

Italgas S.p.A.

ORDINARY SHAREHOLDERS' MEETING OF 4 APRIL 2018

SINGLE CALL

**Report by the Board of Directors on the proposals concerning the items on the agenda of the
Shareholders' Meeting**

Item 5

“Appointment of the Board of Statutory Auditors.

- (i) Appointment of the members of the Board of Statutory Auditors.***
- (ii) Appointment of the Chairman of the Board of Statutory Auditors.***
- (iii) Determination of the remuneration of the Chairman and the members of the Board of Statutory Auditors”.***

Dear Shareholders,

This Report has been drawn up in accordance with art. 125-*ter*, subsection 1, of Legislative Decree no. 58 of 24 February 1998 as subsequently amended (the "**CLF**") and art. 84-*ter* of the Regulations adopted with Consob Resolution no. 11971 of 14 May 1999 as subsequently amended and supplemented (the "**Issuers' Regulations**").

This Report was approved by the Board of Directors at the meeting on 22 February 2019 and is made available to the public, as established by law and regulations, at the company's registered office, on the Company's website (www.italgas.it), and by other means as required by current legislation.

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The term of office of the administrative and control bodies of Italgas S.p.A. (the "**Company**" or "**Italgas**") appointed by the Shareholders' Meeting of 4 August 2016, expires with the approval of the financial statements for the year ended 31 December 2018. Therefore, the Board of Directors calls on you to proceed with the appointment of the new company bodies in compliance with the applicable regulatory and bylaw provisions.

That having been stated, the content of the main bylaw clauses that govern the composition, duration of office and procedure for appointing the members of the Company's Board of Statutory Auditors are set out below.

1.1 Composition and term of office of the Board of Statutory Auditors.

Pursuant to art. 20 of the bylaws, the Board of Statutory Auditors is composed of 3 standing members and 2 alternates.

All members of the Board of Statutory Auditors must satisfy the independence requirements established in art. 148, subsection 3, of the CLF.

At least one of the standing auditors must be: (a) female, if the majority of the standing auditors are male; (b) male, if the majority of the standing auditors are female.

Note that, without prejudice to the incompatibilities provided for by law, persons who do not satisfy the integrity and professionalism requirements laid down by Ministry of Justice Decree No. 162 of 30 March 2000 and the bylaws may not be elected as members of the Board of Statutory Auditors. For the purposes of application of the same decree and as provided for by art. 20.1 of the Bylaws, matters strictly pertaining to the Company's business are commercial law, business economics and business finance, and the sector closely related to the Company's activity is the engineering and geological sector.

Moreover, those who do not comply with the limits on the accumulation of administration and control offices may not be appointed as members of the Board of Statutory Auditors, as laid down by law and current and applicable regulations (art. 144-*duodecies* ff. of the Issuers' Regulations).

The Statutory Auditors of Italgas, moreover, may not hold any office in the administrative or control body, or be senior managers in Eni S.p.A. or its subsidiaries, nor may they have any relationship, direct or indirect, of a professional or financial nature with said companies, as also provided for by the decree of the President of the Council of Ministers of 25 May 2012 containing “*Criteria, conditions and terms for the adoption of the model for the demerger of Snam in accordance with article 15, of Law no. 27 of 24 March 2012.*”

On 24 January 2019 the Board of Directors, having obtained the opinion of the Appointments and Compensation Committee on 24 January 2019, approved the “Diversity of Company Bodies Policy” as well, in order to prepare useful indications for Shareholders in view of the renewal of the company bodies. This policy, which contains – inter alia – some criteria aimed at encouraging diversity in the composition of the Board of Statutory Auditors, may be consulted on the Company’s website www.italgas.it (“Governance” – “Corporate Governance System” - “Board of Directors” section).

Finally, it is stated that, pursuant to law, the Board of Statutory Auditors being appointed shall remain in office for three fiscal years and shall therefore expire on the date of the Shareholders' Meeting called to approval the financial statements for the year ended 31 December 2021.

1.2 Submission of slates of candidates for the office of statutory auditor.

The Board of Statutory Auditors shall be appointed on the basis of slates submitted by the shareholders, in which candidates must be listed by means of a progressive number and in a number that does not exceed the number of members of the body to be elected. The slate must be divided into two sections: one for candidates for the office of standing auditor, the other for candidates for the office of alternate auditor. At least the first candidate in each section must be enrolled in the register of external auditors and have worked on legal audits for a period of not less than three years.

The slates that, considering both sections, contain a number of candidates equal to or greater than 3 and compete for appointment to the majority of the members of the Board of Statutory Auditors, must include, in the standing auditor section, candidates of different gender, in order to comply with current regulations

concerning gender balance. If the alternate auditor section of the aforementioned slates lists two candidates, they must belong to two different genders.

Under the combined provisions of art. 20.3 of the company bylaws and Management Decision no. 13 of 24 January 2019 of the Head of the Corporate Governance Division, slates may be presented by shareholders who own, alone or jointly with others, an equity investment of at least 1% of the share capital. In this regard, note that ownership of the minimum equity investment necessary to submit a slate is determined in consideration of the shares registered to the Shareholder on the date on which the slates are filed at the Company.

Each Shareholder may present or may participate in the presentation of just one slate, and may vote for just one slate. Adhesions and votes cast in violation of this prohibition shall not be attributed to any slate. Moreover, each candidate must submit his/her candidacy on a single slate, under penalty of ineligibility.

The slates must be filed at the registered office of Italgas by mail (registered mail with return receipt) sent to the following address: Italgas S.p.A. – Via Carlo Bo 11, 20143 Milan c/o Company Secretary (April 2019 Shareholders' Meeting slates for appointment of the Board of Directors and the Board of Statutory Auditors) or delivered by hand from Monday to Friday from 8 a.m. to 7 p.m., or sent by certified e-mail to italgas.assemblea@pec.italgas.it, at least 25 days prior to the date of the Shareholders' Meeting in a single call to resolve on the appointment of the members of the Board of Directors. The aforementioned deadline shall expire on Sunday 10 March 2019 and, therefore, it is extended to the following day, Monday 11 March 2019. It is specified that where the Shareholder makes use of the extension and files its slate on Monday 11 March 2019, ownership of the minimum stake will be checked on that date.

In the event that just one slate, or just slates submitted by shareholders with relationships of affiliation between themselves pursuant to article 144-*quinquies* of the Issuer Regulation, are filed by the indicated deadline, namely Monday 11 March 2019, additional slates may be submitted up to the third day following the original expiry date (that is until 14 March 2019 at 6 p.m.), without prejudice to Article 147-*ter*, subsection 1-*bis*, last part, of the CLF. In this case the aforementioned threshold of 1% required shall be reduced to half and it shall therefore be 0.5% of the share capital.

The following must be filed together with each slate: (i) information on the identities of the shareholders who submitted the slates, indicating the overall equity percentage held in the share capital; (ii) a statement by shareholders who do not hold, even jointly, a controlling share or relative majority, certifying the absence of any association, as provided for in Article 147-ter, subsection 3, of the CLF and art. 144-quinquies of the Issuers' Regulations; (iii) a *curriculum vitae* containing exhaustive information on the professional characteristics of each candidate, highlighting any administration and control offices held in other companies, as well as the statements with which the individual candidates accept their candidacy, undertake – if appointed – to accept the office and certify, under their own responsibility, the absence of grounds of ineligibility and incompatibility, and that they meet the requirements of the law and of the bylaws prescribed for the respective offices.

Those who have submitted slates must also file a copy of the certifications issued by duly empowered intermediaries certifying ownership of the number of shares necessary to submit said slates, within the terms and following the procedures indicated in current regulations.

In this regard, it is specified that these certifications may also be produced after the filing of the slates, provided that it is by 14 March 2019.

Any slates submitted that do not comply with the terms and procedures laid down by the bylaws and set out above shall be considered as not having been submitted.

In compliance with the provisions on this matter, at least 21 days prior to the date of the Shareholders' Meeting in a single call (that is, by 14 March 2019), the Company shall make available to the public at the Company's registered offices, on the authorised storage mechanism "eMarket STORAGE" at the address

emarketstorage.com and on the website of Italgas <https://www.italgas.it/it/> (“Governance” “Corporate Governance System” - “2019 Shareholders’ Meeting” section) the slates of candidates, together with the documentation filed with them.

1.3 Procedure for appointing members of the Board of Statutory Auditors.

Two standing auditors and one alternate auditor are taken from the slate that wins the majority of the votes. The other standing auditor and the other alternate auditor shall be appointed in accordance with provisions set forth in Article 13.5, letter b) of the Bylaws and described in paragraph 1.4 (*Procedure for appointing members of the Board of Directors*), letter b) of the explanatory report on item 4 on the agenda, to apply distinctly to each of the sections in which the other slates are divided. If according to the above mentioned procedure it is not possible to ensure the 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 slates shall be calculated by dividing the number of votes for each slate 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 slates shall be replaced by the candidate of the least represented gender (with the highest consecutive number) from the same standing auditor section of the slate of the replaced candidate, or, failing this, from the alternate auditor section of the same slate as the replaced candidate (who, in this case, takes the place of the alternate auditor he/she has just been replaced by). If this procedure fails to ensure the compliance with the law on gender representation, the candidate is replaced by the person appointed by the Shareholders’ Meeting with the majority of votes set by the law, in such a way as to ensure that the composition of the Board of Statutory Auditors complies with the law and with the Bylaws. Where candidates from different slates have obtained the same quotient, the candidate from the slate 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 slate 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.

For the appointment of standing auditors, who, for any reason, are not appointed in accordance with the procedures described above, the Shareholders' Meeting resolves by legal majority, in order to ensure that the composition of the Board of Statutory Auditors is compliant with the law and the Bylaws.

1.4 Appointment of the Chairman of the Board of Statutory Auditors.

Pursuant to art. 20.3 of the Bylaws, the Shareholders' Meeting shall appoint as Chair of the Board of Statutory Auditors the standing auditor elected with the procedures set out in art. 13.5, letter b) of the company bylaws, from the Minority Slate, already described under letter b) of paragraph 1.4 (*Procedure for appointing members of the Board of Directors*) of the explanatory report on item 4 on the agenda.

1.5 Remuneration due to the Chairman and the members of the Board of Statutory Auditors.

Finally, Shareholders are called to resolve on the annual remuneration due to members of the Board of Statutory Auditors for the entire duration of their office pursuant to art. 2402 of the Italian Civil Code. They also receive reimbursement for expenses incurred in connection of their duties.

The Board of Directors states that the current gross annual remuneration of 60,000.00 euros and 40,000.00 euros respectively for the Chair of the Board of Statutory Auditors and for the Standing Auditors was established in a context now significantly different context to that of today and, notably, in 2016 when the demerger from Snam S.p.A. occurred.

Over the years, the Company, in addition to having returned to the Italian stock market, listing on the FTSE MIB of Borsa Italiana, has also undertaken important development and acquisition strategies in the Italian gas distribution market, as well as in the water and energy efficiency sectors. Considering the described evolution of the complexity of the Company and Group, greater commitment and responsibility is therefore required of the directors.

Taking into account the foregoing, the Board of Directors, without prejudice to the right of Shareholders to submit additional and different resolution proposals, proposes setting the gross annual compensation due to the Chair of the Board of Statutory Auditors and each Statutory Auditor, respectively, as 70,000.00 euros and 45,000.00 euros, plus reimbursement of the expenses incurred.

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Dear Shareholders,

You are therefore invited to resolve as follows.

- (i) In relation to point 5.1 “Appointment of the members of the Board of Statutory Auditors”:
you are invited to vote for one of the slates presented and published pursuant to the provisions of law and of the Bylaws.
- (ii) In relation to point 5.2 “Appointment of the Chair of the Board of Statutory Auditors”:
the Standing Auditor indicated in the minority shareholders’ slate, who will obtain the greatest number of votes shall be Chairman of the Board of Statutory Auditors.

If, for any reason, there are no minority slates or no Statutory Auditors are appointed with the procedures set out in art. 20.3 of the Bylaws, you are invited to appoint as Chairman of the Board of Statutory Auditors the candidate proposed by the Shareholders elected with the same procedures.
- (iii) In relation to point 5.3 “Determination of the remuneration of the Chairman and the members of the Board of Statutory Auditors”:
you are invited to approve the proposal to fix the gross annual compensation due to the Chairman of the Board of Statutory Auditors and each Statutory Auditor, respectively, in Euro 70,000.00 and Euro 45,000.00, plus reimbursement of the expenses.

Milan, 22 February 2019

The Chairman of the Board of Directors

Mr Lorenzo Bini Smaghi