

ITALGAS

**Information Document
2017-2019 Long-term monetary incentive plan**

(Draft)

Copy for the Board of Directors' meeting on 23 March 2017

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2017 - 2019 Long -term
monetary incentive plan**



PREPARED PURSUANT TO ARTICLE 114-*BIS* OF LEGISLATIVE DECREE 58 OF 24 FEBRUARY 1998 AND ARTICLE 84-*BIS* OF THE REGULATION ADOPTED BY CONSOB THROUGH RESOLUTION 11971 OF 14 MAY 1999 AS LATER SUPPLEMENTED AND AMENDED ("ISSUERS' REGULATION")

INTRODUCTION

This information document has been prepared by Italgas S.p.A., pursuant to Article 84-*bis* of the Issuers' Regulation and in line with the instructions contained in Annex 3A - schedule 7 with the objective of informing its shareholders and the market with regard to the proposed adoption of the 2017-2019 Long-Term Monetary Incentive Plan (the "IMLT Plan"), approved by the Italgas Board of Directors on 23 March 2017 and which will be submitted, pursuant to Article 114-*bis* of the TUF, for the approval of the Ordinary Shareholders' Meeting convened for 28 April 2017, in a single call.

Following the demerger from Snam which took place in November 2016, Italgas did not actually have a Long-Term Incentive Plan that this IMLT Plan intends to reinstate in line with the management Remuneration Policy summarised in the 2017 Remuneration Report. Snam has had a similar Plan for the CEO and executives with the most direct responsibility for company results, which is approved annually by the Board of Directors at the recommendation of the Remuneration Committee, in use since 2010, in order to align their performance with company targets in the medium-/long-term.

The Plan was confirmed annually and, from 2012, it was highlighted in the Snam Remuneration Report approved by the Shareholders' Meeting with an advisory vote.

The Italgas Board of Directors, therefore, approving the adoption of the IMLT Plan on an ongoing basis resolved, at the recommendation of the Remuneration Committee, to use the "Consolidated Net Profit" and "Total Shareholder Return" parameters as performance indicators. The use of the last indicator determines the connection of the IMLT Plan with the performance of the stock and therefore, in light of the existing regulatory framework, requires the approval of the Shareholders' Meeting.

The document presents the IMLT Plan which allows an even greater alignment between the action of management and the interest of shareholders, maintaining the nature of a monetary incentive.

The IMLT Plan applies to Italgas and its Subsidiaries, and is considered of "particular importance" pursuant to Article 84-*bis*, paragraph 2, of the Issuers' Regulation because it is also aimed at the parties identified by Article 114-*bis* of the TUF, the Italgas CEO and "Managers with Strategic Responsibilities".

This information document is available to the public at the registered office of Italgas, as well as in the Governance section of the company's website (www.italgas.it) as well as through the methods indicated by Article 84-*bis* of the Issuers' Regulation.

DEFINITIONS

- **Beneficiaries:** The recipients of the IMLT Plan.
- **Remuneration Committee:** it is composed of two independent non-executive directors (one of whom is the Chairman) and one non-executive director and has consultative and advisory functions with regard to the Board of Directors on the subject of the remuneration of directors and managers with strategic responsibilities. Specifically, the Committee submits the annual remuneration report to the Board for approval and formulates proposals relating to the remuneration of directors with powers and members of Board Committees.
- **Managers with strategic responsibilities:** based on IAS 24 they are “parties which have the power and responsibility, directly or indirectly, for the planning, management and control of the entity's assets”. Italgas managers with strategic responsibilities, other than Directors and Auditors, are: the General Manager of Finance and Services, the Head of Legal and Corporate Affairs and Compliance, the Head of Human Resources & Organisation, the Head of Commercial Development.
- **Incentive allocation:** this is the monetary amount allocated to beneficiaries which can effectively be delivered at the end of a pre-set period (vesting period) depending on pre-set performance and retention conditions.
- **Incentive delivery:** this is the monetary amount delivered to beneficiaries at the end of the pre-set period (vesting period) to an extent connected to the performance levels reached under the terms and conditions set out in the IMLT Plan.
- **Threshold level:** this represents the minimum level to be reached below which the plan makes no provision for the assignment of any incentive.
- **Target Level:** this is the standard achievement level of the target which gives the right to receive 100% of the incentive.
- **Peer Group:** this is the group of companies, used for the comparison with Italgas of company results in accordance with the performance parameters defined, composed of the following leading listed European companies in the utilities sector: Enagas, Red Eléctrica, Terna, Snam, A2A, Elia System Operator.

- **Regulation:** the document, approved annually by the Board of Directors, which governs the conditions of each annual allocation of the IMLT Plan.
- **Issuers' Regulation:** this is CONSOB Regulation 11971 of 14 May 1999 containing the rules for entities issuing financial instruments.
- **Subsidiaries:** Italgas S.p.A. subsidiaries pursuant to Article 2359 of the Civil Code.
- **Consolidated Finance Act (TUF):** the "Consolidated Act of provisions on financial intermediation" is Legislative Decree 58 of 24 February 1998 (and later amendments). The TUF introduced legislation on financial matters "for principles", which at primary regulatory level only dictates general guidelines, deferring the definition of detailed rules to the Regulatory Authorities (e.g. CONSOB).
- **Total Shareholder Return (TSR):** indicates the overall return of a share taking into consideration both the change in price and the distribution of dividends.
- **Consolidated net profit:** this is the net profit obtained by excluding special items relating to events or transactions: i) which are non-recurring events or transactions which do not occur frequently in the ordinary course of business; ii) are not representative of the normal course of business.
- **Vesting (vesting period):** period between the allocation and the completion of the ownership of the right to receive the reward.

1. INTENDED RECIPIENTS

1.1 The details of the names of the recipients who are members of the board of directors or the board of management of the issuer of financial instruments, the subsidiaries of the issuer and the companies directly or indirectly controlled.

The IMLT Plan applies to the CEO of Italgas, who is currently Paolo Gallo. If there are parties among the beneficiaries pursuant to point 1.2 below for whom identification is required, pursuant to the regulatory provisions in force, also with regard to the office of any Director in Subsidiaries, the Company will provide the market with the relevant information, during the disclosures required by Article 84-bis, paragraph five, of the Issuers' Regulation.

1.2 The categories of employees or contractors of the issuer of financial instruments and parent companies or subsidiaries of this issuer.

The directors of Italgas and its Subsidiaries, (approximately 20 of them in total), who are: The CEOs of direct Subsidiaries; Italgas Managers with Strategic Responsibilities; Senior Managers from among those who hold positions with a great impact on the results of the company.

1.3 Details of the names of parties benefiting from the plan belonging to the following groups:

a) *general managers of the issuer of financial instruments;*

The IMLT Plan applies to the General Manager of Finance and Services, who is currently Antonio Paccioretti.

b) *other senior managers with strategic responsibilities of the issuer of financial instruments who are not "smaller", pursuant to Article 3, paragraph 1, letter f) of Regulation 17221 of 12 March 2010, if they have received total pay over the course of the year (obtained by adding together monetary payments and payments based on financial instruments) that is greater than the highest total pay awarded to the board of directors, or the management board, and to the general managers of the issuer of financial instruments;*

Not applicable.

c) *natural persons controlling the issuer of shares, who are employees or who are contractors of the issuer of shares;*

Not applicable.

1.4 Description and numerical details, with a breakdown by category:

a) *managers with strategic responsibilities other than those indicated in letter b) of paragraph 1.3;*

There are 3 managers with strategic responsibilities other than those indicated in paragraph 1.3: the General Manager of Finance and Services, the Head of Legal and Corporate Affairs and Compliance, the Director of Human Resources & Organization, the Head of Commercial Development.

b) *in the case of "smaller" companies, pursuant to Article 3, paragraph 1, letter f) of Regulation 17221 of 12 March 2010, the aggregate details of all managers with strategic responsibilities of the issuer of financial instruments;*

Not applicable.

c) *any other categories of employees or contractors for which there is provision for different plan characteristics (for example, senior managers, middle managers, administrative staff, etc.);*

Not applicable.

2. REASONS FOR THE ADOPTION OF THE PLAN

2.1 The targets that should be reached through the plans.

The Plan was introduced as a tool for incentivising and retaining management that is critical to the company and it is aimed, in line with international best practices, at guaranteeing the following objectives:

- greater alignment of the interests of shareholders in the medium-/long-term through the use of the Total Shareholder Return;
- supporting the profitability of the company through the use of the consolidated net profit.

For each annual allocation, the IMLT Plan includes a three-year vesting period, in line with international best practices.

2.2 Key variables, also in the form of performance indicators considered for the purpose of the allocation

of plans based on financial instruments.

The incentive levels are defined, as a percentage of fixed remuneration, in line with the following remuneration policy principles adopted by Italgas:

- management remuneration structure adequately balanced between: a fixed component consistent with regard to the powers and/or responsibilities assigned; a variable component defined within the maximum limits and aimed at tying in the remuneration with the performance effectively achieved;
- consistency between the overall remuneration and the applicable market references for similar offices or for positions of similar responsibility and complexity, under the scope of corporate panels comparable with Italgas;
- variable remuneration of managerial roles having greater influence over company results featuring a significant percentage of long-term incentive components, through adequate deferral over a time scale of at least three years, in line with the long-term nature of Italgas' business.

Refer to point 2.3.1 for the performance indicators.

2.3 Elements underlying the calculation of the extent of pay based on financial instruments, or the criteria for calculation.

2.3.1 More detailed information

The extent of the monetary incentives allocated to the target of each beneficiary is differentiated in relation to the level of responsibility/critical nature of the role, ranging from a minimum of 20% to a maximum limit of 50% of the fixed remuneration.

The IMLT Plan performance conditions are connected to the following parameters:

- Consolidated net profit, with a weighting of 60%, calculated on an annual basis in the vesting period by comparing the actual figures with the budget forecasts;
- TSR, with a weighting of 40%, calculated on an annual basis in the vesting period with reference to the position of Italgas in relation to the defined panel of peers.

The overall performance is calculated as the average of the annual performances of the parameters identified in the three-year vesting period.

2.4 The underlying reasons for any decision to allocate pay plans based on financial instruments not issued by the issuer of financial instruments, such as financial instruments issued by subsidiaries or, parent companies or third-party companies in relation to the group; if the above-mentioned instruments are not traded on regulated markets, information on the criteria used for calculating the value that can be attributed to them;

Not applicable.

2.5 Evaluations regarding significant implications of a tax and accounting nature that have affected the definition of the plans;

The structure of the IMLT Plan has not been affected by the applicable tax regulations or by involvement of an accounting nature.

2.6 Possible support of the plan by the special fund for incentivising the participation of employees in companies, pursuant to Article 4, paragraph 112 of Law 350 of 24 December 2003.

Not applicable.

3. APPROVAL PROCESS AND TIME SCALE FOR THE ALLOCATION OF INSTRUMENTS

3.1 Scope of powers and functions delegated by the shareholders' meeting to the board of directors for the purpose of implementing the plan;

On 23 March 2017, on the recommendation of the Remuneration Committee and with the CEO abstaining, the Italgas Board of Directors resolved to submit the IMLT Plan for the approval of the Shareholders' Meeting pursuant to Article 144-*bis* of the TUF.

Following the approval of the shareholders' meeting, the Board of Directors, exercising the powers that will be conferred upon it by the Shareholders' Meeting, will implement the Plan, also through delegated parties, resolving on:

- i)* the annual allocation of the incentive to the CEO;
- ii)* the approval of the Regulation of each annual allocation;
- iii)* the identification of the Beneficiaries based on the criteria defined;
- iv)* as well as any other terms and conditions for the implementation to the extent to which it does not conflict with what has been established by the Shareholders' Meeting.

3.2 Details of parties appointed for the administration of the plan and their functions and responsibilities;

The administration of the IMLT Plan is entrusted to the competent functions of Italgas in the area of Human Resources & Organization.

3.3 Any existing procedures for reviewing the plans also in relation to any changes in the underlying targets;

There are no procedures for the amendment of the IMLT Plan.

3.4 Description of the methods through which to determine the availability and allocation of the financial instruments on which the plans are based;

The IMLT Plan involves the provision of monetary incentives and does not include the allocation of financial instruments.

3.5 The role performed by each director in determining the characteristics of the above-mentioned plans; any recurrence of situations of conflicts of interest pertaining to the directors involved;

In line with the recommendations of the Code of Corporate Governance for listed companies, which Italgas adheres to, the conditions of the Plan have been defined at the proposal of the Remuneration Committee, entirely composed of non-executive directors, the majority of them independent, with the Chairman chosen from the independent directors. The proposal to submit the Plan to the Shareholders' Meeting, pursuant to Article 114-*bis* of the TUF, was therefore approved by the Board of Directors, with the CEO abstaining, following the favourable opinion of the Board of Statutory Auditors, pursuant to Article 2389, paragraph 3 of the Civil Code.

The IMLT Plan, in relation to its Beneficiaries, constitutes a related-parties transaction subject to the approval of the Shareholders' Meeting pursuant to Article 114-*bis* of the TUF, to which the specific procedures laid down by Consob resolution 17221 of 12.3.2010, later amended by resolution 17389 of 23 June 2010 ("Related-Parties Transactions Regulation"), do not apply.

3.6 For the purpose of the requirements of Article 84-bis, paragraph 1, the date of the decision taken by the competent body to submit the plans to the shareholders' meeting for approval and any proposal by the remuneration committee;

On 23 March 2017, based on a proposal formulated by the Remuneration Committee on 23 March 2017, the Board of Directors resolved to submit the IMLT Plan at the Shareholders' Meeting.

3.7 For the purpose of the requirements of Article 84-bis, paragraph 5, letter a), the date of the decision taken by the competent body with regard to the allocation of the instruments and any proposal to the above-mentioned body formulated by the remuneration committee;

Not applicable.

3.8 The market price, recorded at the above-mentioned dates, for the financial instruments on which the plans are based, if traded on regulated markets;

Official price of the Italgas stock at 23 March 2017 (approval date by the Board of Directors for the submission of the proposed IMLT Plan to the Shareholders' Meeting): €3.96.

3.9 In the case of plans based on financial instruments traded on regulated markets, in the terms and conditions that the issuer takes into account, under the scope of the identification of the time scale for allocating the instruments for implementing the plans, the possible overlapping of the timing of:

- i) *said allocation or any decisions taken in this regard by the remuneration committee, and*
- ii) *the disclosure of any significant information pursuant to Article 114, paragraph 1; for example, if this information is:*
 - a. not already published and may positively influence market listings; or
 - b. already published and may negatively influence stock market listings.

Not applicable.

4. CHARACTERISTICS OF THE INSTRUMENTS ALLOCATED

4.1 The description of the forms in which pay plans based on financial instruments are structured;

The IMLT Plan involves three annual allocations in a monetary form which can be delivered after three years

and to an extent connected to the performance conditions achieved in accordance with the pre-set criteria and parameters and other conditions laid down.

4.2 Details of the effective implementation period of the plan also with reference to any different cycles;

The IMLT Plan includes three annual allocations for the period 2017-2019. Each allocation will be subject to a three-year vesting period and, as a result, any delivery of the incentives will be between 2020 and 2022, as described in the table below.

	Performance and vesting period					
Incentive allocated for 2017	2017	2018	2019	2020 (extraction)		
Incentive allocated for 2018		2018	2019	2020	2021 (extraction)	
Incentive allocated for 2019			2019	2020	2021	2022 (extraction)

4.3 The termination of the plan;

The IMLT Plan will end in 2022, when the vesting period of the last allocation in 2019 expires.

4.4 The maximum number of financial instruments, also in the form of options, allocated in every tax year with regard to parties identified by name or to the categories indicated;

Not applicable.

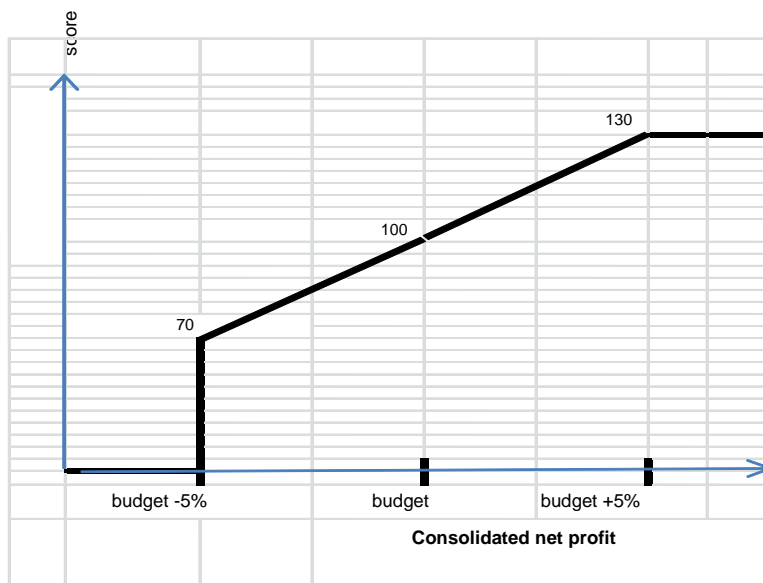
4.5 The plan implementation methods and clauses, specifying if the effective allocation of the instruments is subject to the satisfaction of the conditions or to the achievements of certain results, including performance results; description of these conditions and results;

The Plan performance conditions are verified annually and on the completion of each three-year implementation period at the outcome of a process to verify the results actually achieved by the Remuneration Committee, supporting the resolutions taken in this regard by the Board of Directors.

The IMLT Plan performance conditions are connected to the following parameters:

- Adjusted net profit, with a weighting of 60%, calculated by comparing the actual figures with the budget

using a linear scale¹ 70-130 (0 for values below the budget by -5%; 70 for values equal to the budget by -5%; 100 for values equal to the budget; 130 for values equal to or higher than the budget by +5%);



- TSR, with a weighting of 40%, calculated on a linear scale 70-130 with reference to the position of Italgas in relation to a panel composed of Italgas itself plus six peer companies (Snam, Enagas, Italgas, Red Elèctrica, Terna, A2A, Elia System Operator).

1 st place	130
2 nd place	120
3 rd place	110
4 th place	100
5 th place	0
6 th place	0
7 th place	0

Panel: Snam, Enagas, Italgas, Red Elèctrica, Terna, A2A, Elia System Operator

The TSR measures the overall return of a share taking into consideration the sum of the following 2 components:

1. price variation: equivalent to the ratio between the variation of the price of the stock (difference between the price recorded at the beginning and end of the reference period) and the price recorded at the start of the actual period.

¹ For example, with a result +1% compared with the budget, the score will be 106

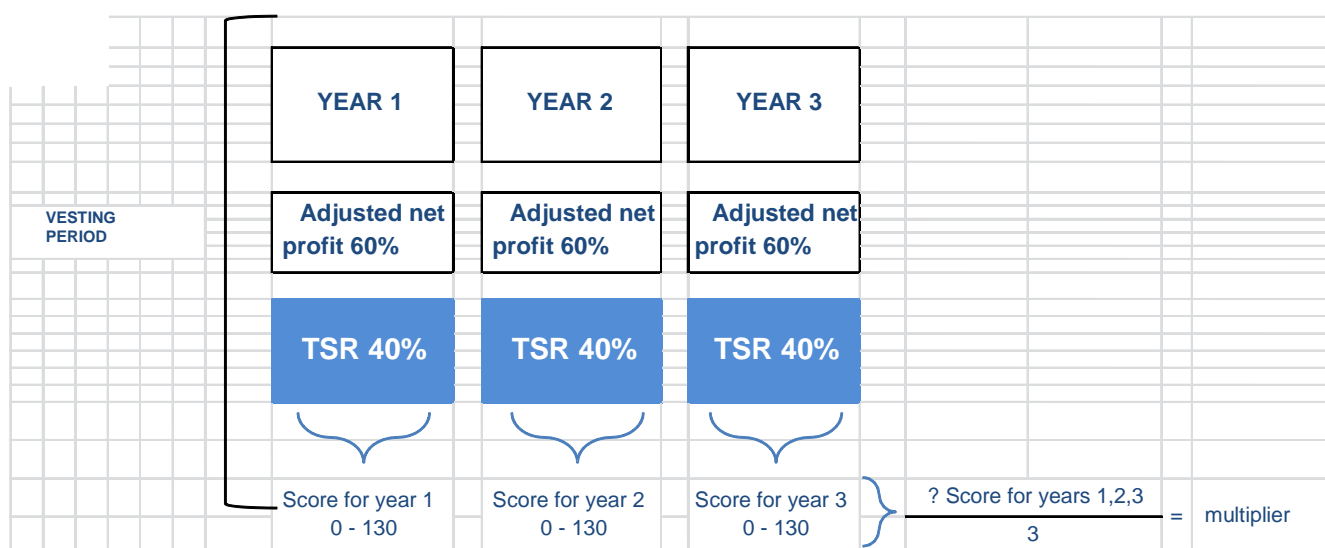
$$x = \frac{(\text{budget} + 1\% - \text{budget}) \times (130 - 100)}{\text{budget} + 5\% - \text{budget}}$$

The initial price refers to the closing price of the stock in the year prior to the reference period, while the final price refers to the closing price of the reference year;

2. distribution of dividends: in the version considered in this document (without the reinvestment of the dividends) this component is equal to the ratio between the sum of the dividends distributed per share in the period considered and the initial price of the stock.

At the end of each vesting period the final multiplier for the provision is calculated as the average of the annual multipliers, to be applied to the incentive allocated for determining the incentive to deliver.

This incentive can be a percentage of between zero and 130%.



Lastly, the Plan involves the adoption of clawback mechanisms through the following clause: "Without prejudice to the right to compensation for any further damage, within the statute of limitations, the Company can once again possess (with the consequent restitution obligation for the Participant), the sums provided if it is confirmed that the achievement of the targets is attributable to wilful misconduct or grossly negligent conduct or, in any event, is in violation of the regulations (corporate, legal, regulatory or from any other source), by the Participant, or where the above-mentioned targets have been achieved based on data which have been revealed to be manifestly incorrect".

4.6 Details of any availability restrictions on the instruments allocated or on the instruments deriving from the exercising of options, with special reference to the deadlines by which the subsequent transfer to the company or to third parties is permitted or prohibited;

Not applicable.

4.7 The description of any conditions precedent with regard to the allocation of plans if the recipients carry out hedging transactions which allow any prohibitions on the sale of the financial instruments allocated, also in the form of options, to be neutralised, or the financial instruments deriving from the exercising of these options;

Not applicable.

4.8 The description of the effects caused by the termination of the employment relationship;

In cases of mutual termination of the employment of the beneficiary, or the loss of control by Italgas S.p.A. over the Company in which the Participant works, or the sale of the company (or business unit) in which the Participant works, which take place by the date on which the Board establishes the Percentage, the incentive will be delivered to those with rights to an extent proportional to the period between the assignment and the occurrence of the above-mentioned events, as well as in relation to any actual results in the period.

In the event of the death of the participant by the date on which the Board establishes the percentage, the incentive will be delivered to those with rights at a fixed rate of 100% of the incentive allocated.

Should the employee of the company unilaterally terminate the employment contract during the vesting period, the incentive will not be delivered.

4.9 Details of any other causes of cancellation of the plans;

There are no causes for the cancellation of the IMLT Plan.

4.10 The reasons relating to any "redemption" provision, on behalf of the company, of the financial instruments that are the subject of the plans, arranged pursuant to Article 2357 *et seq.* of the Civil Code; the beneficiaries of the redemption indicating whether it is only intended for special categories of employees; the effects of the termination of the employment relationship on said redemption;

Not applicable.

4.11 Any loans or other subsidies that are intended to be granted for the acquisition of the shares pursuant to Article 2358 of the Civil Code;

Not applicable.

4.12 Details of the valuations of the expected cost for the company at the allocation date, as can be determined based on the terms and conditions already defined, for the overall amount and in relation to each instrument of the plan;

The total anticipated spending in the three-year period 2017-2019 for the implementation of the Plan is

approximately €3.5 million, if the performance level target (100%) is reached in each vesting year.

4.13 Details of any dilutive effects on the capital caused by the pay plans.

Not applicable.

4.14 - 4.23 The section relating to the granting of shares and stock options is not applicable

4.24 The issuers of the shares are adding the attached table 1 to the information document:

Not applicable.