

Italgas S.p.A.

ORDINARY SHAREHOLDERS' MEETING OF 4 APRIL 2018

SINGLE CALL

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

Item 4

“Appointment of the Board of Directors.

- (i) Determination of the term of office of Directors.*
- (ii) Appointment of the members of the Board of Directors.*
- (iii) Appointment of the Chairman of the Board of Directors.*
- (iv) Determination of the remuneration of the members of the Board of Directors”.*

Dear Shareholders,

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

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

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The term of office of the administrative and control bodies of Italgas S.p.A. (the "**Company**" or "**Italgas**") appointed by the Shareholders' Meeting of 4 August 2016, expires with the approval of the financial statements for the year ended 31 December 2018.

Therefore, the Board of Directors calls on you to proceed with the appointment of the new company bodies in compliance with the applicable regulatory and bylaw provisions.

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

1.1. Composition and term of office of Directors.

Pursuant to article 13.1 of the company bylaws, the Company shall be managed by a Board of Directors composed of 9 members.

Note that the Company adheres to the recommendations of the Corporate Governance Code promoted by the Corporate Governance Committee.

Given the above, as laid down in the bylaws:

- at least three directors must have the independence requirements laid down by the CLF (namely, pursuant to art. 147-ter, subsection 4, of the CLF, the independence requirements established for the statutory auditors of listed companies pursuant to art. 148, subsection 3, of the CLF). The slates must expressly bear the names of candidates who meet the aforementioned requirement of independence;
- all directors must satisfy the integrity requirements prescribed by the applicable law (namely, pursuant to art. 147-quinquies, subsection 1, of the CLF, the integrity requirements prescribed for statutory auditors of listed companies);
- the directors of Italgas may not hold any office in the administrative or control body, or be senior managers in Eni S.p.A. or its subsidiaries, nor may they have any relationship, direct or indirect, of a professional or financial nature with said companies, as also provided for by the decree of the President of the Council of Ministers of 25 May 2012 containing "*Criteria, conditions and terms for the*

adoption of the model for the demerger of Snam in accordance with article 15, of Law no. 27 of 24 March 2012.”

The composition of the Board of Directors must also guarantee a balance between the male and female genders in compliance with the provisions in force at the time.

In compliance with current regulations on gender balance and the indications in the Corporate Governance Code, and taking into account that on the Board of Directors currently in office at least one third of the members already belong to the less represented gender in virtue of the voluntary adaptation to the aforementioned provision prior to listing¹, it is proposed that one third (rounded up to the next whole number) of the members of the new Board of Directors shall be represented by persons belonging to the less represented gender in the Board.

The members of the administrative body shall comply with the limits on the accumulation of offices decided by the Board of Directors meeting of 24 January 2019, namely:

- (i) for the Chief Executive Officer (and any other executive directors) of the Company:
 - no other appointment as an executive director;
 - a maximum of one other appointment as a non-executive director and/or statutory auditor (and/or member of another control body), with the possibility of an exception being made, for up to three appointments overall, with the favourable opinion of the Board of Directors;
 - for just the Chief Executive Officer, no other office as director in another issuer not belonging to the same Group, where a director of the Company is the Chief Executive Officer;
- (ii) for non-executive directors the limit of an additional 4 offices (weighting executive appointments or appointments as non-executive chair as double)².

¹ The Company voluntarily adapted to the gender balance regulations (see art. 147-ter, subsection 1-ter, CLF) prior to listing. Consob Communication DIE no. 0061499 of 18 July 2013, in fact, establishes that this apportioning obligation (for three consecutive terms of office) shall start from the first renewal of the company bodies after listing and, therefore, in Italgas' case, from the renewal of the bodies by the Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2018.

² For the purposes of the aforementioned limits on the accumulation of offices, all companies, Italian or foreign, that have at least one of the following qualifications, are considered a “relevant company”:

- issuer company (in Italian or foreign regulated markets);

On 24 January 2019 the Board of Directors, having obtained the opinion of the Appointments and Compensation Committee on 24 January 2019, approved the “Diversity of Company Bodies Policy as well,” in order to prepare – also in compliance with criterion 1.C.1. letter h) of the Corporate Governance Code promoted by the Corporate Governance Committee – useful indications for Shareholders in view of the renewal of the company bodies. This policy, which contains – inter alia – some criteria aimed at encouraging diversity in the composition of the Board of Statutory Auditors, may be consulted on the Company’s website www.italgas.it (“Governance” – “Corporate Governance Systems” - “Board of Directors” section).

In addition to these diversity criteria, the Board of Directors, in line with the provisions of the aforementioned application criterion 1.C.1. letter h) of the Corporate Governance Code, set out – taking into account the results of the assessment of the functioning of the Board and of its committees, their size and composition, elements such as the professional characteristics, experience, including managerial experience, and gender of the members thereof, in addition to their length of post – its guidelines on the future size and composition of the administrative body to be appointed.

Please note that these guidances, to which reference should be made, are made available to the public together with the present Report.

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As regards the duration of the term of office, note that the members of the Board of Directors shall remain in office for a period established by the Shareholders' Meeting at the time of appointment and in any case no longer than three fiscal years, expiring on the date of the Shareholders' Meeting called to approve the financial statements for the last year of their term of office, without prejudice to the causes of termination and forfeiture provided for by law and the bylaws. Members of the Board of Directors may be re-elected.

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- company operating in the finance, banking and insurance sectors (e.g., savings management companies, investment firms like the Italian SIMs);
 - companies with net equity over 1 billion euros.

In order to ensure continuity in the management of the Company, the Board of Directors proposes to set the term of office for the Directors to be appointed at three financial years (2019, 2020 and 2021), thus expiring on the date of the Shareholders' Meeting to be called for approving the financial statements as at 31 December 2021.

1.2 Appointment of the Chairman of the Board of Directors.

Pursuant to art. 14 of the bylaws, the Shareholders are also called upon to appoint the Chair of the Board of Directors. Note that, if the shareholders' meeting does not appoint the Chair, the latter shall be appointed by the Board of Directors.

The Board of Directors proposes that the Shareholders' Meeting elect as Chair of the Board of Directors the first candidate elected from the slate that obtained the majority of votes.

1.3 Submission of slates of candidates for appointment to the Board of Directors.

The Board of Directors shall be appointed on the basis of slates filed by the shareholders. Any slates submitted that do not comply with the terms and procedures laid down by the bylaws and set out below shall be considered as not having been submitted.

Under the combined provisions of art. 13.3 of the company bylaws and Management Decision no. 13 of 24 January 2019 of the Head of the Corporate Governance Division, slates may be presented by shareholders who own, alone or together with others, an equity investment of at least 1% of the share capital. In this regard, note that ownership of the minimum equity investment necessary to submit a slate is determined in consideration of the shares registered to the Shareholder on the date on which the slates are filed at the Company.

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

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

In compliance with the provisions on this matter, at least 21 days prior to the date of the Shareholders' Meeting in a single call (that is, by 14 March 2019), the Company shall make available to the public at the Company's registered offices, on the authorised storage mechanism "eMarket STORAGE" at the address emarketstorage.com and on the website of Italgas <https://www.italgas.it/it/> ("Governance" "Corporate Governance System" - "2019 Shareholders' Meeting" section) the slates of candidates, together with the documentation filed with them.

The slates that present three or more candidates must include candidates of different gender, in order to respect the legal provisions on gender equality. Taking into account the foregoing with reference to gender balance regulations, slates that compete for the appointment of the majority of the members of Board of Directors shall include at least two candidates of the gender that is least represented on the slate.

The following must be filed together with each slate, under penalty of its inadmissibility: (i) the statements with which the individual candidates accept their candidacy, undertake – if appointed – to accept the office and certify, under their own responsibility, the absence of grounds of ineligibility and incompatibility, and that they hold the integrity and if necessary independence requirements prescribed for the respective offices by current legislation; (ii) a *curriculum vitae* containing exhaustive information on the professional characteristics

of each candidate; (iii) an indication of the identities of the shareholders who submitted the slates and the overall equity percentage held; (iv) a copy of the certifications issued by duly empowered intermediaries certifying ownership of the number of shares necessary to submit said slates. These certifications may be presented even after the filing of the slates, provided by 14 March 2019.

As recommended by Communication No. DEM/9017893 of 26 February 2009, shareholders who do not hold, including jointly, a controlling share or relative majority, in conjunction with the slate, shall file a statement certifying the absence of links, including indirect links, as referred to in Article 147-ter, subsection 3, of the CLF and Article 144-quinquies of the Issuers' Regulations, with shareholders who, even jointly, hold a controlling share or relative majority. This statement, moreover:

- must specify any existing relations, if significant, with shareholders who hold, also jointly, a controlling share or relative majority, wherever possible, along with the reasons why these relations are not deemed to constitute the aforementioned links; or

- must specify the absence of the above relations.

1.4 Procedure for appointing members of the Board of Directors.

Pursuant to art. 13.5 of the company bylaws, the election of the Board of Directors shall proceed as follows:

- a) the names of the first seven directors will be selected from the slate that has obtained the majority of shareholder votes (the “**Majority Slate**”), in the order in which they are listed on the slate;
- b) the remaining two directors will be selected from the other slates that are in no way, whether directly or indirectly, connected to shareholders who have submitted or voted for the slate that received the majority of votes (the “**Minority Slates**”); to this end, votes obtained in the slates will be subsequently divided by one and two. The quotients thus obtained shall be progressively assigned to the candidates on each slate in the order specified thereon. On the basis of the quotients assigned, the candidates on the various slates shall be arranged in a single decreasing ranking. Those who have obtained the highest quotients shall be elected. If more than one candidate obtains the same quotient, the candidate from the slate that has not yet elected any

director or that has elected the smallest number of directors shall be elected. If none of such slates has yet elected a director or all of them have elected the same number of directors, the candidate from the slate that obtained the largest number of votes shall be elected. If the different slates have received the same number of votes and their candidates have been assigned the same quotients, a new vote shall be held by the entire Shareholders' Meeting and the candidate obtaining the simple majority of the votes shall be elected.

b-bis) if the Majority Slate does not contain a sufficient number of candidates to ensure that the number of directors to be elected pursuant to letter a) above can be reached, all the candidates listed on that slate shall be drawn, in the order stated on that slate; after a further two directors have then been drawn from the Minority Slates, pursuant to letter b), the remaining directors shall be drawn, for positions not covered by the Majority Slate, from the Minority Slate which has obtained the highest number of votes among the Minority Slates (the "**First Minority Slate**") according to the capacity of that slate. In the event of insufficient capacity of said slate, the remaining directors shall be appointed, with the same procedures, from the following slate ("**Second Minority Slate**") or any subsequent slates, based on the number of votes and capacity of the slates themselves. Lastly, if the total number of candidates on the slates presented, on both the Majority Slate and Minority Slates, is lower than the number of the directors to be elected, the remaining directors shall be elected by the shareholders' meeting with a resolution approved in accordance with letter d) below;

c) if, following the application of the procedure described above, it is not possible to appoint the minimum number of independent directors required by the Bylaws, then the quotient of the votes to attribute to each candidate on the slates is calculated by dividing the number of votes obtained by each slate by the number of the order of each one of the aforementioned candidates; candidates who do not meet the requirements of independence and have the lowest quotients among candidates from all slates are replaced, starting with the last candidate, by independent candidates listed on the same slate of the replaced candidate (following the order in which they are listed), or, alternatively by individuals meeting the requirements of independence, who have been appointed in accordance with the procedure described under letter d). In cases in which candidates from different slates have obtained the same quotient, the candidate to be replaced is the candidate of the slate from which the greatest number of directors is selected, or, subordinately, the candidate from the slate that has

received the least number of votes, or, in case of equal number of votes, the candidate that has obtained less votes from the Shareholders' Meeting in a specific voting round;

c-bis) if the application of the procedure described under letters a), b) and *b)-bis* does not permit compliance with the regulations on gender balance, the quotient of votes to be attributed to each candidate from the slates is calculated by dividing the number of votes obtained by each slate by the number of the order of each candidate; the candidate of the most represented gender who has the lowest quotient among the candidates from all the slates is replaced, without prejudice to the minimum number of independent directors, by the candidate representing the less represented gender (with the subsequent higher number of order) on the same slate as the replaced candidates, or, alternatively, by the individual appointed in accordance with the procedure described under letter d). In cases in which candidates from different slates have obtained the same minimum quotient, the candidate to be replaced is the candidate of the slate from which the greatest number of directors is selected, or, subordinately, the candidate from the slate that has received the least number of votes, or, in case of equal number of votes, the candidate that has obtained less votes by the Shareholders' Meeting in a specific voting round;

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

1.5 Compensation due to members of the Board of Directors

Finally, Shareholders are called on to resolve on the compensation due to members of the Board of Directors who are not assigned specific roles. The remuneration of the latter shall be established by the Board of Directors itself, having obtained the opinion of the Board of Statutory Auditors, pursuant to art. 2389, subsection 3 of the Italian Civil Code. The directors will also receive reimbursement for expenses incurred in connection with their duties.

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

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

Taking what into account that stated above, the Board of Directors, without prejudice to the Shareholders' right to submit additional and different resolution proposals, proposes setting the gross annual remuneration due to each director at 50,000.00 euros in addition to the reimbursement of expenses incurred in relation to their office.

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Dear Shareholders,

You are therefore invited to resolve as follows.

- (i) In relation to point 4.1 “Determination of the term of office of Directors”:
you are invited to approve the proposal to set the term of office for the directors to be appointed at three financial years, expiring on the date of the Shareholders' Meeting that will be called for approving the financial statements as at 31 December 2021.
- (ii) In relation to point 4.2 “Appointment of the members of the Board of Directors”:
you are invited to vote for one of the slates presented and published pursuant to the provisions of law and of the Bylaws.
- (iii) In relation to point 4.3 “Appointment of the Chair of the Board of Directors”:
you are invited to elect as Chairman of the Board of Directors the first candidate elected from the slate that obtained the majority of votes.
- (iv) In relation to point 4.4 “Determination of the remuneration of the members of the Board of Directors”:

you are invited to approve the proposal to set the gross annual remuneration payable to each director at 50,000.00 euros, in addition to the reimbursement of expenses incurred in relation to their office”.

Milan, 22 February 2019

The Chairman of the Board of Directors

Mr Lorenzo Bini Smaghi