 2017 and that are summarised in Section I of this document.

TABLE 1 - COMPENSATION PAID TO DIRECTORS, STATUTORY AUDITORS AND MANAGERS WITH STRATEGIC RESPONSIBILITIES

The following table shows the compensation to Directors, Statutory Auditors and, at the aggregate level, Managers with strategic responsibilities¹².

An indication of the compensation transferred by Italgas to other companies is shown; there is no indication provided of additional compensation received by subsidiaries and/or associates as it is entirely transferred to the Company.

In particular:

- the column "**Fixed compensation**" shows, according to an accrual principle, the fixed compensation and salaries of employees payable in the year 2016, before social security and taxes; excluded are reimbursed flat-rate expenses and attendance compensation as these are not provided for. The note provides the compensation

¹² There are no prerequisites required by applicable legislation for disclosure on an individual basis.

details as well as a separate indication of any allowances and amounts owed related to the employment relationship;

- the column “**Compensation for participating in Committees**” shows, according to the position shown, the compensation owing to Directors for participating in Committees established by the Board; the note supplies a separate indication of the compensation for each Committee in which the Director participates;
- the column “**Non-equity Variable Compensation**” lists under “**Bonuses and other incentives**”, the year’s incentives with the vesting of the related rights upon verification and approval of the performance results by the relevant corporate bodies, as specified in greater detail in the Table “Monetary incentive plans for Directors and Managers with strategic responsibilities”;
- the column “**Non-monetary benefits**” shows, according to the positions concerned and tax liability, the amount of fringe benefits awarded;
- the columns “**Non-equity variable compensation /Profit sharing**”, “**Other compensation**”, “**Fair Value of equity compensation**” and “**indemnity for severance or termination of employment**” do not show any figures, as they were non-existent for the year 2015;
- the column “**Total**” shows the sum of the amounts of the previous entries.

Table 1:
Remuneration paid to Directors, Statutory Auditors and Managers with strategic responsibilities

Name	Notes	Role	Period in office	Expiry of term of office	Fixed remuneration	Remuneration for participation in committees
Board of Directors						
Lorenzo Bini Smaghi	(1)	Chairman	04.08 - 31.12	04.19	97.808 (a)	0
Paolo Gallo	(2)	Chief Executive Officer	04.08 - 31.12	04.19	211.398	
Nicola Bedin	(3)	Director	04.08 - 31.12	04.19	16.393 (a)	5.260 (b)
Barbara Borra	(4)	Director	04.08 - 31.12	04.19	16.393 (a)	9.453 (b)
Maurizio Dainelli	(5)	Director	04.08 - 31.12	04.19	16.393 (a)	7.090 (b)
Cinzia Farisè	(6)	Director	04.08 - 31.12	04.19	16.393 (a)	6.010 (b)
Yunpeng He	(7)	Director	04.08 - 31.12	04.19	16.393 (a)	2.254 (b)
Paolo Mosa	(8)	Director	04.08 - 31.12	04.19	16.393 (a)	2.254 (b)
Paola Annamaria Petrone	(9)	Director	04.08 - 31.12	04.19	16.393 (a)	9.344 (b)
Board of Statutory Auditors						
Gian Piero Balducci	(10)	Chairman	04.08 - 31.12	04.19	24.590 (a)	
Giandomenico Genta	(11)	Statutory auditor	04.08 - 31.12	04.19	16.393 (a)	
Laura Zanetti	(12)	Statutory auditor	04.08 - 31.12	04.19	16.393 (a)	
Managers with strategic responsibilities (13)					596.193 (a)	
Grand total					1.077.530	41.665

(1) Lorenzo Bini Smaghi - Chairman of the Board of Directors

(a) The amount of €238,000 includes the fixed compensation per annum established by the Shareholders' Meeting on 4 August 2016 (€40,000) and the fixed compensation per annum for the functions approved by the Board on 26 September 2016 (€198,000).

(b) The amount includes the annual fee (€7,000) for participating, as a member on the appointments Committee.

(2) Paolo Gallo - Chief Executive Officer

(a) The amount of €725,000 corresponds to the actual GAC (established by the Board of Directors at its meeting on 26 January 2017) and includes the compensation of €40,000 established by the Shareholders' Meeting on 4 August 2016 for the office of Director.

Variable non-equity remuneration		Non-monetary benefits	Other remuneration	Total	Fair Value of equity remuneration	Indemnity for end of term of office or termination of employment
Bonuses and other incentives	Profit sharing					
				97.808		
		10.999		222.397		
				21.653		
				25.846		
				23.483		
				22.403		
				18.647		
				18.647		
				25.737		
				24.590		
				16.393		
				16.393		
468.550	(b)	24.577		1.089.320		
468.550		35.576		1.623.317		

(3) Nicola Bedin - Director

(a) The amount corresponds to the period in office at the fixed compensation per annum established by the Shareholders' Meeting on 4 August 2016 (€40,000).

(b) The amount corresponds to the period in office (i) at the fixed compensation per annum (€20,000) for participating, as Chairman, in the Sustainability Committee and (ii) the fixed annual compensation (€15,000) for participating, as a member, on the Appointments Committee.

(4) Barbara Borra - Director

(a) The amount corresponds to the period in office at the fixed compensation per annum established by the Shareholders' Meeting on 4 August 2016 (€40,000).

- (b) The amount corresponds to the period in office (i) at the fixed compensation per annum (€20,000) for participating, as Chairman, in the Economic Sustainability Committee and (ii) the fixed annual compensation (€20,000) for participating, as a Member, on the Control, Risk and Related Parties Transactions Committee.
- (5) Maurizio Dainelli - Director
 - (a) The amount corresponds to the period in office at the fixed compensation per annum established by the Shareholders' Meeting on 4 August 2016 (€40,000). The amount of the compensation is paid to the company of membership (Cassa Depositi e Prestiti S.p.A.).
 - (b) The amount corresponds to the period in office (i) at the fixed compensation per annum (€15,000) for participating, as a Member, in the Compensation Committee and (ii) the fixed annual compensation (€15,000) for participating, as a Member, on the Appointments Committee. The amount of the compensation is paid to the company of membership (Cassa Depositi e Prestiti S.p.A.).
- (6) Cinzia Farise' - Director
 - (a) The amount corresponds to the period in office at the fixed compensation per annum established by the Shareholders' Meeting on 4 August 2016 (€40,000).
 - (b) The amount corresponds to the period in office (i) at the fixed compensation per annum (€20,000) for participating, as Chairman, in the Appointments Committee and (ii) the fixed annual compensation (€20,000) for participating, as a Member, on the Control, Risk and Related Parties Transactions Committee.
- (7) Yunpeng He - Director
 - (a) The amount corresponds to the period in office at the fixed compensation per annum established by the Shareholders' Meeting on 4 August 2016 (€40,000).
 - (b) The amount corresponds to the period in office at the fixed compensation per annum (€15,000) for participating, as a Member, on the Sustainability Committee.
- (8) Paolo Mosa - Director
 - (a) The amount corresponds to the period in office at the fixed compensation per annum established by the Shareholders' Meeting on 4 August 2016 (€40,000).
 - (b) The amount corresponds to the period in office at the fixed compensation per annum (€15,000) for participating, as a Member, on the Sustainability Committee.
- (9) Paola Annamaria Petrone - Director
 - (a) The amount corresponds to the period in office at the fixed compensation per annum established by the Shareholders' Meeting on 4 August 2016 (€40,000).
 - (b) The amount corresponds to the period in office (i) at the fixed compensation per annum (€30,000) for participating, as Chairman, on the Control, Risk and Related Parties Transactions Committee and (ii) the fixed annual fee (€15,000) for participating, as a Member, on the Compensation Committee.
- (10) Gian Piero Balducci - Chairman of the Board of Statutory Auditors
 - (a) The amount corresponds to the period in office at the fixed compensation per annum established by the Shareholders' Meeting on 4 August 2016 (€60,000).
- (11) Giandomenico Genta - Standing Auditor
 - (a) The amount corresponds to the period in office at the fixed compensation per annum established by the Shareholders' Meeting on 4 August 2016 (€40,000).
- (12) Laura Zanetti - Standing Auditor
 - (a) The amount corresponds to the period in office at the fixed compensation per annum established by the Shareholders' Meeting on 4 August 2016 (€40,000).
- (13) Managers with Strategic Responsibilities
 - (a) This amount corresponds to the Gross Annual Salaries (GAL). Added to this amount are the allowances payable for business trips in Italy and abroad, in line with the provisions of the National Collective Bargaining Agreement for Executives and supplementary agreements reached at the company, for a total amount of €5,008.
 - (b) The amount includes the payment of €166,000 relating to the 2016 award of the annual monetary incentive, €127,500, relating to deferred monetary incentive awarded in 2013 and the payment of €127,050 relating to the long-term monetary incentive awarded in 2013.

TABLE 2 - STOCK OPTIONS ASSIGNED TO DIRECTORS AND MANAGERS WITH STRATEGIC RESPONSIBILITIES.

Since there is no figure to report, it is not listed in table 2.

TABLE 3 - MONETARY INCENTIVE PLANS FOR DIRECTORS AND MANAGERS WITH STRATEGIC RESPONSIBILITIES

The following table shows the short and long-term variable monetary incentives provided for the Chief Executive Officer and, in the aggregate, Managers with strategic responsibilities. In view of the process that has characterised, during 2016, the demerger from Snam and Italgas' listing on the Italian stock exchange, the compensation disbursed relates to the periods specified below:

- Chief Executive Officer:
 - from 4 August 2016 to 31 December 2016;
- Managers with Strategic Responsibilities:
 - from 1 January 2016 to 31 December 2016 if employed by Italgas Group Companies also before the date of demerger from Snam (2 Directors);
 - from 1 November 2016 to 31 December 2016 if employed by Snam Group

Companies also before the date of demerger from Snam (2 Directors);

Following the agreement dated 22 September 2016 among the Corporate Union Representation (RSA) of the Managers of Snam/Italgas and Italgas S.p.A., the Deferred Monetary Incentive and Long-term Monetary Incentive, still in the vesting period, shall remain valid until completion of the relevant vesting period.

In particular:

- the column "Annual Bonus - payable/paid": shows the Annual Monetary Incentive paid in the year on the basis of finalised report on performance carried out by the relevant corporate bodies in relation to the targets set for the year 2015;
- the column "Bonus for the year - deferred": shows the amount of the base incentive awarded in the year in implementation of the Deferred Monetary Incentive plan (IMD) and Long-Term Monetary Incentive plan (IMLT);
- the column "Deferral period": shows the duration of the vesting period of the deferred and long-term incentives allocated in the year;
- the column "Bonus for previous years - no longer payable": contains no data because the conditions were not satisfied for non-payment or partial payment of the bonus as per the provisions contained in the Plan Regulations;
- the column "Bonus of previous years - payable/paid": shows the long-term variable incentives paid during the year, which have vested based on the final accounting of the performance conditions for the vesting period;
- the column "Bonus of previous years - still deferred": shows the incentives awarded related to the existing deferred and long-term plans that have not yet matured;
- the column "Other Bonuses": does not show values for other bonuses as none were paid.

The total number of the “Annual Bonus – payable/paid” and “Bonus of previous years –payable/paid” matches the amount indicated in the column “Bonuses and other incentives” in Table 1.

Table 3 - Monetary incentive plans for Directors, the General Operations Director and other managers with strategic responsibilities

(amounts in thousands of euro)

Name	Role	Plan
Paolo Gallo	Chief Executive Officer	2016 Long-term monetary incentive plan Snam Board of Directors of 27/09/2016.
Total		
Managers with strategic responsibilities		2016 Annual monetary incentive plan Snam Board of Directors of 16/03/2016
		2016 Deferred monetary incentive plan Snam Board of Directors of 26/07/2016.
		2016 Long-term monetary incentive plan Snam Board of Directors of 27/09/2016.
		2015 Deferred monetary incentive plan Snam Board of Directors of 28/07/2015.
		2015 Long-term monetary incentive plan Snam Board of Directors of 27/10/2015.
		2014 Deferred monetary incentive plan Snam Board of Directors of 29/07/2014.
		2014 Long-term monetary incentive plan Snam Board of Directors of 30/10/2014.
		2013 Deferred monetary incentive plan Assignment: Board of Directors 30/07/2013. Extraction: Snam Board of Directors of 16/03/2016
		2013 Long-term monetary incentive plan Assignment: Board of Directors 29/10/2013. Extraction: Snam Board of Directors of 26/03/2016
Total		
TOTAL		

⁽¹⁾ Extraction relating to:

- the deferred monetary incentive attributed in 2013 in relation to EBITDA performance in 2013-2015.
- the long-term monetary incentive attributed in 2013 in relation to the Adjusted net profit, relative to a peer group, in 2013-2015

Yearly bonus			Bonus from previous years			Other bonuses
distributable/ distributed	deferred	deferral period	no longer distributable	distributable/ distributed (1)	still deferred	
	252.500	three-year				
	252.500					
166.000						
	223.000	three-year				
	265.500	three-year				
					256.000	
					298.500	
					148.500	
					191.000	
					175.500	
					127.050	
166.000	488.500		0	302.550	894.000	
166.000	741.000	0	0	302.550	894.000	0

3. SHAREHOLDINGS HELD

The following table lists, in accordance with Article 84-quarter, fourth paragraph, of the Consob Issuer Regulations, the shareholdings of Italgas S.p.A. held by the Directors, Statutory Auditors and Managers with strategic responsibilities, and their spouses not legally separated, and minor children, directly or through subsidiaries, trustee companies or a third party. This information is taken from the shareholders' registry, from communications received and other information obtained from these same parties. This includes all persons who, even for a portion of the year, held these positions. The number of shares (all "ordinary") is shown individually for Directors and Statutory Auditors, and collectively for Managers with strategic responsibilities. The persons indicated own the shares as property.

Table 4a: shares held by the Directors and Statutory Auditors

Name and Surname	Position	Company invested in	Number of shares held at 31 December 2015	Number of shares acquired in 2016	Number of shares sold in 2016	Number of shares owned at 31 December 2016
Paolo Gallo ¹	Chief Executive Officer	Italgas	NA	14.000	0	14.000
Paolo Mosa ²	Director	Italgas	NA	27.835	0	27.835
Laura Zanetti	Statutory auditor	Italgas	NA	6.000	0	6.000

⁽¹⁾ of which 12,000 are held personally and 2,000 by spouse

⁽²⁾ of which 27,435 are held personally and 400 by spouse

Table 4b: shares held by Managers with strategic responsibilities

	Company invested in	Number of shares held at 31 December 2015	Number of shares acquired in 2016	Number of shares sold in 2016	Number of shares owned at 31 December 2016
Managers with Strategic Responsibilities	Italgas	NA	27.510	0	27.510

Glossary

- **Executive Directors:** directors invested with specific duties by the Board of Directors.
- **Non-executive directors:** directors not invested with specific duties by the Board of Directors and not delegated individual management powers.
- **Independent directors:** Italgas directors meeting the requirements of independence provided under the Code of Corporate Governance, to which Italgas subscribes.
- **Balanced Scorecard:** the instrument used as the basis for the short-term variable incentive system to support the achievement of corporate objectives by translating business strategy into a set of measurable performance metrics for each eligible party.
- **Benefits:** elements included in the non-monetary component of compensation aimed at increasing the well-being of employees and their families in economic and social terms. This category covers all provisions aimed at meeting the needs of social security and insurance contributions (supplementary pensions, health care, insurance coverage) but also the so-called *perquisites*, which consist of goods and services that Italgas S.p.A. offers its employees.
- **Code of Corporate Governance:** as defined by Borsa Italiana, is the “Code of Corporate Governance for Listed Companies” approved by the Corporate Governance Committee. The document, in line with the experience of leading international markets, indicates the best practices in corporate governance as recommended by the Committee on listed companies, to be applied according to the *comply or explain* principle that requires an explanation of the reasons for any non-compliance with one or more recommendations contained in the application principles or criteria.
- **Control, Risk and Related Parties Transactions Committee:** is composed of three independent non-executive directors (including the Chairman) and has consulting and advisory functions with respect of the Board of Directors, assisting it with appropriate preliminary investigatory activities relating to its decisions regarding the internal control system and risk management, as well as those relating to the approval of the financial relationships.
- **Appointments Committee:** consists of two independent non-executive directors (including the Chairman) and a non-executive director and has consulting and advisory functions with respect to the Board of Directors. The main tasks include: proposing candidates for the Office of Director if one or more directors during the year is removed, ensuring compliance with the minimum number of independent directors and the quotas for the least represented category; submitting to the Board of Directors the candidates for the corporate boards of the Subsidiaries included within the scope of consolidation and the strategic subsidiaries abroad. Among other things, it develops and proposes the procedures for annual self-assessment of the Board and its Committees.
- **Compensation Committee:** consists of two independent non-executive directors (including the Chairman) and a non-executive director which has consulting and advisory functions with respect to the Board of Directors on matters concerning compensation for directors and managers with strategic responsibilities. Specifically, the Committee submits the annual Compensation Report to the Board for approval and puts forward proposals relating to the compensation of executive Directors and members of Board Committees. The Compensation Committee, in accordance with the procedure “Transactions involving interests of Directors and Statutory Auditors

and Related-Party Transactions”, is responsible for issuing its opinion concerning Transactions involving the compensation of Directors and managers with strategic responsibilities.

- **Corporate System Framework:** is an internal document of the Italgas Group, which aims to describe and explain the following with reference to Italgas S.p.A. and its subsidiaries: (i) the Italgas Group; (ii) the organisational and governance model; (iii) the corporate management system; (iv) the Group’s operating model.
- **Managers with strategic responsibilities:** according to IAS 24, this means “key management personnel”, namely “those who have the power and responsibility, directly or indirectly, for the planning, direction and control of the activities of the entity.” The Italgas Managers with strategic responsibilities, other than the Directors and Auditors, are: the General Manager Finance and Services, the Senior Vice President Legal, Corporate and Compliance Affairs, the Senior Vice President Human Resources & Organisation, Senior Vice President Commercial Development.
- **EBITDA (Earnings before interest, tax, depreciation and amortization).** also known as “gross operating margin” or “GOM” is a profitability indicator that shows the company’s income deriving from only its operating activities, gross, therefore, of interest (financial management), taxes (tax management), depreciation of assets and amortisation.
- **EBIT (Earnings Before Interest and Taxes):** also called Operating Result. It is a profitability indicator which is obtained by subtracting from the gross operating margin (see EBITDA) the depreciation, amortisation and provisions.
- **Fair Value of equity compensation:** also referred to as *fair value*. International Financial Reporting Standard 2 (IFRS 2) defines fair value as “The amount for which an asset could be exchanged, or a liability settled, or an equity instrument granted between knowledgeable and willing parties in an arm’s length transaction.”
- **Free Cash Flow:** means the (monetary) cash flow produced by operating and non-operating activities.
- **Short-term variable incentives:** this refers to the *Annual Monetary Incentive Plan – IMA*, which entitles participants to receive an annual cash bonus based on the results achieved in the previous year, with respect to the targets set.
- **Variable medium-to-long-term incentives** is broken down into two distinct plans (“Deferred Monetary Incentive plan – IMD” and “Long-term Monetary Incentive plan – IMLT”) entitling participants to receive a monetary bonus to be paid in relation to the results achieved at the end of the vesting period (see vesting).
- **Directors’ termination indemnity:** monetary amount to be paid to the Director when he/she leaves office.
- **Employee severance indemnity:** the monetary amount payable to the employee upon termination of his/her employment contract as an executive.
- **Accident frequency index:** is based on standard UNI 7249 and is included among the safety measurement indicators in the workplace. This aforesaid rule establishes that this index is calculated as the number of accidents that occur per every million hours worked over a given period and/or within a given scope at the corporate level.
- **Sustainability indices:** Dow Jones Sustainability World Index and FTSE4GOOD are stock exchange indices composed of internationally listed companies selected from among those that achieved the best performance in terms of sustainability and Corporate Social Responsibility.

- **Threshold level:** represents the minimum level to be achieved, below which the plan does not provide payment of any incentive.
- **Target level:** is the standard level for achieving the objective that give entitlement to 100% of the incentive.
- **Related-Party Transactions:** “Transactions with interests of the Directors and Statutory Auditors and related-party transactions”, adopted in accordance with Article 2391-bis of the Italian Civil Code and the “*Regulations on Transactions with Related-Parties*” (adopted by Consob under Resolution No. 17221 of 12 March 2010 and subsequently amended by Resolution No. 17389 of 23 June 2010) that establishes the principles and rules which Italgas and companies directly or indirectly controlled by the same must follow in order to ensure transparency and substantive and procedural correctness in transactions with Related-Party and with Entities of Interest of Directors and statutory auditors of Italgas, undertaken by Italgas and its subsidiaries, also taking into account the purpose of avoiding the risk of depleting company assets.
- **Non-compete agreements:** based on Article 2125 of the Italian Civil Code, these are those “agreements that place limits on an employee’s activities for a period following the termination of the contract”.
- **Pay Mix:** the percentage of fixed compensation, variable short-term incentive and medium-to-long-term incentive paid at the target level.
- **Peer Group:** group of companies used for comparison with the Italgas results according to the performance parameters defined, consisting of the following companies listed in the European utilities sector: Enagas, Red Eléctrica, Terna, Snam, A2A, Elia System Operator.
- **Performance Plan:** the instrument that defines the targets underlying the variable short-term incentive system.
- **Compensation policy:** is the set of compensation programmes in terms of fixed and variable compensation implemented at the company level in order to support the achievement of strategic objectives.
- **Proxy Advisors:** companies, utilised by institutional investors, that issue specific recommendations on the basis of the documents from the Shareholders’ Meeting and their own voting policies, which can have an important influence on voting on the Compensation Report.
- **Issuer’s Regulations:** this is CONSOB Regulation 11971 of 14 May 1999, which sets out the rules for entities issuing financial instruments.
- **Fixed Compensation:** includes the entire fixed annual compensation before taxes and social security contributions paid by the employee, therefore not including annual bonuses, other bonuses, allowances, indemnities, fringe benefits, reimbursement of expenses, and any other form of variable or occasional compensation.
- **Variable compensation:** consists of the variable short-term incentives and medium-to-long-term incentives (see the related definitions contained in this glossary).
- **Salary review:** is the review process for the annual fixed compensation for the eligible managerial personnel.
- **Stock Option:** financial instrument through which the company entitles beneficiaries to subscribe or purchase shares of the company or of another company in the same group, at a predetermined price (*strike price*).
- **The Consolidated Finance Act (TUF):** “Consolidated Act on Financial Intermediation”

is Italian Legislative Decree No. 58 of 24 February 1998 (as amended). The TUF introduced the so-called “principle-based” financial legislation, which at the primary legislative level establishes only general guidelines, leaving the definition of detailed rules to the Supervisory Authorities (e.g., Consob).

- **Total Shareholder Return (TSR):** indicates the overall yield of an equity investment considering both the change in price and the distribution of dividends.
- **Consolidated net profit:** is the net profit obtained, excluding special items from the formation thereof, relating to events or actions: i) whose occurrence is not recurrent or involve operations or facts that do not recur frequently in the usual course of business; ii) unrepresentative of the normal activity of the company’s business.
- **Vesting (vesting period):** time elapsing between the assignment and exercise of the entitlement to receive a bonus.

ANALYTICAL INDEX OF TOPICS (CONSOB RESOLUTION NO. 18049, SECTION I)

CONSOB resolution	Information required	Reference
A	Bodies or persons involved in the preparation and approval of the compensation policy, specifying the respective roles, as well as the bodies or persons responsible for the correct implementation of that policy	1.1 1.3
B	Any intervention by a Compensation Committee or any other Committee competent in this regard, describing its composition (distinguishing between non-executive and independent directors), the powers and working procedures;	1.2
C	The names of any independent experts involved in the preparation of the compensation policy;	3.7
D	The aims pursued with the compensation policy, the principles that underlie it, and any changes in the compensation policy compared to the previous financial year;	2
E	Description of the policies for the fixed and variable components of compensation, with particular regard to an indication of the relative weight in the overall pay mix and distinguishing between the variable short-term and medium-to-long-term components;	3
F	The policy applied with regard to non-monetary benefits;	3.3.6 3.4.5 3.5.5
G	With reference to the variable components, a description of the performance targets used as a basis for awarding them, distinguishing between the variable short-term and medium-to-long-term components, and information on the link between changes in results and changes in compensation;	3.3.2 3.3.3 3.4.2 3.4.3 3.5.2 3.5.3
H	The criteria used for evaluating the performance targets used for awarding shares, options and other financial instruments, or other variable components of compensation;	3.3.2 3.3.3 3.4.2 3.4.3 3.5.2 3.5.3
I	Information used to show that the compensation policy is consistent with the pursuit of the company's long-term interests and with the risk management policy, if one has been formally adopted;	2.2 3.3.3 3.4.3 3.5.3
J	The vesting periods of any deferred payment systems indicating the deferral periods and the criteria used for determining those periods, and, if provided, the ex post correction mechanisms;	2.2 3.3.3 3.4.3 3.5.3 3.6
K	information about any provision for the retention of financial instruments in the portfolio after their acquisition, indicating the retention periods and the criteria used for determining such periods;	
L	the policy in relation to indemnities termination of office or termination of the employment relationship, specifying the circumstances that give entitlement to their payment and any link between such indemnities and the company's performance	3.2.3 3.3.4 3.3.5 3.4.4 3.5.4
M	information on the presence of any insurance, social security or retirement benefits cover, other than those statutorily required	3.3.6 3.4.5 3.5.5
N (i)	any compensation policy applied with reference to independent directors	3.2.1
N (ii)	any compensation policy applied in relation to committee membership	3.2.2
N (iii)	any compensation policy applied with reference to the performance of particular offices (Chairman, Vice-Chairman, etc.)	3.1 3.3
O	Information regarding the use of compensation policies of other companies as benchmarks, and, where such use is made, the criteria used for selecting these companies.	3.7





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