



2016 Sustainability
Report 2016



2016 Italgas Sustainability Report



Values and mission

Expertise, efficiency, innovation, reliability, security, proximity to the people.

Every day, for 180 years, the work of the men and women at Italgas has drawn inspiration from these values.

The Company has always accompanied the economic and social development of the country promoting sustainable growth. Italgas is currently the leading natural gas distributor in Italian and number three in Europe.

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

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



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Letter to stakeholders



Dear Shareholders and Stakeholders,

2016 was a very important year for Italgas. On 7 November 2016, after an absence of 13 years Italgas returned to the Italian share market through listing on the Borsa Italiana FTSE MIB index.

The new listing process went through a structured and complex journey which led to the investments in the operating companies focused on the gas distribution business moving from the previous parent company Snam to a new independent party which became known as Italgas S.p.A.

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

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

The Italgas Group, including its own investee companies, currently manages over 68,000 km of network and more than 7.4 million gas redelivery points, served by 1,576 concessions, and its market share in the gas distribution business in terms of redelivery points is approximately 34%.

With a renewed structure even more focused on its development strategy objectives, Italgas sees opportunities in tender processes for growing and consolidating the market, operating efficiency as the key for maintaining its leadership position in terms of profitability, significant investments as the way of continuing to modernise the network and introduces important technological innovations, injecting new resources and the internal reorganisation of personnel as providing the driving force and expertise to take the ambitious project forward.

Italgas will do all of this while continuing to conduct its affairs in a responsible manner, upholding the principles of fairness, correctness, transparency, honesty and integrity, and keeping sustainability at the centre of the business development model. It's not a coincidence that in its 180-year history, Italgas has managed to develop a fundamental service like the gas distribution service, becoming the protagonist of the transformation of the company and the industry in Italy.

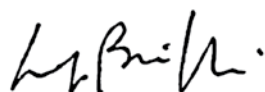
Sustainability will therefore continue to be a guiding element in the definition of strategic and operational decisions to ensure long-term sustainable growth, at the same time guaranteeing the results expected by shareholders and sharing the value generated with all of stakeholders including in terms of environmental and social issues.

In the first Sustainability Report of this new path, Italgas is also reporting on impacts and performance of material issues for its business. Some of the most significant results recorded in 2016 include the low accident frequency indices, which demonstrate how deep-seated the culture of safety is in Italgas, and the commitment to improve the quality of service and promote awareness of consumption through the progressive replacement of gas meters at end users with new generation equipment with new functions.

Looking ahead, it will be smart metering that creates the conditions on which to base the development of a fully-fledged communication infrastructure on an urban scale, shared between several applications, for the transportation and management of information coming from life in the city, through which to create a greater impact on the life and well-being of individuals and communities, from the perspective of smart communities.

We have so much important history behind us and, at the same time, we are a start-up with almost 4,000 people. Over that many years we have lived through significant changes, difficulties, successes and constant revivals all sharing one common factor: the very clear and ever present desire to look to the future and take on new challenges. This is the spirit that guides the work our people do every day. We owe a debt of gratitude to them and to all of you who believe in Italgas for the results that have been achieved. We have confidence in them and in you for meeting our upcoming shared objectives.

The Chairman
Lorenzo Bini Smaghi



The CEO
Paolo Gallo





Highlights 2016

Active meters increased by **10 thousand**

Distribution network extended by **81 km**

Completion of the **spin-off from Snam**

99% of active suppliers are Italian

Board of Directors establishes Sustainability Committee

First materiality analysis performed

Over **31 hours of training** per employee (average)

96% of staff are on permanent contracts

Climate analysis performed among entire workforce

€549 M added value distributed

Employee accident rate down from **3.34 to 2.49**

Italgas within the **Standard Ethics Italian Index**



Italgas' Profile

Italgas is the leading operator in Italy in the sector of natural gas distribution and the third largest operator in Europe.

Italgas carries out distribution and metering activities under the scope of the national gas system. The activities are regulated by the Electricity, Gas and Water System Authority, which defines the methods for providing the service and the distribution and metering tariffs.

Either directly or through its subsidiaries, Italgas manages a distribution network which covers a total of more than 68,000 km with over 7.3 million gas redelivery points, served by 1,576 concessions.

Since November 2016 the company has no longer been part of the Snam Group and, after thirteen years, it has returned to the Italian stock exchange through listing on the Borsa Italiana FTSE MIB index.

With listing on the Milan stock exchange and the separation from Snam, Italgas has adopted a new brand identity featuring the IG initials and recalling the historical stock market ticker. Proficiency, safety and reliability are the key elements of Italgas' new identity.

The Company is now ready to take advantage of the market growth and consolidation opportunities offered by new tender processes, confident of its expertise, a new organisational structure and a clear strategy. Specifically, through the reorganisation of the concessions into minimum geographical areas (ATEM) and their allocation, in future years, through market tender processes, Italgas will have the opportunity to optimise its portfolio, leaving some

minor concessions, and consolidating in areas of greater interest thereby improving the quality of service still further.

Structure of the Group

Italgas S.p.A owns 100% of the shares of Italgas Reti, which is responsible for the equity interests in the subsidiaries Napoletanagas and ACAM Gas and in the associate companies Toscana Energia, Metano Sant'Angelo Lodigiano and Umbria Distribuzione Gas.

On 21 December 2015, AES Torino merged by incorporation into Italgas S.p.A., with effect for accounting and tax purposes from 1 January 2016.

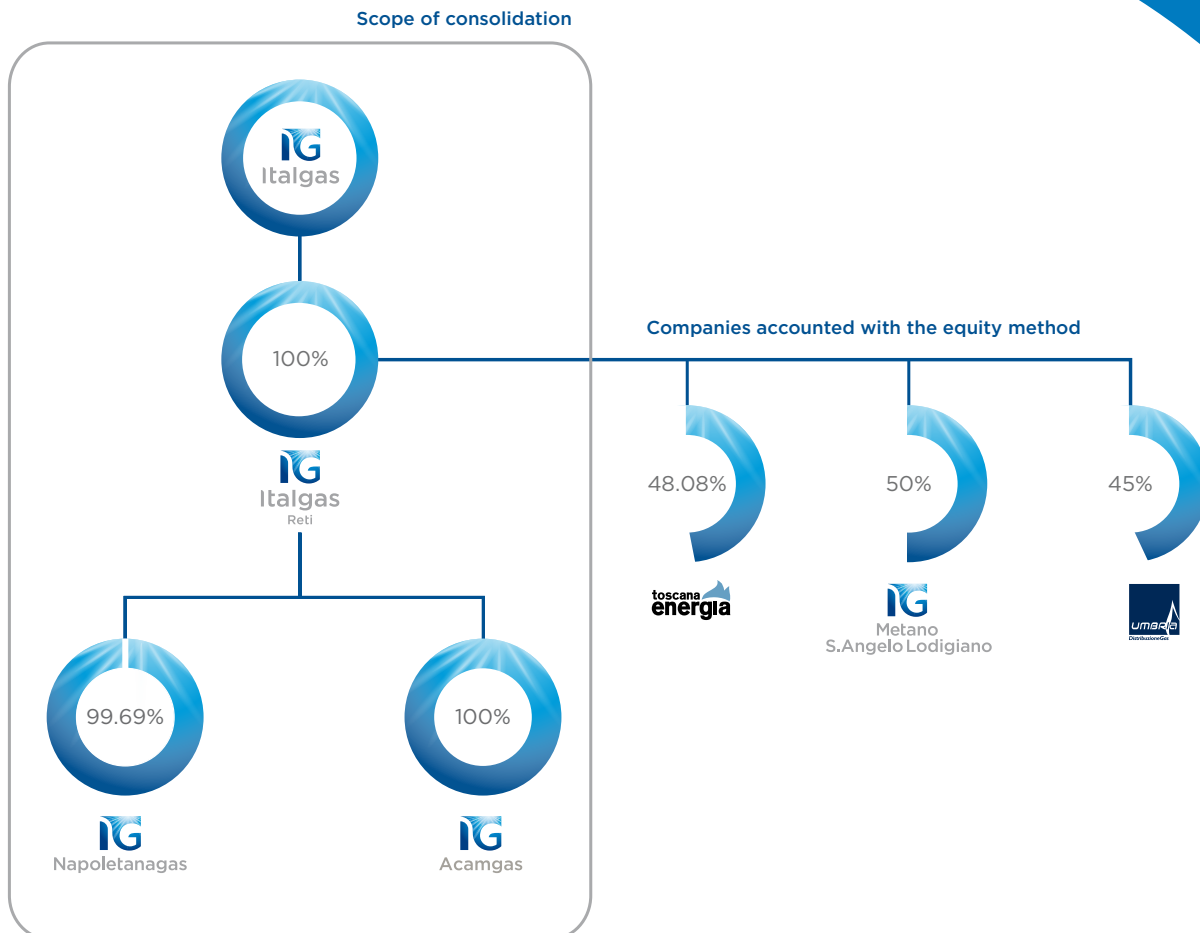
Italgas S.p.A, in a corporate capacity, carries out a strategic planning, management, coordination and control role.

Territorial presence

With the subsidiaries Napoletanagas and ACAM Gas, Italgas manages an integrated system of infrastructures located throughout Italy, composed of withdrawal stations, local pipelines, pressure reduction plants and redelivery points where gas meters are installed. As at 31 December 2016, Italgas held the gas distribution concessions in 1,472 Municipalities (the same as at 31 December 2015), including 1,422 in operation (1,401 as at 31 December 2015).

The presence of the Italgas Group in Italy is shown on the map.

STRUCTURE OF THE GROUP





ACTIVITIES AND KEY OPERATING FIGURES

Italgas performs an essential role in the gas chain guaranteeing a constant supply for households, commercial operations and industries through its distribution network. The **distribution** activity consists of the transportation of gas, through local pipeline networks, from delivery points at reduction and metering stations connected with the transportation networks (city-gates) to the redelivery points at end users. Distribution is an independent activity from marketing and sales which is exercised in a free market system.

Natural gas **metering** involves the withdrawal, processing, validation and provision of the consumption data recorded at the metering plants. The metering data is used by the system to regulate commercial transactions between operators and users.

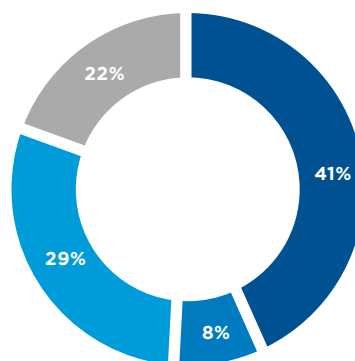
Operating figures	2014	2015	2016
Distribution network (km)	55,278	56,717	56,798
Gas distribution concessions (number)	1,437	1,472	1,472
Active meters (millions)	6,408	6,526	6,536
Gas distribution (millions of cubic metres)	6,500	7,599	7,470

Distribution of Added Value (€ millions)

	2016
Economic value produced (A)	608
Economic value distributed (B)	549
- of which to employees (wages, salaries, expenses, severance pay)	225
- of which to lenders (debt interest)	42
- of which shareholders	162
- of which the Public Administration (levies and taxes)	120
Economic value retained within the Group (A - B)	59

(*) The 2016 figure refers to the dividend proposed by the Board of Directors subject to the approval of the Shareholders' Meeting called for 28 April 2017.

Distribution of added value (mln €)



- Employees
- Lenders
- Shareholders
- Public administration

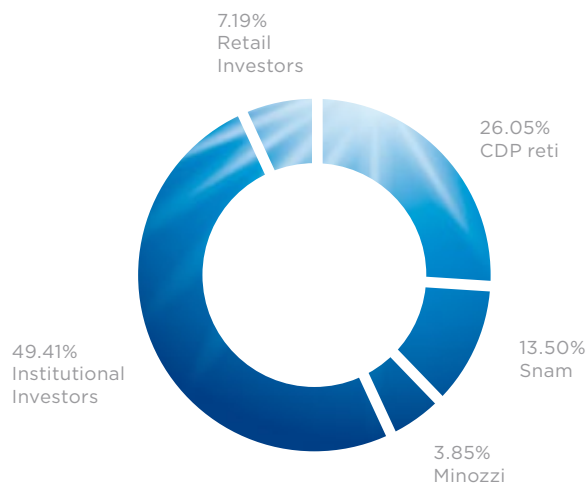
Governance of the Group

The Italgas governance model is founded on the principles of integrity, correctness and business ethics. The business governance rules and decision-making processes guide the company towards maximising value for shareholders, protecting the interests of stakeholders, controlling business risks and transparency with regard to the market.

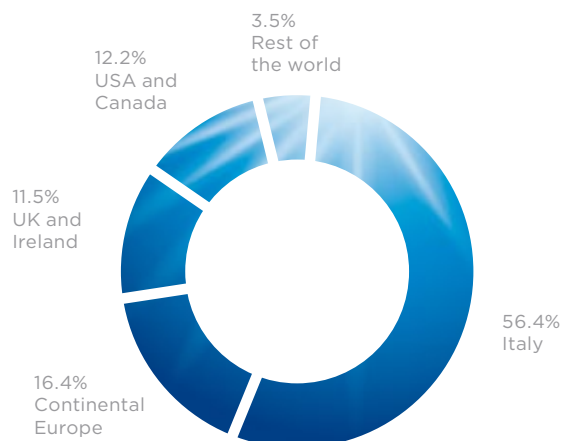
SHAREHOLDERS

On 7 November 2016, Italgas was listed once again on the Borsa Italiana FTSE MIB index. The share capital of Italgas S.p.A. stands at €1,001,231,518.44 and there are 809,135,502 shares with no par value. The proportion of floating capital is 51.1%.

Italgas ownership structure by type of investor



Italgas ownership structure by region



Italgas shareholders include investors who adopt SRI (socially responsible investment) criteria, that is to say they base their investment decisions on ethical principles and on the analysis of non-financial variables such as corporate governance methods and reputational risk. As at 31.01.2017 socially responsible funds and investors represent approximately 6% of the total of Italgas shareholders and around 12% of Italgas' institutional investors.

Investor Relations

Since listing on the stock exchange, Italgas has made transparency in relations with investors and with the entire financial community one of its priorities. The Company's plans and objectives were presented to shareholders and to the market to allow a valuation of the means for creating value.

A roadshow was held in the last quarter of 2016 which involved major European and North American financial centres, aimed at showing investors the demerger transaction from Snam and the subsequent listing of the Company. Management presented the company's plans to over 130 investors at 28 one-to-one meetings, 12 group meetings and 1 conference.

RESPONSIBLE GOVERNANCE SYSTEM

The Italgas Code of Ethics, approved in October 2016 is a collection of the values that the Company recognises, accepts and shares and the responsibilities it assumes within and outside of its organisation. The stated values in the Code of Ethics define a shared value system and express Italgas' business ethics culture. It forms the basis for the Company's strategic line of thought and the conduct of its corporate activities.

Italgas bases its development model on the ethical management of corporate activities, understood as the capacity to conduct its business with fairness, correctness, transparency, honesty and integrity and in compliance with international laws, regulations and standards.

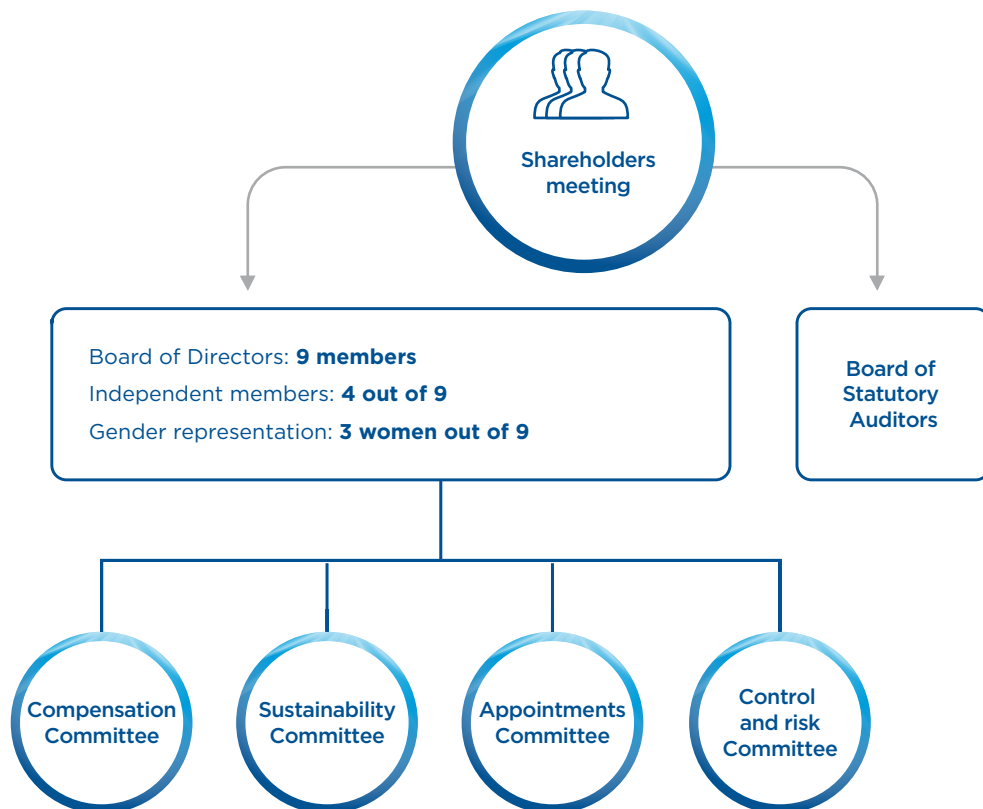
Conducting activities is governed by a system of planning, management and control rules and methods necessary for the operation of the Company.

This system is based on certain key principles, such as proper, transparent business management implemented through the identification of information flows between corporate bodies and an efficient definition of the internal control and risk management system.

Corporate bodies and Committees

Italgas adopts a so-called traditional administration and control system pursuant to applicable regulatory provisions, which involves: the Shareholders' Meeting, Board of Directors and Board of Statutory Auditors. The By-Laws define the functions and activities of these corporate bodies:

CORPORATE GOVERNANCE



The decision-making body comprises the Shareholders’ Meeting, which is responsible for appointing the Board of Directors and the Board of Statutory Auditors.

The Board of Directors is in charge of the routine and extraordinary management of the company and has the right to carry out all acts it deems appropriate for the implementation and achievement of the corporate purpose, with the exception of acts which pursuant to applicable regulations and the By-Laws are reserved to the Shareholders’ Meeting.

The Board of Directors is composed of 9 members and will remain in office for 3 years until the date of the Shareholders’ Meeting that shall be called in 2019 to approve the financial statements at 31 December 2018. Four of the board members are independent and three are female.

The Board of Directors has set up four internal Committees: the Remuneration Committee, the Appointments Committee, the Control and Risks and Related-Party Transactions Committee and the Sustainability Committee.

COMPOSITION AND ROLE OF THE COMMITTEES

Remuneration Committee	Appointments Committee	Control, Risk and Related-Party Transactions Committee	Sustainability Committee
<p>Composition 3 non-executive directors, 2 of whom are independent</p> <p>Functions Makes proposals and provides advice to the Board of Directors with regard to defining Company policy on the remuneration of directors and managers with strategic responsibilities.</p>	<p>Composition 3 non-executive directors, 2 of whom are independent</p> <p>Functions Makes proposals and provides advice to the Board of Directors to support evaluations and decisions about the size and composition of the board.</p>	<p>Composition 3 independent, non-executive directors</p> <p>Functions Makes proposals and provides advice to the Board of Directors to support both the decisions concerning the internal control and risk management system, and those relating to the approval of the periodic financial reports, through enquiries.</p>	<p>Composition 3 non-executive directors, one of whom is independent</p> <p>Functions Makes proposals and provides advice to the Board of Directors to support sustainable development along the Italgas Group value chain.</p>

The Board of Statutory Auditors oversees compliance with the law and with the deed of incorporation, as well as respect for the principles of proper administration in the performance of company activities. It also evaluates the adequacy of the organisational, administrative and accounting structure adopted by the Company, and how it functions in practice. The Board of Statutory Auditors finally oversees the effectiveness of the internal control and risk management system.

The Board of Directors, with the support of the Control and Risks and Related-Party Transactions Committee establishes the rules and periodically checks the adequacy and effective operation of the system, guaranteeing that the corporate risk principles are identified and managed.

The Italgas Board of Statutory Auditors, also in the capacity of “Committee for Internal Control and Account Auditing” oversees the effectiveness of the system.

The Chief Executive Officer (CEO) is the Director in charge of designing, implementing and managing the internal control and risk management system.

Internal control and risk management system

Italgas has a limited economic and financial risk profile, as it carries out its activity in the context of regulated businesses. When it was established the company launched the implementation of a structured and systematic approach for governing all risks that could affect the underlying conditions for the creation of value, setting up a dedicated function and a model for identifying, assessing,

managing and controlling risk which is applied to all Group companies.

The internal governance and risk management system is composed of the collection of tools necessary or useful in order to direct, manage and monitor business activities. The purpose is to ensure compliance with corporate laws and procedures, protect corporate assets, manage activities optimally and efficiently and provide accurate and complete accounting and financial data.

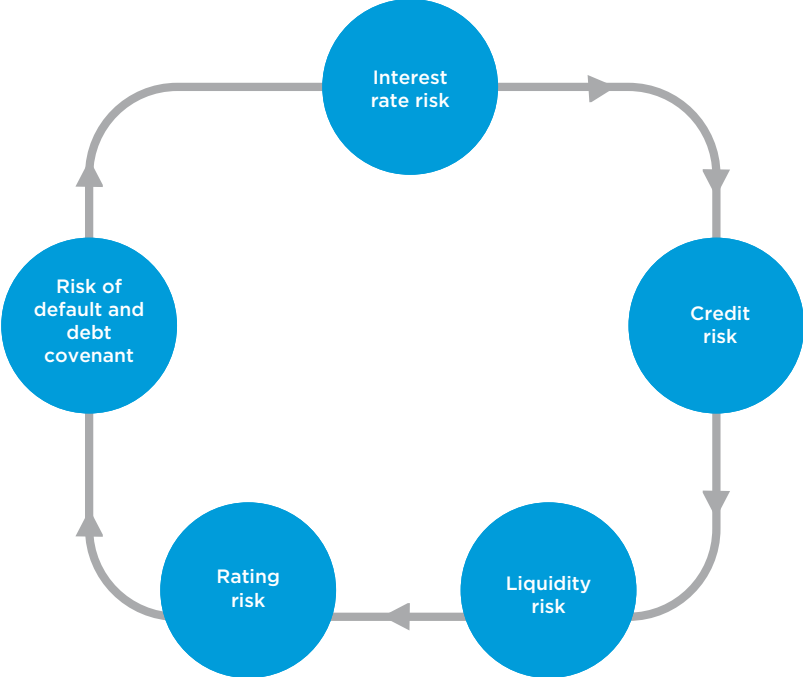
Italgas' internal control and risk management system is based on an integrated model of controls, with the duties of each body and department involved, and concrete procedures for coordination between these, clearly identified.

Management is primarily responsible for applying the internal control and risk management system, since control activities are an integral part of the managerial processes that the individual operating units must implement. During 2016, 20 reports were received, of which 12 related to the internal control system and 8 related to other ethical/behavioural matters; as at 31 December, all reports were duly processed and 16 were closed. It is specifically noted that, for 6 reports concerning alleged tampering with meters and/or illegal connections to the grid, 5 related to Napoletanagas and 1 to Italgas Reti, the checks carried out confirmed the existence of the reported violations. Safety measures were established at the plants concerned and complaints were made to the local authorities.

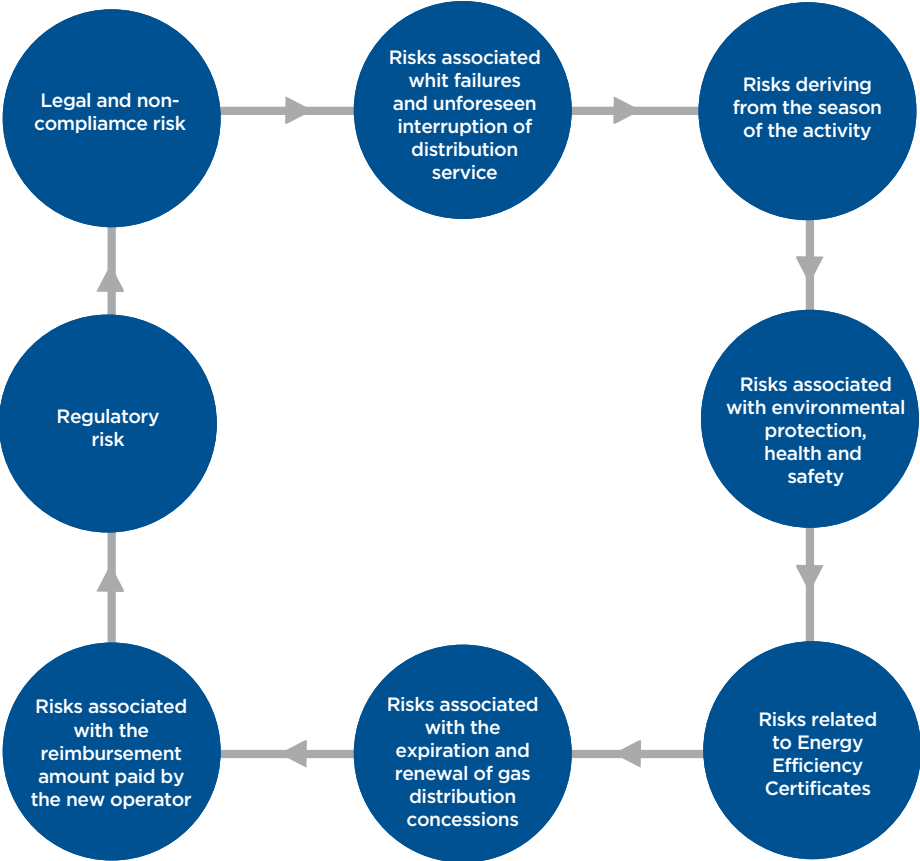
Number of auditors

	2016
Total number of audits performed	27
....of which number of planned audits	9
....of which number of special audits	
....of which number of audits from notifications	
....of which number of independent monitoring audits (SOA - 262)	18
....of which Other	
Reports received	20
....of which related to the internal control system	12
....of which related to accounting, auditing, fraud, etc.	
....of which related to administrative responsibility pursuant to Legislative Decree 231/2001	
....of which relating to breaches of the anti-corruption law	
....of which related to other subjects (Code of Ethics, harassment, theft, security, etc.)	8
Reports shelved due to lack of proof or because untrue (no.)	10
Reports resulting in corporate disciplinary or managerial interventions, and/or submitted to judicial authorities	
Reports under examination (no.)	2

FINANCIAL RISKS



OPERATING RISKS



Management systems

In order to manage certain significant issues, such as occupational health and safety, the quality of services offered, the environment and energy efficiency, Italgas adopts specific management and certification systems, in accordance with the best known international standards.

Company	Coverage certification	Type of certification and accreditation	Year of first certification
Italgas Reti		ISO 50001	2012
	Company	ISO 14001	2001
		BS OHSAS 18001	2001
		ISO 9001	1996
	Calibration laboratory	ISO 17025	1994
	Testing laboratory	ISO 17025	1994
	Inspection body	ISO 17020	2014
Napoletanagas		ISO 14001	2003
	Company	BS OHSAS 18001	2003
		ISO 9001	2000
ACAM GAS		ISO 9001	2010
	Company	ISO 14001	2010
		BS OHSAS 18001	2010
		ISO 3834	2012

MARKET REGULATION

Relations with the AEEGSI are of key importance for companies operating in the energy business. After its establishment, Italgas approached the Authority, continuing with the previous constructive and proactive relationship, which translates, for example, into ensuring the contribution of the Group in consultation processes for defining resolutions, in illustrating sector-specific issues and in providing the information requested by the regulator.

The distribution of natural gas is regulated by the Electricity, Gas and Water System Authority. Among its functions are the calculation and updating of the tariffs, and the provision of rules for access to infrastructure and for the delivery of the relative services.

Gas distribution is traditionally carried out under concession by awarding the service on a municipal basis. In 2011, four ministerial decrees were adopted to reform the regulations regulating the sector. Specifically, a special decree established 177 minimum geographical areas (“ATEM”) based on which the new concessions should be awarded.

Relations with the AEEGSI

Description	2016
Responses to consultation documents (no.)	7
Responses to consultations/observations through associations (no.) (*)	16
Tariff proposals (no.)	9
Data collections (no.)	134
Investigations (no.)	0 (**)
Proposal to amend contractual documents and codes (no.)	0 (**)
Proposal to amend approved contractual documents and codes (no.)	0 (**)

(*) Responses to consultations (the Authority, Ministry of Economic Development and Energy Market Operator) through trade associations.

(**) The Authority has not conducted any activities in these areas.





180 years
at the service of Italy

180 years at the service of Italy

On 12 September 2017 Italgas will celebrate 180 years of history: a milestone for the company, but also for an entire industrial sector and the whole country, for which the company has developed a fundamental service in the form of the gas distribution business, changing the habits of Italians forever.

1837 The Compagnia di Illuminazione a Gaz per la Città di Torino is born, the first Italian company specialised in the distillation of solid fuels for the production of coal gas.

1846 An agreement is signed by the Company and the Municipality of Turin for the provision of an urban lighting service for nine years.

1856 Merger of Italgas with Società Anonima Piemontese per l'Illuminazione a Gaz di Torino: the Società Gaz Luce di Torino is created, which unites the gas distribution network, improves the facilities and creates new storage warehouses.

1863
The Società Gaz Luce loses its monopoly following the establishment of the Società Anonima Consumatori Gaz Luce di Torino, and recapitalises under the new name of Società Italiana per il Gaz, later Italgas.

1880 The corporate distribution network is extended nationally. At the end of the century Italgas invests in the property sector and in technological development and gains control of various Italian businesses operating in the gas segment.

1923 Italgas becomes a holding company. The Società Torinese Industrie Gas Elettricità (STIGE), a competitor known by the name Società Anonima Consumatori Gaz Luce di Torino, becomes part of the Italgas Group.

1939 Italgas, having recovered after being in financial difficulty due to the great economic depression and loss of banking coverage, continues to operate in the gas segment and maintains interests in the chemical sector through the companies Schiapparelli and Cokitalia, managed through Montecatini.

1950 Italgas launches the widespread use of methane and later creates the first natural gas distribution urban network in Lodi.

1967 Eni acquires Italgas' block of shares. Since 1970, it has been the protagonist of the methane conversion initiative in the country and it starts a revolution in the gas distribution industry.

2003 On 7 February 2003, the Italgas stock, which has been present on the stock exchange, is delisted. The two companies from which Italgas was created were listed on the Turin stock exchange as far back as 1851.

2009 Snam buys out the entire Italgas block of shares from Eni. A new group is created which Snam Rete Gas, Stogit and Gnl Italia are part of, active throughout the entire chain of regulated activities in the gas sector in Italy.

2016 Italgas separates from Snam and goes back to being listed on the stock exchange on the Borsa Italiana FTSE MIB index.

An archive of historical interest and a museum open to the country



Almost two centuries of corporate history and culture, kept in the Italgas premises at Corso Palermo, Turin, bear witness to the industrial and technological development that has contributed to the social and economic development of the country.

Through its history, Italgas retraces the course of the events that marked its journey and, parallel to this, that of the history of goods and services which, over a period of time, improved the day to day life of communities.

The quantity and quality of the documents preserved in the archives as well as the historical objects which provide evidence of the development of products and technologies, have meant that the archives and the museum have been recognised as an “Archive of Historical Interest”.

Italgas conserves, protects and enhances its wealth of documents, objects, photographs and videos through the museum and the archives, and makes this history available by opening it to the public, which includes researchers, students and citizens. The Italgas Historical Archive and Museum belongs to Museimpresa, the Italian association of museums and archives sponsored by Assolombarda and Confindustria.

Historical Archive and Museum and the community

- It is the object and destination of numerous school visits and, occasionally, it is a venue for training workshops. This was the case for the initiative created in conjunction with Copat, when children aged between 6 and 11, their parents and grandparents, were protagonists in a “theatre visit”.
- One significant event, held on 16 September 2016, was “La Notte degli Archivi” (the night of the archives) organised by the City of Turin, with the main civic historical archives as stages of a journey of places and events, narrated by authors included to provide affinity. There were 130 visits to the Museum during that event.
- The Italgas Historical Archive and Museum has been the place for and subject of scholastic studies many times: hundreds of research studies have been conducted, including for degree theses, high school exams, university exams and doctorates.
- The Italgas Museum is one of the organisations which promotes the cultural review “Confluenze”, now in its fourth year, which animates the roads, streets and schools of the Corso Regio Parco area through books, authors, shows, animations, music, songs and readings.

There were 654 admissions in 2016, 292 involving students.



The culture
of sustainability in Italgas





Digital

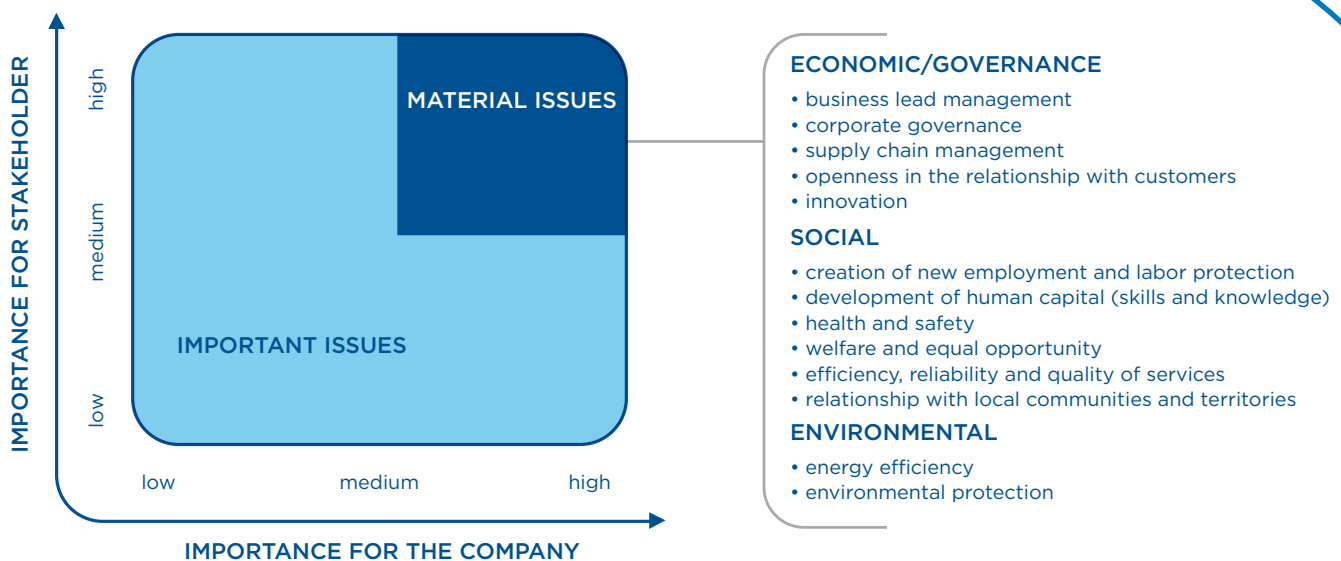
The culture of sustainability in Italgas

Italgas, a company that brought gas to the homes of Italians and contributed to the economic and social development of the country, now wants to be a business capable of increasingly promoting the connection between networks, areas and communities. An open ecosystem in which the Company recognised the centrality of stakeholders and their needs to create social value as well as economic value through the drive towards innovation.

This is the principle that is guiding the path to sustainability, undertaken in 2016, with the goal of improving the integration of ESG issues (environmental, social and governance) with business strategies, supporting industrial processes. A path that has led in the initial stage to the rereading of all aspects of environmental sustainability and social responsibility, starting with the strategic importance that they will have in the sector, thanks to the involvement of the entire management. This has made it possible to identify issues considered as key, both by the business and by interested parties (Material Issues), around which Italgas will develop its Sustainability Plan in 2017.

THE MOST SIGNIFICANT ISSUES

Material issues are the questions which, on the one side are perceived as important by stakeholders, because they could have a significant influence on their expectations, decisions and actions, and, on the other side, they could produce significant economic, social and environmental impacts on corporate activities.



Analysis of materiality: methodological approach

The analysis of materiality began by identifying the issues present in the main sustainability guidelines (ISO 26000, Global Compact and GRI-G4), generally considered representative of the perspective outside of the company because they have been identified through multi-stakeholder discussions and comparisons internationally. These issues are then put into context in relation to the Energy&Utilities sector, through the 2015 sustainability reporting benchmark conducted on the latest Sustainability Report available for the main companies in the sector on the stated areas of commitment. This first stage highlighted a series of important issues. The following areas were then analysed to define materiality:

1. the background of the sector, public opinion and press releases about the company, which make it possible to evaluate the development of political, economic and social phenomena, both globally and locally, which could affect Italgas strategies in the short-term and the long-term;
2. the perception of these matters from the external stakeholders' point of view, having heard the heads of the various departments within the company. This revealed many opinions, concerns, suggestions and observations in terms of sustainability and governance of the stakeholders with whom the company interacts on a daily basis.
3. the Code of Ethics and Health, Safety, Environmental, Quality and Energy Policies adopted by Italgas;
4. issues from the point of view within the company through interviews with the heads of various functions.

The joint evaluation of internal and external significance led to identifying the priority areas and those of greater materiality for the company.

The main categories of Italgas stakeholders, represented below, were identified with the direct contribution of the company's departments, which provided a mapping of the existing relationships. Italgas is in constant collaboration with its stakeholders through specific communication channels, with the intention of providing a service that is consistent with the needs and both local and national growth plans, as well as providing its knowledge to facilitate the development of activities.

MAP OF STAKEHOLDERS



Transparency, integrity and safety as a business culture

Italgas asks its suppliers to take note of Model 231 and to comply with the requirements of the related legislation (Legislative Decree 231/2001); to adhere to the principles of its Code of Ethics, operating in compliance with regulations regarding workplace safety, health protection, safeguarding the environment, as well as international standards of employment law.

Transparency, impartiality, responsibility and safety are the subjects that guide the operations of Italgas and around which it is possible to create social value.

In procurement, Italgas' relations with suppliers are transparent and, once a supply relationship is established, it tries to involve suppliers in achieving lasting performance over a period of time, with a view to mutual growth and creation of value.

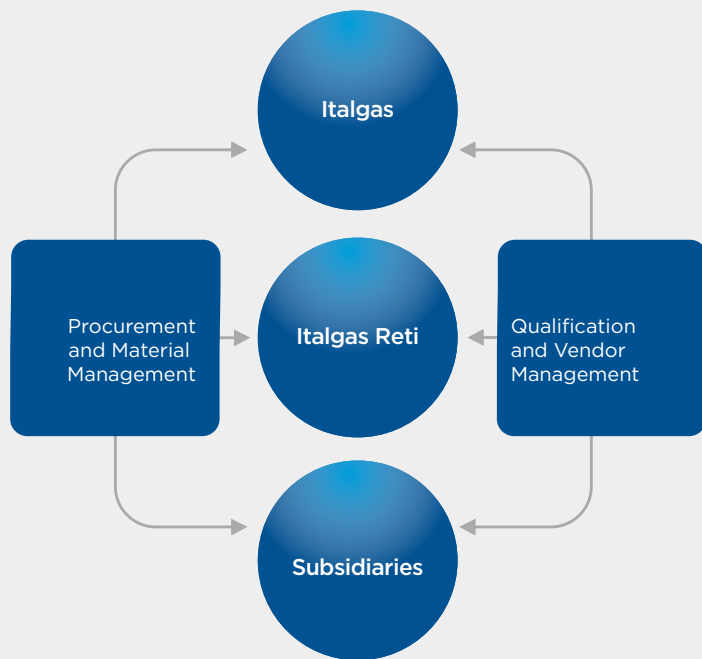
The principles of prevention and protecting people are vital values for the Company, which undertakes a specific commitment for the prevention of accidents and health protection in carrying out its activities.

The management of the supply chain in Italgas

Within the new corporate structure, the qualification of suppliers is assigned to the HSEQ function and the head of Vendor Management who manages and coordinates the activities associated with the supply chain.

The new qualification system, adopted in 2016, requires suppliers of goods, works and services to be qualified, not for each individual company, but to obtain a "corporate" qualification, valid for the entire Group¹.

The Portal for the Qualification and Evaluation of the performance of Suppliers was set up in 2016 as the sole channel for requests for new qualification, updating or renewal.



2016 PROCUREMENT NUMBERS

2,315
suppliers on the vendor list

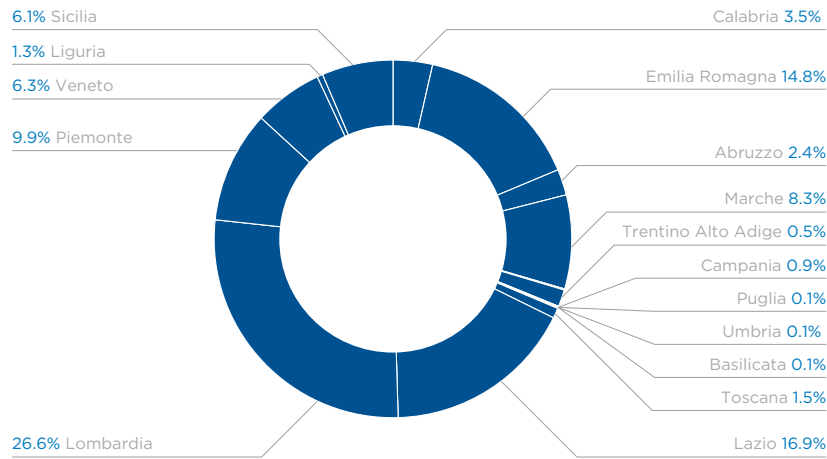
719
million - the value of procurements

1,356
contracts signed

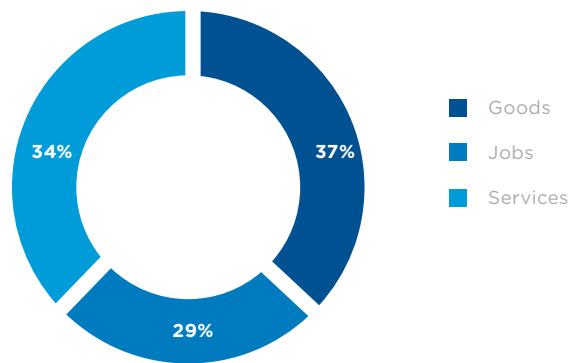
99%
of active suppliers are Italian

¹ ACAM Gas suppliers are not included in this qualification system, since ACAM Gas manages its suppliers independently.

2016 geographical distribution



Procured by commodity nature (%)



BECOMING AN ITALGAS SUPPLIER

100% of Strategic Suppliers (criticality A) hold the ISO 9001 certification made compulsory by the qualification procedures for 100% of Suppliers of “Goods” with criticality B and C (Critical and non-critical) and “Works” with criticality B (Critical). Furthermore, all the “Works” Suppliers with criticality A and B (strategic and critical) have the ISO 14001 and OHSAS 18001 certifications.

Companies that wish to put themselves forward to supply goods, services and works for Italgas Group² must undergo a supplier selection process, both during the qualification stage and the awarding of contracts, which involves conformity to a series of requirements and offers equal opportunities to all applicants. Technical and management capacities are subject to evaluation, as are economic and financial reliability, the ethical profile, including references, commitment to fighting corruption, safeguarding and protecting the environment, promoting healthy and secure working conditions and the absence of forced labour

and the economic exploitation of minors. For the categories of goods deemed most critical, those belonging to classes A and B (on a scale with four levels), the procedures include more stringent requirements such as, for example, the possession by the supplier of management systems certified in accordance with international standards.

² ACAM Gas suppliers are not managed by this process and do not fall within the numbers set out in this paragraph.

Since May 2016, Toscana Energia has been a member of the Italgas Qualification Procedural System.

Toscana Energia's Vendor lists have been uploaded onto the Vendor Management System, excluding the already qualified Italgas Suppliers.

All suppliers concerned have been informed of the change and will be subjected to a qualification renewal process according to the criteria used by Italgas. Suppliers who pass the qualification process and deemed eligible, may be used by all Italgas Group Companies. Those that are not eligible will not be able to be used, not even by Toscana Energia.

Phases	Business	2016 numbers
Checks during the qualification process	To become a qualified supplier, the supplier must complete an evaluation and analysis process, structured in different phases depending on the nature and on the critical issues of the goods. The most critical candidates (class A and B), which correspond to 256 out of a total of 2,219 qualified suppliers, as well as being evaluated through an analysis of the management of environmental, economic and social risks, should have certified management systems.	<ul style="list-style-type: none"> · There were 4 audits into critical suppliers in the qualification stage. · 328 suppliers were in the process of being renewed or obtaining new qualifications. · 290 reputational inspections were conducted, with 6 irregularities emerging. · 3 of the irregularities were resolved, one of which went back to 2015. Due to the remaining unresolved irregularities, the qualification process was suspended.
The monitoring of suppliers	Suppliers are subjected to audits, inspection visits and performance evaluation processes during the procedure. These also allow the support of the supplier in any requests for assistance.	<ul style="list-style-type: none"> · Feedback was given in 672 instances on performance during the execution of the contract.
Performance evaluation of suppliers with criticalities A and B	If the supplier defaults on the obligations agreed during the qualification stage and the awarding of the contract, Italgas reserves the right to make provisions that consist of limiting, suspending or revoking the qualification and the appointment.	<ul style="list-style-type: none"> · 105 suppliers were evaluated. · At the end of 2016, 19 orders were pending, including 13 cautions and 6 suspensions.

The entire process is managed through the "Supplier Portal", an information exchange tool which allows the transfer in real time of information, better communication (including administrative) and the chance of training and information on issues of corporate interest.

The vendor process management in 2016

Suppliers ⁽¹⁾	Number	Work practices ⁽²⁾	Environmental criteria	Human rights ⁽³⁾
	2016	2016	2016	2016
Goods				
Qualified suppliers	703	703	174	703
of which criticality classes A and B	79	79	79	79
Suppliers qualified in the year	132	132	42	132
of which criticality classes A and B	20	20	20	20
Works				
Qualified suppliers	281	281	113	281
of which criticality classes A and B	80	80	80	80
Suppliers qualified in the year	40	40	11	40
of which criticality classes A and B	6	6	6	6
Services				
Qualified suppliers	1,646	1,646	429	1,646
of which criticality classes A and B	172	172	172	172
Suppliers qualified in the year	230	230	88	230
of which criticality classes A and B	28	28	28	28

⁽¹⁾ A supplier may be in possession of several qualifications on account of the different nature of the products

⁽²⁾ Aspects relating to health and safety.

⁽³⁾ Ethical aspects (regularity of contributions/DURC (single insurance contribution payment certificate), Law 231, child labour, forced labour, etc.).

PROTECTION OF HEALTH AND SAFETY

Prevention and protection are vital values for Italgas. The company undertakes a specific commitment for the prevention of accidents and protection of health of its employees. In terms of health, safety, environment and quality (HSEQ), the organisational structure provides for a distinction between the duties of general management, which are centralised within Italgas, and the duties of special management, coordination and support for operating units, which are assigned to the individual companies. They can operate with an adequate level of decision-making autonomy.

In 2016, there was a total of 23 accidents recorded, 14 of which were accidents that occurred in the workplace and 9 on journeys. Total accidents correspond to 1,316 days' absence in total (872 not including those involving journeys) with a frequency index of 4.09 and a severity index of 0.23; excluding accidents on journeys, the indices would be: frequency 2.49 and severity 0.16.

Accidents at work (number) ^(*)

	2014	2015	2016
Total employee accidents	6	18	14
Total contract worker accidents	1	4	8

^(*) Number of accidents excluding journeys

Accident indices

	2014	2015	2016
Employees			
Frequency index ^(*)	1.15	3.34	2.49
Severity index ^(**)	0.06	0.16	0.16
Contract workers			
Frequency index ^(*)	0.76	3.13	3.81
Severity index ^(**)	0.13	0.35	0.09

^(*) Number of accidents at work resulting in absence of at least one day, per million hours worked.

^(**) Number of working days lost (calendar days) in relation to accidents at work resulting in absence of at least one day, per 1.000 hours worked. Data do not reflect fatal accidents.

Italgas pays special attention to raising awareness and educating personnel with regard to the risks of carrying out activities and the implementation of safety measures to be adopted to protect personal safety and that of others. Well-established initiatives, such as the "Italgas Safety Trophy", and the "Zero Accidents Prize" contribute to the growth of the "safety culture". The latter is awarded to groups that have worked for 365 consecutive days without any accidents.

Externally, the prevention of accidents specifically involves contractors which operate at Italgas sites and awarding municipalities which, during the examination and approval of projects involving underground works, are made aware of the possible interference of these works with the existing gas distribution networks. In this regard, in 2016 the systematic recording of accident data of third-party operators continued (there were 8 workplace accidents, totalling 191 days' absence).

Italgas ensures that regular health checks are performed on personnel exposed to specific risk factors, with 2,424 medical check-ups during 2016.

The value of people

Italgas' operations are founded on the growth and development of people, on protecting their health and safety, on the creation of a positive work environment, which promotes professional and human growth. Italgas offers all employees and contractors career opportunities based on merit, professional and managerial skills, active participation in corporate development and improvement processes.

There were 3,570 people as at 31 December 2016 working for the Italgas Group, a total increase of 272 employees compared with the previous year.

This change is due to the demerger from the Snam Group of the distribution operating companies and the establishment of Italgas S.p.A., which led to activities previously outsourced through service agreements returning to the scope of the company.

Specifically, the employment figures recorded during 2016 involved:

- an increase of 355 people, of whom 112 were recruited from the market (46% university graduates and 54% with technical college diplomas) and 59 joining from the Snam Group, and Società dell'Energia and 184 others joining the service (e.g. re-joining after leave);
- a reduction of 83 people, of whom 45 due to termination of employment and 38 for other departures from service (e.g. approved leave).

Turnover has changed over the years mainly due to the change in the business scope (addition of AES in 2014, addition of ACAM Gas in 2015).

Approximately 97% of people in Italgas are on permanent employment contracts, the remaining 3% break down into fixed-term contracts, apprenticeships and internships.

Italgas Group personnel by grade (no.)

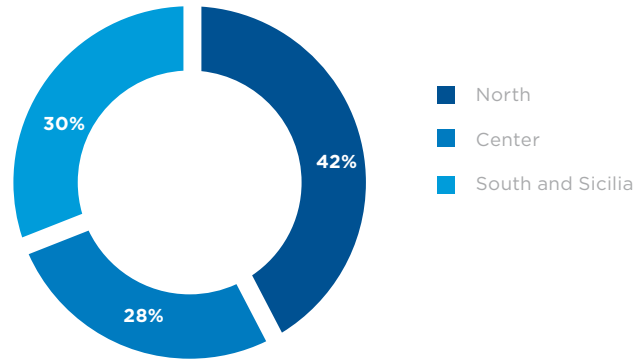
	2014	2015	2016
Executives	25	30	56
Managers	155	180	237
Office workers	1,591	1,699	1,896
Manual workers	1,353	1,389	1,381
Total employees	3,124	3,298	3,570

Italgas Group personnel by Company (no.)

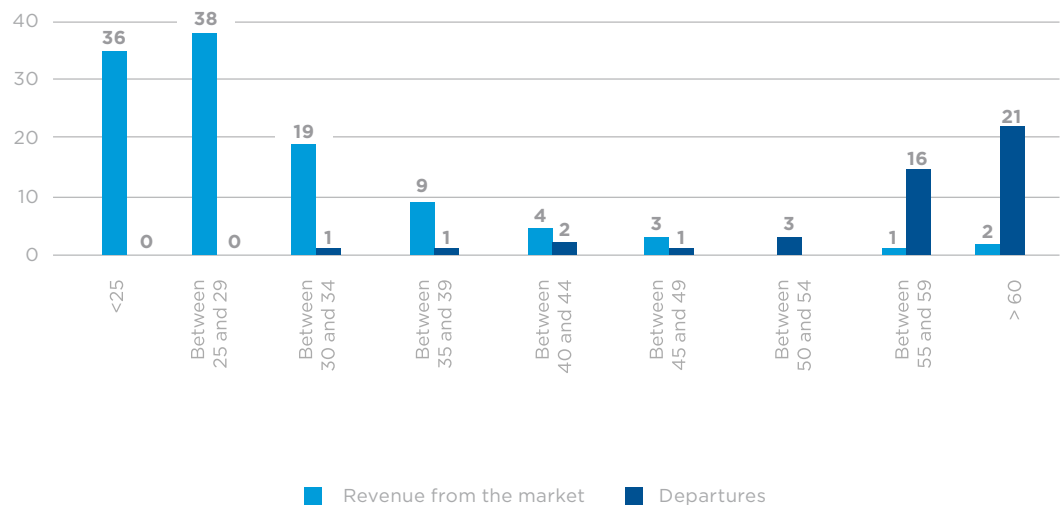
	2014	2015	2016
Italgas S.p.A.			337
Italgas Reti (*)	2,681	2,768	2,704
Napoletanagas	443	438	437
ACAM Gas		92	92
Total employees	3,124	3,298	3,570

(*) The 2014 and 2015 data for Italgas Reti include 179 resources of AES Torino.

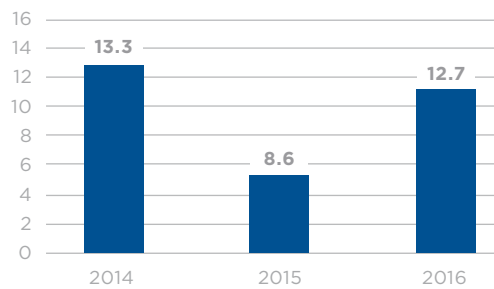
Group staff for geographical distribution (%)



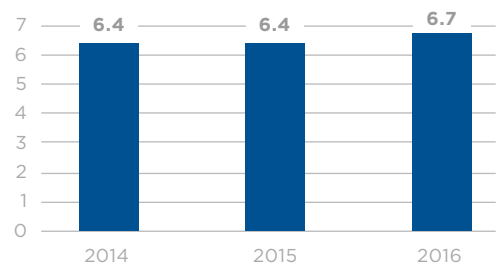
Entries and departures from the market by age (no.)



Turnover rate (%)^(*)



Absenteeism rate (%)^(**)



(*) Turnover rate = ((entries+departures)/average headcount in service)*100.

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

Italgas Group personnel by type of contract - (no.)

	2014	2015	2016
Long term - Full time	3,036	3,216	3,432
Fixed-term	1	-	1
Apprenticeship/internship	51	44	96
Long term - Part time	36	38	41
Total employees	3,124	3,298	3,570

Italgas considers diversity to be an asset to the company and does not tolerate any form of discrimination based on gender, age, health, nationality, political opinion or religious views. It respects everyone's dignity and guarantees equal opportunities throughout all phases and for all aspects of the employment relationship.

10.7% of company employees are female, a figure that has been rising over the last three years. Specifically, the percentage of females in the managerial area (executives and managers) is 12.3%, a trend that is on the increase when taking into consideration that new hires from the market of graduates has increased by around 27% for women. In 2016, thanks to the establishment of the Italgas Corporate structure, a significant number of female employees transferred from Snam.

Female presence - (no.)

	2014	2015	2016
Total employees	3,124	3,298	3,570
- of which women	264	285	383
Female presence - (%)	8.5	8.6	10.7
Women employed from the market	3	8	14

Female presence by grade - (no.)

	2014	2015	2016
Executives	-	1	7
Managers	14	14	29
Office workers	249	266	343
Manual workers	1	4	4
Total	264	285	383

Personnel belonging to protected categories - (no.)

	2014	2015	2016
Employees belonging to protected categories	171	169	182

NEW ORGANISATIONAL STRUCTURE

The establishment of Italgas S.p.A. was accompanied by the design of a new organisational and managerial structure and required the recruitment of expert, qualified resources, to join the main central staff units: Legal and Corporate Affairs and Compliance, External Relations and Communication, Institutional Relations and Regulatory Affairs, Finance and Services, Commercial Development, Security, Human Resources and Organization. Italgas Reti also took on a substantial number of new resources to upgrade both the technical and commercial areas.

Specifically, in the Operations department, the headquarters engineering department was significantly upgraded (planning and network inspection activities) through the addition of young engineers and the completion of the team of works directors hired from various outside engineering companies with specific and diverse experience and skills in site management and control activities.

The strengthening of Operations also involved the Network Management area, headquarter operation coordination activities, the districts and operational centres through recruitment of engineering graduates for the engineering and works control units as well as technicians with diplomas for centre technical operations activities.

The Commercial Development area was also strengthened in managerial and operational terms, with the recruitment of experienced managers from the market and new economics and engineering graduates.

The significant recruitment plan in 2016 therefore enabled the Group to enrich itself with a new cohort of young people who will occupy themselves with activities that are critical for the business and crucial for the development of the Italgas strategy: protecting the technical know-how, design and innovation, knowledge of the distribution market, logics and activities aimed at participating in and managing tender processes.

The new recruits are supported on a journey of training and experience over the period of the early years, through classroom-based sessions, shadowing, on the job training and participation in working groups.

DEVELOPMENT OF HUMAN CAPITAL

Employee training by grade and gender (participation³ nos.)

	2014	2015	2016
Executives	89	111	158
Managers	394	602	1,054
Office workers	3,754	2,884	8,803
Manual workers	4,066	1,845	4,107
Total participation	8,303	5,442	14,122
- of which men	7,922	5,181	13,177
- of which women	381	261	945
Total participants	2,761	2,380	3,266

Hours of training delivered by grade and gender - (no.)

	2014	2015	2016
Executives	525	1,199	792
Managers	3,368	7,649	7,563
Office workers	31,963	43,918	79,052
Manual workers	56,595	18,501	25,708
Total hours	92,450	71,266	113,115
- of which men	89,342	67,246	106,892
- of which women	3,108	4,020	6,223

Delivered in 2016 more than 113 thousand hours of training to 3,266 participants for a total of 14,122 participations. Each Italgas employee, on average, took advantage of over 31 hours of training on approximately four different occasions over the course of the year.

The development of human resources is promoted by paths towards growth which combine training activities and internal mobility (changes of role, corporate function or geographical area).

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

The evaluation of performance, experience and know-how, make it possible, on the one hand to calculate individual contributions to the organisation and define progress made, and on the other hand to outline areas of improvement which need further intervention.

³ All figures relating to training do not include ACAM Gas staff. The figures recorded were processed with reference to the workforce headcount as at 31/12/2016. Therefore, the hours of training used by resources that left during 2016 (resignees and those who transferred to Snam) were not counted.

Compared with 2015, the total volume of training activities (number of procedures, hours delivered, participation) was significantly higher in line with the strategic objectives of improvement and the implementation of the organisational and operational model and by virtue of the fact that all training carried out by the staff of Italgas Group employed as at 31 December 2016 throughout the calendar was considered (including the training provided by Snam).



Training initiatives delivered in 2016 are summarised in the table below:

Description	Hours provided (no.)	Participants (no.)	Recipients
Managerial training: inter-company general management procedures, new courses for the improvement of soft skills, etc.	2,856	309	Executives, Managers and Office Workers
Managerial training: Integration schemes	432	26	New graduates who joined the Group in 2016
Training dedicated to plant maintenance and knowledge of technical systems	72,624	6,115	Technical and operational office and manual workers
Technical-professional training dedicated to knowledge of processes and systems	3,171	381	Executives, Managers
Foreign languages	1,976	65	Executives, Managers and Office Workers
Training on compliance issues (Code of Ethics, Model 231 and anticorruption, Corporate Information Internal Control System, etc.)	3,030	1,505	Executives, Managers and Office Workers
Training on Worker Health and Safety, the Environment, Quality(*)	29,026	5,721	Executives, Managers, Office Workers and Technicians, Manual Workers
	113,115	14,122	

(*)All health and safety courses were organised and run in accordance with the Agreement between the State and the Regions of 21 December 2011.

Compensation systems

The Group promotes the commitment and performance of employees using compensation policies, differentiated in relation to performance and professional and managerial abilities which take into consideration:

- responsibilities allocated;
- results achieved;
- the quality of the professional contribution and development potential of people.

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

COMMUNICATION AND CHANGE MANAGEMENT

Internal communication

The demerger from Snam and listing on the stock exchange led Italgas to redefine its communication in line with the strategies, values and objectives of the new company, in order to promote and sustain change, encouraging new visions, contributing to changing the company culture and inspiring new behaviour.

Italgas uses a diverse range of communication tools to take care of the communication needs of the company. The tools are adjusted depending on the content and the reference target. At the end of 2016 the new Group intranet portal was inaugurated, a privileged channel for people who work in the companies and which, in the last months of 2016, was the main channel for conveying information relating to the new Italgas structure.

IGas, the new Italgas Group intranet portal



The new Italgas Group portal: “IGas”, allows Italgas people to have a unique point of access to news, information, applications, special-interest sites, areas of cooperation. The portal was designed to be immediate and simple to use and can be used on all types of devices (PCs, tablets and smartphones).

The portal home page is the area which contains headline news, highlighted issues, launches of company initiatives and pop-ups. The portal contains galleries with videos and photos, to provide immediate and graphic information about company experiences and events.

Climate survey

Areas surveyed

- Engagement
- Available Resources and Tools
- My job
- Growth opportunities
- Training
- Innovation
- Performance, Remuneration and Recognition
- Top Management
- Cooperation
- My Manager
- My Team
- Change
- Objectives
- Managing diversity
- Health and Safety

Under the scope of the Snam Group, Italgas conducted a climate survey for 2016 aimed at the entire company population, which recorded a rate of response by company employees of 77% (a significantly higher figure than the previous survey conducted in 2013 when this figure was 63%). The objectives of the survey included measuring levels of engagement through both internal and external benchmarks, identifying organisational conditions that promote or hinder the positivity of the internal climate and involvement of people, highlighting possible areas of intervention and activating a plan of action to improve the internal climate.

Compared with the previous survey in 2013, the results highlighted a significant improvement for all issues, with particularly positive results

especially in the perception of top management, ethics, the management of diversity and growth opportunities. Values linked to pride and to a sense of belonging also scored highly.

Areas of improvement included: objectives, performance-related pay and recognition, relations with managers, cooperation between functions.

Industrial relations

In 2016 relations between Italgas and Trade Union Organisations featured the discussion on issues relating to the demerger from the Snam Group and subsequent listing of Italgas S.p.A. on the stock exchange.

The process involved numerous meetings, necessary both for illustrating the transaction and for preparing favourable conditions for the move of personnel between the companies involved in this extraordinary transaction.

In 2016, a total of 72 meetings were held with Trade Union Organisations (27 national and 45 local).

Italgas guarantees all employees the right to express their thoughts, also by belonging to trade union associations and allowing them to freely carry out trade union activities; Italgas employees can have special time off in accordance with the provisions of the legislation in force and the applicable sector trade union agreement.

At the end of 2016, 57% of employees were members of a union.

In 2016, the Unitary Representation Bodies (RSUs) were renewed, confirming the importance of the role played by this organisation identified as the partner for level two negotiations - as endorsed in the Protocol on Industrial Relations of 17 October 2013 and the agreement of 18 April 2016 which reshaped the composition.

Negotiation dynamics, consistent with the provisions of the above-mentioned agreements, led to the definition between the parties of the productivity and profitability indicators for the 2016 Performance-Related Pay for all Italgas Group companies.

Negotiations are at an advanced stage for the renewal of the national employment agreement adopted by the Group which will come to an end in 2017.

The number of legal disputes within the Italgas Group with employees and former employees is on average stable over time and falling; typical cases relate to different roles and their remuneration, claims for compensation and appeals against disciplinary decisions, including dismissals.

Employee employment disputes (no.) ⁴

	2014	2015	2016
Total disputes pending at 31.12	36	36	23
Begun in the reference year	44	25	22
Ended in the reference year	41	25	35

CORPORATE WELFARE⁵

To safeguard and promote the well-being of its employees, Italgas makes services and initiatives available aimed at reconciling the work/life balance, taking into consideration families and childcare, maintaining good physical and mental health, taking charge of onerous daily tasks in terms of time and money, and the organisation of leisure pursuits and artistic and cultural activities.

⁴ Data relating to disputes with employees do not include ACAM Gas.

⁵ The welfare system does not cover ACAM Gas employees.

Family

Summer trips and study visits for employees' children.

172 youngsters involved at a cost of €346,600.

Refund of childcare costs

25 refunds to employees for childcare costs, totalling €20,756.

Subsidised purchase of academic text books and **instalments** in pay packet of costs incurred.

Books costing €18,663 purchased (102 employees benefited from this scheme).

Scholarships for employees' children and School loan to support educational expenses.

17 scholarships worth a total of €8,500 provided and 9 student loans worth a total of €2,700.

S.O.S. Family: counselling service for personal and family problems managed by a professional (psychologist/healthcare professional/social worker).

Motherhood, adoption and foster care: a guide for parents.

Health and well-being

Early cancer diagnosis programme in collaboration with the Italian League for the Campaign against Tumours.

471 visits costing €20,434 made.

Health checks: for management personnel.

Arrangements with sports centres: at favourable rates.

Nutrition taken care of thanks to a high-quality company restaurant and take-away service for private use.

Workplace Health Programme: promoted by the Lombardy Region with the scientific support of the Asl and the collaboration of competent medical staff aimed at improving the lives of Group employees.
Involved: 27 employees at the collective workshop and 20 at individual courses, under the giving up smoking campaign; 500 employees in the Snam Without Borders initiative to encourage physical activity.

Arrangement with the CCM (Centro Cardiologico Monzino - Monzino Cardiology Centre) to provide full private schemes for **specialist services** aimed at employees and their families.

Time for yourself

Time management:

- arrival/departure/lunch break flexibility;
- flexible hours to the benefit of employees (school times);
- *time account* to recover overtime hours.

"Departure from home" for technical staff who, can go directly to the first call using company transport.

The Expert Answers: help with legal and tax issues.

Savings and relations

Microcredit: loan from the company at a subsidised rate of up to a maximum of €5,000.
€3,053,000 supplied in microcredit to 689 employees.

Sustainable mobility: subsidised season tickets for public transport.
112 season tickets worth €47,012 supplied.

Arrangements: discounts on insurance policies, bank credit cards, car hire, branded products, holiday bookings.



IG
Italgas



Innovation for security and quality of service

Innovation and the adoption of technologies at the service of customers and personnel play a central role for Italgas in improving service quality and safety standards, with repercussions on the overall efficiency of the distribution system.

Maintaining high standards of both technical and commercial service, in line with the principles of efficiency and continuity, is an objective pursued already from the design and construction stages of distribution networks and later on in service management.

In this sense, Italgas also maintained the levels of excellence already reached in recent years with regard to the quality standards set by the Authority through Resolution ARG/gas 120/08 in 2016 as well. These indices are commercial (mainly referring to the cost estimation and execution of works at end users, the activation and deactivation of the supply, keeping appointments) and technical (relating to rapid response times and to the number of checks carried out for odouring).

The results achieved in 2016 are summarised in the table below:

Activity sector	Results
Compliance with the maximum time set for services subject to specific commercial quality standards (%)	97.6
Punctuality in appointments arranged with customers (%)	98.3
High- and medium-pressure networks subject to inspection (%)	53.0
Low-pressure networks subject to inspection (%)	55.4
Compliance with the maximum time for reaching the call-out site for emergency assistance (%)	96.1

GAS SMART METERING FOR CITIES OF THE FUTURE

ICT integrated in services and infrastructures for the community has seen the

According to the results of research by the Internet of Things Observatory, the creation of an SUI aimed at offering, for example, three services (Smart Gas Metering, Intelligent Lighting, Waste Collection) in an average sized city would allow savings of between 25% and 50% in terms of investment costs compared with the uncoordinated organisation of these three services and savings of 50%-70% in terms of operating costs.

proliferation in recent years of the first applications for smart cities, including those for intelligent lighting and mobility.

In this context, the gas distribution sector is making its contribution by implementing smart metering on a large scale. Smart metering is one of the factors that can accelerate the move from technological applications to a fully-fledged communication infrastructure on an urban scale, shared between several applications, for the transportation and management of information coming from life in the city: the Smart Urban Infrastructure (SUI) through which to create a greater impact on the life and well-being of individuals and communities, from the perspective of smart communities.

By 2018 at least 60% of gas meters in homes will be compulsorily connected, in order to enable remote reading and facilitate bills to be issued based on actual consumption.

In 2016 investments intended for the plan to replace traditional meters with electronic meters, under the scope of the remote reading project, were equal to €12 million.

In this sense, Italgas is committed to the progressive replacement of gas meters at end users with new generation equipment with new functionalities. The innovation process of the metering system, regulated by Resolution ARG/gas no. 155 of 22 October 2008 includes the objectives of facilitating the technological innovation of the metering and accounting process of natural gas withdrawn by end users, improving the quality of the natural gas metering, sales and distribution service and promoting the awareness of consumption. To comply with this obligation, the Italgas plans to replace approximately 3.7 million meters by 2018, including 1.1 million already replaced and 2.6 million yet to be replaced.

Gas 2 Go

The project was conceived to improve the service and management of technical interventions on the move. Technical personnel will have an iPad with numerous functionalities to facilitate work in the field. The Gas 2 Go application is integrated with the company database, with the information systems and the computerised map and makes it possible to display information such as: the history of interventions; the list of materials necessary to carry out an activity; priorities and urgencies; computerised mapping; the result of interventions; but also to take part in training courses through e-learning. This established technology has, in recent years, produced concrete results such as the activation of a paperless process, the rationalisation of processes with the consequent reduction of the daily mileage of technicians and the consequent reduction of CO₂ emissions, an increase in productivity, a reduction in the time taken to execute jobs and back office activities, a reduction in error margins due to inaccuracies in transcribing data.

SAFE WITH TECHNOLOGY

Odourisation is a fundamental activity for distribution safety, because it allows the presence of gas to be recognised, which would otherwise be odourless and colourless, in the case of accidental dispersion.

Since the fifties, Italgas has had a centre of excellence which has been developing innovative systems and products for every single production process and overseeing various specialist activities connected with the distribution of gas.

In this area, in addition to already using odourisation plants equipped with the most modern automatic injection systems for metering the odourising substance, depending on the volumes of gas distributed, Italgas is also committed to various technological development projects.

In 2016, the company continued to invest in the

development of the “Optimisation of the odouring volume injected into the network” project which involved experiments being carried out at several reduction plants relating to an innovative control system for the degree of odourisation depending on the gas supply conditions or the fluodynamics of the network.

Also in 2016, a project was launched aimed at testing an injection system in the field to optimise the odourisation process in LPG distribution networks with the aim of guaranteeing the saturation degree of the TMB odouring mixture in the flow delivered at LPG stations, especially at very low flow rates.

Another area is making buildings safe in case of seismic events. Italgas was the first company in Italy to install valves capable of detecting the stresses transmitted by tremors and automatically interrupting the flow of gas. After previous experiments, which involved central and southern Italy, the number of installation projects for anti-seismic valves grew further and it is set to increase even more.

The Italgas Reti Laboratory

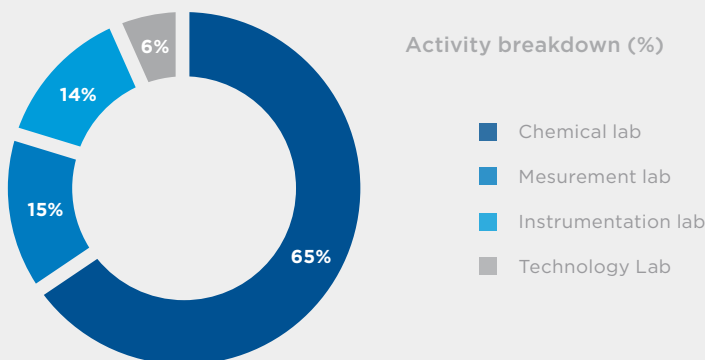
In 2016, the Italgas Reti LAB carried out a total of 18,600 tests, including 9,381 accredited tests and 27 accredited calibrations.

The company’s assets include a centre of technological excellence capable of operating in accordance with ISO (International Organization for Standardization). Areas of operation include: rhino-analytical tests; instrumental tests on gas odourisation; the calibration of gas meters and other

instrumentation supporting gas distribution activities and mechanical tests on network materials. The Centre also takes part in international projects aimed at research and development into renewable energy sources and it supports the development of expertise in the sector contributing to the publication of applied research articles in both national and international journals.

Composed of four laboratories (Chemical and Rhino-analytical, Metering, Instruments and Technology), the Italgas Reti LAB uses testing and sampling methods published in accordance with national and international standards (UNI, CEI, ISO, IEC, EN, etc.); the reference standards are constantly updated, preserved and disclosed.

Thanks to the ability to anticipate sector developments and develop exclusive know-how, the Italgas Reti LAB has taken on a key role in the national context, making its professionalism available not only to Group companies, but also to other operators in the sector.



Italgas security services

Italgas oversees its distribution network through:

Rapid response: when there are breakdowns or gas leaks, through a unique Italgas Rapid Response Freephone Number (800 900 999), which operates 24 hours a day, every day of the year, to contact the Operational Centres located throughout the country for immediate technical assistance, inspections, technical operations as required and for safeguarding all citizens involved.

Scheduled search for leaks: every year Italgas inspects tens of thousands of miles of pipelines recording quality standards higher than those established by the Regulatory Authority. When carrying out this activity, in addition to traditional flame-ionisation detection or semiconductor equipment, Italgas uses highly sophisticated equipment such as laser detectors which allow better selectivity, resolution and intervention capacity. This service enables the prompt elimination of any gas leaks from the distribution system, including very small ones, and examines the reliability of the network on which to base the scheduling of maintenance and upgrading activities.



Responsibility toward the environment and the land

Italgas adopts a responsible and transparent approach to guarantee compatibility between infrastructures and the land, managing natural and energy resources efficiently and curbing the environmental impact from its activities.

The most significant environmental impacts involve emissions into the atmosphere from both combustion processes and releases from natural gas networks, as well as the waste generated by network construction and maintenance activities and from the rehabilitation of industrial areas. Italgas is committed to the creation of an extensive environmental restoration programme involving the decommissioned sites where manufactured gas was previously produced.

Environmental and energy management are based on the adoption of certified management systems in accordance with standards ISO 14001 and ISO 50001, respectively.

Environmental research and innovation

Italgas is a member of GERG (**Groupe Européen de Recherches Gazières** or European Gas Research Group), to share research and innovation projects and establish synergies with other European transporters and distributors of natural gas. In this area, the Company focuses its activities on research into shared methods to estimate natural gas emissions from distribution networks and, specifically, on the revaluation of the network and distribution plan emission indices. This all conforms with a technological scenario that is constantly changing in terms of materials, equipment and joining technologies.

ENERGY EFFICIENCY AND CARBON FOOTPRINT

Using the same amount of energy, the carbon dioxide generated by natural gas consumption is 25-30% less than that produced by oil products and 40-50% less than coal. Further benefits come from the possibility of using natural gas in high-output applications and technologies such as condenser boilers, cogeneration plants and combined cycles for electricity production.

Italgas adopts the best technologies and solutions to curb energy consumption and greenhouse gas emissions.

In 2016 energy consumption stood at 575 TJ and has remained essentially unchanged compared with the previous year. Energy is mainly for industrial use. Natural gas is the most commonly used energy source, followed by electricity and diesel. The increase in energy consumption recorded in 2015, compared with the previous year, was due to the new pumping stations and the inclusion of ICT, relating to Italgas Group companies.

The main greenhouse gas (GHG) effects produced are carbon dioxide (CO₂), produced in

combustion processes and directly related to the consumption of fuels and methane (CH₄) contained in natural gas released into the atmosphere during the normal operation of systems.

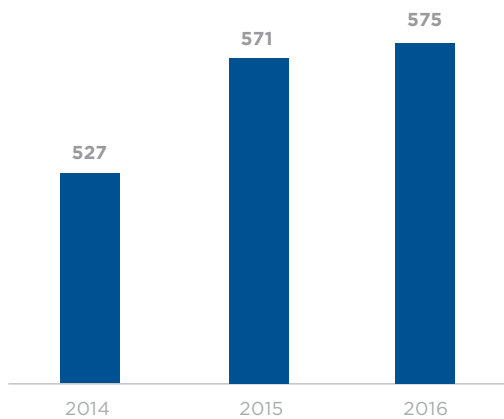
In 2016, total GHG emissions (Scope 1 direct, Scope 2⁶ and Scope 3 indirect) equalled approximately 715 thousand tonnes of CO_{2eq}, a slight rise compared with 2015 as a result of the increase in scope 3⁷ emissions, almost entirely due to the supply chain, which offset the reduction in scope 1 missions. The increase in Scope 3 emissions due to the increased outsourcing of activities was partially offset by the reduction in scope 1 emissions.

In 2016, natural gas emissions remained essentially unchanged compared with 2015, standing at around 28 million m³. The considerable fall recorded in 2015 is mainly due to the revision of the emission estimation method which led to the updating of unit emission factors, following a specific dedicated project.

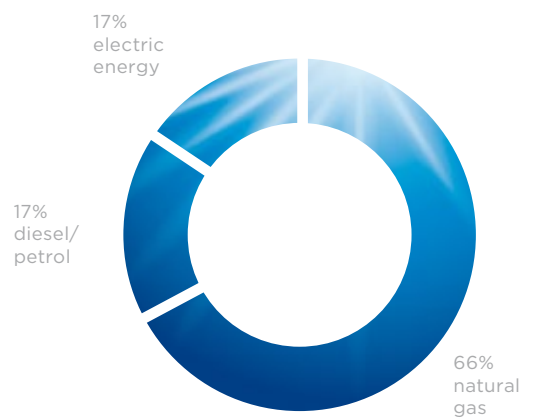
⁶ Indirect CO_{2eq} from the use of electricity not from renewable sources was calculated taking into consideration the updated factor published by ISPRA equal to 324 gCO₂/kWh.

⁷ Indirect scope 3 CO_{2eq} emissions - supply chain and business travel - do not incorporate ACAM Gas for the entire three-year reporting period and AES Torino for 2014 and 2015.

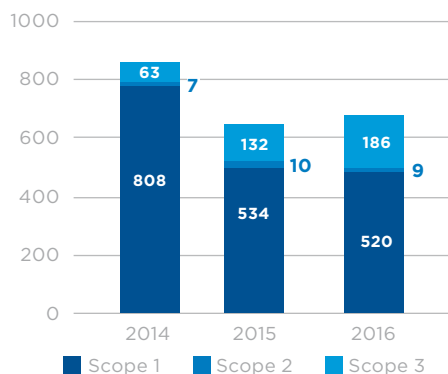
Energy consumption (TJ)



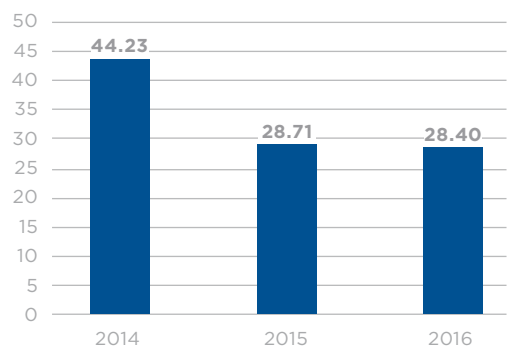
Consumption for 2016 (energy mix)



CO_{2eq} emissions (Kt)



Natural gas emissions (10⁶ m³)



Main activities for curbing energy consumption and greenhouse gas emissions

Description	Results achieved in 2016
Replacement of grey cast iron pipes with hemp- and lead-sealed joints with mechanical joints. The replacement of the pipes also helps with improving safety levels.	Approximately 47 km of grey cast iron pipes with hemp- and lead-sealed joints replaced. 35 km of grey cast iron replaced with mechanical joints.
Condition of steel pipes inspected.	Approximately 7,900 significant points of the network monitored and approximately 20,000 targeted measures taken.
Small-scale photovoltaic plants built for local electricity production.	At the end of the year, there were 10 photovoltaic plants operational with an installed capacity of 39 kW and production reached approximately 37,000 kWh.
Installation of plants with equipartition of flows at gas reduction stations to optimise the gas preheating process.	At the end of the year, there were 65 plants (the first were installed in 2005), with an average saving of 20% in gas preheating, equal to approximately 15,000 m ³ per year per plant.
Methane conversion of the vehicle fleet and adoption of applications that optimise routes to reach locations.	28% of the Italgas and Napoletanagas vehicle fleet runs on methane. The design stage to install methane distribution systems for automotive use at Group premises was launched during the year.

In 2016, a feasibility study was conducted, aimed at evaluating the possibility of installing turbo-expansion systems associated with cogeneration plants at pressure reduction stations. These systems make it possible to improve the overall efficiency of the natural gas reduction process through the recovery of energy potential associated with the rise in pressure of the gas for distribution locally. The first plant which will supply the Rome distribution network will be installed by 2018. The same network will have the first installations of LED lighting systems.

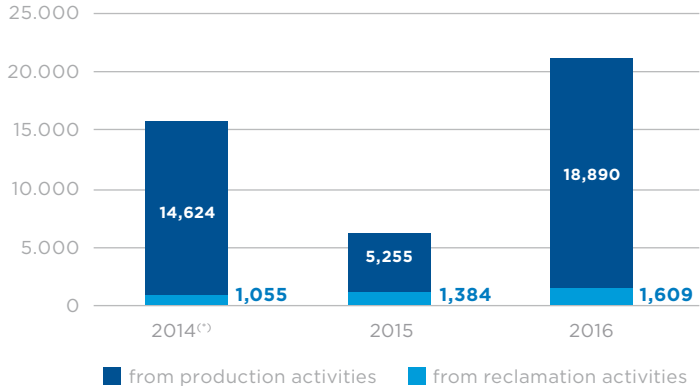
WASTE MANAGEMENT

The waste produced by Italgas mainly comes from environmental reclamation activities for decommissioned sites. Waste produced by operations, on the other hand, is less significant in terms of quantity and type and comes from the maintenance and management of plants and the replacement of meters.

In 2016, total waste produced⁸ came to approximately 20,500 tons, with a substantial increase attributable to clean-up activities. 99% of total waste produced was classified as non-hazardous, while 89% of waste produced from production activities, mainly ferrous material, was recovered.

⁸ The waste produced by contractors present in the construction sites was not attributable to Italgas, therefore the figures have not been accounted for.

Waste produced (ton)



(*) the scope of the data does not include AES

WATER MANAGEMENT

Water procurement and disposal for Italgas is not very significant in environmental terms, both with regard to the quantities used and the type of disposal. In 2016 the collection of freshwater, entirely involving the water system, was equal to approximately 167 thousand cubic metres of water. Freshwater was mainly used in offices, fire-fighting systems and for irrigating green areas. As far as water disposal is concerned, 98% of the wastewater is sent to sewage systems, untreated.





Attenzione!
Apparecchio per uso a pressione.
Non manomettere e prima di pressione o le
tasse erommette: pericolo di fuora di gas!





BK-G16B

ELS 17B 25 31827731

Qmax 25 m³/h
Qmin 0,16 m³/h
V 6 dm³
Pmax 0,5bar
class 1,5

t_m -25°C...55°C
t_g -25°C...55°C
t_b 15°C
p_b 1013,25hPa
H3

CE M14 0102

V_b

0032016.34 m³
Tariffa: F02

1 imp ≈ 0,01 m³

T10489
DIN EN 1359:2007
002531827731 2014

INFRARED HEAD
HIE-04

S/N: 1405400152
Date: 2014

FT2U 08 ATEX 0267X
II 2G Ex mb IIC T4 Gb

CE 1026

ELCAG s.p.a.
Pardubice
Czech Republic

IG Italgas
Reti



Annex

METHODOLOGY NOTE

Guidelines used and materiality

The 2016 Italgas Group Sustainability Report was prepared in accordance with the “G4 - Sustainability Reporting Guidelines”, defined in 2013 by the GRI - Global Reporting Initiative, according to the “*in accordance core*” accounting option.

The Sustainability Report was approved by the Board of Directors of Italgas S.p.A. in its meeting of 23 March 2016.

During the year, Italgas conducted a specific analysis and assessment of the impacts of its activities, in order to focus on the most relevant issues for the company and for all its stakeholders. The identification of the material aspects accounted for in the document took place by following the principle of materiality and in consideration of the principles set out by the GRI regarding the content and quality of sustainability reporting (stakeholder inclusiveness, completeness of information, sustainability context, balance, comparability, clarity, timeliness, reliability and accuracy). The details of the methodological process and of the results that emerged from the analysis of materiality are provided in the section “The Culture of Sustainability”.

Representation of the scope of material issues

Material aspects	Entities/Activities whose Aspect is material		Limitations regarding the perimeter of the Aspect	
	Inside the Organisation	Outside the Organisation	Inside the Organisation	Outside the Organisation
Economic performance	Italgas Group	Investors, Clients	-	-
Procurement practice	Italgas Group	Suppliers (contracts)	-	Reporting not extended to sub-contractors
Energy	Italgas Group	Suppliers (contracts)	-	Unaccounted suppliers energy
Emissions	Italgas Group	Suppliers (contracts)	-	Unaccounted emissions of suppliers pollutants
Suppliers evaluations on environmental criteria	Italgas Group	Suppliers (contracts)	-	Reporting not extended to sub-contractors
Employment	Italgas Group	-	-	n.a.
Management of employment	Italgas Group	-	-	n.a.
Occupational health and safety	Italgas Group	Suppliers (contracts)	-	-
Training and education	Italgas Group	-	-	n.a.
Diversity and equal opportunity	Italgas Group	-	-	n.a.
Complaints mechanisms on work conditions	Italgas Group	-	-	n.a.
Suppliers evaluations on work practices	Italgas Group	Suppliers (contracts)	-	Reporting not extended to sub-contractors
Suppliers evaluations on human rights	Italgas Group	Suppliers (contracts)	-	Reporting not extended to sub-contractors
Local communities	Italgas Group	-	-	n.a.
Anti-Corruption	Italgas Group	Suppliers (contracts)	-	Reporting not extended to sub-contractors
Compliance	Italgas Group	-	-	n.a.

KEY

Italgas Group: Italgas S.p.A., Italgas Reti, Napoletanagas, Acam Gas
n.a.: not applicable

Regarding material aspects whose reporting has not yet been extended to the outer perimeter (“Limitations regarding the perimeter of the Aspect”), Italgas is committed to taking specific actions in the coming years that will enable the gradual expansion of reporting.

Reporting process and scope

The document includes the disclosures to stakeholders made in the 2016 Financial Report, recording physical and monetary data, as well as environmental, social and governance (ESG) performance indicators relating to Italgas S.p.A. - from the date of its incorporation (1 June 2016) - and the consolidated companies Italgas Reti S.p.A., Napoletanagas S.p.A. and ACAM Gas S.p.A. from 1 January 2016; unless otherwise specified.

The data and information contained in the Sustainability Report were collected and consolidated by the various Italgas department managers, using extractions from corporate information systems, invoicing and from internal reporting.

To enable a comparison over time of the Group’s performance, the data and indicators are reported in three-year time series, and, unless otherwise specified, according to the following reporting perimeter:

- 2014 refers to gas distribution in the Snam Group, including the companies Italgas S.p.A. and its subsidiaries Napoletanagas and AES Torino;
- 2015 refers to gas distribution in the Snam Group, including the companies Italgas S.p.A. and its subsidiaries Napoletanagas, AES Torino and ACAM Gas.

Napoletanagas’s integrated water service is excluded from the scope.

Assurance

The report has been subjected to an audit by the company responsible for auditing (EY S.p.A.), according to the principles and guidelines of the International Standard on Assurance Engagement (ISAE 3000) issued by the International Auditing and Assurance Standards Board (IAASB). The results of the audits carried out are contained in the annexed Independent Auditor’s Report.

Reference period	2016
Reporting frequency	Annual
Latest document published	-
Contact person	Chiara Ganz - Katya Corvino - Italgas Spa - Via Carlo Bò, 11 - Milan
Accessibility	www.italgas.it
email	chiara.ganz@italgas.it - Katia.Corvino@italgas.it

Annex

Key operating figures

	2014	2015	2016
Natural gas distribution			
Distribution network (km)	55,278	56,717	56,798
Concessions (no.)	1,437	1,472	1,472
Active meters (millions)	6,408	6,526	6,536

Main data and indicators on employees

	2014	2015	2016
Total employees (no.)	3,124	3,298	3,570
Average age of employees (years)	51.8	52.1	52.4
Average length of service (years)	25.9	25.6	26.4
Employees by company			
Italgas S.p.A.	-	-	337
Italgas Reti	2,681	2,768	2,704
Napoletanagas	443	438	437
ACAM Gas	-	92	92
Employees by position			
Executives (no.)	25	30	56
Managers (no.)	155	180	237
Office workers (no.)	1,591	1,699	1,896
Manual workers (no.)	1,353	1,389	1,381
Employees by contract type			
Full-time contract (no.)	3,036	3,216	3,432
Fixed-term contract (no.)	1	-	1
Apprenticeship/internship (no.)	51	44	96
Part-time contract (no.)	36	38	41
Employees by level of education			
Diploma (no.)	1,498	1,614	1,768
Degree (no.)	178	229	350
Employees by geographical area			
North (no.)	1,174	1,302	1,489
Centre (no.)	952	967	995
South and Sicily (no.)	998	1,029	1,086
Abroad (no.)	-	-	-

Employees by age group

<25	41	36	58
Between 25 and 29	48	74	108
Between 30 and 34	58	99	115
Between 35 and 39	40	48	73
Between 40 and 44	133	125	109
Between 45 and 49	503	421	356
Between 50 and 54	1,068	1,032	957
Between 55 and 59	958	1,056	1,208
>60	275	407	586

Employees by gender

Men (no.)	2,860	3,013	3,187
Women (no.)	264	285	383
- of which executives	-	1	7
- of which managers	14	14	29
- of which office workers	249	266	343
- of which manual workers	1	4	4
Female presence (%)	8.5	8.6	10.7
Women employed from the market (no.)	3	8	14

Incoming employees by age group

<25	19	6	36
Between 25 and 29	6	27	38
Between 30 and 34	3	32	19
Between 35 and 39	2	11	9
Between 40 and 44	0	5	4
Between 45 and 49	2	5	3
Between 50 and 54	1	7	-
Between 55 and 59	0	16	1
>60	0	2	2

Outgoing employees by age group

<25	0	0	0
Between 25 and 29	0	0	0
Between 30 and 34	0	1	1
Between 35 and 39	1	0	1
Between 40 and 44	1	1	2
Between 45 and 49	5	1	1

Between 50 and 54	9	8	3
Between 55 and 59	74	23	16
>60	73	32	21
Incoming and outgoing			
Turnover (%) (incoming+outgoing)/average workforce*100	13.3	8.6	12.7
Rate of absenteeism (%) (hours of absence/workable hours)*100	6.4	6.4	6.7
Training			
Hours of training (no.)	92,450	71,266	113,115
Participants (no.)	8,303	5,442	14,122
Hours of training - Executives (no.)	525	1,199	792
Hours of training - Managers (no.)	3,368	7,649	7,563
Hours of training - Office Workers (no.)	31,963	43,918	79,052
Hours of training - Manual Workers (no.)	56,595	18,501	25,708
Hours of training provided to men (no.)	89,342	67,246	106,892
Average hours of training provided to women (hours)	3,108	4,020	6,223
Hours of training in HSEQ (no.)	34,741	10,373	29,026
Participation in HSEQ (no.)	2,935	1,358	5,721

Main data and indicators on HSE -

	2014	2015	2016
Health and Safety of employees			
Accidents (no.)	13	21	23
- of which not on-going	6	18	14
- of which on-going	7	3	9
Accident frequency rate, not ongoing	1.15	3.34	2.49
Accident severity rate, not ongoing	0.06	0.16	0.16
Health and Safety of contractors			
Accidents (no.)	1	4	9
- of which not on-going	1	4	8
- of which on-going	0	0	1
Accident frequency rate, not ongoing	0.76	3.13	3.81
Accident severity rate, not ongoing	0.13	0.35	0.09
Health monitoring			
Medical visits	1,420	1,496	2,680
Periodic medical visits	1,326	1,199	2,424
Energy consumption			
Energy consumption (TJ)	527	571	575

Emissions			
Emissions of natural gas (10 ⁶ m ³)	44.2	28.7	28.4
Emissions of GHG scope 1-2-3 (10 ³ t CO _{2eq})	878	676	715
Emissions of GHG scope 1 (10 ³ t CO _{2eq})	808	534	520
Emissions of GHG scope 2 (10 ³ t CO _{2eq}) - Location based	7	10	9
Emissions of GHG scope 3 (10 ³ t CO _{2eq})	63	132	186
Waste			
Total waste production (t)	15,679	6,639	20,498
Non-hazardous waste production (t)	15,653	6,609	20,262
Hazardous waste production (t)	26	30	236
Waste recovered from production activities (%)	79%	79%	89%
Water consumption			
Fresh water consumption (10 ³ m ³)	161	140	167

GRI Content Index

SR = Sustainability Report FR = Financial Report CGR = Corporate Governance Report

General standard Disclosures		Reference Document	Page/ notes
Strategy and Analysis			
G4-1	Declaration by the highest authority of the decision-making process regarding the importance of sustainability for the organisation and its strategy	SR	20, 21
Organisational profile			
G4-3	Name of the organisation	SR	Cover page
G4-4	Main brands, products and services	SR	6 - 8, 35 - 37
G4-5	Location of the organisation's head office	Italgas' head office is in Milan, 11 Via Carlo Bo http://www.italgas.it/azienda/sedi-contatti/	
G4-6	Countries of operation, including significant impacts related to products, activities, services and other relations	SR	6 - 8
G4-7	Ownership and legal structure	http://www.italgas.it/investitori/azionariato/	
G4-8	Markets served	SR	6 - 8
G4-9	Size of the organisation	SR	6 - 8
G4-10	Employees by type of contract, gender, geographical area, grade	SR	26 - 28
G4-11	Percentage of employees covered by collective employment agreements	CCNL [National Collective Bargaining Agreements] apply to all Italgas Group staff	
G4-12	Description of the supply chain	SR	22 - 23
G4-13	Changes in the scope of activities including location of suppliers	SR	22 - 25
G4-14	Application of prudential approach	FR	46 - 50
G4-15	List of charters or principles to which the organisation adheres or other initiatives supported	FR	10, 11 http://www.italgas.it/governance/etica-di-impresa/etica-relazioni-le-istituzioni/
G4-16	List of trade associations to which the organisation belongs	http://www.italgas.it/sostenibilita/stakeholder/ http://www.italgas.it/attivita/innovazione/	
Materiality and scope of reporting			
G4-17	List of consolidated entities in the consolidated financial statements and those not included in the sustainability report	SR	Methodology note
G4-18	Explanation of the process for the definition of the contents of the financial statements and the way in which the organisation has implemented the reporting principles	SR	Methodology note, 20, 21
G4-19	List of material issues identified	SR	Methodology note, 20, 21
G4-20	For each material issue give the scope outside of the organisation	SR	Methodology note
G4-21	For each material issue give the scope inside the organisation	SR	Methodology note
G4-22	Explanations of the effects of any change to the information included in previous reports and reasons		n. a.
G4-23	Significant changes in objective or scope	SR	20, 21

Stakeholder engagement			
G4-24	List of stakeholders engaged by the organisation	SR	21
G4-25	Identification process and selection of stakeholders with whom to engage	SR	21
G4-26	Approach to engagement for each stakeholder category, including frequencies and types of activities	SR	11, 17, 21, 31, 32
G4-27	Issues that emerged from the engagement, management methods also through reporting	SR	11, 17, 21, 31, 32
Report profile			
G4-28	Reporting period	SR	Methodology note
G4-29	Date of the latest report published	SR	Methodology note
G4-30	Reporting frequency	SR	Methodology note
G4-31	Contacts and useful addresses to request information regarding the report or its contents	SR	Methodology note
G4-32	Selection of "in accordance" option, GRI table	SR	Methodology note
G4-33	Assurance policies and practices	SR	Methodology note
Governance			
G4-34	Governance structure including committees that depend mainly on the governing body	SR	13 - 14
Ethics and integrity			
G4-56	Principles, values and standards of behaviour	SR	13 - 14

Specific standard Disclosures			
Material aspects	Reference Documents	Pages/notes	Omissions
Category: Economic			
Economic performance			
DMA	SR	8, 9	
G4-EC1	Direct economic value generated and distributed	SR	8, 9
Procurement practices			
DMA	SR	22 -24	
G4-EC9	Policies, practices and percentage of expenses concentrated on local suppliers	SR	22 -24
Category: Environmental			
Energy			
DMA	SR	38	
G4-EN3	Energy consumption within the organisation divided by primary energy source	SR	38, 39
Emissions			
DMA	SR	38	
G4-EN15	Total direct greenhouse gas emissions by weight (scope I)	SR	38, 39
G4-EN16	Total indirect greenhouse gas emissions by weight (scope II)	SR	38, 39
G4-EN17	Other indirect greenhouse gas emissions (scope III)	SR	38, 39
G4-EN19	Initiatives to reduce greenhouse gas emissions and results achieved	SR	40
Supplier evaluation by environmental criteria			
DMA	SR	23, 24	
G4-EN32	Percentage of new suppliers selected on the basis of environmental criteria	SR	24 The Italgas Group reports the number of suppliers screened during the year using environmental criteria, including both new suppliers and renewals
G4-EN33	Percentage of critical existing suppliers in terms of environmental impacts analysed in terms of performance and corrective measures undertaken	SR	24
Category: Social			
Employment			
DMA	SR	26 - 30	
G4-LA1	Total number of new hires and turnover by age group, gender and geographical area	SR	26 - 27 Only total turnover has been reported

Management of employment				
DMA				The representation of workers is ensured by law (ref. TUDlgs81/2008) and by national agreements
G4-LA4	Minimum period of notice for operational changes (organisational changes), specifying whether or not these conditions are included in the collective agreement			
Occupational health and safety				
DMA		SR	25	
G4-LA5	Percentage of workers represented on the health and safety committee			The representation of workers is ensured by law (ref. Consolidated Law, Legislative Decree 81/2008) and by national agreements
G4-LA6	Rate of accidents at work, illnesses, work days lost, absenteeism and total number of deaths, broken down by geographical area and by gender	SR	25	The figures reported are not broken down by geographical area or gender.
Training and education				
DMA		SR	29 – 31	
G4-LA9	Average hours of training per year per employee, broken down by gender and category of workers	SR	30	The average training times reported were not broken down by gender and employee category.
G4-LA10	Programmes for the management of skills and for promoting progressive training/updating to support the continuous deployment of employees and for the management of the final stage of their careers	SR	30	
Diversity and equal opportunities				
DMA		SR	28	
G4-LA12	Composition of governing bodies and breakdown of personnel by category in respect of gender, age groups, membership of minority groups and other diversity indicators	SR	13, 28	The breakdown by age of the employees and governance bodies was not reported.

Supplier evaluation on work practices

DMA		SR	23, 24	
G4-LA14	Percentage of new partner suppliers analysed in terms of work practices and actions undertaken	SR	24	The number of new and renewing suppliers that were screened using labour practices criteria was not reported.
G4-LA15	Percentage of existing critical suppliers analysed in terms of work practices and actions undertaken	SR	24	

Mechanisms of report management on the matter of work practices

DMA		SR	32	
G4-LA16	Number of disputes about labour practices filed, addressed and resolved through formal dispute mechanisms	SR	32	

SOCIETY

Supplier evaluation on human rights

DMA		SR	23, 24	
G4-HR 10	Percentage of new suppliers analysed in terms of compliance with human rights	SR	24	The number of new and renewing suppliers that were screened using human rights criteria was not reported.
G4-HR 11	Percentage of existing critical suppliers analysed in terms of human rights and actions undertaken	SR	24	

Local communities

DMA		SR	38 - 40	
G4-SO2	Operations with a potential or actual negative impact local communities	SR	38	

Anti-Corruption

DMA		SR	13 - 15	
G4-SO3	Percentage of business units analysed for risk of corruption and risks identified	SR	13 - 15	
G4-SO4	Communication of anti-corruption policies and employee training	SR	30	
G4-SO5	Actions undertaken in response to episodes of corruption	FR	15	

Compliance			
DMA		CGR	Whole report
G4-SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-conformity to laws or regulations	FR	125 - 128

LETTER OF ASSURANCE



Italgas S.p.A.

**Independent auditors' report on the document
"Sustainability Report 2016"**



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Independent auditors' report on the document "Sustainability Report 2016" (Translation from the original Italian text)

To the Board of Directors of
Italgas S.p.A.

We have carried out a limited assurance engagement of the document "Sustainability Report 2016" (hereinafter "Sustainability Report") of Italgas S.p.A. and its subsidiaries (hereinafter "Italgas Group") as of December 31, 2016.

Management's responsibility on Sustainability Report

The Management is responsible for the preparation of the Sustainability Report in accordance with the "G4 Sustainability Reporting Guidelines", issued in 2013 by GRI - Global Reporting Initiative, that are detailed in the paragraph "Methodology Note" of the Sustainability Report, as well as for that part of internal control that they consider necessary in order to allow the preparation of a Sustainability Report that is free from material misstatements, even caused by frauds or not-intentional behaviors or events. The Management is also responsible for defining the Italgas Group's objectives regarding the sustainability performance and for the reporting of the achieved results, as well as for the identification of the stakeholders and of the significant matters to report.

Auditors' responsibility

It is our responsibility the preparation of this report on the basis of the procedures carried out. Our work has been conducted in accordance with the criteria established by the principle "International Standard on Assurance Engagements 3000 - Assurance Engagements other than Audits or Reviews of Historical Financial Information" ("ISAE 3000"), issued by the International Auditing and Assurance Standards Board for the engagements that consist in a limited assurance. This principle requires the respect of relevant ethical principles, including those related to independence, as well as the planning and the execution of our work in order to obtain a limited assurance that the Sustainability Report is free from material misstatements. These procedures included inquiries, primarily with company's personnel responsible for the preparation of the information included in the Sustainability Report, documents analysis, recalculations and in other procedures in order to obtain evidences considered appropriate.

The procedures performed on the Sustainability Report were related to the compliance with the principles for defining report content and quality, as articulated in the "G4 Sustainability Reporting Guidelines", and are summarized below:

- a. Comparison of the economic and financial data and information included in the Sustainability Report with those included in the Italgas Group's consolidated financial statements as of December 31, 2016 on which we issued our audit report, pursuant to art. 14 and 16 of Legislative Decree dated January 27, 2010, on April 3, 2017;
- b. Analysis, through interviews, of the governance system and of the process to manage the issues related to the sustainable development regarding Italgas Group's strategy and operations;

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- c. Analysis of the process relating to the definition of material aspects included in the Sustainability Report, with respect to the criteria applied to identify priorities for the different stakeholders' categories and to the internal validation of the process outcome;
- d. Analysis of the operating mode of the processes supporting the initiation, recording and management of the quantitative data reported in the Sustainability Report. In particular, we have carried out the following procedures:
 - interviews and discussions with personnel of Italgas S.p.A. and of its subsidiaries Italgas Reti S.p.A., to obtain an understanding about the information, accounting and reporting systems in use for the preparation of the Sustainability Report, as well as about the internal control processes and procedures supporting the collection, aggregation, data processing and transmission of data and information to the department responsible for preparation of the Sustainability Report;
 - analysis on a sample basis of the documentation supporting the compilation of the Sustainability Report, in order to confirm the processes in use, their adequacy and the operation of the internal control for the correct processing of data and information referred to the objectives described in the Sustainability Report;
- e. Analysis of the compliance and internal consistency of the qualitative information included in the Sustainability Report to the guidelines identified in paragraph "Management's responsibility on Sustainability Report" of the present report;
- f. Analysis of the process relating to the involvement of the stakeholders, with reference to the procedures applied, through the review of minutes or any other existing documentation relating to the main topics arisen from discussions with them;
- g. Obtaining of the representation letter, signed by the legal representative of Italgas S.p.A., relating to the compliance of the Sustainability Report with the guidelines indicated in paragraph "Management's responsibility on Sustainability Report", as well as to the reliability and completeness of the information and data presented in the Sustainability Report.

Our engagement is less in scope than a reasonable assurance engagement in accordance with ISAE 3000 and, as consequence, we may not have become aware of all the significant events and circumstances which we could have identified had we performed a reasonable assurance engagement.

Conclusion

Based on our work, nothing has come to our attention that causes us to believe that the "Sustainability Report 2016" of Italgas Group as of December 31, 2016 is not in compliance, in all material aspects, with the guidelines "G4 Sustainability Reporting Guidelines" issued in 2013 by the GRI - Global Reporting Initiative, as stated in the paragraph "Methodology Note" of the Sustainability Report.



Other aspects

Data related to 2014 and 2015, reported only for comparison, have not been examined.

Turin, April 3, 2017

EY S.p.A.
Signed by: Stefania Boschetti, Partner

This report has been translated into the English language solely for the convenience of international readers

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