(Translation from the Italian original which remains the definitive version)

2016 ANNUAL REPORT

CONTENTS

Chairwoman's letter

Dear Shareholder,

2016 was a very encouraging year for Ferrovie dello Stato Italiane group and its stakeholders in a markedly improved macroeconomic climate with rising growth, exports and employment despite the uncertain international scenario. The group saw improvement in four areas:

- its results;
- investments;
- the groundwork laid to achieve the 2017-2026 business plan targets;
- governance and sustainability.

Results

The group's results for the year are very satisfactory: with revenue of €8.9 billion (+4% on 2015), gross operating profit well above the €2 billion mark (+16.1%) and profit of €772 million (+66.4%), 2016 is the ninth consecutive profit-making year. A glance at the group's profit from continuing operations and, thus, excluding the non-recurring transactions to enhance and re-engineer assets, shows that this is also better this year: revenue came to €8.6 billion, gross operating profit to €2 billion (+1.5% on 2015) and the profit to €0.4 billion (+17.5%).

Thanks to these strong results, boosted by the sale of some non-strategic assets (leading to, for example, the gain of €365 million on the Grandi Stazioni transaction), our financial position is very solid with net invested capital of €45.3 billion (including €33.2 billion for the railway infrastructure sector), own funds of €38.5 billion and net financial debt of €6.8 billion (substantially the same as in 2015).

Leveraging on the financial markets' confidence in our group, we placed bonds for €0.7 billion for a new total of €2 billion. Based on our results, the group's strong financial position and its investment programmes, the board of directors has proposed a dividend distribution of €300 million.

Investments

We made new investments of nearly €6 billion this year (+8.2% on 2015), including €1.6 billion which we financed ourselves, confirming our position as Italy's biggest investor and contributing substantially to the country's economic recovery. These investments were part of the "rail therapy", a top priority for the government, and the public infrastructure spending programme's return to centre stage (the most recent measure is the creation of a €47 billion fund by the "Legge di Stabilità", which includes significant resources for railway infrastructure).

Groundwork laid to achieve the 2017-2026 business plan targets

We presented our new ten-year strategic plan in September, which reiterated our central and driving role in changing the mobility system. Underpinning our business plan is our intention to transform FS from a national railway operator to an international mobility business, integrating our traditional rail transport business with the road and urban mobility businesses in Italy and abroad.

We launched a number of projects during the year to achieve our plan targets based on five fundamental strategic pillars: integrated passenger and logistics mobility, building up and integrating rail and road infrastructure, international development and, enabling the entire plan, the application of cutting edge digital technologies to meet customer requirements (digital & customer centricity).

1. Integrated passenger mobility

The board of directors regularly monitored the punctuality and satisfaction indexes of the 834 million passengers we carried during the year (roughly 70% by rail and 30% by road, better than in 2015) and considered them in the management incentive system.

Our Frecce trains bettered their already impressive punctuality (97.1%, +0.3%) and overall journey satisfaction (93.6%, +0.3%) indexes in the market services segment and this trend is set to continue with another 23 new Freccia 1000 trains rolled out during the year. The introduction of the trains scheduled for 2017 will complete the acquisition project of 50 Freccia 1000 trains as contractually provided for. One third of the market segment ETR fleet will have been in operation for less than two years, placing it at the top of European fleets. Indeed, figures show that the Italian HS market is now the most deregulated and competitive in Europe and we are poised to exploit the opportunities that will be generated by the opening of the Single European Market in 2020.

Our commitment to bringing the HS network to new areas in Italy with the new services such as Freccialink continues unaltered. This service is a prime example of rail-road modal integration, linking five new cities in central and southern Italy to the HS network on a permanent basis. We have also extended existing lines, with the new service to Potenza and Taranto.

The constructive dialogue with institutional customers for the rail passenger transport services based on the public service contract led to the renewal of important long-term contracts (11 regional contracts in 2016 and a new intercity service contract formalised in January 2017). This has allowed us to schedule and carry out large investments to upgrade the fleet and on-board technologies.

We are very proud of the 3.5% improvement in the overall customer satisfaction index for the regional services as average punctuality has increased to 96.6% (+1.2% on 2015). Thanks to investments of €455 million, we rolled out 31 complete trains and 133 carriages while we also reconditioned 94 trains, 62 locomotives and 380 carriages, allowing us to start 2017 with 20% of the fleet vehicles (including both complete trains and carriages) that have been in operation for less than two years. We also awarded the €4.5 billion tender for new trains for regional transport. This contract, which is split into lots, is the largest ever awarded by the group for rolling stock and was bid for by major constructors based in Italy.

We are confident that our customers will reap the initial benefits of the new ten-year intercity contract for the long haul universal service starting from 2017, which will lead to improved service (the total satisfaction index decreased 0.9% in 2016 but the punctuality index improved by 0.3% on 2015).

Thanks to the acquisition of services in the Salerno province, the group has strengthened its position as the third largest operator in Italy in the road transport sector, which is in line with the additional growth scheduled in the business plan.

We would like to welcome Ferrovie del Sud Est e Servici Automobilistici to our group in highly challenging conditions. We are confident that all the stakeholders will collaborate and we are taking all steps necessary to ensure that our Puglia customers will benefit from the improved quality, safety and administrative transparency that are at the heart of the group's operations wherever it works.

2. Integrated logistics

After years of substantial disinvestment in the cargo sector, we have completed the wide scale project to revitalise and relaunch the group's goods transport and logistics sector during the year. After a careful process of specialisation, coordination and integration of the group companies active in this area, we created the Mercitalia hub.

This sector was the group's only loss-making business (more than €800 million in the five years from 2011 to 2015).

As a consequence of the project launched in 2016, the Mercitalia hub is now one of the largest Italian operators in the European cargo logistics and transport market since January 2017 with total revenue of around €1 billion and a workforce of roughly 4,000 people.

In the years to come, this hub will steadily specialise in integrated solutions based on rail, which will be a key success factor. It will concentrate on north-south Italy connections, the main transalpine corridors from and to Italy, interconnections from and to the main ports and services that allow the interchange of goods between the most important European production and distribution areas.

In line with the group's policy, the Mercitalia hub will place the customer at the centre of its business, acting as a single provider of all the hub companies' services.

As part of this turnaround project, the Mercitalia hub has ambitious objectives that will contribute to the group's 2017-2026 business plan with a two-fold increase in revenue on 2016 and a progressive improvement in results, partly to be achieved through significant international growth.

Attainment of these ambitious objectives will be based on investments of approximately €1.5 billion over the plan period, including roughly €1 billion to upgrade and maintain rolling stock, about €100 million to build and operate three modern intermodal terminals to connect the transapline railway systems with the Italian system, roughly €100 million in new ICT and security systems and, finally, about €300 million in acquisitions to strengthen FS Italiane group's competitive positioning in the European logistics and cargo transport market.

The companies that are now part of the Mercitalia hub halved their losses in 2016 compared to the previous year and have halved them again in early 2017 compared to the same period of 2016. This demonstrates how the business plan's very ambitious targets to revitalise and relaunch this business are feasible.

3. Infrastructure

In 2016, 32 railway companies operated along 16,778 km of the group's network for a total of roughly 350 million train-km (+2.7% on 2015, +6% for non-group companies), including 26 million train-km on the HS/HC network (+12.1%) and 323 million train-km on the traditional network (+2%).

Investments of €4.2 billion (+17%) were made in the railway network during the year, of which 48% for safety, technology and efficiency and 52% for works to resolve bottlenecks and traditional network infrastructure development, to complete the Turin-Milan-Naples HS line and large construction works (classified in accordance with the Government Programme Contract). This massive amount allowed the national railway infrastructure operator (“RFI") to make a substantial contribution (€2.2 billion) to achieving the objective set in the "flexibility clause" committed to by the Italian government with the EU.

The traditional network received 96% of the infrastructure investments with the opening of the new stops at the Palermo and Rome hubs during the year and 91 km of new tracks (11 km in 2015), including the track variations in Calabria and the laying of double tracks in Sicily and Liguria. The new Treviglio-Brescia section was rolled out in the HS/HC network, cutting the journey time between Brescia and Milan to just 36 minutes. Investments in safety technology and compliance with the strictest European levels led to a further decrease in accidents despite the higher traffic volumes (accidents attributable to risks that RFI could have mitigated decreased from 27 to 13 in 2016, -52%). Unfortunately, accidents involving unauthorised personnel on the railway lines increased. The group is taking all possible actions to deal with this situation.

The group's stations underwent great change during the year: the Grandi Stazioni operation was a great success with full control over the core activities of the 14 main stations in Italy regained and the concurrent exploition of their retail activities, sold for €762 million for a gain of €365 million. We also invested €392 million in our passengers' comfort and safety at the stations and took action to reacquire full control of Centostazioni S.p.A. at the start of 2017, in line with our business plan objectives which include the stations becoming genuine integrated mobility hubs.

4. International development

Europe can now be considered a "domestic" market. On the one hand, Netinera Deutschland recorded excellent results, benefitting from the full operation of the sections acquired at the end of 2015, while Trenitalia undertook new endeavours in the UK, setting up Trenitalia UK and subsequently winning the C2C (City to Coast) tender for the London service, one of the main railway lines in the UK. Finally, the group acquired control of the major rail transport operator in Greece, Trainose.
FS Italiane group is now the number one rail operator in Italy and Greece, the second in Germany and has two companies active in the UK and France (the investee Thello S.A.) rapidly asserting its place as one of the leading European operators.
Likewise, TX Logistik of Mercitalia group is the second largest rail cargo transport operator in Germany and is already active in many north European markets as well.
Roll out of new foreign projects by FS and Italferr (including in Iran, Qatar, Russia, India, Egypt, the Republic of Congo, Argentina and Bosnia-Herzegovina), together with the entire railway sector's appreciation of our work, which led to appointment of our CEO as the Chairman of Union Internationale des Chemins de Fer (UIC), are the result of and reflect the group's specialist knowhow in rail transport and its conversion into international development while the board of directors scrupulously analyses the specific related risks.

5. Digital & Customer centricity

2016 was a year of transition in line with the business plan objectives. We laid the groundwork and launched a project to develop those digital instruments that will improve our ability to meet customers' integrated mobility requirements before the 2018 roll-out of the extended customer experience platform, which will offer integrated travel solutions and will include the other LPT operators in a coopetition approach.

Governance and sustainability

Assisted by its two committees, the board of directors supervised the improvement of the group's governance system, internal controls and risk management during the year, also given the complexity of projects envisaged by the business plan. Specifically, the board of directors expanded the internal audit and risk management departments, as well as ensuring the regular updating of the Legislative decree no. 231/2001 model. In addition, the CEO's team underwent a significant reshuffle during the first half year of the year.

When we defined our new business plan vision, we made unequivocal reference to sustainability in its various forms as our guiding principle for the entire group and its employees. We have set up a sustainability committee, to express the sentiments of senior management of the main FS Italiane group companies and ensure that social and environmental strategies are an integral part of financial and economic considerations, to promote sustainable development principles and values in line with the United Nation's Sustainable Development Goals in the 2030 Agenda. For the first time, the directors' report includes specific indicators showing the group's ability to generate economic value to be distributed to our stakeholders as well as an in-depth section on sustainability, validating our decision to steadily integrate "financial" information with "non financial" information, which we will continue over the next few years. Our 2016 projects included the set up of a Stakeholder Panel, to better assemble recommendations about five strategic areas (cargo mobility, LPT, service quality, occupational health and safety and training) as well as a joint RFI-Terna project to encourage the generation of renewable energy and its immediate use on railway lines.

Turning to our social commitment, we are proud to mention the free loan of another 5,500 square metres in our stations to local bodies and third parties. Therefore, at the end of the year, we have granted more than 115,000 square metres in roughly 450 stations to be used for social, cultural and environmental events of great importance for their communities. We have also confirmed our commitment to the Help Centres, which have increased in number from 15 to 17 (59% in central and south Italy), providing roughly 500,000 assistance measures to migrants and homeless people. Our campaign with Save The Children has raised more than €350,000 to be used for the welcome centres for underage unaccompanied migrants in the Civico Zero centres in Milan, Turin and Rome. Finally, we were also involved in the 29th edition of Treno Verde, organised with Legambiente on the circular economy.

The group's workforce has grown again (+1.7% on the end of 2015 following the hire of roughly 2,300 people, excluding the effects of the acquisitions) accompanying the development of its new business.

For the third consecutive year, the group was named the Best Employer of Choice award by recent Italian university graduates as a whole and by science graduates. It has improved its internal job posting system to encourage internal talent management. We have also signed an agreement for generational change to facilitate the early retirement of 1,000 employees from the railway sector to be substituted by the same number of young people. In addition, we signed another agreement for the "soft" exit of over 600 employees from different areas, who will also be replaced by young people (around 80%).

The group engaged in intense negotiations with the trade unions during the year which led to the signing of the national contract with its employees' trade unions at the end of the year.

The accident rate improved (-6.5%) for the eighth consecutive year thanks to the group's investments and focus on the safety of its employees.

With respect to gender equality, we continued our work to improve awareness of and provide training about female leadership. We contributed to the Women In Motion and Girls in Motion projects (the latter will be fully operational in 2017) and, through new hires and promotions at various levels, the percentage of women managers increased (+1.1% compared to 2015).

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The road to a real integrated mobility system in Italy to serve the general public is long and rocky. The group will continue to concentrate on its objectives and the impeccable execution of its plans. This implies continuation of the excellent understanding with the shareholder and the Ministry of Infrastructure and Transport as well as focused and careful management. The group's decisions shall increasingly reflect the complex long-term transport programme for the country.

FS Italiane group is fully committed. With its excellent governance, the group has all the skills it needs to rise to the challenges that lie ahead.

The Chairwoman

FERROVIE DELLO STATO ITALIANE S.p.A. COMPANY OFFICERS

Board of directors

Chairwoman	Gioia Maria Ghezzi
CEO and General Manager	Renato Mazzoncini
Directors	Daniela Carosio
	Giuliano Frosini
	Simonetta Giordani
	Federico Lovadina
	Vanda Ternau

Board of statutory auditors	**In office until 4 July 2016**	**Appointed on 4 July 2016**[1]
Chairwoman	Alessandra dal Verme	Carmine di Nuzzo
Standing statutory auditors	Roberto Ascoli[2]	Susanna Masi
	Claudia Cattani[3]	Roberto Ascoli[4]
Alternate statutory auditors	Paolo Castaldi[5]	Paolo Castaldi[6]
	Cinzia Simeone	Cinzia Simeone

COURT OF AUDITORS' MAGISTRATE APPOINTED TO AUDIT FERROVIE DELLO STATO ITALIANE S.p.A.

Angelo Canale

MANAGER IN CHARGE OF THE COMPANY'S ACCOUNTING DOCUMENTS PREPARATION

Roberto Mannozzi

INDEPENDENT AUDITORS

KPMG S.p.A. (2014-2022)

[1] Following the shareholder's resolution on the same date.

[2] Appointed standing statutory auditor in place of Paolo Castaldi on 11 March 2016, when the latter returned to the position of alternate statutory auditor on the same date.

[3] Resigned on 17 May 2016.

[4] Appointed standing statutory auditor on 29 July 2016 in place of Paolo Castaldi.

[5] Standing statutory auditor from 21 December 2015 to 11 March 2016 replacing Tiziano Onesti and from 17 May 2016 replacing Claudia Cattani.

[6] Standing statutory auditor until 28 July 2016 replacing Francesco Notari, who did not accept the position. Newly appointed alternate statutory auditor on 29 July 2016.

GROUP HIGHLIGHTS

Disclaimer

This document and, in particular, the part titled “Outlook”, contain forward-looking statements based on current expectations and projections of future events. By their very nature, these statements present inherent risks and uncertainties. They refer to events and depend on circumstances that might, or might not, occur or arise in the future and, as such, cannot be considered reliable. Actual results could differ, even significantly, from the data in these statements following myriad factors, including but not limited to the volatility and decline of capital and financial markets, changes in raw material prices, changes in macroeconomic conditions and economic growth and other changes in business conditions, changes in legislation and the institutional context (both in Italy and abroad), difficulties in carrying out production and providing services, including restrictions to the use of the infrastructural railway network, the use of plants and supplies and many other risks and uncertainties, most of which are beyond the group’s control.

Key and glossary

Non-GAAP performance indicators

Below is a description of the criteria used to determine the most frequently used non-GAAP performance indicators in this report, which differ from the criteria applied to the financial statements and which management finds useful in monitoring the group's performance and believes reflect the results of operations and financial trends of its business segments:

- **Gross operating profit**: this is an indicator of the performance of operations and reflects the group's core business only. It is calculated as the difference between revenue and operating costs.
- **Operating profit:** this is an indicator of the performance of operations and is calculated as the algebraic sum of gross operating profit and amortisation and depreciation, impairment losses (reversals of impairment losses) and provisions.
- **Net operating working capital:** this is the algebraic sum of inventories, construction contracts, current and non-current trade receivables and current and non-current trade payables.
- **Other assets, net:** these reflect the sum of receivables and advances from the Ministry of the Economy and Finance for grants, deferred tax assets, other current and non-current assets and other current and non-current liabilities.
- **Working capital:** this is the sum of net operating working capital and other assets, net.
- **Net non-current assets:** these reflect the sum of property, plant and equipment, investment property, intangible assets and equity investments.
- **Other provisions:** these reflect the sum of post-employment benefits and other employee benefits, the provision for litigation with employees and third parties, the provisions for other sundry risks and deferred tax liabilities.
- **Net invested capital (NIC):** this is the algebraic sum of working capital, net non-current assets, other provisions and net assets held for sale.
- **Net financial debt (NFD):** this is a financial indicator calculated as the algebraic sum of bonds, non-current bank loans and borrowings and the current portion thereof, current bank loans and borrowings, current and non-current loans and borrowings from other financial backers, financial assets with the Ministry of the Economy and Finance for current fifteen-year grants, cash and cash equivalents and current and non-current loan assets.
- **Equity (E):** this is a financial statements indicator calculated as the sum of share capital, reserves, retained earnings (losses carried forward), current and non-current derivative liabilities and the profit (loss) for the year.
- **Gross operating profit margin**: this profitability indicator is calculated as the ratio of gross operating profit to operating revenue.
- **Operating profit margin – ROS (return on sales):** this sales profitability indicator is calculated as the ratio of operating profit to revenue.
- **Debt/equity ratio:** this indicator is used to measure the group's debt. It is calculated as the ratio between net financial debt and equity.

- **ROE (return on equity):** this is a profitability indicator for equity and is calculated as the ratio of profit (loss) for the year and average equity, using the average of opening equity (including of the profit (loss) for the previous year) and closing equity (net of the profit (loss) for the year).
- **ROI (return on investment**): this is a profitability indicator for invested capital through core business operations. It is calculated as the ratio of operating profit to average NIC (the average of opening and closing NIC).
- **Net asset turnover:** this is an efficiency indicator that expresses invested capital's ability to transform into sales revenue. It is calculated as the ratio of operating revenue to average NIC (the average of opening and closing NIC).
- **Generated economic value:** this indicator reveals how the group generates wealth for its stakeholders and it includes revenue from sales and services and other sundry income (other income, financial income and the share of profits (losses) of equity-accounted investees).
- **Distributed economic value:** this indicator reveals how the group distributes the wealth it generates to stakeholders and it includes operating costs, employee remuneration, donations and other investments in the community, retained earnings and payments to financial backers and to the public administration.
- **Income other than directly generated economic value:** this caption includes the financial statements caption "Other income" plus financial income.
- **Payments to financial backers in distributed economic value:** this caption includes remuneration to financial backers, including distributed dividends, arrears on dividends, borrowing costs and other forms of debt.
- **Payments to public bodies in distributed economic value:** this caption includes taxes and duties of the year included in the captions "Income taxes" and "Other operating costs", excluding deferred taxes.

Glossary

The following terms are frequently used in relation to the group's operations:

- **Computer-based interlocking system**: electronic management system for control and signalling and station safety.
- **ARIS:** All-relay interlocking system. This centralised device has one single button to control routes and routing and automatically shunts each individual body affected by the route.
- **ATC:** Automatic train control. This system automatically controls the train's speed. It is the technological and functional development of the automatic train protection (ATP).
- **HS/HC:** High speed/High capacity. This is the system of lines and means specifically developed for high speed transport and the consequent high capacity transport.
- **Average load:** (pkm/tkm) This ratio expresses the number of passenger-km per train-km, i.e., how many people a train can transport on average.
- **Government Programme Contract**: this is a long-term contract between the Ministry of Infrastructure and Transport ("MIT") and Rete Ferroviaria Italiana S.p.A. (the national railway infrastructure operator, "RFI S.p.A.") defining investment projects and other terms and conditions, such as network maintenance, to encourage the development of the railway system.

- **Public service contracts:** these are contracts between the Ministry of Infrastructure and Transport/Ministry of the Economy and Finance and Trenitalia S.p.A. whereby the former reimburses the latter for the cost of public passenger transport services that could not otherwise sufficiently self-fund.
- **Main line:** this is a particularly important series of railway lines in terms of traffic volumes and the transport role that it plays, as it joins major network centres or hubs.
- **European Railway Agency (ERA)**. This is the EU agency establishing the mandatory requirements for European railways and builders in the form of technical interoperability specifications applicable to the European railway system. The ERA sets common safety targets, along with the related methods and common safety indicators, in compliance with Directive no. 2004/49/EC, as amended.
- **European Rail Traffic Management System (ERTMS):** this is the system that integrates the various railway networks in the EU from a functional and operational standpoint and provides for the European Train Control System.
- **ETCS (European Train Control System):** this is the overall network of the various national automatic train control (ATC) systems. ATC systems consist of traditional and innovative signalling systems and can be based on continuous signal repetition (CSR) or continuous digital signal repetition (CDSR).
- **GSM-R (Global System for Mobile Communication):** this is the European standard for public digital mobile telephony system with a transmission speed of 9.6 Kbps.
- **Plant:** this is a railway company's production unit with a fixed location and identifiable area of jurisdiction on the railway network. It may belong to either the infrastructure operator or the transport companies.
- **Load factor (pkm/seat-km):** this indicator measures the saturation of the commercial offer, i.e., how much one seat is occupied, e.g., on a Rome-Milan train with intermediate stops (a passenger getting off at Florence only occupies the seat 50% of the distance compared to a passenger travelling to the terminal stop in Milan).
- **Hub:** this is a conventional term to define a railway area that generally coincides with major metropolitan destinations presenting highly dense and relatively complex medium-size to large stations and other railway plants that are interconnected by various lines, creating a continuation of the main routes into the same hub and other lines, built to manage various traffic flows and alternative routes, or service loops.
- **Doubling:** this is the transformation of a single track to a double track.
- **Terminal:** this is the intermodal transport infrastructure for the transfer of large load units between carriers, with or without warehouses of modest size.
- **CCS/CTC:** this command and control system/large network central traffic control system regulates traffic on the main lines and hubs, outperforming traditional centralised traffic control systems.
- **TSCS:** this train speed control system is the first functional stage of the ATC system for constant control over train speed, making it possible to activate the emergency brakes if the train exceeds the maximum speed allowed on the line or if it proceeds past stop signals.
- **Tonne-km:** this is the product of tonnes transported multiplied by kilometres travelled (tkm). It is, therefore, the product of kilometres effectively travelled and tonnes transported over a given period of time and is the commercial performance indicator for cargo transport.
- **Combined transport:** this is intermodal transport mainly carried out by rail, river or sea, when the initial and terminal journeys are by road. Combined transport uses specific carriages and coded lines for the sections by rail.

- **Intermodal** transport: this is transport using two or more modes of transport (road, rail, sea or river) with the transfer of load units from one mode to another without breaking up the load, i.e., using a roadway vehicle or intermodal transport unit (containers, swap bodies and semitrailers).
- **Train-km:** this is the number of train events per kilometre travelled (tkm). It is, therefore, the sum of kilometres travelled by all trains in the fleet over a specific period of time and is the performance indicator for the railway network operator's production.
- **Passenger-km:** this is the sum of kilometres actually travelled by all transport service passengers over a given period of time (pkm). It is the commercial performance indicator for passenger transport.

The future is founded on history

Azienda Unitaria delle Ferrovie dello Stato is established on 1 July 1905, based on the unification of stations and a consistent style of carriages. The railway system is designed and built in accordance with one, unified national criterion.

The first Italian electric train is built: the ETR 200, paving the way for high speed transport.

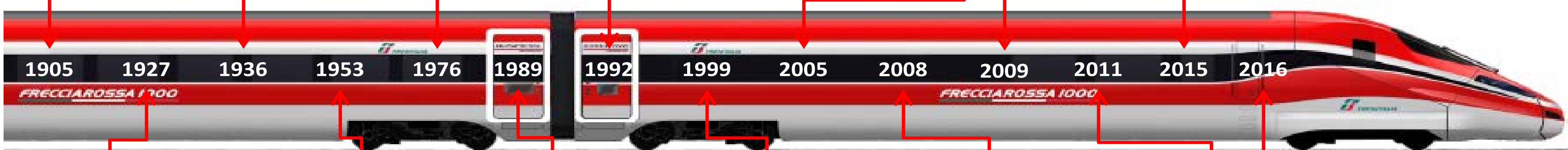
The first electric tilting train is built: the ETR 401, more commonly known as the Pendolino. Designed by Ferrovie dello Stato and Fiat Ferroviaria to reach speeds of up to 250 km/h, the Pendolino is a milestone in the path towards Italy's HS rails.

Ferrovie dello Stato becomes a company limited by shares.

The new HS Rome-Naples line is completed and is the first to adopt the innovative ERTMS/ETCS. Engineers arrive from around the world, including Japan, the US, Russia and China, to study the Italian system, which boasts safe, quiet railway transport at 300 km/h.

The Bologna-Florence line, almost entirely in tunnels, and the Novara-Milan line are opened. The HS line from Turin to Salerno is completed. These lines add 1,000 km of HS rail to the country, changing Italians' way of life and how they get around.

Frecciarossa 1000 sets a new high speed record: 390.7 km/h.



Together with the Naples Mergellina station, the Rome-Naples express line is inaugurated. It is the first line of its kind, designed for high speed trains.

The ETR 300 arrives on the Rome-Milan line, and is immediately renamed the Settebello, after its seven carriages. Its innovative shape is emblematic of the Reconstruction period and Italian design.

On the Rome-Florence express line, the ETR X 500 reaches 317 km/h, setting Ferrovie dello Stato's first official record. The ETR Y 500 breaks the record soon after when it hits 321 km/h.

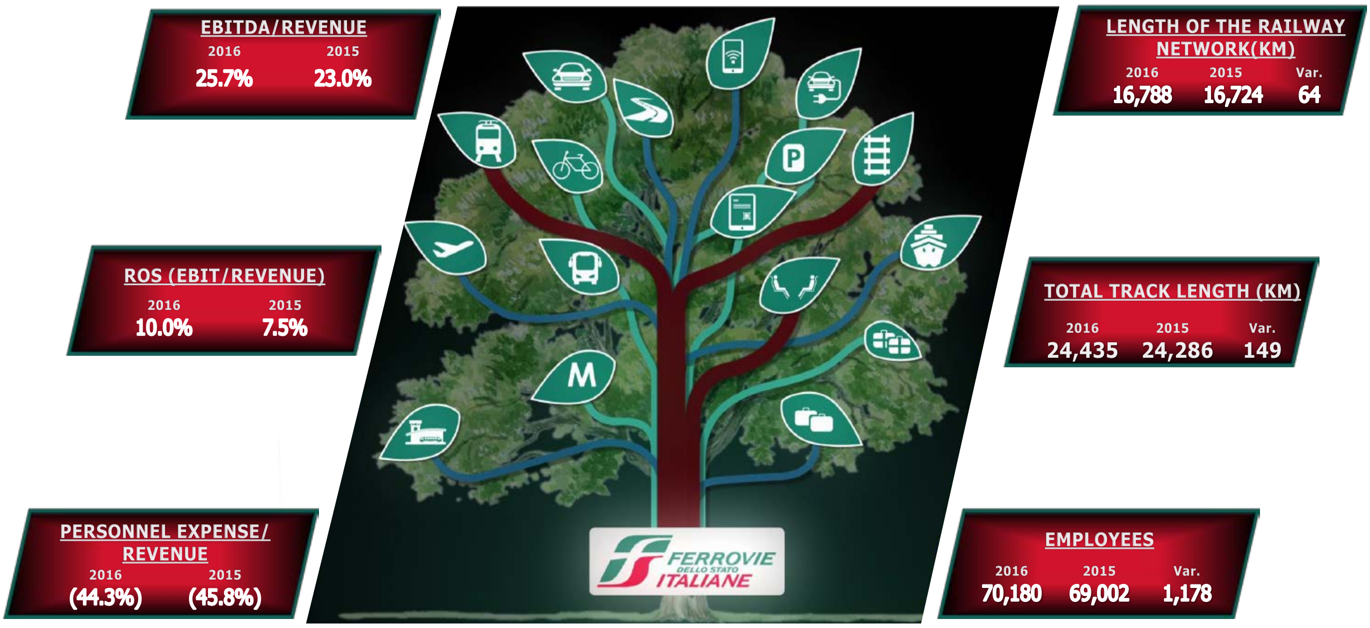
The company is divided into business segments, which will lead to the creation of Ferrovie dello Stato group in the new millennium.

Ferrovie dello Stato group opens the HS line connecting Milan and Bologna. The works include an extraordinary suspension bridge over the Po River. Trains running on the new line set another record for Italian speed: 362 km/h.

FS Italiane acquires Arriva Deutschland group, now known as Netinera, the third largest passenger transport service provider in Germany.

Ferrovie dello Stato Italiane S.p.A.'s board of directors approves FS Italiane group's 2017-2026 business plan featuring five strategic pillars to make the group a major international integrated mobility player.

Consolidated highlights



millions of Euros

Main results and financial data	**2016**	**2015**	**Change**	**%**
Revenue	8,928	8,585	343	4.0
Operating costs	(6,635)	(6,610)	(25)	(0.4)
Gross operating profit	2,293	1,975	318	16.1
Operating profit	892	644	248	38.5
Profit for the year	772	464	308	66.4
	31.12.2016	**31.12.2015**	**Change**	**%**
Net invested capital (NIC)	45,257	44,695	562	1.3
Equity (E)	38,497	37,953	544	1.4
Net financial debt (NFD)	6,760	6,742	18	0.3
NFD/E	0.18	0.18		
Investments of the year	5,950	5,497	453	8.2
Total cash flows generated/(used) in the year	1,032	(2)	1,034	>200

DIRECTORS' REPORT

The group's financial position and performance

For the purposes of describing its financial position and performance, the group prepared reclassified financial statements in addition to those required by the IFRS adopted by FS Italiane group (as detailed in the notes). The reclassified financial statements comprise alternative performance indicators which differ from those directly derived from the consolidated financial statements and which management deems useful in monitoring the group's performance and in presenting the financial results of the business. Reference should be made to the section "Key and glossary" for a description of the methods used to calculate these indicators.

For a better understanding of this document, the following should be noted:

- on 20 July 2016, Ferrovie dello Stato Italiane S.p.A. and Eurostazioni S.p.A. sold and transferred their entire investments in Grandi Stazioni Retail S.p.A. to Alba Bidco S.p.A.. In the following reclassified financial statements, at consolidation level, the transaction qualifies *de facto* as a sale of net assets related to commercial premises. Consequently, the 2016 reclassified income statement includes a €365 million gain on the sale of assets and reflects the results of Grandi Stazioni Retail S.p.A.'s business for the first six months of the year, while its results impacted all of 2015. Similarly, the comparative reclassified statement of financial position as at 31 December 2015 includes the assets and liabilities of said business, which was transferred to the above company and subsequently sold in 2016;
- as described later on, with the Decree dated 4 August 2016, the Italian Ministry of Infrastructure and Transport ordered the transfer of the entire investment held in Ferrovie del Sud Est e Servizi Automobilistici S.r.l. ("FSE S.r.l.") to FS S.p.A., without consideration. In the reclassified financial statements following the transaction, as of the date control was obtained (28 November 2016, the date the equity investment was transferred), the income statement includes the results of FSE S.r.l. for little more than a month, while the reclassified statement of financial position as at 31 December 2016 includes FSE S.r.l.'s net assets, which, conversely, are not included in the 2015 comparative figures. Specifically, at 31 December 2016, FSE S.r.l. contributed net financial debt of €107 million and net non-current assets of €26 million.

The above transactions, which are described in more detail further on, do not indicate a change in FS Italiane group's business nor the entry into new operating segments. Consequently, also considering the materiality of the relevant amounts, the following reclassified financial statements do not include pro forma schedules.

Income statement

millions of Euros

	2016	2015	Change	%
REVENUE	**8,928**	**8,585**	**343**	**4.0**
Revenue from sales and services	7,908	7,881	27	0.3
Other income	1,020	704	316	44.9
OPERATING COSTS	**(6,635)**	**(6,610)**	**(25)**	**(0.4)**
GROSS OPERATING PROFIT	**2,293**	**1,975**	**318**	**16.1**
Amortisation, depreciation, provisions and impairment losses	(1,401)	(1,332)	(70)	(5.3)
OPERATING PROFIT	**892**	**644**	**248**	**38.5**
Net financial expense	(94)	(107)	13	12.1
PRE-TAX PROFIT	**798**	**537**	**261**	**48.6**
Income taxes	(26)	(73)	47	64.4
PROFIT FROM CONTINUING OPERATIONS	**772**	**464**	**308**	**66.4**
Profit (loss) from assets held for sale, net of taxes				
PROFIT FOR THE YEAR	**772**	**464**	**308**	**66.4**
PROFIT FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF THE PARENT	758	448	310	69.2
PROFIT FOR THE YEAR ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	14	16	(2)	(12.5)

2016 ended with a **profit** of €772 million, showing a significant increase (+66.4%) on the previous year, when the group posted a profit of €464 million.

The increase is mainly due to the asset enhancement activities completed by management in 2016 as part of the group's broader vision as it is poised, as detailed below, to become an integrated mobility operator following the decision in September, when FS S.p.A.'s board of directors approved the new 2017-2026 business plan. This includes the above-mentioned sale of the business related to the management of non-core commercial premises through the sale of Grandi Stazioni Retail S.p.A. to third parties, which generated a gain of €365 million in the year. Furthermore, at the end of 2015, a similar transaction was successfully completed, entailing the sale of the electrical energy grid to Terna S.p.A., generating a gain of €18 million.

Consequently, the main top line operating indicators, **Gross operating profit** and **Operating profit**, also grew significantly, up by €318 million (+16.1%) and €248 million (+38.5%), respectively.

The effects of the changes in legislation in 2016 had a less significant impact on the results for the year than in 2015. In this respect, the legislative measure of 22 January 2016 ("Eco bonus") provided additional support to cargo transport by reducing the toll by €2.5/train-km, thereby re-establishing a more sustainable framework for the sector, compared to the extremely negative impact caused in the past by the earlier reduction in the cargo service contract. Conversely, 2016 was affected by greater charges related to the rise in the costs incurred for electrical energy used for traction (up by €33 million), caused by the simultaneous enactment of a series of legal and regulatory provisions (specifically, Resolutions nos. 654 and 668/2015) issued at the end of 2015 by the Electrical Energy, Gas and Water Regulator ("AEEGSI").

Revenue increased by €343 million as a result of the rise in **revenue from sales and services** (+€27 million) and **other income** (+€316 million).

The increase (+0.3%) in **revenue from sales and services** is due to the revenue from transport services which grew by €2 million, and the rise in revenue from infrastructure services (+€26 million). Conversely, the other residual items making up revenue from sales and services are slightly down by €1 million.

With respect to the main factors behind the increase in **revenue from transport services** (+€2 million), a positive contribution came from the short haul passenger transport service revenue (+€119 million), broken down into domestic rail revenue (+€76 million), international rail revenue (+€24 million, mainly earned by Netinera group operating in Germany) and road transport revenue (+€19 million). Conversely, the long haul rail segment contributed negatively. Indeed, during the year, despite the increase in the volume of the HS (high speed) service generated by the Frecciarossa brand, its revenue in Italy and abroad decreased by €99 million, mainly as a consequence of the lower average market yield, in addition to the absence of the positive effects of Expo 2015 generated in 2015. The cargo service decreased by €18 million.
For additional information on the trend in revenue from transport services, reference should be made to the section on the Transport segment.

The increase in **revenue from infrastructure services**, up by €26 million on 2015, mainly consists of the €20 million increase in toll revenue due to the rise in production volumes and the greater contributions for service contracts related to the entry of FSE S.r.l. into the consolidation scope (+€5 million). Revenue from the government for grants related to income paid to RFI S.p.A. pursuant to the 2016 "Legge di Stabilità" are unchanged on the previous year (€976 million).

Other revenue, included in **revenue from sales and services**, dropped slightly by €1 million (a total of -0.4%), mainly as a consequence of trends in operations.

Other income rose by €316 million, mainly as a result of the above-mentioned €365 million gain from the sale of Grandi Stazione Retail S.p.A.'s assets to third parties, compared to the €18 million received in 2015 from the sale of the electrical assets to Terna S.p.A.. Furthermore, there was a decrease in revenue from leases, recharges of condominium expenses and the sale of advertising spaces, amounting to €28 million, following the sale of the retail business unit, in addition to lower sales of land and buildings held for trading during the year (-€11 million).

Operating costs amount to €6,635 million, up by €25 million (+0.4%) on 2015 (€6,610 million). They may be analysed as follows:

- the rise in personnel expense (+€17 million) mainly due to the increase in permanent employees provided for by the new national labour agreement for the mobility sector/railway sector which took full effect. However, the increase is almost fully absorbed by the streamlining of work, the reduction in average workforce, the social security contribution tax benefits related to production bonuses and lower costs for leaving incentives. The costs for the Netinera Deutschland group increased due to the personnel hired following the acquisition of new routes (+€9 million) as well as those related to FSE S.r.l.'s entry into the consolidation scope (+€5 million);
- the rise in other costs, net (+€8 million), mainly as a consequence of the following changes:
  i) the increase in raw materials, consumables, supplies and goods (+€71 million). The consumption of materials rose by €86 million following the investments in infrastructure; the cost of electrical energy grew by €33 million due to the above-mentioned new regulatory provisions, offset, in part, by smaller costs for fuel for traction (-€7 million)

and other general savings (-€11 million); smaller change in buildings and land held for trading due to the reduction in selling costs (-€5 million) and smaller impairment losses compared to 2015 (-€25 million);

ii) services rose by €35 million following the net effect of the increase in transport services (+€42 million), offset by savings totalling €7 million, specifically in relation to maintenance. The above increases in services are essentially attributable to Netinera Deutschland group following the acquisition of new routes during the year;

iii) other operating costs rose by €34 million following the increase in membership fees and contributions to sundry bodies, penalties received and compensation, non-deductible VAT and other taxes, and the larger accruals of the years, specifically in respect of sundry taxes on areas zoned for building;

iv) greater capitalisations (+€134 million), basically due to the increase in investments in infrastructure, specifically the technological upgrades and the safety renewal, as well as greater value-increasing maintenance of rolling stock.

Gross operating profit increased by €318 million or 16.1% to €2,293 million as a result of the variations in revenue and operating costs described above.

Operating profit amounts to €892 million, up by €248 million or 38.5% on the previous year. The increase is mainly due to that described above in respect of revenue and operating costs, as well as greater amortisation/depreciation and impairment losses (+€78 million and +€15 million, respectively), offset by smaller provisions (-€23 million). Provisions of €25 million (€48 million in 2015) include the accruals recognised by the FS Italiane group companies for the extraordinary portion of the Bilateral fund for income assistance.

Net financial expense of €94 million improved on 2015 by €13 million. The improvement is substantially due to significant non-recurring items which affected both income and expense. Specifically:

- the absence of financial income, unlike in 2015, from the derecognition of the financial liability related to the equity investment in Eurofima SA (€75 million);
- greater financial income for the year (+€14 million) generated by the settlement agreement between Mercitalia Logistics S.p.A. and the Campania waste emergency government commissioner as detailed in the notes to the consolidated financial statements to which reference should be made;
- other changes related to the decrease in borrowing costs and exchange rate losses of approximately €49 million.

Income taxes amount to €26 million, down by €47 million (-64.4%).

In addition to the above observations, the following table shows the directly generated economic value and that distributed by FS group, highlighting its redistribution to stakeholders. The group acknowledges the importance of a balanced distribution of the value generated by its operations to its stakeholders, value that they contributed to creating directly or indirectly. The analysis of the economic value distributed shows the flows allocated to employees, providers of goods, services and capital, the public administration and the communities in which the group is present.

This table was prepared in accordance with the guidelines adopted by FS group (GRI-G4 Sustainability Reporting Guidance) to prepare the non-financial information governed by Legislative decree no. 254/2016, which will become mandatory as of 2017:

millions of Euros

	2016		2015	
Directly generated economic value	**9,004**	**100%**	**8,709**	**100%**
Revenue from sales and services	7,908		7,881	
Other sundry income	1,096		828	
Distributed economic value	**6,837**	**76%**	**6,879**	**79%**
Operating costs for materials and services	2,623		2,614	
Personnel expense	3,951		3,934	
Payments to financial backers	170		231	
Payments to public bodies	93		100	
Economic value withheld	**2,167**	**24%**	**1,830**	**21%**
Amortisation, depreciation, provisions and impairment losses	1,401		1,332	
Other sundry costs and taxes	(6)		34	
Profit for the year	**772**		**464**	

Finally, the value not distributed by the group (approximately €2.2 billion) consisted substantially of self-financed investments and accruals to reserves, to be reinvested and thereby ensure the continuity and sustainability of non-current business and, therefore, indirectly benefit the FS group's stakeholders (such as employees and the community through, for example, improvements in service quality, including the universal service).

Reclassified statement of financial position

millions of Euros

	31.12.2016	31.12.2015	Change
ASSETS			
Net operating working capital	404	929	(525)
Other assets, net	591	(581)	1,172
Working capital	**995**	**348**	**647**
Net non-current assets	47,330	47,357	(27)
Other provisions	(3,068)	(3,010)	(58)
Net assets held for sale			
NET INVESTED CAPITAL	**45,257**	**44,695**	**562**
COVERAGE			
Net current financial debt	353	884	(531)
Net non-current financial debt	6,407	5,858	549
Net financial debt	**6,760**	**6,742**	**18**
Equity	**38,497**	**37,953**	**544**
COVERAGE	**45,257**	**44,695**	**562**

Net invested capital of €45,257 million increased by €562 million in the year due to the rise in **working capital** (+€647 million), offset in part by the decrease in **net non-current assets** (-€27 million) and the increase in **other provisions** (-€58 million).

Net operating working capital amounts to €404 million, down by €525 million as a result of:

- lower receivables arising from the service contracts with the Ministry of the Economy and Finance (also "MEF") (-€189 million) and the regions (-€309 million) due to the increase in the payment of considerations during the year and accurate monitoring of the repayment procedures and plans, agreed with the counterparties, in order to collect receivables;
- lower trade payables (-€27 million) affected, in particular, by the decrease in the amounts due for services rendered in previous years to the Campania region waste emergency government commissioner to manage the USW (urban solid waste) emergency in the region (€100 million). The decrease, which reflects the completion of the above-mentioned settlement agreements, is offset by the increase in the consolidation scope (approximately +€71 million) and the rise in fee income for HV (high voltage) line maintenance and remote control;
- greater inventories (+€107 million) mainly due to the increase in raw materials, consumables and supplies following the increase in the purchase of materials for the infrastructure, the greater production output by the Officine Nazionali Armamento e Apparecchiature Elettriche workshops in Pontassieve, Bologna and Bari and the acquisition of FSE S.r.l.. The increase in this caption is also affected by the growth in receivables arising from construction contracts and land and buildings held for trading included in the group's real estate properties classified as held for sale;
- greater trade payables (+€107 million) mainly due to the change in the consolidation scope following the above-mentioned transfer of FSE S.r.l. to the group. Other minor changes refer to the group's ordinary internal payment trends.

Other assets, net increased by €1,172 million, mainly as a result of the combination of the following factors:

- lower receivables from the MEF, the Ministry of Infrastructure and Transport and other government authorities (-€556 million) following the collections of the year and lower advances for grants related to assets (+€1,578 million) allocated to the projects launched by the group. The grants mainly refer to the amounts due in connection with the Government Programme Contract and are aimed at extraordinary maintenance or urgent measures that cannot be postponed concerning the railway network as well as infrastructural investments to complete HS/HC (high speed/high capacity) lines, works to improve the railway network, the design and construction of the Turin-Lyon tunnel and to ensure that FSE S.r.l. continues operating as a going concern;
- lower other liabilities (+€180 million) mainly due to the elimination of the bilateral fund for income assistance following the winding up of the relevant Foundation and the transfer of its assets to INPS (Italy's social security institution);
- lower other receivables (-€110 million) essentially related to Grandi Stazioni Rail S.p.A.'s partial demerger which took place during the year;
- the increase in VAT assets (+€89 million), mainly due to the combined effect of the VAT reimbursement by the tax authorities for 2012, 2013 and 2015 and the VAT paid in the year;
- the decrease in deferred tax assets (-€9 million).

Net non-current assets decreased by €27 million mainly as a result of greater investments for the year (€5,950 million), partly offset by the grants related to assets recognised on an accruals basis (€4,301 million), and the advances recouped during the year (-€125 million), amortisation and depreciation of the year (€1,306 million), non-recurring transactions of the year (-€184 million), other sales and impairment losses (-€80 million) and other changes and reclassifications (-€10 million). Furthermore, equity-accounted investments rose by €29 million as a consequence of TFB S.p.A.'s subscription of BBT SE's share capital and the results for the year achieved by the investees.

Other provisions increased by €58 million as a consequence of the contrasting effects of the increase in the provisions for risks and taxation (+€67 million and +€5 million, respectively), offset by the decrease in post-employment benefits (-€14 million), mainly for utilisations and advances of the year.

Net financial debt of €6,760 million worsened by only €18 million on 31 December 2015, mainly due to the following:

- the increase in the cash pooling balance (-€301 million), which comprises the payments made by the MEF during the year in relation to the Government Programme Contract and the European Commission's payments for other grants to meet the group's operating requirements, essentially relating to RFI S.p.A.;
- the decrease in the financial receivable from the MEF (+€477 million) following the combined effect of the net reduction due to the collection of the year and the disbursement of the grants provided for by the 2006 and the 2007 Finance Act;
- the decrease in loans and borrowings from other financial backers (-€90 million) mainly due to the repayments of the loans from Cassa Depositi e Prestiti for the railway infrastructure (Traditional and High speed network), new factoring transactions and Netinera Deutschland group loans and borrowings for new rolling stock leases. To provide complete information, it is noted that the repayment of the loans with Cassa Depositi e Prestiti is guaranteed by the government grants be received for the 2007-2021 period;
- the decrease in other financial liabilities (-€116 million), related to the factoring business;

- the increase in bonds (+€152 million) due to three new bond issues (€700 million) as part of the Euro Medium Term Notes Programme, offset, in part, by the repayment of the bonds expired during the year and related to the Eurofima bonds (€548 million);
- the increase in bank loans and borrowings (+€657 million) mainly due to the new loans taken on to purchase new rolling stock for regional transport and the non-recurring acquisitions mentioned earlier;
- the increase in other financial assets (-€762 million) following the sale of Grandi Stazioni Retail S.p.A..

Equity rose from €37,953 million to €38,497 million, up by €544 million mainly as a result of the following:

- the increase in the profit for the year (+€772 million);
- the decrease due to the above-mentioned changes in the consolidation scope (-€185 million);
- the dividends paid in 2015 amounting to €46 million (€31 million of which was paid to the MEF and €15 million to non-controlling interests);
- the increase in the fair value reserve for derivatives and the actuarial reserve (total of +€19 million);
- the increase in equity attributable to non-controlling interests of Tunnel Ferrovia del Brennero S.p.A. resolved by the shareholders (+€20 million);
- the decrease in liabilities for derivatives (-€32 million).

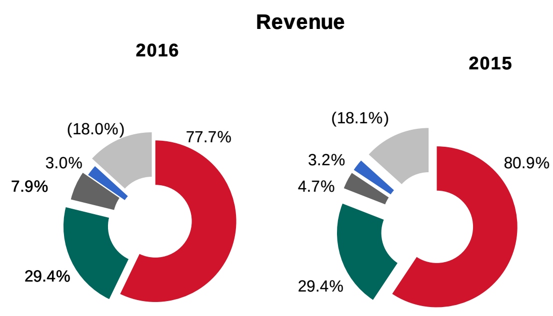
RECONCILIATION as at 31.12.2016 and 31.12.2015 and for the years then ended between profit for the year and equity in the separate financial statements of FS S.p.A. and the consolidated financial statements

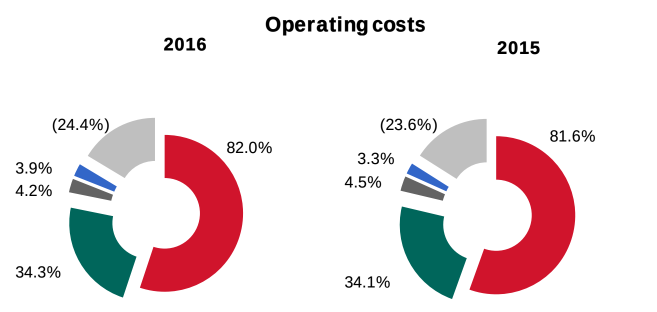
millions of Euros

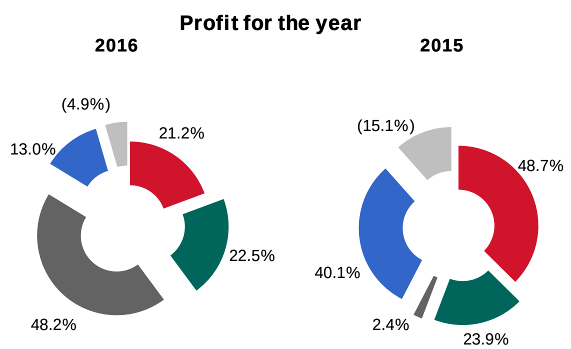
	31 December 2016		31 December 2015	
	Equity	**Profit for the year**	**Equity**	**Profit for the year**
Separate financial statements of FS S.p.A.	36,986	639	36,378	137
Profits (losses) of consolidated investees since acquisition, net of dividends and impairment losses:				
- portion of current and previous profits attributable to the owners of the parent	1,790	362	1,715	444
- elimination of impairment losses on equity investments	76	(16)	117	21
- reversal of dividends	(4)	(134)	(4)	(110)
Total	**1,862**	**212**	**1,828**	**355**
Other consolidation adjustments:				
- equity accounting of investments in unconsolidated subsidiaries and associates	40	10	32	(4)
- reversal of intragroup profits	(456)	(42)	(444)	(31)
- reversal of taxes arising on tax consolidation	211	(62)	273	(9)
- other	21	2	9	1
Total	**(184)**	**(92)**	**(130)**	**(43)**
- Valuation reserves	(512)		(533)	
- Translation reserve	3		4	
EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT	**38,155**	**758**	**37,547**	**448**
- Equity attributable to non-controlling interests (excluding profit for the year)	243		273	
- Profit attributable to non-controlling interests	14	14	16	16
EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	**257**	**14**	**289**	**16**
TOTAL CONSOLIDATED FINANCIAL STATEMENTS	**38,412**	**772**	**37,836**	**464**

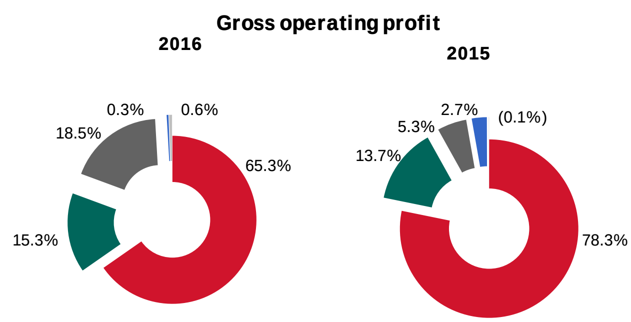
Segment reporting

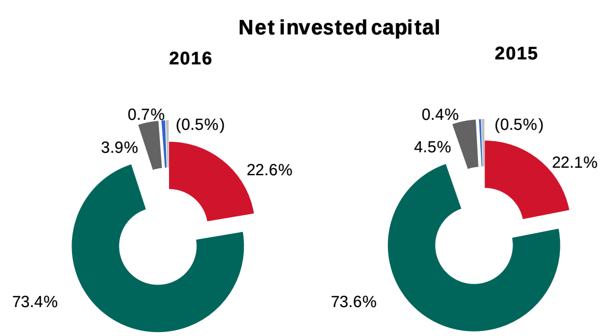
FS Italiane group's performance is analysed below with reference to each of the operating segments that make up its business (Transport, Infrastructure, Real Estate Services and Other Services). The charts below summarise the 2016 and 2015 performance with indication of the percentages of revenue and operating costs, gross operating profit, profit for the year and net invested capital attributable to each segment.











Transport Infrastructure Real Estate Services Other Services Adjustments and eliminations

Transport

The FS Italiane group companies operating in the transport of passengers and/or cargo by rail, road or sea are part of the Transport segment - the group's primary segment.

More specifically, Trenitalia S.p.A. mainly handles rail operations, providing services for passenger and cargo transport both domestically and internationally. The German group, Netinera Deutschland, also contributes to the results of this segment, as it carries out transport activities by rail and road on the local and urban transport market in Germany, through approximately 40 investees, and FSE S.r.l..

The companies that handle the main rail freight transport operations are the Mercitalia hub (which, as of 1 January 2017, also includes Trenitalia S.p.A.'s Cargo Division) operating both domestically and internationally, and TX Logistik group (mainly active in Germany, Austria, Switzerland and Denmark).

The Transport segment also includes road passenger transport, which is mainly handled by Busitalia-Sita Nord S.r.l. and its investees as well as FSE S.r.l..

millions of Euros

	2016	**2015**	**Change**	**%**
Revenue from sales and services	6,619	6,617	2	0.0
Other income	318	324	(6)	(1.9)
Revenue	**6,937**	**6,941**	**(4)**	**(0.1)**
Operating costs	**(5,440)**	**(5,396)**	**(44)**	**(0.8)**
Gross operating profit	**1,497**	**1,546**	**(49)**	**(3.2)**
Operating profit	**280**	**417**	**(137)**	**(32.9)**
Segment profit (attributable to the owners of the parent and non-controlling interests)	**164**	**226**	**(62)**	**(27.4)**

	31.12.2016	**31.12.2015**	**Change**
Net invested capital	**10,218**	**9,898**	**320**

The Transport segment showed a **profit for the year** of €164 million, down by €62 million on 2015 (-27.4%).

millions of Euros

	2016	2015	Change	%
Revenue from sales and services	**6,619**	**6,617**	**2**	**0.0**
Revenue from transport services	**6,402**	**6,406**	**(4)**	**(0.1)**
Market revenue	4,044	4,107	(63)	(1.5)
Revenue from public service contracts	2,358	2,299	59	2.6
Other income	**318**	**324**	**(6)**	**(1.9)**
Revenue	**6,937**	**6,941**	**(4)**	**(0.1)**

Revenue generated by the Transport segment amounts to €6,937 million, in line with 2015 (€6,941 million), reflecting the combined effect of the varying performances recorded by the individual businesses making up this segment: market revenue (passengers and cargo) amounts to €4,044 million, down by €63 million on 2015, offset by the €59 million increase in revenue from public service contracts (with the regions and the government).

Specifically, the strong performance of the short-haul passenger transport (both rail and road) and the international service (Netinera Deutschland group with the routes acquired at the end 2015 becoming fully operational) segments was offset by the decrease in the long-haul passenger transport segment, mainly due to the contraction in the average yield following the increased intramodal and intermodal competitive pressure on 2015, in addition to the lack of the incremental traffic originated by Expo 2015.

millions of Euros

	2016	2015	Change	%
Personnel expense	**2,299**	**2,290**	**9**	**0.4**
Other costs, net	**3,141**	**3,106**	**35**	**1.1**
Raw materials, consumables, supplies and goods	600	603	(3)	(0.5)
Services	2,650	2,648	2	0.1
Use of third-party assets	224	234	(10)	(4.3)
Other operating costs	88	87	1	1.1
Internal work capitalised	(421)	(466)	45	(9.7)
Operating costs	**5,440**	**5,396**	**44**	**0.8**

Operating costs in the Transport segment amount to €5,440 million in 2016, up by €44 million on 2015 (+0.8%). The increases in toll costs (due to larger supply volumes) and electrical energy used for traction (+€61 million and +€33 million, respectively) are offset by overall savings of more than €50 million. The rise in electrical energy used for traction is solely due to the charges resulting from a series of measures (resolutions no. 654/2015 and no, 668/2015) issued by the AEEGSI at the end of 2015.

Gross operating profit in the Transport segment comes to €1,497 million, down by €49 million on 2015. The decrease is mainly due to the greater operating costs incurred in 2016 compared to 2015, related, in particular, to the costs incurred for electrical energy used for traction which rose due to the above-mentioned AEEGSI resolutions.

Operating profit amounts to €280 million, down by €137 million on the previous year. In addition to the effects described earlier, this decrease is also due to the €88 million rise in amortisation and depreciation, as a direct consequence of the group's significant investments and, above all, the roll-out of new rolling stock.

Net financial expense of €85 million improved significantly by €84 million compared to 2015. This improvement is mainly due to:

- greater financial income of €18 million, €14 million of which arising from the above-mentioned settlement agreement between Mercitalia Logistics S.p.A. and the Technical and administrative unit (UTA) of the Office of the Prime Minister covering the amounts due for services rendered in previous years to the Campania region waste emergency government commissioner to manage the USW emergency in the region (reference should be made to the notes to the consolidated financial statements for additional details);
- lower financial expense of €53 million, €7 million of which related to the decrease in exchange rate losses compared to 2015. The residual balance refers to the reduction in interest expense, mainly on the liabilities of Trenitalia S.p.A;
- the increase (€5 million) in profits from equity-accounted investees.

Income taxes for this segment amount to €31 million, up by €9 million.

Loans and borrowings - Transport segment

Bond issue subscribed by the European Investment Bank (EIB)

On 23 December 2015, the EIB fully subscribed the bonds issued by FS Italiane as part of the EMTN Programme. They amount to €300 million, bear interest at a floating rate and have a 10-year term. Settlement took place on 12 January 2016. The rating agencies issued a rating in line with those already assigned to FS Italiane and the EMTN Programme (S&P: BBB-; Fitch: BBB+ with stable outlook). As part of the issue and substantially in accordance with the contractual characteristics and conditions in terms of the parties' commitments and constraints, FS S.p.A. granted Trenitalia S.p.A. an intragroup loan to purchase new rolling stock for regional transport operations in the Lazio, Tuscany, Veneto, Piedmont and Liguria regions.

Private bond placement – EMTN series 4

On 18 July 2016, FS S.p.A. issued a six-year floating-rate bond for €350 million through a private placement, again as part of the EMTN Programme listed on the Irish Stock Exchange. Fitch and S&P confirmed their ratings of BBB+ and BBB-, respectively. The proceeds from said issue were used sign an intragroup loan between FS S.p.A. and Trenitalia S.p.A., which substantially reflects the contractual characteristics and conditions of the issue in terms of the parties' commitments and constraints, in order to finance the projects to purchase rolling stock for regional transport and medium and long haul transport.

Private bond placement – EMTN series 5

On 25 July 2016, FS S.p.A. issued a 15-year bond for €50 million with a 1.65% fixed coupon, again through a private placement. BNP Paribas was the transaction's sole manager. Fitch and S&P confirmed their ratings of BBB+ and BBB-, respectively. The proceeds from said issue will finance Trenitalia's purchase of rolling stock for regional transport and medium- and long-haul transport through an intragroup loan between FS S.p.A. and Trenitalia which substantially reflects the contractual characteristics and conditions of the issue in terms of the parties' commitments and constraints.

Two loan agreements

On 15 and 20 September 2016, FS Italiane entered into two loan agreements totalling €300 million. These agreements have a four-year term and amount to €150 million each. They were signed with Cassa Depositi e Prestiti and Intesa Sanpaolo S.p.A. following a call to tender procedure called in July, in which nine banks were invited to participate. Also in this case, the proceeds of this transaction will be used to invest in rolling stock for medium and long haul and regional transport through the agreement of two intragroup loans of the same amount between FS S.p.A. and Trenitalia S.p.A. which substantially reflect the contractual characteristics and conditions of the issue in terms of the parties' commitments and constraints.

TLTRO-I loan restructuring

On 10 November 2016, the €300 million loan granted to FS S.p.A. in 2015 (as part of provisions then governing the "TLTRO 1" loan which did not provide for negative rates for ECB re-financed banks) was restructured to further reduce borrowing costs with the introduction of the 0% floor for overall coupon only. This transaction was also part of the intragroup loan with Trenitalia S.p.A. which, therefore, also benefited from this contractual amendment.

Interest rate risk hedges

With respect to the December 2015 EIB bond issue, in March 2016, in order to hedge the interest rate risk on the intragroup loan with FS Italiane, Trenitalia S.p.A. agreed four three-year interest rate caps with a total notional amount of €300 million, setting a strike rate on the 6M Euribor at 0.0%.

With respect to the EMTN series 4 bond issue, in July 2016, in order to hedge the interest rate risk on the intragroup loan with FS Italiane, Trenitalia S.p.A. agreed three interest rate caps due in January 2020 with a total notional amount of €350 million, setting a strike rate on the 6M Euribor at 0.0%.

With respect to the EMTN series 5 bond issue, in July 2016, Trenitalia S.p.A. transformed the intragroup loan with FS Italiane into a variable-rate loan by agreeing a fix-to-float interest rate swap.

With respect to the signing of the above two loan agreements, in September 2016, in order to hedge the interest rate risk on the intragroup loan with FS Italiane, Trenitalia S.p.A. agreed four interest rate caps due in September 2020 with a total notional amount of €300 million, setting a strike rate on the 6M Euribor at 0.0%.

Finally, with respect to the restructuring of the TLTRO-I loan, in December 2016, again in order to hedge the interest rate risk on the intragroup loan with FS Italiane, Trenitalia S.p.A. agreed three interest rate caps due in November 2019 with a total notional amount of €300 million, setting a strike rate on the 6M Euribor at 0.0%.

Infrastructure

The main group company operating in the Infrastructure segment is RFI S.p.A. which, as the national railway network operator, maintains, develops and uses it and the related safety systems, in addition to managing research and development in the field of railway transport and ensuring connections to Italy's largest islands by sea. Moreover, RFI S.p.A. manages real estate assets that are not functional to railway operations as owner.

To a lesser extent, Italferr S.p.A., the group's engineering company, also contributes to the results of this segment, along with other group companies that handle infrastructure, such as FSE S.r.l., and companies whose core business is the construction of tunnels between Italy and Austria and Italy and France, namely Brenner Basis Tunnel SE ("BBT"), Tunnel Ferroviario del Brennero S.p.A. ("TFB") and Tunnel Euralpin Lyon Turin Sas ("TELT").

millions of Euros

	2016	2015	Change	%
Revenue from sales and services	2,325	2,222	103	4.6
Other income	302	305	(3)	(1.0)
Revenue	**2,627**	**2,527**	**100**	**4.0**
Operating costs	**(2,276)**	**(2,256)**	**(20)**	**(0.9)**
Gross operating profit	**351**	**271**	**80**	**29.5**
Operating profit	**208**	**151**	**57**	**37.7**
Segment profit (attributable to the owners of the parent and non-controlling interests)	**174**	**111**	**63**	**56.8**

	31.12.2016	31.12.2015	Change
Net invested capital	**33,219**	**32,880**	**339**

The Infrastructure segment showed a **profit** for 2016 of €174 million, up by €63 million (+56.8%) on the previous year.

				millions of Euros
	2016	**2015**	**Change**	**%**
Revenue from sales and services	**2,325**	**2,222**	**103**	**4.6**
Revenue from infrastructure services	**2,255**	**2,159**	**96**	**4.4**
Other service revenue	70	63	7	11.1
Other income	**302**	**305**	**(3)**	**(1.0)**
Revenue	**2,627**	**2,527**	**100**	**4.0**

Revenue is up by €100 million on 2015 to €2,627 million. The increase is due to the rise in the revenue from infrastructure services provided by RFI S.p.A. (€93 million) attributable to:

- a €52 million increase in toll revenue due to the greater route volumes requested by railway companies (trains-km increased by 2.7%, up 12.8% on the HS/HC network) and the rise in the unit toll charge (different mix of routes sold);
- a €41 million increase in revenue from the sale of electrical energy due to the rise in the costs incurred by the company (as per the above-mentioned AEEGSI resolutions at 2015 year end).

				millions of Euros
	2016	**2015**	**Change**	**%**
Personnel expense	**1,506**	**1,502**	**4**	**0.3**
Other costs, net	**770**	**754**	**16**	**2.1**
Raw materials, consumables, supplies and goods	778	640	138	21.6
Services	691	656	35	5.3
Use of third-party assets	53	48	5	10.4
Other operating costs	142	120	22	18.3
Internal work capitalised	(894)	(710)	(184)	25.9
Operating costs	**2,276**	**2,256**	**20**	**0.9**

Operating costs amount to €2,276 million and are up by €20 million on 2015 (increase mainly attributable to RFI S.p.A.), as the net effect of:

- a €21 million increase in the cost of electrical energy for traction due to the rise caused by the above-mentioned AEEGSI resolutions which was only partly offset by the reduced market cost. Law no. 116/2014 indeed prevented the full recharging of the costs incurred to procure electrical energy for traction to railway companies (from 50% in 2015 to 30% in 2016).
- net savings of €8 million as the net effect of greater maintenance costs, which were more than offset by the increased capitalisations following the insourcing processes launched in 2016.

Gross operating profit in the Infrastructure segment came to €351 million in 2016, up by €80 million on 2015.

Operating profit came to €208 million and is affected by:

- amortisation and depreciation of €94 million, in line with 2015;
- net impairment losses of €24 million, up by €13 million on the previous year, due to the increase in impairment losses on loans and receivables and non-current assets;
- provisions for risks and charges of €25 million, up by €10 million following the greater accruals to the fund for income and employment assistance.

Net financial expense of €35 million has not undergone any substantial changes with respect to the previous year.

Real Estate Services

The main companies operating in the Real Estate Services segment are those that manage the main railway stations (Grandi Stazioni Rail S.p.A. - formerly Grandi Stazioni S.p.A., after the demerger of the latter's retail and real estate business units, and Centostazioni S.p.A.). In addition, this segment also includes FS Sistemi Urbani S.r.l. which develops real estate assets that are not functional for operations.

Furthermore, the parent's real estate activities also contribute to the results of this segment, as it provides support/consultancy services to the group companies and handles the sale of the land and buildings held for trading. Finally, this segment includes Metropark S.p.A. which studies, designs and builds car parks and operates the car parks and depots for all types of private and public means of transport.

millions of Euros

	2016	**2015**	**Change**	**%**
Revenue from sales and services	7	16	(9)	(56.3)
Other income	695	384	311	81.0
Revenue	**702**	**400**	**302**	**75.5**
Operating costs	**(279)**	**(295)**	**16**	**5.4**
Gross operating profit	**423**	**105**	**318**	**> 200**
Operating profit	**392**	**49**	**343**	**> 200**
Segment profit (attributable to the owners of the parent and non-controlling interests)	**372**	**11**	**361**	**> 200**

	31.12.2016	**31.12.2015**	**Change**
Net invested capital	**1,744**	**2,000**	**(256)**

The Real Estate Services segment shows a **profit for the year** of €372 million, up by €361 million on 2015.

millions of Euros	2016	2015	Change	%
Revenue from sales and services	**7**	**16**	**(9)**	**(56.3)**
Revenue from the sale of electrical energy for traction		8	(8)	(100.0)
Other service revenue	7	8	(1)	(12.5)
Other income	**695**	**384**	**311**	**81.0**
Revenue	**702**	**400**	**302**	**75.5**

The segment's performance and results for 2016 are clearly and absolutely affected by the impacts of FS S.p.A.'s above-mentioned sale of 55% of GS Retail S.p.A. to third parties on 20 July 2016 (which generated a net gain of €365 million included under other income), as part of the company restructuring plan that led to the demerger of Grandi Stazioni S.p.A..

Consequently, based on the above, almost all changes are due to GS Retail S.p.A.'s exit from the segment scope. Net of the gain from the sale, the transaction generated a decrease of approximately €25 million in **gross operating profit,** offset only in part by smaller amortisation/deprecation charges and financial expense (impact on the **profit for the year** of roughly -€13 million).

Net invested capital also decreased by approximately 13%, again mainly as a consequence of the demerger of Grandi Stazioni Rail S.p.A. (formerly Grandi Stazioni S.p.A.) and the subsequent sale of GS Retail S.p.A..

Other Services

FS S.p.A. operates in the Other Services segment in its role as the group's holding company, steering and coordinating the operating companies' business policies and strategies. The other companies that operate in this segment are: Ferservizi S.p.A., which manages the activities not directly related to railway operations as outsourcer for the group's main companies, Fercredit S.p.A., which principally develops the credit factoring and lease business on the captive market and strives to expand the consumer credit business for the group's employees, and Italcertifer S.p.A., which carries out certification, validation and testing activities on transport and infrastructure systems.

millions of Euros

	2016	2015	Change	%
Revenue from sales and services	(1)	(1)		
Other income	267	275	(8)	(2.9)
Revenue	**266**	**274**	**(8)**	**(2.9)**
Operating costs	**(258)**	**(220)**	**(38)**	**(17.3)**
Gross operating profit	**8**	**54**	**(46)**	**(85.2)**
Operating profit (loss)	**(3)**	**28**	**(31)**	**(110.7)**
Segment profit (attributable to the owners of the parent and non-controlling interests)	**100**	**186**	**(86)**	**(46.2)**

	31.12.2016	31.12.2015	Change
Net invested capital	**311**	**160**	**151**

In 2016, Other services recorded a profit for the year of €100 million, down by €86 million or 46.2% on the previous year.

millions of Euros

	2016	2015	Change	%
Revenue from sales and services	**(1)**	**(1)**		
Other income	**267**	**275**	**(8)**	**(2.9)**
Revenue	**266**	**274**	**(8)**	**(2.9)**

Gross operating profit amounts to €8 million, down by €46 million on 2015. Of this decrease, €18 million refers to the prior year recognition by the segment of the gain on the sale of net assets related to RFI S.p.A.'s electrical energy grid to Terna S.p.A.. The residual amount refers to the increase in the costs incurred by the parent, specifically, personnel expense, lease charges and membership fees to Fondazione FS.

				millions of Euros
	2016	**2015**	**Change**	**%**
Personnel expense	**141**	**135**	**6**	**4.4**
Other costs, net	**117**	**85**	**32**	**37.6**
Raw materials, consumables, supplies and goods				0.0
Services	85	64	21	32.8
Use of third-party assets	14	6	8	133.3
Other operating costs	18	15	3	20.0
Internal work capitalised				0.0
Operating costs	**258**	**220**	**38**	**17.3**

The **operating loss** for the year amounts to €3 million and is affected by:

- amortisation/depreciation of €13 million, down by €4 million on 2015;
- impairment losses (reversals of impairment losses) and provisions of €2 million. The €11 million improvement on 2015 is substantially due to the accruals, in 2015, to the fund for income and employment assistance.

Net financial income decreased by €25 million on the previous year, down from €92 million in 2015 to €67 million in 2016. The decrease is mainly due to the reduction in the net contribution from some specific items in 2015 and 2016. Specifically, 2016 benefited from the parent's revaluation of the equity investment in Trenitalia S.p.A. (€42 million), while 2015 included the income from the equity investment in Eurofima SA, with registered office in Basel, generated by the restatement of the bonds related to callable shares following the analyses of Swiss company law, which had a total impact of €75 million.

Income taxes show a net positive balance of €36 million, down by €31 million on 2015. This caption reflects the positive effects of the domestic tax consolidation scheme managed by the parent on behalf of the group.

Loans and borrowings

Loans and borrowings and guarantees related to the acquisition of NXET in the UK

On 7 December 2016, for the purposes of Trenitalia UK's acquisition of NXET Trains Limited on 10 February 2017, FS S.p.A. issued a guarantee of a maximum of GBP115 million to guarantee Trenitalia UK with the seller National Express Trains Limited, in relation to Trenitalia UK's commitments from the signing of the SPA until the acquisition is completed.

FS S.p.A.'s financial position and performance

Income statement

millions of Euros

	2016	2015	Change	%
Revenue	**157**	**147**	**10**	**6.8**
- Revenue from sales and services	141	140	1	0.7
- Other revenue	16	7	9	128.6
Operating costs	**(167)**	**(145)**	**(22)**	**(15.2)**
GROSS OPERATING PROFIT (LOSS)	**(10)**	**2**	**(12)**	**600.0**
Amortisation and depreciation	(20)	(24)	4	
Reversals of impairment losses	(1)	(13)	12	(92.3)
Provisions		(3)	3	NA
OPERATING LOSS	**(31)**	**(38)**	**7**	**(18.4)**
Net financial income	566	177	389	219.8
PRE-TAX PROFIT	**535**	**139**	**396**	**284.9**
Income taxes	104	(2)	106	NA
PROFIT FOR THE YEAR	**639**	**137**	**502**	**366.4**

The **profit** for 2016 amounts to €639 million, showing an improvement of €502 million on the previous year mainly due to financial income (+€389 million) and taxation (+€106 million).

Net financial income improved mainly due to the combined effect of:

- the increase in dividends distributed by group companies, totalling €45 million, mainly by Trenitalia S.p.A. (+€23 million), Italferr S.p.A. (+€6 million), Grandi Stazioni Rail S.p.A. (+€4 million), Ferservizi S.p.A. (+€6 million), Netinera Deutschland GmbH (+€3 million);
- greater other financial income, for a total of €295 million, due to the net effect of the aforementioned gain on the sale of Grandi Stazioni Retail S.p.A. to Alba Bidco S.p.A. (€383 million) and the lack of another gain like the one recorded in 2015 on the restatement of the carrying amount of the equity investment in Eurofima SA (€75 million);
- the reversal of the impairment loss on the equity investment in Trenitalia S.p.A. (€42 million) recognised in prior years following the significant losses incurred by the investee. The impairment loss was reversed based on the positive results achieved by the company over the past few years.

Income taxes improved by €106 million on the previous year mainly as a consequence of the recognition of the income from the tax consolidation scheme (+€102 million), recognised on the tax losses transferred to the group over the years and used during the year, as their subsequent remuneration is not deemed probable.

Reclassified statement of financial position

millions of Euros

	31.12.2016	31.12.2015	Change
ASSETS			
Net operating working capital	543	537	6
Other assets, net	136	(232)	368
Working capital	**679**	**305**	**374**
Non-current assets	580	583	(3)
Equity investments	35,131	35,062	69
Net non-current assets	**35,711**	**35,645**	**66**
Post-employment benefits	(11)	(12)	1
Other provisions	(599)	(644)	45
Post-employment benefits and other provisions	**(610)**	**(656)**	**46**
NET INVESTED CAPITAL	**35,780**	**35,294**	**486**
COVERAGE			
Net current financial debt	(1,207)	(1,084)	(123)
Net financial debt	**(1,207)**	**(1,084)**	**(123)**
Equity	**36,987**	**36,378**	**609**
COVERAGE	**35,780**	**35,294**	**486**

Net invested capital of €35,780 million increased by €486 million in the year due to the rises in **working capital** (+€374 million) and **net non-current assets** (+€66 million) and the decrease in **post-employment benefits and other provisions** (-€46 million).

Net operating working capital of €543 million increased by €6 million in the year, mainly due to the net rise in trade receivables and payables (€5 million).

Other assets, net increased by €368 million mainly following the settlement, in May 2016, of the amount due to RFI S.p.A., recognised in connection with the sale of FS Italiane group's electrical assets to the national transmission system operator for electrical energy, Terna S.p.A., (€272 million) and the settlement of the liability related to the bilateral fund for income assistance (€124 million) following its transfer to INPS.

Net non-current assets come to €35,711 million, up by €66 million on 31 December 2015, mainly due to the capital injection made into the investee Busitalia Sita Nord S.r.l. (€42 million), the reversal of the impairment loss on the investment in Trenitalia S.p.A. (€42 million) based on the positive results achieved by the investee over the past few years, as well as the €14 million decrease due to the above-mentioned sale of the investment in Grandi Stazioni Retail S.p.A. to Alba Bidco S.p.A..

The decrease in **post-employment benefits and other provisions** (-€46 million) mainly reflects the utilisation of the tax provision for tax consolidation (€57 million) to remunerate the group companies in respect of the tax losses previously transferred and offset during the year against their taxable profit (mainly Trenitalia S.p.A., Busitalia Sita Nord S.p.A. and Mercitalia Logistics S.p.A.), net of the increase in the risk provisions (+€24 million) substantially accrued to estimate the possible charges related to the guarantees included in Grandi Stazioni Retail S.p.A.'s sale agreement.

Net financial debt improved by €123 million, with net cash rising from €1,084 million at 31 December 2015 to €1,207 million at 31 December 2016. This change is mainly due to the increase in cash and cash equivalents following the sale of Grandi Stazioni Retail S.p.A. (€424 million), offset by cash outflows of the year, represented by the dividends paid to the MEF (€30 million), the transfers of the bilateral fund for income assistance (€124 million) to INPS and the payment to RFI of the above-mentioned liability related to the sale of FS group's electrical assets (€272 million).

Finally, **equity** shows a €609 million increase, mainly due to the profit for the year (€639 million), net of the €30 million dividends paid to the MEF on 19 October 2016.

Report on corporate governance and ownership structure

Introduction

This section of the directors' report provides a description of the key corporate governance policies that Ferrovie dello Stato Italiane group ("FS Italiane group") follows and which the parent, Ferrovie dello Stato Italiane S.p.A. ("FS S.p.A."), has defined. Furthermore, this section meets the specific disclosure requirements of article 123-bis of Legislative decree no. 58/1998 - Consolidated Law on Finanze (Report on corporate governance and ownership structure) with respect to the information required by paragraph 2.b[1]. In addition, this section includes the information required by the directive of the Ministry of the Economy and Finance of 24 June 2013 "regarding the adoption of the criteria and methods for the appointment of members of the board of directors and the remuneration policies for senior managers of companies directly or indirectly controlled by the Ministry of the Economy and Finance" with specific respect to the request addressed to issuers of financial instruments listed on regulated markets to illustrate and justify the remuneration policies in place for directors with special powers in the "Report on corporate governance and in the financial statements", based on the recommendations of the Treasury Department.

The group and its values

Ferrovie dello Stato Italiane group's structure is based on a corporate process that began in 2000, leading to the current multi-company group with a parent, FS S.p.A., whose business purpose is to:

- build and manage railway transport infrastructure;
- carry out cargo and passenger transport activities, mainly by rail, including the promotion, implementation and management of initiatives and services in the transport sector;
- directly or indirectly carry out any other activity that is instrumental, complementary or connected to the above, expressly including customer services and activities aimed at enhancing the value of its assets used in the performance of the activities covered by its by-laws.

As explicitly provided for by the by-laws, business activities are mainly, but not exclusively, carried out through subsidiaries and associates. Accordingly, the parent heads operating companies in various sectors along the chain and other service companies and companies supporting group functions. However, the companies have their own corporate characteristics and independently manage operations to achieve business targets.

Following the deregulation of the EU network market, the by-laws specify that certain subsidiaries are to oversee transport activities and the construction and management of the railway transport network.

In this context, the parent FS S.p.A., which is wholly owned by the state through the Ministry of the Economy and Finance (also referred to as "MEF") mainly handles the strictly corporate activities that are typical of a holding company (i.e., investment management, shareholding control, etc.) and other business activities, while its investees retain their independent legal responsibilities. In addition, FS S.p.A. steers and coordinates the group operating companies' business

[1] FS S.p.A. has issued bonds listed on regulated markets in the EU, with Italy as the originating member state. Consequently, it is subject to regulatory obligations in place in Italy and the country where the bonds are placed. However, FS S.p.A. has not issued shares traded on regulated markets or multi-lateral trading systems. Accordingly, it exercises its right under article 123-bis.5 to not publish the information required by article 123.1/2, except that required by article 123.2.b.

policies and strategies. It is organised into central divisions to ensure that processes function transversally throughout the group for the definition of strategies and sharing of decisions.

The corporate governance structure of FS S.p.A. and its main subsidiaries is organised according to the traditional system: the shareholder appoints a board of directors (which is responsible for management and is currently comprised of seven directors) and a board of statutory auditors (which is responsible for controls and is currently comprised of three standing statutory auditors and two alternate statutory auditors). The shareholder also appoints the independent auditors (currently KPMG S.p.A.), responsible for performing the legally-required audit. Pursuant to article 12 of Law no. 259/1958, the Court of Auditors' Magistrate appointed to audit FS S.p.A. attends the meetings of the board of directors and the board of statutory auditors, integrating the corporate governance system.

In accordance with the by-laws, the board of directors: (i) appoints the CEO; (ii) can delegate powers to the Chairwoman, following the shareholder's resolution in this respect and as permitted by law; (iii) establishes committees, if necessary, responsible for consultation and proposals (two committees were set up: the Remuneration and Appointment Committee and the Audit, Risk Control and Governance Committee); (iv) appoints the Manager in charge of the company's accounting documents preparation; and (v) appoints the General Manager.

At 31 December 2016, FS S.p.A.'s share capital amounted to €36,340,432,802.00 and was fully paid up.

The code of conduct

The code of conduct is a "charter of fundamental rights and responsibilities" whereby FS Italiane group establishes and clarifies its ethical and social responsibilities and commitments to all internal and external stakeholders. The code of conduct is approved by the group companies' boards of directors and applies to their corporate officers, managers, employees, freelancers, business partners, suppliers and all other parties involved in transactions with FS Italiane group. The code defines general principles (e.g., the strategic value of human resources, product and service quality, minimum cost quality for the public, impartiality, etc.), in addition to specific rules and standards in terms of conduct. The code prohibits the directors of each company (who are, in any case, subject to the requirements of article 2391 of the Italian Civil Code) and all FS Italiane group personnel from making decisions or carrying out actions in the performance of their duties that contrast with the company's interests or are inconsistent with their responsibilities. Any situations in violation of this rule must be reported to supervisors or the Ethics Committee (see the section on "Other committees"). The code of conduct has been widely published on FS Italiane group's intranet and internet sites and is referenced in all contracts signed by the group companies.

The code of conduct is currently being updated following changes in the group's circumstances and also considering the business plan.

FS S.p.A.'s corporate governance structure at the reporting date is illustrated below.

The shareholder's meeting

Board of directors

Chairwoman
Gioia Maria Ghezzi

CEO and General Manager
Renato Mazzoncini

Directors
Daniela Carosio
Giuliano Frosini
Simonetta Giordani
Federico Lovadina
Vanda Ternau

Remuneration and Appointment Committee

Chairwoman
Simonetta Giordani

Daniela Carosio
Giuliano Frosini

Internal Audit, Risk Control and Corporate Governance Committee

Chairwoman
Vanda Ternau

Giuliano Frosini
Federico Lovadina

BoD Secretary (****)
Marcello Torregrossa

Board of statutory auditors

Chairman (*)
Carmine Di Nuzzo

Standing stat. auditors
Roberto Ascoli (**)
Susanna Masi (*)

Alternate statutory auditors (*)
Paolo Castaldi
Cinzia Simeone

Independent auditors

KPMG S.p.A.

Court of Auditors' Magistrate appointed to audit FS S.p.A.
Angelo Canale
Court of Auditors' Delegate Magistrate: Cristiana Rondoni (***)

Supervisory Body pursuant to Law no. 231
Carlo Piergallini *(Chairman)*
Gianfranco Cariola (*****)
Gustavo Oliviero (******)

Manager in charge of the company's accounting documents preparation

Roberto Mannozzi

Central Managers:
Institutional and Regulatory Affairs: Francesco Parlato
Administration, Financial Statements and Tax Issues: Roberto Mannozzi
Audit: Gianfranco Cariola
Brand Strategy and Communication: Carlotta Ventura
Finance, Controlling and Assets: Luigi Lenci
Innovation and Information Systems: Gianluigi Castelli
International Markets: Carlo Carganico (interim)
Company Security: Franco Fiumara
Human Resources and Organisation: Mauro Ghilardi
Strategies, Planning and Sustainability: Fabrizio Favara
General Counsel, Corporate Business and Compliance: Elisabetta Scosceria

(*) Appointed by the shareholder on 4 July 2016 to replace the outgoing Sustainability Committee with the shareholder's meeting called to approve the 2015 financial statements (Chairwoman of the Sustainability Committee: Alessandra dal Verme; Standing statutory auditors: Roberto Ascoli and Paolo Castaldi;
Alternate statutory auditor: Cinzia Simeone). During the same shareholder's meeting, the shareholder also appointed Francesco Notari as statutory auditor, who on 13 July 2016, announced that he could not accept the position and, accordingly, the alternate statutory auditor Paolo Castaldi took the position until the shareholder's meeting called to appoint the new statutory auditor (29 July 2016)
(**) Appointed by the shareholders on 29 July 2016
(***) Appointed on 22-23 November 2016 (the previous Court of Auditors' Delegate Magistrate was Mauro Oliviero)

(****) Appointed on 2 May 2016 (the previous BoD Secretary was Giuseppina Mariani)
(*****) Appointed on 5 September 2016, replacing Stefano Crociata
(******) Appointed on 20 July 2016, replacing Claudia Cattani
(in office from 11 March 2016 to 17 May 2016)

FS S.p.A.'s Board of directors

Composition and appointment

Pursuant to article 10 by the by-laws, the board of directors (also referred to as the "BoD") is made up of three to nine members appointed by the shareholder.

In any event, the composition of the board of directors must be such that it ensures a balanced proportion of men and women, in accordance with the applicable regulations and the terms provided for thereby. In accordance with a specific clause in the by-laws and regulations for state-owned companies, in order to accept directorship of FS S.p.A., candidates must meet specific professionalism and honourableness criteria. In 2013, these requirements were made more stringent, in line with the provisions of the directive of the Ministry of the Economy and Finance of 24 June 2013 *"regarding the adoption of the criteria and methods for the appointment of members of the board of directors and the remuneration policies for senior managers of companies directly or indirectly controlled by the Ministry of the Economy and Finance*".

Furthermore, the by-laws, as amended in the light of such directive, set forth specific reasons for ineligibility and forfeiture of office. FS S.p.A.'s by-laws establish that directors assigned, on an ongoing basis, the BoD's operating duties, pursuant to article 2381.2 of the Italian Civil Code may not serve as directors on the boards of more than two other companies limited by shares (their offices held in subsidiaries or associates are not considered); whereas directors who have not been assigned such operating duties can serve as directors on the boards of not more than five other companies limited by shares. On 27 November 2015, the shareholder set the number of directors as seven and appointed, in accordance with the aforementioned directive of the Ministry of the Economy and Finance of 24 June 2013, the following members of the board of directors - with a three-year term of office and, in any case, until the date of the shareholder's meeting called to approve the financial statements as at and for the year ending 31 December 2017 - Gioia Maria Ghezzi (Chairwoman), Renato Mazzoncini, Daniela Carosio, Giuliano Frosini, Simonetta Giordani, Federico Lovadina and Vanda Ternau. During the meeting held on 1 December 2015, the new board of directors appointed Renato Mazzoncini as CEO and General Manager in order to align FS Italiane group corporate governance policies to those of other listed and unlisted groups in which the Ministry of the Economy and Finance holds an interest.

Furthermore - although it is not formally obliged to do so - the board of directors assessed the independence of its non-executive members on the basis of their representations and information submissions, with reference to the self-governance code for listed companies approved by Borsa Italiana.

Upon the outcome of this assessment, the parent's board of directors consists of five non-executive directors, four of whom are independent.

Duties and roles

As appointed by the shareholder, FS S.p.A.'s management body consists of seven directors operating as a board in the form of the board of directors.

The board of directors is responsible for managing the company and carrying out all operations necessary to achieve the business object. Under the by-laws, FS S.p.A.'s board of directors also resolves on certain matters otherwise reserved for the extraordinary shareholder's meeting (such as mergers and partial demergers of companies that are at least 90% owned from/to FS S.p.A., establishing and closing branches, updating the by-laws to regulatory provisions). However, the shareholder retains the right to resolve on such matters. Finally, in accordance with article 2410 of the Italian Civil Code, FS S.p.A.'s board of directors also approves bond issues.

The Chairwoman calls the meetings of FS S.p.A.'s BoD and presides over them. The BoD normally meets once a month and, in any case, whenever the Chairwoman or CEO believe a meeting is necessary or whenever the majority of its members or the board of statutory auditors present a justified written request. The board met 17 times in 2016.

During the meeting held on 1 December 2015, FS S.p.A.'s BoD decided to maintain the same assignment of specific powers as for the previous term of office and - in accordance with the aforementioned shareholder's resolution of 27 November 2015 - those to be assigned to the Chairwoman, with all remaining powers assigned to the CEO.

In particular the BoD:

- retained exclusive responsibility for economic and strategic decisions such as defining - upon the CEO's proposal - the company's and the group's strategic guidelines; approving the company's and the group's annual and long-term business plans and budgets, which the CEO prepares; resolutions concerning the most significant financial transactions; resolutions, upon the CEO's proposal, the purchase/sale of companies and business leases, on the purchase/sale of equity investments above a certain threshold and non-recurring transactions involving direct investees. Furthermore, the BoD also confirmed its exclusive responsibility for the appointment, upon the CEO's justified and documented proposal, of the strategic subsidiaries' boards of directors and boards of statutory auditors and gave the Chairwoman, within the limits of article 2381 of the Italian Civil Code, in accordance with article 12.3 of the by-laws, specific powers for external and institutional affairs in collaboration with the CEO and the coordination of internal audit activities;
- entrusted the CEO with all powers to manage the company – which were compiled in a specific list for informational purposes only – except for those assigned to the Chairwoman and those that the BoD exclusively retained (in addition to the powers that cannot be delegated by law); pursuant to article 12 of the by-laws, the CEO also ensures that the organisational and accounting system is consistent with the nature and size of the business and reports to the BoD and to the board of statutory auditors at least once every three months on the general performance of operations and outlook and on the company's and its subsidiaries' most significant transactions in terms of size or characteristics.

The Chairwoman and CEO have separate powers of representation of FS S.p.A. pursuant to article 13 of the by-laws.

Committees

FS S.p.A. limits the establishment of advisory and proposing committees within the BoD to those that are necessary. Accordingly, two committees have been set up: the Internal Audit, Risk Control and Corporate Governance Committee and the Remuneration and Appointment Committee. The establishment of the latter was most recently confirmed by the BoD's resolution of 1 December 2015. The committees' composition, functioning and duties are governed by specific regulations approved by the BoD.

- *Internal Audit, Risk Control and Corporate Governance Committee*

  As defined in the aforementioned BoD resolution of 1 December 2015, the members of this committee are: Vanda Ternau [Chairwoman], Giuliano Frosini and Federico Lovadina. They are all non-executive and independent directors. This committee is responsible for supporting, by presenting proposals and advising, the BoD's assessments and decisions concerning the internal control and risk management system, the approval of periodic financial reports, assessments of the board's size/composition, the company's and the group's corporate governance and social responsibility.

- *Remuneration and Appointment Committee*

  This committee's members are Simonetta Giordani [Chairwoman], Daniela Carosio and Giuliano Frosini, who are all non-executive directors and most of whom are independent. This committee is responsible for supporting, by presenting proposals and advising, the BoD with respect to, inter alia, the criteria for the appointment of key management personnel and members of FS S.p.A.'s corporate governance bodies, as well as the boards of directors and boards of statutory auditors of FS S.p.A.'s direct subsidiaries, the co-option of FS S.p.A.'s directors, remuneration guidelines and policies, management incentives and the remuneration of FS S.p.A.'s CEO and Chairwoman, pursuant to article 2389.3 of the Italian Civil Code (should the Chairwoman receive executive powers).

The members of these committees receive additional fees equal to 30% of the fees determined by the shareholder for directors, in accordance with article 10.5 of the by-laws (the director Frosini waived his fees for serving on the Internal Audit, Risk Control and Corporate Governance Committee).

Directors' fees

Upon the proposal of the Remuneration and Appointment Committee and considering the opinion of the board of statutory auditors, the BoD determines the amount of the fees pursuant to article 2389.3 of the Italian Civil Code that the Chairwoman and CEO will receive (including fees due for their position as director), in line with the fee and remuneration rules for state-owned companies and the results of analyses and comparisons with the practices of third party companies of a comparable size and complexity.

The approved fees for FS S.p.A.'s Chairwoman and the CEO for any duties they have on the BoDs of FS Italiane group companies are paid to FS S.p.A. directly. In 2016, the Chairwoman and CEO did not hold any positions within the group for which they received fees.

Finally, the by-laws prohibit the payment of amounts to the directors and statutory auditors for their participation in meetings and limit - as already noted - the amount of fees that can be paid to members of the advisory and proposing committees that are set up within the board, where necessary.

For the 2015/2017 three-year term of office: *(i)* the shareholder established the fees for the directors and BoD Chairwoman on 27 November 2015; during the same meeting, the shareholder also informed the BoD of the total maximum fee (including meeting fees) that could be given to the Chairwoman pursuant to article 2389.3 of the Italian Civil Code in the event that she is assigned powers; (ii) at the BoD meeting on 1 December 2015, the board determined the Chairwoman's salary pursuant to article 2389.3 of the Italian Civil Code (including his fee as director) and resolved on Mr. Mazzoncini's fee for his duties as CEO (pursuant to article 2389.3 of the Italian Civil Code, including his fee as director) and the General Manager's salary. Both of the CEO's forms of remuneration include fixed and variable components; the variable components were linked to the achievement of objective and specific annual targets, which the BoD defined upon the proposal of the Remuneration and Appointment Committee.

Criteria and methods for the appointment of BoD members of FS S.p.A.'s direct and indirect subsidiaries

As described above, on 24 June 2013, the Ministry of the Economy and Finance issued a directive to the Treasury Department "*regarding the adoption of the criteria and methods for the appointment of members of the board of directors and the remuneration policies for senior managers of companies directly or indirectly controlled by the Ministry of the Economy and Finance*".

In accordance with this directive, FS S.p.A.'s BoD has drafted certain general criteria for the selection of candidates for positions on the board of directors and board of statutory auditors of its direct subsidiaries.

Other committees

In terms of its internal organisational profile, FS S.p.A. has set up other committees to steer and support management. Their members are appointed on a pro tempore basis from certain company departments.

The *Ethics Committee*, which carries out advisory activities and sets guidelines within the framework of the principles and rules of FS Italiane group's code of conduct, was set up with group measure no. 50/AD of 30 January 2006 (which was partially amended by group measure no. 107/AD of 31 October 2007), to facilitate the integration of the ethical criteria implemented in relationships with the various stakeholders in decision-making processes, monitor that actions and conduct are compliant with the established rules of conduct and update the code on an ongoing basis.

The Ethics Committee is also responsible for examining the information that it receives, promoting the most appropriate checks,

and reporting the results of checks to the relevant company structures so they may act accordingly.

The *Investment Committee* was set up with group measure no. 89/AD on 8 February 2007, amended by group measures no. 120/AD of 10 November 2008 and no. 186/AD of 24 December 2014, for the strategic oversight of the investment/divestment process, to advise the CEO, offer guidance on investments and divestments and direct FS Italiane group's planning process, providing fairness opinions (strategic and financial) on group investments and divestments (except for those included in the GPC - Investments) and is responsible for validating the significant investments and divestments identified by the Central Strategies, Planning and Systems Department on basis of the group companies' proposals. In addition, it monitors the plan's development and proposes any corrective action to be taken in the implementation of the plan. The committee approves the list of investment/disvestment programmes/projects that affect the group and tracks the development of the investment and divestment plan.

The group's *Information and IT System Security Committee*, established with group measure no. 168/AD of 25 November 2013, is an intragroup advisory body that monitors information and IT system initiatives, in accordance with group measure no. 167/AD of 25 November 2013. In particular, the committee steers FS Italiane group's information security strategies, formulates proposals to group companies for the mapping of critical business processes in terms of emerging risks inherent to the use and management of information resources, monitors IT projects and assesses and approves proposals concerning the regulation of information and IT system security evaluations and certification.

The *SoD (Segregation of Duties) Committee*, which was established with group measure no. 184/AD of 22 December 2014 and was updated with group measure no. 188/AD of 23 January 2015, carries out advisory activities and provides guidance on the segregation of duties. FS S.p.A.'s SoD Committee is responsible for defining, validating and overseeing the group's SoD risk matrix. In addition, this committee is responsible for analysing and monitoring the implementation of the appropriate remediation actions to take in the management/resolution of SoD risks that are detected throughout many group companies' staff processes.

FS Italiane group's *Equal Opportunities Committee* is a bilateral, joint body established pursuant to the national labour agreement for the mobility sector/railway sector and FS Italiane group's employment contract. The purpose of this committee is to promote initiatives and positive ways in which to offer women workers organisational conditions and a distribution of duties that are more favourable, with a view to facilitating the achievement of a work/family balance. It consists of a national committee and 15 local committees.

The *Antitrust Committee* supports FS S.p.A.'s CEO and was set up with group measure no. 55/AD of 10 March 2006, amended with group measure no. 160/AD of 24 December 2012, to promote, by preparing Antitrust compliance guidelines, the spread of awareness about Antitrust legislation and to monitor that these guidelines are properly applied.

The *Foreign Development Committee* was set up with group measure no. 206/AD of 5 May 2016 for the strategic oversight of development initiatives in the group's interests abroad.

The Credit Committee, set up with group measure no. 210/AD of 23 June 2016, is responsible for monitoring the performance of group receivables, highlighting any critical areas and promoting the necessary corrective action, while also assessing consolidated exposure to each counterparty and any possibility of offsetting amounts.

The *Sustainability Committee* was set up with group measure no. 211/AD of 1 July 2016 to ensure the integration of social and environmental aspects in the group's economic/financial strategies and promote the values and principles of sustainable development, in accordance with stakeholders' requirements and expectations.

The internal control and risk management system

Internal audit

The main group companies have internal audit departments reporting to the Chairman of their BoD. For companies that do not have (or do not yet have) their own internal audit departments, the parent's Central Audit Department provides this service.

If an Audit Committee has been set up, the internal audit department reports to it as well, as defined by the relevant company's internal procedures.

Internal auditing at group level is independent and objective, provides assurance and serves an advisory purpose, to improve the organisation's efficiency and effectiveness. It also helps the organisation to pursue its targets through a professional and systematic audit approach, which generates added value as it is aimed at assessing and improving control, risk management and corporate governance processes.

For the analysed processes, the group's internal audit departments assess the adequacy of the internal control system (ICS), with respect to the following:

- effective, efficient operations;
- protecting company assets;
- compliance with laws, regulations (both inside and outside the company) and contracts.

The Central Internal Audit Department defines the group's audit guidelines and methodologies, which also helps better manage internal audit personnel.

A project was launched at the end of 2016 to improve the organisational and functional structure of the group's internal audit department. It will be completed within the first half of 2017.

Risk management

The "group's risk management model" was first formalised with group measure no. 169/AD of 21 January 2014 and defines the steps, method and roles in the assessment and management of risks.

The risk management process provides for the mapping of processes and related targets, the identification and assessment of risks and related controls and the proposal of any improvement action to contain risks. The group adopts the Control Risk Self Assessment (CRSA) risk management method, which actively involves the process owners.

The process owners are the risk owners: they identify the events related to the risk areas and classify them in the categories defined in the risk glossary, check that procedures, provisions and all other internal organisational aspects adequately mitigate the risks and limit their impact. They also propose or prepare, if these measures are inadequate, effective correction and improvement action to contain risks.

The relevant manager and Risk Officer support the Process Owner's activities.

With group measure no. 178/AD of 6 October 2014, the model provided for the creation of the position of Risk Officer with each main group company directly reporting to the CEO.

In line with this measure, with the related organisational communications, FS S.p.A., RFI S.p.A., Trenitalia S.p.A., Ferservizi S.p.A. and Italferr S.p.A. created the position of Risk Officer responsible for, in particular, managing and coordinating, on a periodic basis, the risk management process, collaborating with process owners in the identification of mitigation plans and monitoring their implementation.

With organisational measure no. 116/AD of 22 January 2015, the group model was strengthened with the creation of the risk management structure, reporting directly to the CEO of FS S.p.A.. The structure's mission is to ensure the implementation of an integrated enterprise risk management model to support the optimisation of controls to improve company and group performance. In 2015, the parent decided to strengthen the model already in place with the aim of implementing an integrated enterprise risk management model to identify, classify, measure, evaluate and continuously monitor strategic and process risks. In 2016, the Risk Management Departments continued implementing the model, bolstered significantly by the new Risk Manager who joined the parent during the year, specifically to re-engineer the risk management area in the light of the new and challenging targets of the 2017-2026 business plan.

Supervisory bodies and organisational, management and control models pursuant to Legislative decree no. 231/2001

Group measure no. 209/P of 9 June 2016, which replaced the previous measures concerning the control model since 2002, requires FS Italiane group companies to adopt an organisational, management and control model to prevent the illegal conduct covered by Legislative decree no. 231/2001 and establish a supervisory body responsible for monitoring that the models are functional and compliant and propose updates to them.

Supervisory bodies are normally set up as boards[1] with a chairman from outside the company with important, specific expertise in this respect, an internal audit manager and a legal expert from outside the group or, alternatively, a member of the board of statutory auditors.

To ensure the bodies' independence, their members may not hold similar positions with subsidiaries or parents nor have interests in or carry out material transactions with the company, subsidiaries or parents.

FS S.p.A.'s Supervisory Body consists of two external members, one of whom acts as Chairman, and one internal member, i.e., the Director of FS S.p.A.'s Central Internal Audit Department.

Independent auditors

The engagement for the legally-required audit of the financial statements of the parent and its subsidiaries has been assigned to KPMG S.p.A. from 2014. In accordance with the special applicable provisions of Legislative decree no. 39/10 (article 16 and subsequent articles), after FS S.p.A. took on the status of a public interest entity following the 2013 issue of the listed bonds, the term of the engagement for the legally-required audit is nine years (2014-2022).

Manager in charge of the company's accounting documents preparation of FS S.p.A.

Since 2007, upon the request of the Ministry of the Economy and Finance and in order to adopt corporate governance systems that are increasingly in line with those of listed companies, the parent created the position of manager in charge of the company's accounting documents preparation pursuant to Law no. 262 of 28 December 2005 *"Provisions to protect asset management and regulate financial markets"* for companies listed on financial markets.

Following the issue of the aforementioned bond (July 2013), FS S.p.A.'s status became that of a public interest entity pursuant to article 16 of Legislative decree no. 39/2010 because it had issued bonds. Accordingly, the position of manager in charge of the company's accounting documents preparation is now legally required as the company now completely falls within the scope of application of article 154-bis of the Legistative Decree No. 58 of 24 February 1998 Consolidated Law on Finance.

The Regulation of the Manager in charge of the company's accounting documents preparation approved by the board of directors on 28 July 2015 governs the role, functions, powers, means and responsibilities of FS S.p.A.'s in charge of the company's accounting documents preparation and this manager's relationships with the company officers, the control and supervisory bodies, the various company departments and group companies.

[1]group measure no. 209/P of 9 June 2016 provides that "small" group companies whose organisations are less complex and/or smaller may set up a body with only one member from outside the group and specific expertise in this respect.

Considering FS Italiane group's organisational and operational complexity, to strengthen and improve efficiency in the application of this legislation, FS S.p.A.'s BoD has deemed it appropriate, from the start, to have its main subsidiaries immediately appoint managers in charge of the company's accounting documents preparation as well (RFI S.p.A., Trenitalia S.p.A., Centostazioni S.p.A., FS Logistica S.p.A. (now Mercitalia), Busitalia-Sita Nord S.r.l. and Ferservizi S.p.A.).
On 4 July 2016, the shareholder resolved to amend article 16 of the by-laws to implement the legislative requirements for managers in charge of the company's accounting documents preparation (article 154-bis of the Legistative Decree No. 58 of 24 February 1998 Consolidated Law on Finance) which - as noted earlier - applies to FS S.p.A. following the issue of listed bonds.
Since the position was created and filled, FS S.p.A.'s current manager in charge of the company's accounting documents preparation has been the Director of the parent's Central Administration, Financial Statements and Tax Department, appointed by the BoD on 1 December 2015 upon the CEO's proposal and with the approval of the board of statutory auditors. He will remain in office until the approval of the financial statements as at and for the year ending 31 December 2017.

Main characteristics of the risk management and internal control systems in relation to the financial reporting process pursuant to article 123-bis.2.b of the Consolidated finance act (Report on corporate governance and the ownership structure)

The purpose of the internal control system over financial reporting is to provide reasonable certainty about the reliability, accuracy and timeliness of financial reports, while also ensuring that the processes used to produce such reports comply with International Financial Reporting Standards (IFRS). For the group, FS S.p.A.'s manager in charge of the company's accounting documents preparation defines and updates the financial reporting control model that meets the provisions of article 154-*bis* of the Legistative Decree No. 58 of 24 February 1998 Consolidated Law on Finance and is consistent with the relevant international standards (*CoSO Report* "*Internal Control – Integrated Framework*" published by the "*Committee of Sponsoring Organizations of the Treadway Commission*").
As described earlier, this model provides for a manager in charge of the company's accounting documents preparation within the parent and managers in charge of the company's accounting documents preparation in the main subsidiaries as well. FS S.p.A.'s manager in charge of the company's accounting documents preparation defines and monitors the annual plan of activities for group compliance with Law no. 262/2005 and submits the plan to the parent's board of directors for approval - and to the subsidiaries' boards of directors for their approval of the sections relating to them, issues guidelines for the preparation of administrative/accounting procedures and for monitoring that such procedures are adequate and effectively operational and issues attestations on the system of internal controls over financial reporting. The companies' managers in charge of the company's accounting documents preparation implement and maintain the financial reporting control system, continuously exchanging information with the parent's manager in charge of the company's accounting documents preparation. The stages and roles in the financial reporting control process are described below.
Following the 262 Model assessment conducted for the group to more closely align it with the best practices of listed companies, in 2015, a new 262 Model was defined, which FS S.p.A. has already implemented to support the 2015 attestation and which the other Italian companies will implement for the 2016 attestation with respect to the 262 scope.
In particular, the model was expanded to cover the following aspects:

- strengthening the role of process owners/control owners for certification purposes and to maintain an adequate internal control system on financial reporting;
- introduction of a "262 risk" assessment methodology, based on impact and probability criteria for all stages of the process.

The new financial reporting control process consists of the following stages: identification of the company/process scope within the 262 scope; process mapping; risk and control assessments; issue/revision of procedures; self-certification of the adequacy and operability of controls by control owners/process owners (i.e., the self-assessment process); independent tests; assessment of weaknesses and management of action plans; and issue of attestation.

The scope is defined by identifying - with a risk-based approach - material companies and processes on which to focus 262 process activities.

The companies that fall within the scope are identified:

- on the basis of the various companies' contribution to specific consolidated financial statements captions - revenue, assets, net financial position/(debt), equity, operating profit and pre-tax profit (loss);
- in relation to qualitative considerations concerning the existence of processes that generate specific risks that could compromise the reliability of the financial reports.

Within the scope of relevant companies (known as "scope 262"), significant processes are then identified on the basis of an analysis of quantitative factors (processes that contribute to the financial statements captions with amounts exceeding a specific percentage of the pre-tax profit or aggregate equity) and qualitative factors.

The processes are mapped by the office of the manager in charge of the company's accounting documents preparation or, if one has not been appointed, by the company's administration managers and their staff, in collaboration with the relevant process owners. The processes are mapped based on current organisational documents and/or any practices used within the company. The processes are mapped in the administrative/accounting procedures, consisting of a narrative (document describing the various steps in the process) and a control matrix.

During the risk and control assessment, when the administrative/accounting procedure is prepared and together with the process owners, the staff of the manager in charge of the company's accounting documents preparation assesses the 262 risks relating to the process being mapped using a qualitative and quantitative methodology that is tied to the impact and probability parameters. The controls over such risks are identified and assessed for adequacy, with the identification of any needs for control integration. This is the stage in which the key and super key administrative/accounting procedure controls are identified - in line with the assessment of the underlying risks. The key and super key risks are those that could lead to a more significant risk of incorrect disclosure or financial statements fraud if they are missing or not operative. The risk assessment is updated at least once a year after the financial statements are published.

When the procedures are issued/revised, administrative/accounting procedures are formalised, which govern the information, data and administrative/accounting records and logically and chronologically describe the activities that must be carried out to produce or record them, the internal control system and how internal controls are conducted.

The administrative/accounting procedures may be group-wide, and if this is the case, they are issued by FS S.p.A.'s manager in charge of the company's accounting documents preparation for the parent, and by the managers in charge of of the company's accounting documents preparation or administration managers of the companies within the 262 scope. Before they are issued, corporate procedures are subject to quality assurance tests conducted by the office of the parent's manager in charge of the company's accounting documents preparation to check that they are consistent and compliant with group standards.

At the reporting date, FS Italiane group had issued over 330 administrative/accounting procedures. They are sent to the main company departments/subsidiaries, senior management and all control bodies, and are published on the group's web site.

In the self-assessment stage, the individual control owners/process owners of the procedures self-certify that the administrative/accounting procedure controls have been adequately designed and are effectively operational in the period considered by filling out standard questionnaires received via the information system supporting the 262 process. The control owners fill out the questionnaires on the design and operation of the individual controls, while process owners validate their responses for the processes for which they are responsible.

Accordingly, this mechanism provides for the ongoing involvement of various company levels through adequate flows of information, which make it increasingly reliable to source the information and data used for financial disclosures. The new self-assessment process also makes it possible to continuously update the system of administrative/accounting procedures.

During the independent testing, in particular, checks that these controls are efficient, on the basis of audit standards and methodologies and with the coordination of the staff of the parent's manager in charge of the company's accounting documents preparation, consist of the following steps: 1) preparation of a periodic plan of checks for the group, identifying a schedule and appointed teams; 2) definition of testing procedures (test scripts); 3) performance of tests and formalisation of system results; 4) analysis and evaluation of the critical results that arose. The staff of the parent's manager in charge of the company's accounting documents preparation also conducts quality assurance checks on the test scripts to check that they comply with group standards. Teams of specialists consisting of resources from the staff of the managers in charge of the company's accounting documents preparation, internal audit resources and Ferservizi S.p.A. resources (with which the parent has signed a specific service agreement) carries out testing activities. Furthermore, the outcome of tests that the independent auditors perform as part of the broader audit process is also considered.

The action plan management stage consists of identifying the necessary actions to resolve the weaknesses that arise in all other stages of the 262 process, defining the people responsible for implementing them and the time needed to do so. The implementation of the improvement actions is monitored continuously. The remedies are defined by the staff supporting the managers in charge of the company's accounting documents preparation with the help of the relevant company structures.

Once this process is completed, FS S.p.A.'s manager in charge of the company's accounting documents preparation prepares a report on the activities performed and the adequacy and effective application of the internal control system over financial reporting for the period, sends the report to the board of directors when the draft financial statements are approved and issues, in joint statements with the CEO, statements on the separate and consolidated financial statements pursuant to article 154-bis. The content of the report is based on the formats defined by Consob (the Italian commission for listed companies and the stock exchange).

Similarly, the managers in charge of the company's accounting documents preparation, with joint signature with each company's CEOs, issue statements on the financial statements and prepare their reports for the respective BoDs.

The administration managers of the other companies that fall within "scope 262" (which have not appointed a manager in charge of the company's accounting documents preparation) in any case issue similar statements on the financial statements with joint signature of their CEOs for internal purposes. In addition to the statements described above, the group's model also provides for internal statements of the adequacy and functioning of the group's and the company's financial reporting control system which are issued by the administration managers and CEOs of the subsidiaries that do not fall within "scope 262", the managers of the parent's central departments and outsourcers of administrative and IT services and all other services that affect financial reporting.

The process to ensure compliance with Law no. 262/2005 as described herein is carried out with the support of the group's MEGA – Hopex information system.

As for relationships between the manager in charge of the company's accounting documents preparation and the company bodies (CEO and Board of Directors) and the control officers and bodies (the board of statutory auditors, including in its role of the Internal Control and Audit Committee, the Internal Audit, Risk Control and Governance committee, the Supervisory Body, the Court of Auditors' Magistrate, the independent auditors, the Internal Audit Department and the Risk Management Department), the aforementioned regulation for the Manager in charge of the company's accounting documents preparation, to ensure the systematic and timely flow of information between the parties concerned, defines the inter-relationships and reporting flows between such bodies/functions. In particular, this is with the aim of sharing the planned activities and outcome of such activities to create synergies and optimise the control process.

Finally, to integrate the Law no. 262/2005 compliance model and, more in general, to strengthen its internal control system, the group has implemented group-wide models for "*SoD – Segregation of Duties*" and "*ITGC - Information Technology General Controls*". The aim of the SoD model is to activate operational controls over processes with specific focus on financial reporting processes, to ensure that responsibilities are well defined and dully assigned without functional overlapping or operational assignments that concentrate critical activities on one single operator. Another purpose of the SoD model is to provide a consistent and coherent view of the entire authorisation system for the management of roles and users in the information systems. The aim of the ITGC model is to define internal controls over IT processes to ensure the continuous and correct functioning of the business application systems that process the data used in financial reporting. The ITGC model includes controls over the stages of development and maintenance of application systems, the purchase of software, logical access security, etc.. Each year, the corporate IT functions - for the group's main subsidiaries where the ITGC model has been implemented - issue specific IT attestations to the managers in charge of the company's accounting documents preparation/administrative managers on the functioning of financial reporting systems.
FS Italiane group's controls over financial reporting are also extended through training activities, with the periodic involvement of resources operating within the 262 process. The parent's manager in charge of the company's accounting documents preparation organises these refresher courses on developments in the system of internal controls over financial reporting.

Planning and management control system
In line with the strategic guidelines and objectives that the board of directors has defined:
- the planning and management control system supports the group's long-term planning process, the operational implementation of strategies (budgeting process), the calculation of actual results and the analysis of such results;
- the Central Strategies, Planning and Sustainability Department (CSPSD) defines the group's business and market strategies and the related planning, monitoring and strategic control process.

More specifically, the CSPSD compiles the plan for the parent and FS Italiane group - normally every five years - by coordinating the development and consolidation of proposals/plans submitted by the individual structures/group companies, for subsequent definition by the CEO, who monitors plan implementation.
The Central Finance, Control and Assets Department (CFCAD) defines the guidelines for the preparation of the annual budget and management control process for the group.
In particular, the CFCAD prepares FS S.p.A.'s budget, supports subsidiaries in the preparation of their budgets and consolidates FS Italiane group's budget, with the exception of investments, which fall under the CSPSD's scope of responsibility.
Management control activities cover nearly all aspects of FS S.p.A. and group operations, encompassing various types of controls:

- strategic control, to check whether the strategies are implemented on the basis of guidelines arising from the planning process and whether results reflect the expectations in the strategic plans;
- management control, to check whether short-term targets have been reached and, accordingly, monitor the achievement of budget targets;
- operational control, to monitor operations and the efficiency of processes.

Control activities - which are based on analysing differences between actual and budgeted figures at the end of each month - make it possible to check, with specific focus at the end of each quarter, whether the actions that the structures/companies have taken are consistent with plans and to identify the causes of any changes to take the appropriate corrective action and evaluate the performance of those responsible as part of the management by objectives model.

Board of statutory auditors

The term of office of the board of statutory auditors expired with the shareholder's meeting held on 4 July 2016, called to approve the 2015 financial statements. The board, comprised of standing statutory auditors Alessandra dal Verme (Chairwoman), Roberto Ascoli (appointed standing statutory auditor by the shareholder on 11 March 2016 following the resignation of standing statutory auditor Tiziano Onesti on 21 December 2015, who had replaced alternate statutory auditor Paolo Castaldi pursuant to law) and Paolo Castaldi (as alternate statutory auditor replacing standing statutory auditor Claudia Cattani pursuant to law after she resigned on 17 May 2016) and alternate statutory auditor Cinzia Simeone.

Accordingly, at the same meeting (4 July 2016), the shareholder appointed, for a three-year period ending with the approval of the 2018 financial statements, in accordance with the MEF's directive of 24 June 2013, the standing statutory auditors Carmine Di Nuzzo (Chairman), Francesco Notari and Susanna Masi and the alternate statutory auditors Cinzia Simeone and Paolo Castaldi.

On 13 July 2016, Francesco Notari announced that he could not accept the office of standing statutory auditor and, accordingly, alternate statutory auditor Paolo Castaldi took the position pursuant to the law. During the meeting of 29 July 2016, FS S.p.A.'s shareholder appointed Roberto Ascoli as standing statutory auditor, confirming Paolo Castaldi as alternate statutory auditor.

Along with the parent's other corporate officers, the statutory auditors systematically monitor that the corporate governance principles are applied and they also oversee compliance with the law, the by-laws and the principles of correct administration, particularly with respect to the adequacy of the organisational, administrative and accounting system adopted by FS S.p.A. and that it is effectively working.

When FS S.p.A. was attributed the public interest entity status as described above, pursuant to article 19 of Legislative decree no. 39/2010, the parent's board of statutory auditors also became the "Internal Control and Audit Committee", with responsibility for monitoring financial reporting, the efficiency of the internal control, internal audit and risk management systems, the legally-required audit and the independence of the independent auditors, particularly with respect to the type of any non-audit services they provide to the audited company.

In 2016, FS S.p.A.'s board of statutory auditors met 14 times and the statutory auditors participated in three shareholder's meetings and at 17 BoD meetings.

The Court of Auditors' Magistrate appointed to audit FS S.p.A.

The Court of Auditors' Magistrate appointed to audit FS S.p.A., pursuant to article 12 of Law no. 259/195 attends the meetings of the BoD and the board of statutory auditors.

On 14-15 April 2015, the Court of Auditors appointed Section President Angelo Canale to audit the parent as Court of Auditors' Magistrate. During the hearing of 22-23 November 2016, the Court named Director Cristiana Rondoni Delegate Magistrate to audit the parent.

Related parties

FS S.p.A.'s manager in charge of the company's accounting documents preparation has issued a group-level administrative/accounting procedure for related party transactions which must be disclosed in the financial statements. This procedure, along with the other administrative/accounting procedures that were subsequently issued according to the parent's guidelines, also clarify that all transactions with FS S.p.A.'s and its subsidiaries' related parties must be carried out in accordance with substantial and procedural correctness criteria. Furthermore, all such transactions must always be regulated by contracts and such contracts must establish the transfer pricing methods and explicitly evaluate the fairness of transfer prices with respect to market prices for similar transactions, or, otherwise, they must explicitly state how the terms of the transaction differ from market conditions (with justification for such difference). The procedures also state that intragroup transactions must be carried out on the basis of mutual cost effectiveness and the conditions applied must be defined considering the common objective of creating value for the entire FS Italiane group.

Each FS Italiane group company's key managers, directors, standing statutory auditors and members of the internal control bodies periodically state, through a representation system defined in formal procedures, whether they have carried out transactions with the company for which they work and/or its direct and indirect subsidiaries, and whether such transactions were performed on an arm's length basis.

The shareholder's meeting

FS S.p.A.'s sole shareholder is the Ministry of the Economy and Finance. Three shareholder's meetings were held in 2016.

Risk factors

At the preparation date of this annual report, no particular risks and uncertainties are foreseen that could have a material impact on the financial position or results of operations of the parent FS S.p.A. or the group, other than those mentioned further on and in the notes to the consolidated and separate financial statements, which specific group functions currently monitor and mitigate using risk management policies created to protect the group, the parent and their assets, while ensuring their ability to continue as a going concern.
The nature of non-financial risks (credit, liquidity, market, currency and interest rate risks) is summarised below, along with the overall steps taken to monitor them, whereas financial risks are discussed in the notes to the separate and consolidated financial statements to which reference should be made.

Business risks

FS Italiane group's main business risks relate to competition as access to its markets has opened up, credit collection and the funding of investments for short-term concessions arising from agreements with public bodies and, lastly, the regulatory framework that is subject to changes from time to time. These risks are detailed below.
With respect to the group's competitor on the high speed market, business risks are assessed and monitored continuously, including with respect to the strategies that its competitor implements over time. The overall assessment includes risks arising from mobility market and price trends. If lower prices are offered in order to gain additional market share, the profitability of the segment could be affected.
Domestic consumption, employment levels and the overall development of the main economic factors influence the performance of the medium and long haul mobility market. In this context, modal competition and its proper regulation are determinant factors for success. High speed transport and the related services have enabled the railway sector to begin competing with other modes of transport (air and road), especially by shortening travel times, increasing comfort and arriving in the urban centre of major cities. The critical factor for success in this market segment will continue to be maintaining and improving service quality and rapidly adapting to changes in market demand. The overall change in the business model with respect to the products offered must also take into account developments in competitor models. The progressive renewal of the fleet with new HS trains is a key factor of innovation and attraction for potential new customers, while the technological innovation of new vehicles will progressively shorten travel times on certain segments of the HS lines, thereby equipping the group with a crucial factor for success that helps mitigate some of its business risk. Similarly, developments in sales channels, with the support of technological innovation, will give it additional competitive edge.
In the local public transport (LPT) segment, certain Italian regions have particularly critical financial situations, which could prolong the uncertainty of whether they will meet the contractual payment dates for service contract considerations, although this situation seems to have substantially improved compared to previous periods. The group has mitigated this risk by continuously monitoring credit positions in general and, especially, those with the public sector, evaluating, on a case-by-case basis, the steps – including legal action – to be taken to ensure that funding is regular. Moreover, given the nature of the group's receivables and its credit rating, it obtains financing at competitive interest rates for its invested capital, enabling it to cover any delays in collections. Furthermore, the contracts signed with the Italian regions do not consider how the regions will find the necessary funds to pay for the service.
Many of the Italian regions are moving towards tenders, which could lead to the awarding of large segments of local transport in the near future. Until the tenders are called, certain regions, in the medium term, have renewed contracts with Trenitalia S.p.A. for six years and more, and others for shorter periods. Some regions are negotiating bridge agreements. This situation creates stable conditions for Trenitalia S.p.A. in the medium term with respect to its plans. All investments downstream from the public service contracts in place with the regions have "put" clauses in favour of

Trenitalia S.p.A.. The potential effects of non-renewal of these public service contracts with the regions should in any case be considered as risks attributable to any company operating on the free market. The LPT scenario could be affected (upon the outcome of tenders and, accordingly, in the management of potential migrations from one operator to another) in certain ways relating to transfers of essential facilities (as defined by the ART) to a new operator.

With respect to the relevant regulatory context, in recent years, a series of different rules and/or regulations has affected the group's business operations, while additional aspects in the electrical energy sector are currently being defined which could require the group to take action to prevent and manage their potential effects (see the section on "Procurement risks"). In any event, to mitigate this type of risks, the group actively monitors regulatory developments, meets with the relevant authorities to share its technical expertise in the consultations held over time and, as noted previously, takes legal action, if believed necessary, to protect the interests of the group and the community.

Operational risks

FS Italiane group outsources rolling stock and railway network maintenance and construction, while it also uses third party manufacturers of spare parts for maintenance. In recent years, the group has substantially changed the way in which it procures materials, revising its internal procedures and, in accordance with public contracting regulations, has more significantly privileged purchase methods entailing the procurement of all parts relating to safety from original parts manufacturers only, while it always calls public calls to tenders for all other parts.

The financial crisis has put suppliers in the maintenance and rolling stock construction sectors to the test, with the prolonged severe credit crunch affecting them significantly due to the intrinsic weakness of their funding structure. The group mitigates this risk by using well-structured vetting procedures for suppliers that must not only meet technical requirements but also pass financial assessments, ensuring that all entities are carefully and scrupulously vetted before becoming group suppliers.

On the other hand, in terms of safety, measures were taken against the main railway companies, including Trenitalia S.p.A., related to alleged violations of workplace safety regulations concerning the adoption of the single train driver model and the use of tablets. The company's safety standards are consistent with those of the main European railway companies and are the result of extensive prior talks with the trade unions that, after having evaluated safety issues as well, all signed an integrative labour agreement in 2009 and the national labour agreement in 2012 and 2016. Senior management, the departments and relevant structures carefully monitor the operational risk described above. It is also mitigated since the group has assessed, and constantly assesses, all aspects relating to this risk.

Legal and contractual risks

There are no other legal or contractual risks in addition to those described further on, which mainly relate to litigation pending between group companies and various parties, such as suppliers, customers and employees. Specific company structures currently monitor and mitigate such risks and any necessary accruals are recognised after the risks are assessed in accordance with IFRS to determine the probability that they will occur. Residual risks, following monitoring and the recognition of any accruals, are within the ordinary limits of the business operations of a structured group similar to FS Italiane group.

Procurement risks

Prices for services, raw materials, energy and transport could vary as a result of market trends. Accordingly, it might not be possible - or only be possible to a limited extent – to transfer greater procurement costs to sales prices to customers, with a consequent impact on the profit margin of the group's products and services. With specific regard to the procurement of electrical energy, with several resolutions issued over the course of recent years, the AEEGSI adjusted the cost of energy. The group's results are not yet affected by certain resolutions, as detailed in previous sections of this directors' report ("Main events of the year" and "Other information"), as they have been suspended and are subject to ongoing monitoring.

In general, the group has departments and structures that continuously monitor price trends for raw materials and services essential to its business operations and any regulations applicable to them. This enables it to pursue procurement management policies that mitigate risks or to take steps – including legal action – to protect the group's interests.

Project risks

Investments in the railway system involve complex projects requiring substantial funds. Any changes in the legal context, delays in project deliveries or technical changes in long-term programmes often cause an increase in costs. Accordingly, any project changes could generate higher costs with an adverse effect on the group's business and results of operations. The group is an active participant in talks with public and/or private counterparties that entail changes in railway projects and/or their funding.

IT risks

The group's organisation is based on the use of the telecommunication network and IT systems for coordinating and planning, railway operation, the sale of train tickets to passengers, monitoring the delivery of cargo and many other functions, including the management of accounting processes. The group's hardware and software could be damaged by human error, natural disasters, the loss of power or other events. In order to ensure continuity in the availability of IT data, the group uses several different methods to back-up its data, combined with a fail-safe network. These measures to protect crucial operations and IT processes help prevent serious IT failure. However, there is no guarantee that the implementation of such measures is sufficient and/or capable of preventing any IT system errors that could have a negative impact on the group's business and results of operations, such as an increase in costs and/or a decrease in revenue. Specifically in order to continue minimising this risk in any case, to ensure service continuity or recovery in the shortest amount of time possible following potential IT infrastructure disaster, FS Italiane group is implementing business continuity solutions for business critical systems only. The maximum tolerance range for these systems to restore services and update the data is not more than 30 minutes, which is higher than the current limits of the disaster recovery plan.

Environmental risks

FS Italiane group's activities are subject to extremely broad environmental legislation and regulations, particularly as it operates as a contractor for the construction of infrastructure and offers transport services for products that could be hazardous to the environment. Accordingly, to meet its legal obligations under environmental legislation, the group must continuously update to comply with new laws and regulations. The application of increasingly severe and stringent requirements and new interpretations of environmental laws require the group to modify its activities, and this could generate unexpected costs necessary to remain in line with current regulations at all times and avoid fines or sanctions for environmental violations, which would have a negative impact on the group's profitability and results. To protect against environmental risks, the group has a specific structure that uses, if necessary, third party experts and complex procedures to monitor and mitigate factors related to this risk.

Risk monitoring

As mentioned briefly above in the relevant paragraphs, in general, the group continued risk monitoring activities throughout the year. These included projects by the risk management structures, which were, moreover, bolstered significantly by the new Risk Manager who joined the parent during the year, specifically to re-engineer the risk management area in the light of the new and challenging targets of the 2017-2026 business plan, and by the parent's and group companies' internal audits of the main operating and support macroprocesses, for an ongoing, meticulous assessment of internal controls to mitigate risks. The checks showed that the FS Italiane group companies' internal control systems (ICS) is substantially adequate in supporting the respective governance lines.

Given the size and complexity of the group companies, the assessment of the ICS must also consider a broader framework that goes beyond the elements arising in the scope of audit checks and extends to risk assessment activities and all types of control activities. The main levers of the ICS include management's deep-rooted organisational culture, training and developing human resources, safety and environmental awareness, the widespread use of IT systems to support management processes and communications. In particular, in this scope, the group's risk management project was carried forward under the leadership of the group's Chief Risk Officer. The project is an effective tool for the group companies and related process owners to pursue their business targets.

Macroeconomic context

Exposed to a series of increasing economic and political risks involving both economically-advanced and emerging countries, the global economy showed a moderate growth trend in 2016. This involved low inflation rates in advanced countries, weak international trade trends, geopolitical tensions stoked by conflicts in the Middle East and the constant threat of terrorism.

The latest data highlight how, once again in 2016, economic activity in advanced countries has not yet been able to reach pre-crisis growth levels, showing an annual average increase of 1.6%. Furthermore, growth trends in emerging economies weakened slightly (+3.6%) compared to 2015, reflecting the downturn in global demand. Raw materials recorded a gradually decreasing trend.

International trade data	2016	2015
GDP (% change on previous year)		
World	**2.8**	**3.1**
Advanced countries	**1.6**	**2.0**
US	1.6	2.6
Japan	0.8	0.6
Eurozone	1.7	1.9
Emerging countries	**3.6**	**3.7**
China	6.7	6.9
India	6.9	7.3
Latin America	(0.7)	(0.2)
International trade	**1.2**	**2.4**
Oil (USD per barrel)		
Brent	44.9	53.0

Source: Prometeia, December 2016

Growth in global trade was mediocre (+1.2% in 2016, compared to +2.4% in the previous year), highlighting less flexibility with respect to GDP.

Following the OPEC agreement of 30 November 2016 aimed at reducing the supply, oil price trends rose slightly from the minimums at the start of the year. Prices reached an average Brent price of USD44.9 per barrel.

Even though it came up short compared to previous economic cycles, the US economy remained one of the most dynamic advanced economies with average annual growth of 1.6%. After showing slight weakness in the first two quarters of the year (+0.2% and +0.3% in the first and second quarters, respectively), the GDP's growth trend was fairly strong (+0.8% and +0.6% in the third and fourth quarters, respectively). The increase was due to domestic demand which benefited from the improvement in salary trends and residential investments. An additional short-term contribution is expected from the more expansive tax policy announced following the election of the new President.

The Japanese economy outperformed expectations in 2016, slightly picking up on the previous year. This was mainly driven by domestic demand and the approval of tax incentives by government authorities. Consumption remained at slightly disappointing levels, growing 0.3%, as did investments. Despite monetary policy incentives, inflation was very negative (-0.3%).

Economic progress in emerging countries was stunted by both external sources and domestic imbalances. Some of the main causes were the above-mentioned drop in overall global demand, the depreciation of local currencies due to the United States' less expansive monetary policy and the negative impact of the fall in raw materials prices.

Busy implementing many reforms, China's economy grew once more in 2016, in line with the goals set by the government authorities (+6.7%). In general, growth was driven by real estate trading and greater public investments which balanced the ebb in exports.

Following the severe recession of the last two years and against a problematic political backdrop, the Brazilian economy continued to contract in 2016. It was impacted by the drop in raw materials prices and investments, along with cuts in public spending.

The economic situation in Russia appears to have stabilised. GDP dropped 0.9% (-3.7% in 2015) which, as well as by the fall in the price of oil, was impacted by the economic sanctions imposed by the West for the Ukrainian crisis.

Almost all emerging economies are struggling. However, India would seem to be the exception, showing very strong growth in its GDP (+6.9%) against highly moderate trends in industrial production. The sudden decision by the government authorities towards the end of the year to eliminate large banknotes in order to fight tax evasion and corruption also led to a fall-off in spending.

Eurozone economic data	**2016**	**2015**
GDP (% change on previous year)		
Eurozone	1.7	1.9
Germany	1.7	1.5
France	1.2	1.2
Italy	0.9	0.6
Spain	3.2	3.2
Inflation (% change on previous year)		
Eurozone	0.2	-
Germany	0.3	0.1
France	0.3	0.1
Italy	(0.1)	-
Spain	(0.5)	(0.6)

Source: Prometeia, December 2016

Economic expansion in the Eurozone was moderate, but gradually improving. Growth was driven by a slight increase in investments, higher consumption - thanks to the drop in energy prices and improvement in employment levels - and increased exports. The overall growth in GDP during the year was 1.7%, with inflation hitting low levels (0.2%) despite the expansive monetary conditions.

With regard to the larger Eurozone countries, Germany's GDP grew by 1.7% - bolstered by household consumption and exports - despite the drop in industrial investments - pending sounder conditions for overall demand - and real estate investments.

Growth in France (1.2%), on the other hand, was below the Eurozone average due to a slump in household consumption and exports, despite the upturn in corporate investments.

The political deadlock in Spain during the first ten months of the year did not adversely affect on economic progress. Underpinned by domestic demand, the GDP grew by 3.2%, well above the Eurozone average. However, the unemployment rate (20.5%), while improving, remained at socially unacceptable levels, especially for young people where it stood at over 50%.

	2016			
Italian economic data	**Q1**	**Q2**	**Q3**	**Q4**
GDP (% change on previous year)	**0.4**	**0.1**	**0.3**	**0.2**
Domestic demand	0.5	(0.2)	0.4	0.1
Spending by households and private not-for-profits	0.4	0.2	0.1	0.1
Public administration spending	0.1	(0.3)	0.2	0.1
Gross fixed investments	0.6		0.8	(0.1)
Construction		(0.1)	(0.2)	(0.5)
Other durable goods	1.1	0.1	1.7	0.2
Imports of goods and services	**(1.1)**	**1.3**	**0.7**	**0.3**
Exports of goods and services	**(1.2)**	**2.1**	**0.1**	**0.7**

Source: Prometeia, December 2016

Positive trends in GDP, after two years of recovery (+0.2% in 2014 and +0.6% in 2015), confirm that the Italian economy is strengthening. In economic terms, growth accelerated slightly in the early months of the year (+0.4%), stagnated once more in the second quarter (+0.1%) and then began growing again in the summer months (+0.3%) thanks to the positive contribution of consumption and investments. The latest figures suggest that economic activities rose 0.2% in the fourth quarter.

These improvements are, above all, due to the revival of domestic demand (+1.1%), dampened by the less positive trends in foreign demand. Employment levels also recorded a positive performance, with a rise in the number of employed workers. Thanks to incentives and the effects of the Jobs Act, the upwards trend in employment numbers was confirmed in December (+1.1% on an annual basis, equal to 242 thousand people), along with the gradual drop in the unemployment rate (down to 11.6%). Household consumption trends also improved slightly, benefiting from the rise in available income and the improvement of the labour market. Investments were also fortified (+1.9%), promoted by tax policy measures implemented to support companies.

Inflation saw an average annual decrease of 0.1% due to the effects of the prolonged decline in prices of raw materials and, especially, energy.

Market performance and focus on the FS Italiane group

Market performance

Confirming the recovery of economic activities, the transport sector, in all its segments, supplemented the positive performance of the previous year for both passenger and cargo transportation.

There was a surge in cargo transport by air, with transported tonnes up 7.1% on 2015, confirming the trend recorded in recent years. The Milan Malpensa hub remained the largest in terms of cargo handling with 537 thousand tonnes (+7.4%).

Heavy vehicle motorway traffic also showed positive results with a 4% increase (from January to September 2016) with approximately 14 billion vehicle-km.

Container transport by sea in Italy's main ports remained steady at roughly 20 million TEUs.

The logistics sector also recorded growth with an estimated turnover of approximately €81 billion, up 1.8% on 2015. The sector's positive performance was also confirmed by roughly 200 thousand new commercial vehicles registered (+50% on the previous year), which benefited from the tax benefits contained in the 2016 "Legge di Stabilità" and financial incentives granted to companies to support investments.

The passenger transport sector saw a considerable increase in the air segment with approximately 164 million passengers transported, up 4.7% on the previous year. The growth was even more marked in international traffic (+6.2%) and, above all, EU traffic which rose 7.6% on 2015. Domestic traffic also recorded positive trends, with an increase of 2.2% on 2015. Rome's airports (Fiumicino and Ciampino) remained in first place with over 47 million passengers transported, followed by Milan (Linate and Malpensa) with roughly 29 million.

The light vehicle segment of motorway traffic also grew, recording approximately 49 billion vehicle-km in the period from January to September 2016 (up 3.5%). This growth was partly mirrored in the car market with a rise of 15.8% in new registrations.

According to the most recent estimates, roughly 11.4 million passengers were transported by watercraft through Italian ports in 2016 (up 2.7% on the previous year). Estimates also put Civitavecchia port at the top of the list with approximately 3.2 million passengers transported, followed by the Venice and Naples ports with 1.6 million and 1.3 million passengers, respectively.

Focus on the management of domestic railway infrastructure

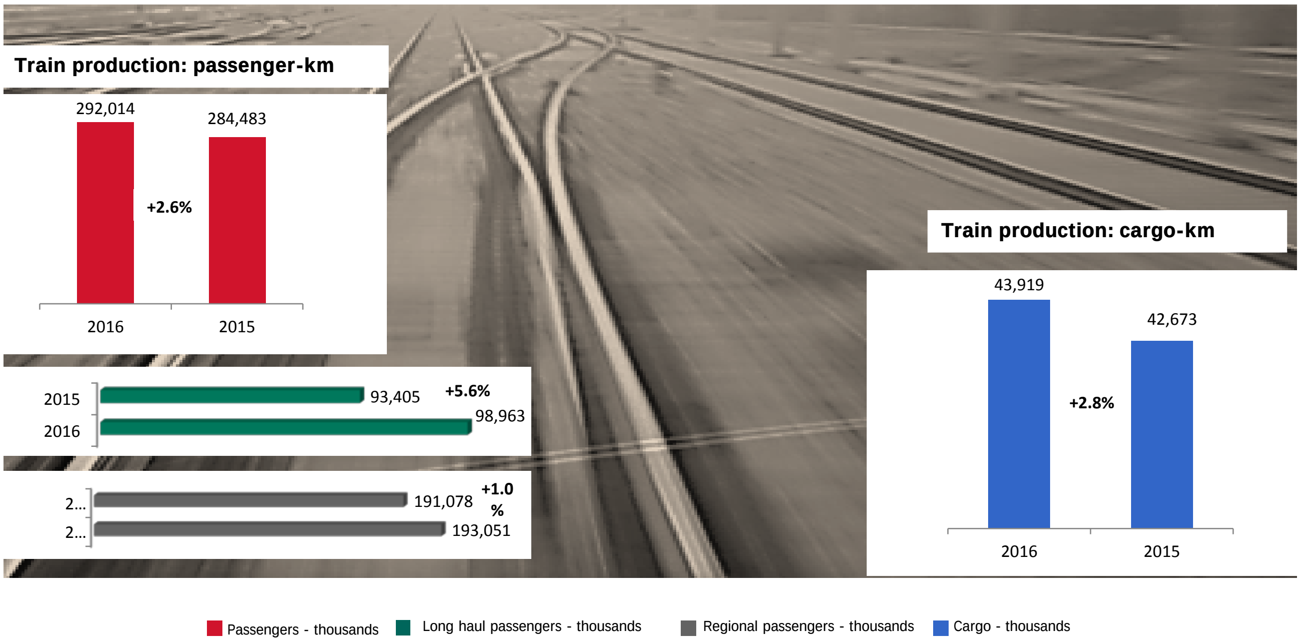
At 31 December 2016, the network managed by RFI S.p.A. covered 16,788 km, with over 24,400 km of tracks, throughout Italy and could be broken down into the following types of lines:

- fundamental lines with high traffic density, covering 6,367 km;
- complementary lines, which make up a dense network of regional connections and interconnections with the main lines, covering a total distance of 9,466 km;
- hub lines, which are located in major metropolitan areas for a total distance of 955 km.

71.6% of the network, consisting of 12,023 km, has been electrified, while double tracks account for 45.6% of the total distance, or 7,647 km.

All network lines are equipped with one or more train speed protection systems, which makes the railway infrastructure managed by RFI S.p.A. one of the safest in Europe. In particular, the lines on the new HS/HC network feature the ERTMS/ETCS, the standard European signalling system.

At 31 December 2016, 32 railway companies had been authorised to carry out transport activities on the RFI S.p.A. network with the necessary licence issued by the MIT, as provided for by Ministerial decree no. 36/2011 and Legislative decree no. 112/2015, compared to 32 at 24 July 2015. In addition, they had all received safety certification from ANSF, the National Agency for Railway Safety, as regulated by Legislative decree no. 162/2007 implementing Directives nos. 2004/49/EC and 2004/51/EC on the safety and development of EU railways.

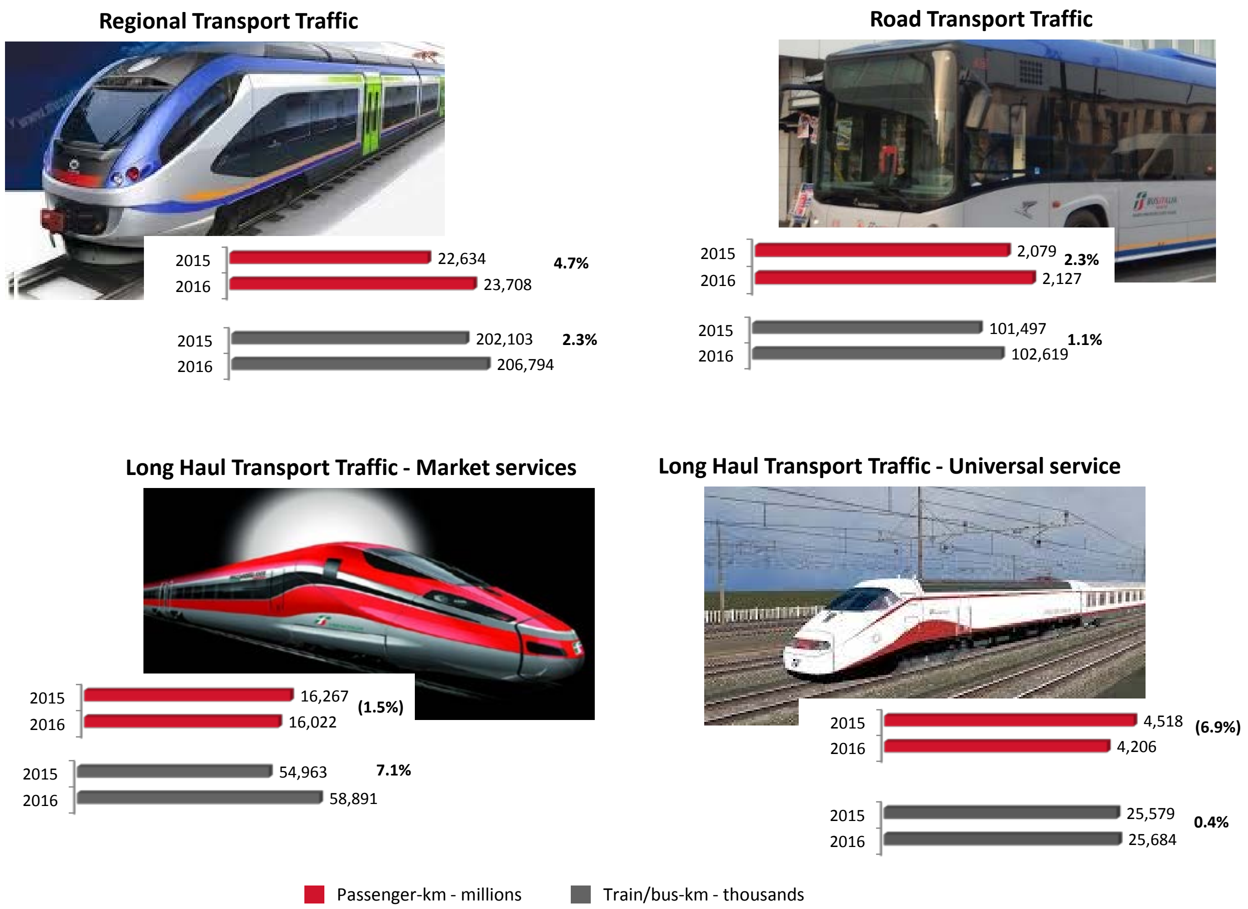


Total production in 2016 on the network managed by RFI S.p.A., including "other service lines" of approximately 16 million train-km, came to roughly 350 million train-km, up by 2.7% on the previous year. The portion of total traffic produced by railway companies that are not part of Ferrovie dello Stato Italiane group grew by some 6% on 2015.

Focus on the group's passenger and cargo traffic

Again in 2016, the FS Italian group strove to satisfy its customers by concentrating its production capacity, meeting mobility needs with increasingly efficient and high quality services. In particular, efforts were directed at integrating transport systems (train and bus) to support, on one hand, local public transport and, on the other, significantly integrate long haul services. A prime example of these efforts is Trenitalia S.p.A.'s integrated "Freccialink bus + Frecce" service connecting major cities like Siena, Perugia, L'Aquila, Potenza and Matera to the HS network. It has satisfied 24 thousand passengers since its launch.

In all, the FS Italian group has met demand for passenger mobility in Italy and internationally with an approximate 1.2% increase in traffic volumes measured as passenger-km and a 2.6% increase in production measured in train-km and bus-km.

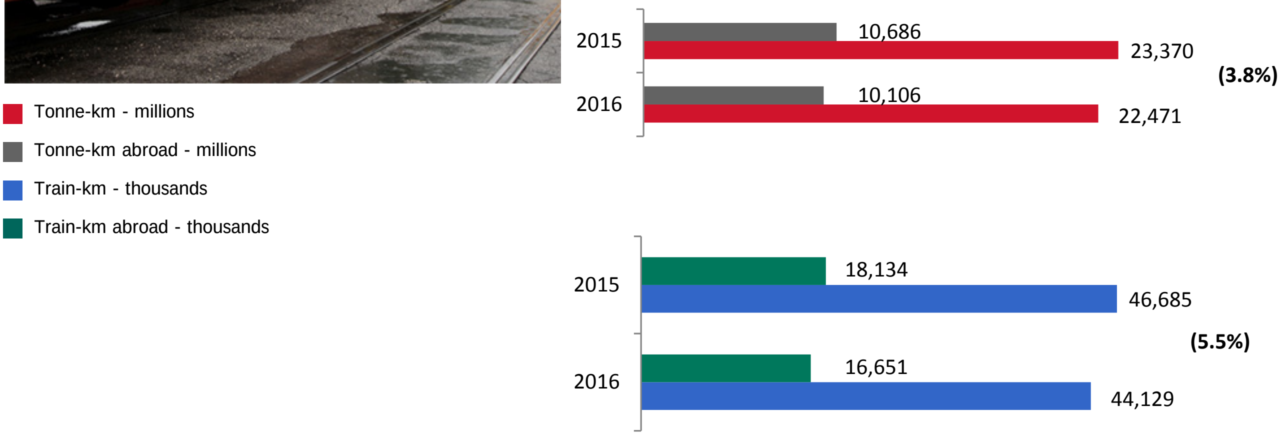


Growth in the regional railway transport sector highlights traffic volumes of 24 billion passenger-km, approximately 20% of which by group companies operating abroad, confirming the success of its steps to improve punctuality, increase the frequency of runs and integrate services at stations in the railway segment. More attention has been devoted to the service contracts with the regions to set forth clear objectives that improve the service quality through substantial investments in rolling stock and technologies. Passenger satisfaction with the overall journey rose by approximately 4% to 80%, an indicator that includes cleanliness on board trains (66%), punctuality (70%), comfort (79%), information on board trains (77%) and security (76%). Production is also up by 2.3%, or 207 million train-km. The local public transport segment's excellent performance was also due to the group's results in overall passenger transport by bus (in both Italy and abroad): in 2016, the group met 2.3% more demand, expanding its offer of bus-km by 1.1%. In Italy alone, these figures, which relate to the group headed by Busitalia Sita Nord S.r.l., which directly and indirectly manages the urban and suburban road local public transport in various areas throughout the country and handles many other activities in connection with transport systems in general, have improved.

On the other hand, long haul railway traffic volumes are down (-2.7%), following the sharp drop in the universal service (-6.9%) which is defined by the customer, MIT. Despite the slight contraction in market services (-1.5%) compared to the previous year - which was mainly because of the significant, non-recurring boost in traffic volumes for EXPO 2015 - Trenitalia S.p.A.'s *Frecciarossa* high speed service continues to enjoy success, with service offered up 14%, in part due to the fact that the *Frecciarossa* brand replaced the less prestigious brands (*Frecciabianca* and *Frecciargento*) during the year.

Total production is up (market services plus universal services), with around 85 million train-km produced (+5%).

The weak economic context affected FS Italiane group's cargo transport, with the group producing domestic and international traffic volumes of 22.5 billion tonne-km, down by 3.8% on the previous year. Considered alone, domestic traffic decrease to a lesser extent thanks to the positive performance of traditional traffic (+2%), while the drop in the



international service was substantial (-5.4%) and was due, in particular, to the fact that, in 2016, the service offered by a subsidiary operating abroad was discontinued.

Total production is down (-5.5%) to approximately 44 million train-km, mainly due to the decrease in international routes (-8.2%). The average annual load was slightly above 500 tonnes per train.

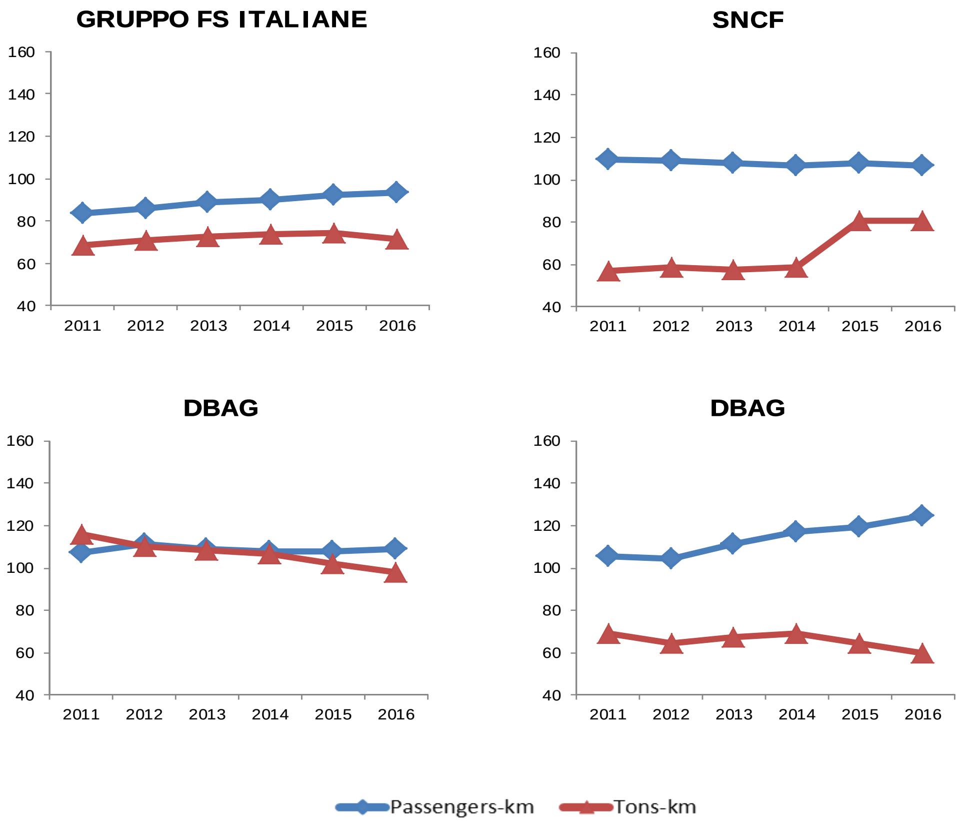
Traffic figures of major European rail and road transport companies

Mobility in Europe benefited from the stable rate of economic growth (GDP +1.7%), with passenger and cargo traffic volumes increasing slightly.

Considering all modes of transport, passenger volumes reached approximately 6,500 billion journeys, of which roughly 6.5% were by rail. According to the most recent data gathered by the UIC, passenger data (expressed in passenger-km) rose by approximately 1% on the previous year. Among leading European railway companies, the Spanish company Renfe recorded the most significant increase (+5%), while the growth seen by Germany's DB AG was just slightly above the European average (+1.2%).

Following deregulation, the medium and long haul bus service market is recording huge growth. With regard to the number of connections between cities, Germany, Poland and Italy, as well as France and Spain, have particularly dynamic markets, with the opening of new routes, the arrival of new operators and the success of new commercial and marketing models. The low prices, partly thanks to the fall in the price of oil, quickly took some of the railway's market share. In some cases, railway companies, such as DB AG, were forced to review their development strategy in an intermodal manner.

Roughly 3,500 billion tonnes-km in cargo volumes was moved via all modes of transport in Europe, of which approximately 11% via rail. Considering UIC data, railway cargo traffic, expressed in tonnes-km, dropped roughly 3.8%. All major railway companies recorded decreases in traffic volumes, especially the Spanish company Renfe (-8.7%), the German DB AG (-3.5%) and France's SNCF (-1.7%).



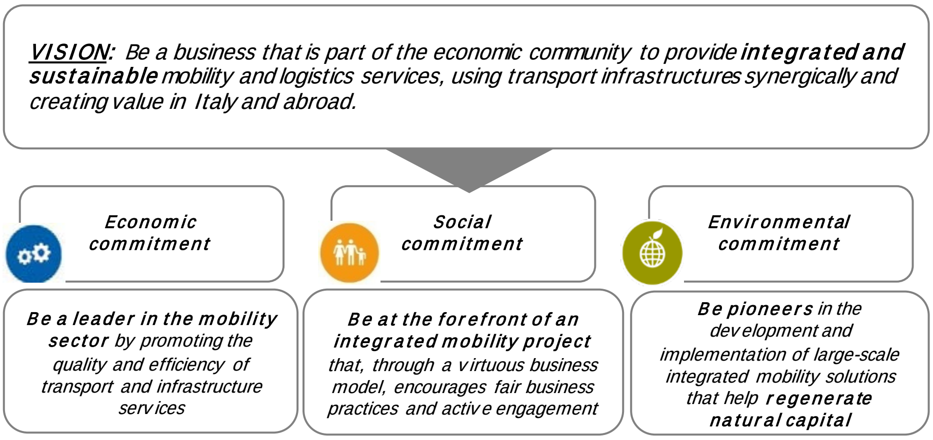
Sustainability in the group

Approach to sustainability

The group's vision

FS Italiane group has translated its long-term vision into the new 2017-2026 business plan, with which it has renewed and intensified its ambition of creating transport works and services that create long-lasting value for the community by redefining the business through intermodal transport.

It has made three separate, yet interconnected, commitments to achieve this general vision: one commitment for each aspect of sustainability (economic, social and environmental):

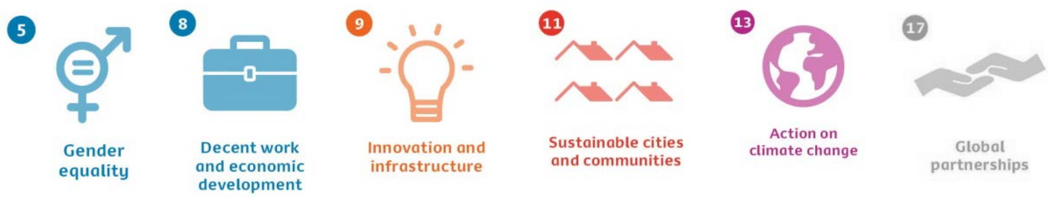


This expression of intent constitutes the shared foundation of values and beliefs that transversally guide FS Italiane group's decisions and operations.

Our commitments

As described earlier, FS Italiane group's code of conduct establishes the rights and responsibilities of corporate officers, managers, employees, freelancers, business partners, suppliers and all other parties involved in transactions with FS Italiane group. With the code of conduct, FS Italiane group transparently assumes its responsibilities and commitments to internal and external stakeholders.

FS Italiane group is also a member of the UIC, which promotes the railway sector around the world as a solution to the challenges of mobility and sustainable development. The group signed the "*UIC declaration on Sustainable Mobility and Transport*", formalising its commitment to responsible practices in terms of human rights, labour conditions, the environment and anti-corruption, in line with the ten principles of the UN Global Compact. FS Italiane group also aims to help achieve the 17 sustainable development goals - in the context of the 2030 Agenda, the United Nations' strategic framework for common, solid development - and the following, in particular:



Sustainability policies and governance

The group's approach to sustainability is reflected in its commitments to all group stakeholders, which are explicitly stated in company policies and the code of conduct.

- Forge relationships with institutions, associations and local communities
- Contribute to the well-being of the community by ensuring safe and efficient services for residents
- Guide young people and encourage training in skills that are valuable on the labour market through a network with schools and universities.
- Encourage generational change by offering tangible professional opportunities

- Create high-quality employment by innovating recruitment and organisational processes and by making the most of diversity.
- Support and encourage the development of technical, cultural and managerial expertise.
- Improve the company climate by valuing our people's know-how and experience, ensuring equal treatment and inclusion in the professional development process and offering company welfare and work-life integration services.

- Help foster our suppliers' environmental and social awareness

- Minimise negative environmental impacts
- Rationalise the use of natural resources
- Safeguard the land

- Promote open and transparent dialogue with all stakeholders

- Build works and offer services for rail and road transport, contributing to the development of a large mobility and logistics project for Italy, while respecting the environment and the local area
- Always focus on customer service
- Strive to continuously improve service quality

Since 2010, the parent has formalised its active role in promoting, directing and coordinating consistent management of environmental issues by maintaining a governance model for the group companies' environmental management systems. The level of maturity that this model has reached has led to further progress, and in 2016, a process began that will result in the transformation of the current environmental management system governance model into a business model that balances the economic, social and environmental components of group operations.

	The environmental management system governance model	The sustainability governance model	Business Model
Objective	*Provide support - including operational support - to ensure the coordinated and harmoniseddevelopment of the operating companies' environmental management systems*	*Define a governance model for the integrated management of the three sustainability aspects*	*Ensure the integration of sustainability in the group's decision-making processes*
Characteristics	❑ Focused on environmental issues ❑ Oriented towards regulatory compliance ❑ Essential for the development of the company's environmental management systems	❑ Geared towards the environmental, social and economic aspects ❑ Integrated in existing processes ❑ Built on a governance system based on the delegation of duties ❑ In view of the subsequent development of a business model	❑ Integrated in the group's business, vision and strategies ❑ Based on a decision-making process centred around sustainability criteria (e.g., externalities, SROI)
Time period	**Today**	**Short to medium term**	**Medium to long term**
Organisational pervasiveness			

In 2016, FS S.p.A. established a Sustainability Committee, an advisory board made up of senior managers from the main group companies, formed to integrate social and environmental aspects in economic-financial strategies, promote the values and principles of sustainable development and meet stakeholders' needs and expectations.

In view of integrating strategies with sustainability aspects, using the corporate shared value approach, the group is kicking off pilot projects to create a methodology that incorporates multi-dimensional assessments of activities.

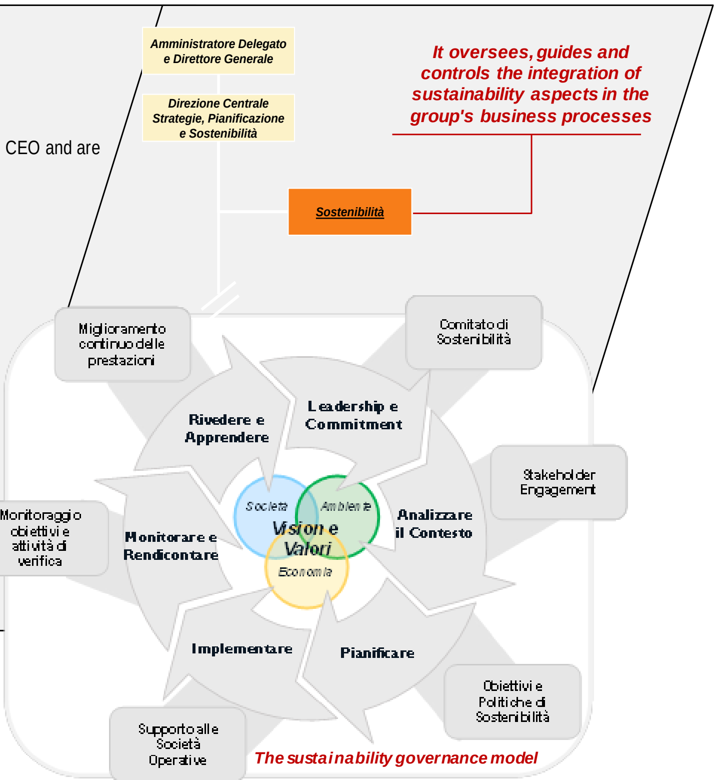
Stakeholders

Sustainability Committee

The Committee was established in July 2016. Its members are appointed by the CEO and are the following:

- ❑ CEO of FS S.p.A., acting as Chairman
- ❑ CEO of Trenitalia S.p.A.
- ❑ CEO of RFI S.p.A.
- ❑ FS S.p.A.'s Central Manager of Strategies, Planning and Sustainability
- ❑ FS S.p.A.'s Central Manager of Human Resources and Organisation
- ❑ FS S.p.A.'s Central Manager of Brand Strategy and Communication
- ❑ FS S.p.A.'s Central Manager of Finance, Controlling and Equity
- ❑ FS S.p.A.'s Central Manager of Administration, Financial Statements and Tax Issues
- ❑ Head of the Sustainability Office within the Central Strategies, Planning and Sustainability Department, acting as <u>technical secretary</u>

<u>Note</u>: The Committee will be expanded in 2017 to include Busitalia - Sita Nord's CEO and FS S.p.A.'s Chief Risk Officer (CRO)



The sustainability governance model

The Ferrovie dello Stato Italiane group continuously dialogues with its stakeholders, as it firmly believes that understanding their expectations and identifying medium and long-term objectives with them guarantee the effective creation of value.

With this in mind, FS Italiane group has several ways of interacting with its stakeholders. For example, it organises a panel in which stakeholders propose improvements for the company. The group undertakes to respond to all of their requests and, where appropriate, tangibly implement them.

Over 100 stakeholders from the different stakeholder categories participated in the panels held from 2013 to 2015, actively discussing various issues. A total of 65 proposals were gathered and, of these, 42 were implemented, 16 are being implemented and 7 are not feasible.

Map of the Ferrovie dello Stato Italiane group's stakeholders

Shareholder	**Lenders**
Customers	**Suppliers**
Competitors	**Companies/Partners**
Scientific community	**Institutions**
Employees	**The media**
Charitable organisations	**Trade organisations**
Local bodies/Public administration	**Civil society groups/associations**
Public bodies	**Workers' representatives**

The stakeholder panel

In 2016, ten issues were explored in connection with five strategic areas.

Panel	Issue
Cargo services/mobility	• Supporting railway transport • Development of integrated solutions for cargo customers
LPT	• Customer experience • Anti-evasion and anti-avoidance
Service quality	• Assistance for people with reduced mobility and the disabled • Potential intermodal partnerships
Health and safety in the workplace	• Safety and suppliers • Performance of workplace safety management systems
Customer service training and improvement	• Ensure an effective response tailored to customers • Design innovative training methods to support the business strategies

The invited stakeholders submitted 20 proposals for improvement.

Solidarity initiatives

For years, FS Italiane group has been involved in initiatives and projects for land redevelopment, disabilities and social distress in railway areas. In particular, in recent years, the group has intensified its commitment to solidarity, with the consolidation of a network, which now extends to Europe, of relationships with institutions, local bodies and associations.

Help Centres

The Help Centres are the first major solidarity project launched by FS Italiane group, in collaboration with local authorities and NGO's, to combat the social problems encountered in Italian train stations. These are "low threshold" information points - i.e. without any filtering of users - located inside or around railway stations, which welcome persons in need and help begin their rehabilitation with the city's social services and institutions. The group plays a key role in this project, providing space inside or near to the station on free loan to associations and authorities engaged in combating social marginalisation and urgent needs so they can create the help centres.

The help centre network currently extends to 17 railway stations from Northern to Southern Italy. A total surface area of 2,703 m² has been granted, with an estimated value of €4,054,500 (average value of 1,500 Euros per m²).

The group collaborates closely with ONDS, the Italian observatory for poverty and solidarity at stations, so the help centres can work together to improve the quality of services and safety in railway areas.

Network of station help centres		
Bari	Foggia	Pescara Centrale
Bologna	Genoa Cornigliano	Reggio Calabria
Brescia	Melfi	Rome Termini
Catania	Messina	Torino
Chivasso	Milano Centrale	Trieste
Firenze Santa Maria Novella	Napoli Centrale	

Different projects in each country are discussed continuously within the context of the *Gare Européenne et Solidarité*, a European charter for the development of social initiatives in stations signed in Rome in 2008 through the joint efforts of railway companies on the basis of their experience with social distress. Five railway companies from five countries signed the charter: Italy (FS Italiane), France (SNCF), Luxembourg (CFL), Belgium (SNCB) and Poland (PKP). The charter has since been signed by another seven European railway companies from Romania (CFR), Slovenia (Zeleznice), Norway (NSB), Bulgaria (NRIC), Denmark (DSB), Czech Republic (CD) and Sweden (Jernhusen), for a total of 12 signatory networks.

By exchanging best practices between the railway companies that have signed the European charter for the development of social initiatives in stations, additional help centers, or similar structures, have been established in Europe: in Strasbourg, France and at the Gare du Nord e de l'Est in Bruxelles, with centres at major Bulgarian stations slated to open soon. In addition, the Luxembourg help centre was opened in March, twinned with the Trieste help centre that opened in April with the participation of the Head of Luxembourg railway social and safety activities. The two help centres will work together, sharing employee training and information on homelessness and migration issues.

Finally, in June, the European *Train in Station* project was concluded in Paris. It involved the collaboration of Italian, French, Luxembourg and Bulgarian railways on a railway worker training project concerning migration issues and assistance to the homeless, potential help centre beneficiaries.

Welcome centres

Through major non-profit associations, many welcome centres have been set up in idle railways spaces: the Caritas Don Luigi Di Liegro shelter at Rome Termini; the refugee shelter in Milan, managed by Caritas Ambrosiana; the Binario 95 day shelter in Rome; the Pedro Arrupe centre for asylum seekers and political refugees, managed by Associazione Centro Astalli, and the Migrant hub in Via Sammartini, Milan.

A total surface area of 21,118 m² has been granted on free loan for social activities [9], with an estimated value of €31,677,000 (average value of €1,500 Euros per m²).

Assessment of social initiatives: social return on investment (SROI), help centre project and welcome centres (Rome and Milan)

FS Italiane group is completing a pilot SROI analysis project to estimate the direct and indirect social and economic impacts of the help centre project and welcome centres in Rome and Milan. The analysis covers the three years from 2014 to 2016 and involves all help centres operating at 31 December 2016[10] and the welcome centres in Milan (Progetto Arca) ad Rome (Caritas). The objective of the analysis is to measure the welfare value generated for the community through FS Italiane group commitment to improving social conditions.

The environment

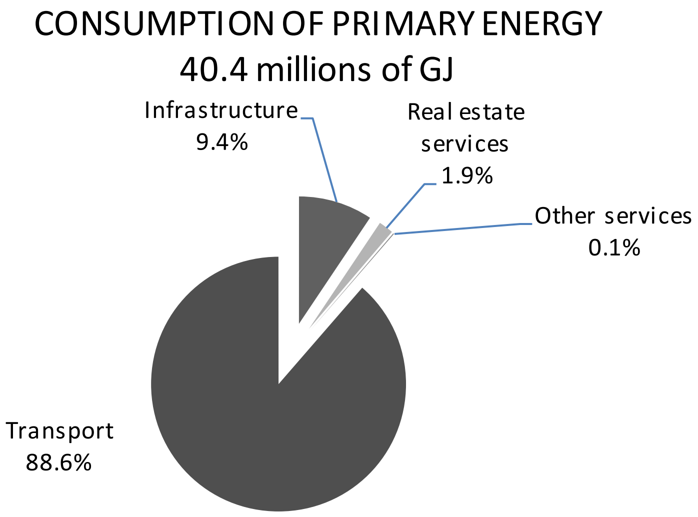
Main environmental aspects for the group

FS Italiane group continuously monitors its environmental impacts with the aim of minimising and mitigating negative impacts, while taking the necessary steps to develop the environmental advantages of mass transport and making the most of local resources.

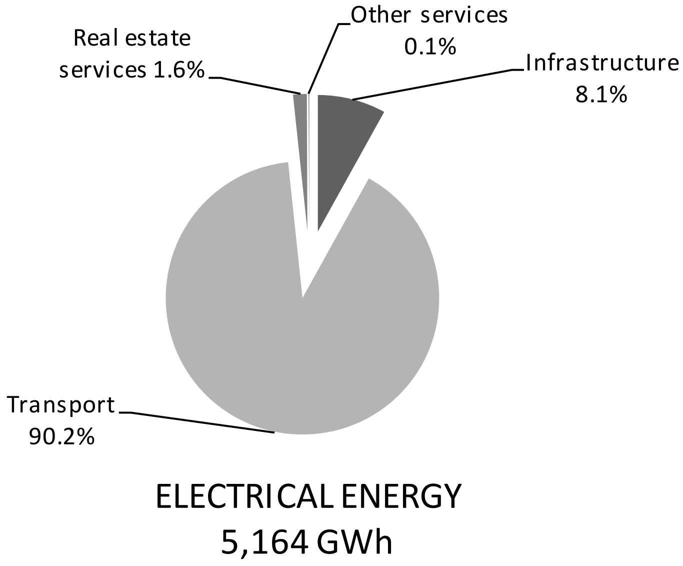
As described earlier, the group's activities span a wide range of diversified operating segments that characterise its business and that have been assigned different impact levels with respect to the main environmental aspects. The reporting scope includes the core activities of the most material companies in aggregate environmental terms for the sector.

[9] This value is the sum of all space used for welcome centres (14,118 m²) and, for social and cultural purposes, the 7,000 m² of the Shoah Memorial, in which 4,500 Syrian and Eritrean people were welcomed in 2016 in response to the refugee crisis.

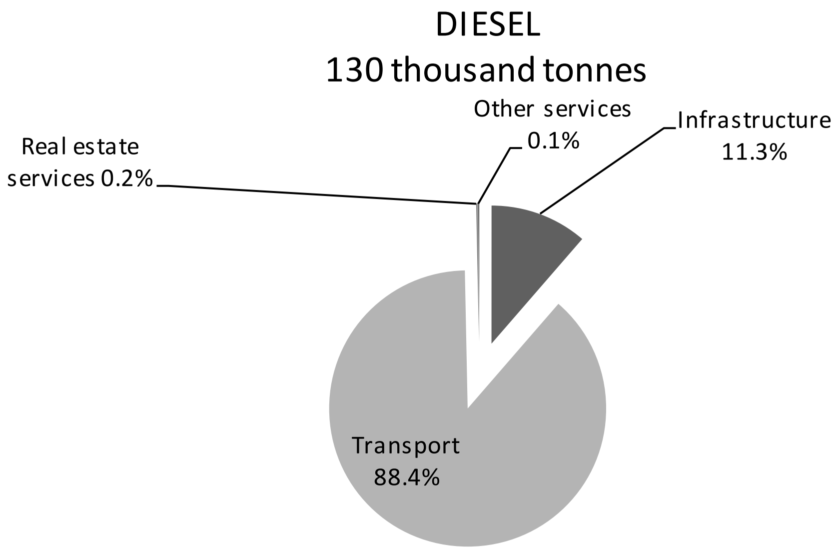
[10] The help centres in the scope of analysis are currently those in: Bari, Bologna, Catania, Chivasso, Florence, Genoa, Messina, Milan, Naples, Pescara, Reggio Calabria, Rome, Turin and Trieste.



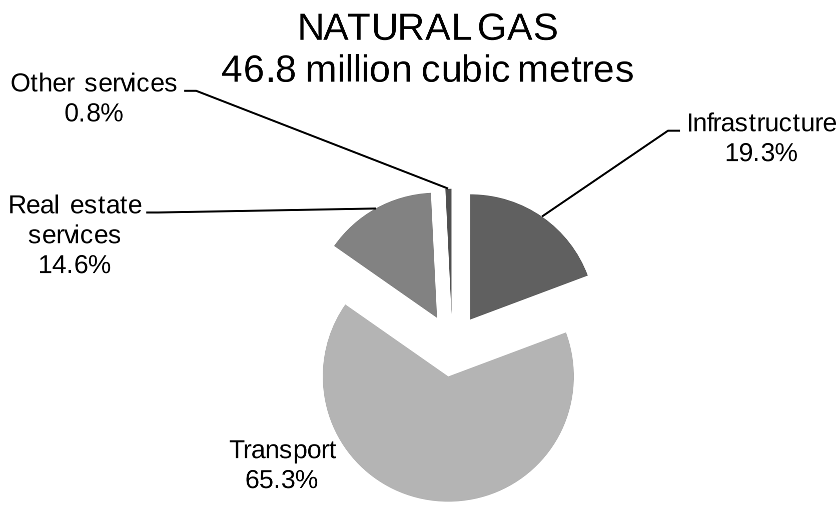
The transport segment's use of primary energy is composed of: 91.2% for railway traction, 4.0% for public road service traction, 2.3% for heating and 2.5% for other purposes.



The transport segment's use of electrical energy is composed of: 97.5% for railway traction and 2.5% for electrical services.

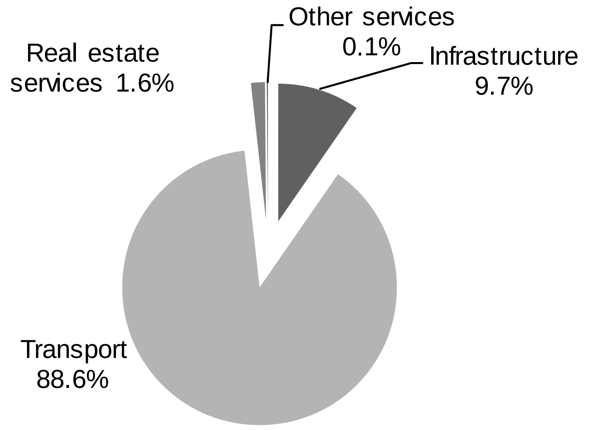


The transport segment's use of diesel is composed of: 68.4% for railway traction, 22.7% for public road service traction and 8.9% for other purposes.



The transport segment's use of natural gas is composed of: 68.7% for heating and 31.3% for public road service traction.

GREENHOUSE GAS EMISSIONS
2.2 million tonnes of CO_2



The transport segment's CO_2 emissions are composed of: 90.5% from railway traction, 5.1% from public road service traction, 2.5% from heating and 1.9% from other activities.

As illustrated by the figures and charts, the transport segment, which is significantly affected by railway operations, makes up the largest share of the group's energy consumption by far, accounting for 89% of primary energy[11].

However, an analysis of each source individually shows that transport activities account for approximately 90% of electrical consumption, nearly all of which for railway traction, while the remaining electrical energy was used for the infrastructure (lighting in the stations, railway yards, etc.).

The observations on the use of diesel differ because, while diesel consumption is concentrated on transport services as well, the various activities contribute differently: while railway transport accounts for a significant share of the consumption - nearly two-thirds of the total - road transport (for the passenger service), are a substantial part of the total value.

On the other hand, the segments use natural gas mainly for a different reason: the real estate services, infrastructure and transport segments mainly use natural gas to heat stations, workshops, offices and buildings.

To offset the consumption described above, FS Italiane group monitors and analyses the quantities of greenhouse gases that its operations emit each year. Its direct and indirect emissions make up roughly 0.5% of total emissions in Italy each year. The amount of climate-changing gases emitted by the group in 2016 came to an estimated 2.2 million tonnes, nearly the same as in the previous year. Similarly to its use of primary energy, nearly 90% of emissions were due to the different types of transport operations, with most due to railway transport and a residual amount of emissions due to infrastructure management.

Water use is another critical aspect of environmental performance for FS Italiane group. Most water is used for non-industrial purposes (offices, toilets, showers, drinking water at stations, etc.) and the group companies periodically run

[11] Primary energy is the energy content of sources that can be used directly, as they are found in nature, such as carbon, oil and natural gas, sun, wind, seas, mountain lakes and rivers (which can generate hydroelectric energy) and the heat trapped by the earth which provides geothermal energy. Primary energy differs from secondary energy which is instead derived from the transformation of the primary sources of energy (such as petrol, which is derived from the treatment of crude oil, or electrical energy, which is generated by the transformation of mechanical or chemical energy).

awareness campaigns for the responsible use of water. Furthermore, the group has activated various systems to rationalise the use of water for industrial purposes, both for appropriate water collection and effective treatment at the end of its use in the production cycle.
The group's focus on the use of materials also extends to disposal. Within the group, infrastructure and rolling stock maintenance activities are those that generate the most waste, which can be duly sent to treatment centres for recycling (e.g., iron for the infrastructure).
Initiatives are being carried out to increase the sorting of waste produced in the group's public areas, like stations. The percentage of waste that is sorted could be improved through new systems for its collection and more effective awareness campaigns.

Management systems

FS Italiane group and the main group companies remain committed to implementing and certifying their environmental management systems or integrated management systems, covering all processes and all operating sites, with the goal of continuing to improve the group's environmental services.

In 2016, the group companies launched a transition process to adopt the new UNI EN ISO 14001:2015 standard. Unlike its previous version, the new standard promotes deeply rooting the management system in the business, extending its improvement strategies as part of a broader vision of environmental sustainability. In this context, the parent, which oversees environmental aspects based on the environmental management system governance model in a coordinated, consistent manner, has undertaken a process to incorporate the main sustainability principles within the business, in order to generate value for both the group and the community.

FS group initiatives and projects

Energy	High-energy performance trains and buses Signing of an understanding with Terna to identify renewable energy initiatives LED lighting in offices, stations and along infrastructure
Atmospheric emissions	Promotion of car, scooter and bike sharing services Green Train campaign Greenhouse gas reduction in construction contracts
Waste	Strengthening of sorted waste collection systems Monitoring and controlling waste Environmental requirements in calls to tender and contracts
Water	Consumption optimisation Treatment and purification systems
Noise	Soundproofing barrier design and construction Noise and vibration monitoring campaigns
Land and potentially contaminated sites	Over 100 environmental studies and projects

Energy

The group's operating companies continue to pursue electrical and thermal energy efficiency goals, also considering the results of the energy audits conducted in accordance with Legislative decree no. 102/14.

The main projects, which affected the transport segment, entailed updating the fleet with the roll-out of new Euro 6 buses for the Busitalia Sita - Nord group, equipped with low consumption technologies, and Trenitalia S.p.A.'s conclusion of the call for bids for the supply of 450 new high-energy performance trains for regional transport.

Work continued to streamline gas and electrical energy use. In the real estate segment, Grandi Stazioni Rail S.p.A. began surveying ways to reduce energy consumption at the Milano Centrale and Roma Tiburtina stations, while Centostazioni S.p.A. completed the energy efficiency projects that it had commenced in 2015 to cut electrical energy consumption by more than 10%.

Ferservizi S.p.A. also remains committed to energy efficiency with a long-term energy redevelopment project for production sites with their own utilities contracts (the Trieste and Genoa offices, most recently, for example).

In the infrastructure segment, RFI S.p.A. called for bids for the supply of over 100,000 LED lighting systems for walkways, platforms, tunnels, offices and light towers, while concurrently replacing the light bulbs used for low shunting signals (roughly 13,000 light bulbs in all).

Finally, with respect to renewable energy sources, RFI S.p.A. signed a letter of intent with Terna S.p.A. to develop a photovoltaic plant that will provide the group companies with clean electrical power.

Atmospheric emissions

In addition to the activities described above, which have also reduced atmospheric emissions, the group has carried out the following activities.

Like each year, in collaboration with Legambiente, the Green Train campaign informs citizens on the importance of respect for the environment and sustainable mobility. The theme discussed in 2016 was lifestyles and good habits for improving the urban environment.

Initiatives to promote car, scooter and bike sharing continued in the transport sector. The "Enjoy" car sharing service managed by Eni S.p.A. in partnership with Trenitalia S.p.A. and Fiat S.p.A. was extended to the city of Catania, bringing the total number of Fiat 500s shared with the cities in which this service is available to over 2,000. [12]In Rome, the scooter sharing project was launched in partnership between Eni S.p.A., Trenitalia S.p.A. and Piaggio group. Moreover, Trenitalia S.p.A. and Clear Channel renewed their agreement to promote bike sharing in Verona and Milan. in partnership with Bicincittà, regional transport customers received discounts on the purchase of annual bike sharing passes in Turin and other Italian cities and, through the agreement signed with FIAB (Italian federation of bicycle enthusiasts, a non-profit organisation), as well as other discounts at bike friendly hotels in the Albergabici network.

In Umbria, Busitalia – Sita Nord S.p.A. launched a BUS & BICI service on the Terni – Scheggino and Spoleto – Norcia lines with buses equipped with bike racks to promote integrated, sustainable transport models.

In the infrastructure segment, Italferr S.p.A. introduced contractual requirements for the reduction of greenhouse gas emissions in calls to tender for works worth more than €30 million. The goal is to encourage contractors to take action to improve the environmental aspects of the works while construction is in progress and, more specifically, to reduce the greenhouse gases emitted by the production and transport of construction materials (cement and steel). Furthermore, a methodology is currently being studied to be used for all environmental impact studies in order to encourage the use of railway infrastructure to contain climate-altering emissions rather than road transport.

Finally, with respect to mobility management, an agreement was renewed with ATAC S.p.A. to acquire discounted annual Metrebus Roma and Lazio passes for group employees.

Waste

The group companies have upheld their commitment to waste management arising from their own activities and those of their suppliers and customers.

Reinforcing sorted waste collection systems, in conjunction with the campaign to promote and spread awareness, confirms the group's desire to reduce the quantity and improve the quality of waste produced. This has entailed continuous monitoring of the waste produced, including the implementation of information systems, and increasing control over the operations of third party firms as provided for by calls for tender and contracts.

To reduce the amount of waste, Ataf Gestioni S.r.l. is developing paperless policies for both internal activities (scheduling driver shifts, newsletters, service orders, notices to personnel on energy and environmental issues, etc.), and service provision, thereby helping cut the printing of documents and information on paper (e.g., by issuing tickets via SMS).

Water

In the real estate segment, Grandi Stazioni Rail S.p.A. and Centostazioni S.p.A. continued monitoring activities to optimise water consumption by rationalising the sewage system and identifying and eliminating leaks.

[12] Milan, Rome, Turin, Florence and Catania.

Many water treatment projects have been carried out in the transport segment. Furthermore, at the Florence depot, Busitalia Sita Nord S.p.A. has designed a closed-cycle and reverse osmosis system to recycle water after it has been used in the washing plan. Busitalia Veneto completed work to build the rainwater treatment plants at the Padua and Rovigo depots. At the Viale dei Mille depot in Florence, Ataf Gestioni S.r.l. has rolled out a new bio-oxidation water treatment plan to treat waste water without using chemical products. In collaboration with RFI S.p.A., Terminali Italia S.r.l. began designing a new rainwater treatment plant at the Verona terminal.

Noise

In the infrastructure segment, RFI S.p.A. continued designing and building sound barriers for the first four years of the noise mitigation plan pursuant to the Ministerial decree of 29 November 2000. Italferr S.p.A. also conducted 16 sound and vibration studies for various railway hubs and sections.

In the transport segment, noise and vibration monitoring campaigns continued on rolling stock, buses and service vehicles.

Land and potentially contaminated sites

In 2016, Italferr S.p.A. conducted:

environmental and landscape studies for **41** projects	**21** environmental projects for work sites	**nine** environmental monitoring projects
five excavation material management plans	**24** archaeological studies and explorations	project design and environmental surveys for **eight** contaminated sites

In addition to the above, environmental monitoring activities are underway for 27 projects in progress.

Human resources

The number of group employees rose from 69,002 at 31 December 2015 to 70,180 at the end of 2016. This increase of 1,178 in the headcount was mainly due to the new employees who arrived as part of the non-recurring transactions of the year which led to the inclusion of new legal entities within the group (such as FSE S.r.l. with 1,179 employees). However, the net change in the average number of employees of the year, resulting from incoming and outgoing employees, was a decrease of 220.

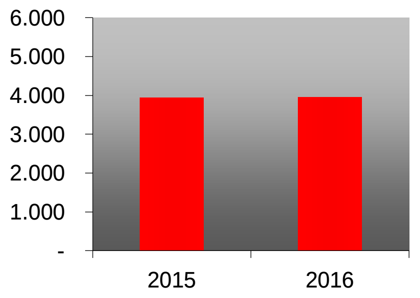
The Ferrovie dello Stato Italiane group's workforce	**2016**	**2015**
Managers	727	714
Junior managers	11,005	10,945
White collars	32,117	31,296
Blue collars	26,331	26,047
Total number of employees at 31 December	**70,180**	**69,002**
% of women	14.57%	14.50%
% of men	85.43%	85.50%
Average number of the year	**69,056**	**69,276**

NO. OF EMPLOYEES AT 31.12.2015	**69,002**
Incoming (*) (**)	3,774
Outgoing (**)	2,596
NO. OF EMPLOYEES AT 31.12.2016 (*)	**70,180**
2015 AVERAGE	**69,276**
2016 AVERAGE (*)	**69,056**

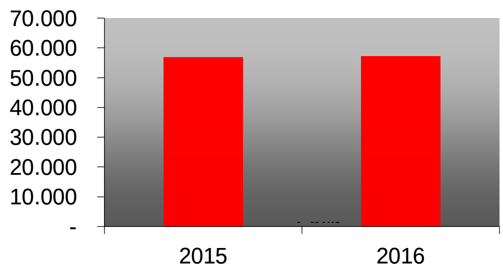
(*) 1,179 new employees arrived with the acquisition of FSE S.r.l.

(**) incoming and outgoing employees include employees with fixed-term contracts in the ferry ship sector.

Personnel expense
(millions of Euros)



Average personnel cost per worker
(Euro/average number of employees)



Relationships with trade unions and labour law

On 28 July 2016, the fund's founders, FS Italiane group and the trade unions (which negotiate the national labour agreement for the mobility sector/railway sector and FS Italiane group's employment contract), signed an agreement to integrate and amend the agreement establishing the bilateral fund for income assistance benefiting the group companies' employees, implemented as the fund regulation with Interministerial decree no. 86894 of 9 January 2015, amended to reflect the provisions of Legislative decree no. 148/2015 (the "Job Act"). Moreover, this agreement enabled the group to expand the fund benefits to include pension incentives in order to encourage generational change, making it possible to use the financial resources previously accrued to the Fund until their complete depletion (approximately €125 million). This will encourage approximately 1,000 people to leave employment starting from 2017 and be replaced by the same number of new employees in the railway segments requiring employee turnover to bring in professionals capable of working with new technologies and filling specialist positions (i.e., university and high school graduates) to more rapidly advance the group's transformation and development.

At the same time, the parties signed a procedural agreement, whereby they agreed the trade union procedures, criteria and methods of access to the extraordinary fund benefits (pension incentives) pursuant to Interministerial decree no. 86894/2015.

This agreement completes the necessary process to enable group employees to resume offering pension incentives to employees in operating segments/operations where the updating of processes, reorganisation of the business and technological innovation generate redundancies, using the fund as a welfare benefit for companies that are not eligible for traditional government welfare benefits. In this respect, another agreement was also signed on 28 July 2016, identifying at least 420 potential recipients of the extraordinary fund benefits, including those not qualified for safety operations and staff and support personnel. At company level, the incentives have begun being offered to employees so they may receive the extraordinary fund benefits in the second half of 2017.

Proposed agreements were signed on 16 December 2016 to renew the national labour agreement for the mobility sector/railway sector and FS Italiane group's employment contract, both of which expired on 31 December 2014. The proposed agreements were definitively validated on 17 January 2017 with the workers' referendum sponsored by the signatory trade unions, which passed with over 84% of the votes.

The two new contracts have:

- aligned their expiration (31 December 2017) with that of the bus/rail/train workers contract signed on 28 November 2015, with the commitment of the parties, reported in the introductions of the two national labour agreements (that for the mobility/railway sector and that for the bus/rail/train workers), to begin the process to unify the contracts within the first half of 2017. This is particularly important given the current stage of FS Italiane group development, as it takes its role on the market as an integrated mobility operator;
- updated labour regulations to the new laws introduced in recent years for the protection of labour conditions (voluntary transfer of holiday leave, civil partnership leave, leave for women who are victims of violence, parental leave and leave for employees who assist disabled family members);
- reinforced the group's internal welfare system, which already includes various benefits (supplementary pension plan, integrative healthcare plan, travel vouchers, leisure activities for railway workers, additional maternity and paternity protections, additional guarantees for serious illnesses), introducing benefits for a work/life balance (time to raise and educate one's children and care for elderly or disabled family members), expanding the supplementary pension plan

to cover all workers and not only those who volunteer to participate, offering more coverage with integrative healthcare assistance which will also include income protection for any workers who may no longer work in safety operations for organisational reasons or due to serious illnesses;

- integrated the previously-applicable regulations concerning contracting and changes in contracts, introducing new requirements to improve relationships between customers and contractors, ensuring good labour conditions and better service quality. For the same purposes, on 16 December 2016, the parties signed an agreement regarding the hourly cost of employees working in services and operations complementary to the transport services to be considered for subsequent calls for tender. This agreement was forwarded to the Ministry of Labour and Social Policies to meet the requirements of article 23.16 of Legislative decree no. 50/2016 (Contract Code);
- introduced regulatory flexibility on work hours and the use of personnel, especially in the cargo transport segment, necessary to help strengthen and develop the new cargo and logistics hub run by Mercitalia Logistics S.p.A. (formerly FS Logistica S.p.A.). To this end, on 16 December 2016, a specific agreement was signed that, once the transfer of the business unit pursuant to article 2112 of the Italian Civil Code was complete, made the seamless transfer of personnel from Trenitalia S.p.A.'s former Cargo Division to Mercitalia Rail S.p.A. on 1 January 2017 possible;
- offered personnel a raise above the contractual minimum that, considering the overall positive performance of group companies in the year, was in any case within acceptable limits and equal to a conventional €98 (corresponding with an average of €102), disbursed in three tranches on 1 November 2016, 1 July 2017 and 1 December 2017, and a one-off payment averaging a gross total of €600 to cover contractual holiday time from 1 January 2015 to 31 October 2016.

Furthermore, when the two contracts were signed, another two specific agreements were signed on 16 December 2016, as follows:

- the first agreement entails the payment of a one-off benefit to cover performance bonuses for 2013, 2014 and 2015, for a gross average payment of €600 per head;
- the second agreement defines the 2016 performance bonus indexed to productivity and profitability indicators and to specific improvement targets for such indicators, which will be calculated on the basis of the 2016 financial statements, after which, the benefits, including overperformance, if the established targets are reached and overperformed, are paid in June 2017.

The 2016 performance bonus agreement meets all the requirements of the new legislation in force for its non-taxability and also introduces the legal option of allocating a portion of the bonus (40%) to the welfare benefits provided for by FS Italiane group's employment contract. It therefore lays the basis for the annual structural definition of measurable productivity/profitability/quality performance targets, motivating workers to strive to achieve them.

Personnel management and development policies

In 2016, the group confirmed and consolidated its commitment to manage and develop human resources.

Pending the agreements necessary for the Bilateral fund for income assistance until workers take their pension, targeted turnover was ensured in 2016 by hiring personnel for the railway operation segments, while the market hiring of fresh graduates and highly experienced personnel was limited by in-house job postings.

Furthermore, the group continued to promote personnel recruitment and development policies to make the most of their professional skills, expertise and motivation as fundamental factors as it faces challenges on an extremely competitive market and laying the basis for the new 2017-2026 business plan. Development initiatives have included training and coaching in house, as well as continuing the "map of competences", with the goal of enabling group resources to gain more personal awareness of the abilities and value that they can share with the group, by analysing personal and professional expertise. Moreover, the group continued pursuing development plans for group resources, to support their careers with development levers such as training, coaching and/or mentoring and participation in ad hoc projects.

The group companies have developed active in-house job posting and intragroup mobility policies, to strengthen and develop the professional skills in FS Italiane group, fostering a greater sense of belonging among resources. In addition, a new integrated information system was launched for each company to use for in-house personnel recruitment, as part of a process to share a new corporate culture to make the most of the group's people. Through in-house intragroup job postings alone, 21 positions have been covered.

Recruitment on the market outside the group, which encompasses international candidates to meet the group's development needs on foreign markets, has focused on top quality recent graduates, not only in engineering, but in business and law as well, and on specialised experts needed for the core business. To face the sharp increase in volumes, new digital tools were introduced for pre-screening and assessments – cognitive tests, video interviews and online on-baskets - which have brought excellent candidates to the classroom, considerably increasing the number of candidates in line with their role at the end of the recruitment process. There are over 440,000 curriculum vitae in the database, including more than 48,000 that were received in response to published ads, and they led to the identification of 179 recent graduates as attractive candidates. Of these, 105 were found through intense, ongoing collaboration with universities - in which the group came into contact with over 8,000 young potential candidates in the year - and a variety of activities like level 2 master's programmes, business games, orientation seminars, company presentations at major universities, specialised workshops as part of university courses, internships, research grants, university theses and online and social recruitment. In addition, 68 expert positions and 15 managerial positions were covered. Each month, the online "Work with us" function counts an average of 150,000 visitors and sees its number of followers on *Linkedin* double. These are initiatives that, through continuous, fruitful contact with young people, have boosted FS Italiane group's image significantly in terms of employer branding and making it recent graduates' Best Employer of Choice among the Italian and international companies for the second year in a row (and again for the third consecutive year at the start of 2017).

Substantial focus was also devoted to high school students, with orientation, training and school/work projects, further expanding the network with the involvement of more than 4,500 third, fourth and fifth-year students. The aim is to "cultivate" their skills, equip them with competencies and create a field of excellence to meet future operating needs.

Training

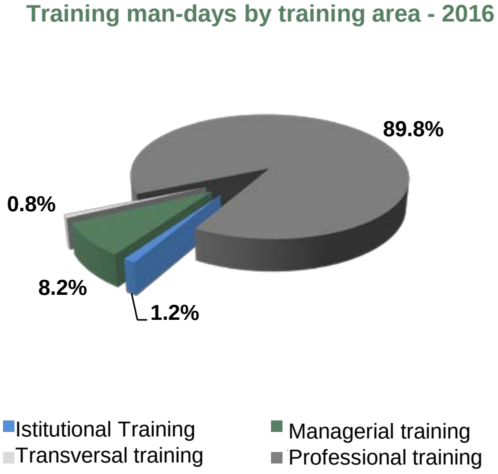
FS Italiane group training helps share strategies and organise them into measurable actions and objectives. It provides all employees with the skills and expertise they need to achieve business targets and supports their performance and specialised roles.

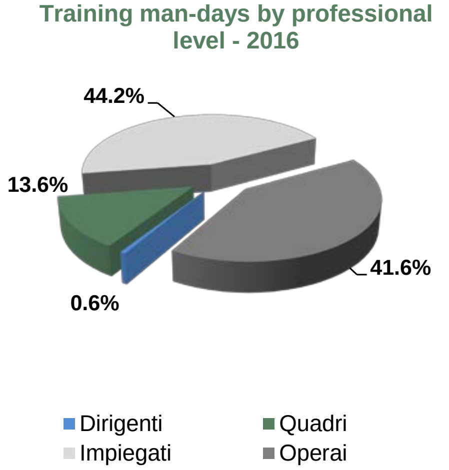
In 2016, the group organised approximately 355 thousand group training days to instil in everyone a fuller understanding of the company culture centred around the customer, safety and the continuous search for efficiency and operating quality.
Furthermore, approximately 15,000 training days were provided to non-group personnel working for supplier companies to ensure that consistent standards of expertise and safety are met. The total cost of training days for employees only was €7 million, substantially covered by financing for training.

In line with the business objectives, group training in 2016 was offered to:

- support workers' professional growth, making the most of each individual's abilities and potential;
- reinforce expert knowledge in connection with the different technical trades;
- focus on the behavioural approach to safety in the workplace and updating technical regulations;
- develop an orientation centred around the customer, market and competition;
- encourage the spread of a business culture focused on internationalisation;
- follow through with the innovation and change processes, as well as the continuous improvement efficiency processes;
- consolidate managerial expertise by supporting the performance of people who reach the highest positions and most important responsibilities;
- sustain a culture of diversity management, including by focusing sharply on life/work balance issues;
- accompany recent graduates through induction.

Some of the intragroup projects that involved FS Italiane group employees in 2016 are listed below.
Approximately 200 young people have participated in induction projects for fresh, expert graduates in classroom lessons alternating with study tours to instil them with knowledge of the group's context and main operating processes. The induction project also entails the development of innovative didactic methods like learning games to stimulate, through fun activities, the growth of young railway workers and gamification in which, by choosing teams, they compete to correctly answer questions about the business plan, thereby consolidating the creation of the network.
Training for junior managers heading micro-structures involved 100 junior managers in seven training days over a four- to five-month period. The aim was to train them in and develop all human resource management aspects with respect to the objective evaluation of people, training and leading work groups, managing motivation, establishing targets and managing feedback with a view to employee development and support.
As in previous years, within the scope of diversity training, training for women returning from maternity leave and their direct supervisors continued to develop a balance between professional and family life. Approximately 50 women were involved. Following the start of activities in 2015, workshops continued to spread awareness about women's talent, with another two initiatives in Rome.
Management training included participation in workshops and seminars for discussion with external parties, such as institutions and premier spokespeople on the economic, social and managerial scenario, and the start of training projects on effective communications and leadership with managerial skill training workshops.
The parent also involved over 500 employees in training and specialised technical refresher courses on administration and financial statements, auditing, sustainability and training for human resources on two important themes: the review of the job posting system and supervision by in-house coaches.





Language training increased by 30% on 2015 with substantial growth in both group and individual courses and full-immersion programmes, in line with the internationalisation underway.

Health and safety in the workplace

FS Italiane group considers health and safety in the workplace a determinant element for its development, as confirmed in the 2017-2026 business plan.

The group measure dated 6 April 2016 concerning “Health and safety in the workplace at Ferrovie dello Stato Italiane group. 2016-2018 Guidelines and Targets”, which, in line with previous measures, anticipated the challenges that the group will face in forthcoming years as it moves towards the integrated and efficient development of rail and road transport to relaunch the cargo segment and consolidate its leadership in high speed services. Expanding the group’s presence in European and global transport markets entails a renewed commitment to service quality and safety, key factors when evaluating the financial reliability and reputation of a business.

Accordingly, the parent’s CEO and General Manager defined new prevention targets for the group companies, on the basis of the positive results that it has already achieved, and reiterated the aim of ensuring an ever higher level safety for each of the activities that personnel performs. He established the main tools to reinforce a culture of prevention, being the ongoing update of integrated, certified workplace health and safety management systems, scrupulous compliance with regulatory prevention obligations in force in the countries where the group companies operate and the involvement of group employees, its main resource, in prevention activities. Furthermore, the CEO and General Manager indicated benchmarks based on the best practices of Italian and international industrial groups for the development of healthy lifestyles.

The aforementioned provision has set new three-year quantitative targets which provide for an annual reduction of at least 3% in accidents and an annual decrease of at least 2% in their frequency, with specific regard to the most serious accidents. As a result of these targets, the group remains one of Europe’s top leaders in health and safety in the workplace.

Accident prevention in 2016 have focused on fully implementing the targets to reduce accidents and improve prevention measures in accordance with the new guidelines.

As part of the "Intercompany round table on health and safety" involving Italy's largest companies (Eni S.p.A., Enel S.p.A., Telecom S.p.A., Poste Italiane S.p.A., Terna S.p.A., Anas S.p.A., Autostrade per l'Italia S.p.A., Vodafone S.p.A., etc.) to develop best practices, specific seminars were sponsored on promoting good health. The first seminar was held on 23 June 2016 at FS Italiane group Auditorium and focused on the organisation of health monitoring and accident prevention. In this context, the leading industrial groups presented how they have organised health monitoring. The second seminar concerned "Work, alcohol and drugs: the past, present and future" and was held on 30 November 2016 at RFI S.p.A.'s Healthcare Department, entailing the presentation of the group's experience in employee health monitoring to prevent the abuse of alcohol and drugs.

March saw the roll-out of the second version of the accident monitoring IT software on the group's "Linea Diretta" Intranet to process statistical reports on accidents at the individual companies. The software was integrated with additional information and functions to expand the types of reports on the number and frequency of accidents, as well as the number of absences and their impact with respect to the number accidents.

In 2016, INAIL data on accidents at the main group companies, such as FS S.p.A., RFI S.p.A., Trenitalia S.p.A., Ferservizi S.p.A. and Italferr S.p.A., for which INAIL is currently defining indemnification, showed a steady downwards trend in accidents, with the number of accidents down by approximately 6.5% on 2015, overperforming the 3% reduction target, and their frequency down by some 5.9%, overperforming the 2% reduction target. Accidents in transit are, however, slightly up.

Customers

Railway transport

PASSENGER TRANSPORT - MARKET

2016 saw an increase in the product offer in the highly competitive HS market segment, with the competitor pursuing intense pricing and offer strategies.

The company continued to pursue a premium price policy for all products in this segment, offering passengers the long-standing fare structure: Standard, Economy and Super Economy, i.e., a combination of flexibility and convenience. In addition to this range, all the other offers remain in place: Two for the price of one every Saturday and holidays; Children travel free, for families, allowing children under 15 years of age to travel for free; the CartaFreccia Special card for loyal customers, who can travel on Frecce trains with a 50% discount off the Standard fare on Tuesdays, Wednesdays and Thursdays from 11 am to 2 pm; and the CartaFreccia Young and Senior cards for travellers under 26 and over 60 who can travel with a 30% or 50% discount, depending on how far ahead they book their journey. In addition, the special same-day and same-weekend roundtrip fares are still being offered for Frecce trains.

During the year, the “Special HS” offer was introduced with discounts of up to 50% on fares to and from Verona, Rovereto, Trento, Bolzano and Brescia and Frecciargento links with Puglia and Calabria, as of September 2016, for journeys to and from Milan. Furthermore, for the Rome Jubilee, Trenitalia launched a commercial offer dedicated to passengers travelling to the capital, the “Jubilee Special roundtrip” fare, with a 30% discount on the Standard fare. This was replaced by the “Rome Special” as of June 2016 with the same discount but without the obligation to purchase a roundtrip ticket.

June 2016 saw the launch of the intermodal Freccia train plus bus service, “Freccialink”, aimed at expanding the quality and comfort of Frecce links to areas which are not yet reached by such trains. This initiative is in line with Trenitalia’s more general goal of promoting integrated public mobility to replace private transport, intercepting new traffic catchment areas. The Freccialink service covers the Florence-Siena, Florence-Perugia, Salerno-Potenza-Matera and Rome-L’Aquila routes, only for sale in connection with Freccia trains. Starting from the new train timetable in December 2016, the service was extended to the winter tourist routes to and from Cortina d’Ampezzo (train-bus hub at Venezia M.), Courmayeur (hub at Torino P.S.) and Madonna di Campiglio (hub at Verona and Trento).

In 2016, sales campaigns were launched entailing the use of e-discounts for special events, holidays and specific travel periods, in addition to the CartaFreccia Happy Birthday, Renew your consent, Word-of-mouth and Prepaid CartaFreccia campaigns. The Loyalty programme is still very popular, counting over 6 million members at the end of 2016. In 2016, in the wake of the previous year’s positive results, the Frecciarossa sports marketing campaigns were confirmed with the Juventus, Torino, Milan, Inter, Bologna, Fiorentina, Roma, Sassuolo, Lazio and Napoli teams.

In general, the company’s qualitative performance can be summarised as follows: 97.1% of medium and long haul trains in the market service segment arrived on time or, in any case, no more than 0 to 15 minutes late (compared to 96.8% in 2015). Customer satisfaction data, again in the market service segment, based on surveys by independent parties, show an improvement in satisfaction with the journey service, reaching 93.6% at year end (93.3% in 2015).

The main developments in the 2016 offer were as follows.

Frecciarossa trains

The roll-out of the new Frecciarossa 1000 trains continued in 2016. They are used on the Turin-Salerno route following two lines of action

- upgrading of trains already carried out with ETR500;
- introducing new commercial train services during peak times.

This also led to benefits on other routes by transferring the ETR500 onto the Po Plain line where the Frecciarossa product and service standard was introduced starting from January 2016 and gradually increased throughout the year. Approximately 60% of the route's Frecce service was provided with Frecciarossa trains at the end of the year.

As part of the upgrading process, the Frecciarossa service was intensified on the Venice-Rome/Naples/Salerno route, in part with additional trains. Furthermore, a pair of direct Frecciarossa links were launched on a trial basis which operate only on weekends from Milan to Brindisi/Lecce.

Work continued on boosting WiFi services. In order to improve WiFi services, Trenitalia launched an upgrading project on ETR500 trains entailing the installation of new more efficient 4G modems that work on new LTE frequency bands. Such upgrading of the entire ETR500 fleet is slated to be completed by December 2017.

The new on-board WiFi portal, FRECCE, standard for all HS trains, was renewed with a completely free offer of films, TV shows, music and news on current affairs, travel information updated in real time and a WiFi internet connection. The new "FRECCE portal" app, available via a free download from the Apple Store and Google Play and providing the same services as the Web portal, was launched in January.

At 31 December 2016, over 800,000 customers had registered with the FRECCE portal and over 1.6 million pieces of content (cinema, music and news) had been viewed, of which roughly 80% on Frecciarossa trains. Approximately 18% of passengers connect to the FRECCE portal every day during their journeys on board Frecciarossa and Frecciargento trains.

In addition to routine optimisation activities and constantly expanding the programming broadcast on the on-board screens on Frecciarossa and Frecciargento trains, the company completed the project to fine-tune how content is provided, thus ensuring the possibility of georeferencing, updates at given times and customised update schedules for commercial journeys. The announcement system was upgraded to create prompter and more passenger-focused announcements.

97.92% of Frecciarossa trains arrived on time or, in any case no more than 0 to 15 minutes late, a slight improvement on 2015 (97.72%). Customer satisfaction data, based on surveys by independent parties, show overall satisfaction with the journey of 95.2% at year end, in line with the previous year (95%).

Frecciargento trains

The availability of Frecciargento materials in 2016, following the upgrading of the Frecciargento ETR600 to Frecciarossa ETR500 on the Venice-Rome/Naples/Salerno route, enabled the company to:

- boost the service offered on the Verona-Rome route, increasing it from 14 to 16 runs a day;
- enter new markets thanks to the roll-out of direct links between Bolzano-Trento-Verona and Naples, between Rome and Mantua, and between Rome and Bergamo.

At year end, the Rome-Reggio Calabria route became 30 minutes faster thanks to its routing via Napoli Afragola.

98.6% of Frecciargento trains arrived on time or, in any case no more than 0 to 15 minutes late, more or less in line with 2015 (98.7%). Customer satisfaction data, based on surveys by independent parties, show overall satisfaction with the journey of 92.5% at year end (2015: 92.8%).

Frecciabianca trains

In January 2016, the company launched a gradual upgrade process on services on the Turin-Milan-Venice/Udine/Trieste axis by progressively transforming Frecciabianca services into Frecciarossa through the use of ETR500 rolling stock.

Starting from the new timetable implemented in December 2015, the entire Rome-Reggio Calabria service was provided using ETR470 material. Replacing the rolling stock on the South Tyrrhenian line meant that the entire Frecciabianca service from Rome to Genoa could use ETR460 material. The company began the process of changing the interior lighting system on the Frecciabianca ordinary material fleet, replacing neon with LED technology, thus ensuring greater brightness, a more comfortable travelling experience and improved aesthetics for the interior decor. This also enabled energy saving and better functioning of on-board electrical systems. The process continued to align the exterior of the Frecciabianca trains with the rest of the fleet, extending it to include the ETR470 fleet. The announcement system was also upgraded on Frecciabianca trains.

96.3% of Frecciabianca trains arrived on time or, in any case no more than 0 to 15 minutes late, and increased with respect to 2015 (94.9%). Customer satisfaction data show overall satisfaction with the journey of 90.8% at year end (2015: 91.5%).

International service

The Italy-Switzerland offer was confirmed for 2016. However, ETR470 material was gradually replaced by ETR610 on the Milan-Zurich and Lucerne lines. The Euro City train programming schedule was launched to broadcast commercial content via on-board screens. Moreover, starting from June 2016, the service was enriched with a new Milan-Basel route via Lucerne.

PASSENGER TRANSPORT - UNIVERSAL SERVICE

In line with the provisions of the long haul public service contract for the 2009-2014 period, the offer model defined by the customer, the Ministry of Infrastructure and Transport, was confirmed by the 2015/2016 rider.

Again in 2016, the Economy and Super Economy fares were still available for Intercity and Night trains, with dedicated price points, and passengers on night trains were offered the Night + HS discount, entailing a special price for travel on HS Frecciarossa and Frecciargento trains leaving from or arriving in Naples and Rome in combination with a night connection to or from Sicily and Calabria.

96.1% of medium and long haul trains falling under the universal service and other services reached their destination on time or less than 15 minutes late, showing an improvement on the previous year (95.8%). Customer satisfaction data show overall satisfaction with the journey of 85.6% at year end (2015: 84.4%).

PASSENGER TRANSPORT – REGIONAL SERVICE

Most of the public service contracts in place with the regions expired on 31 December 2014 and were renewed in 2016.

Specifically, contracts for the Abruzzo, Campania, Marche, Tuscany and Veneto regions were renewed for six years, with an option to renew for another three years (2015-2023), contracts with the Lazio and Umbria regions were renewed for six years (2015-2020), contracts with the Liguria region for three years (2015-2017) and that with the Puglia region for two years (2016-2017). In addition, nine-year service contracts were signed (2016-2024) with the Autonomous Provinces of Trento and Bolzano (December 2015). Trenitalia S.p.A. signed a temporary service contract with the Emilia Romagna region for the period from July 2016 to December 2018. The region awarded the service as of 2019 (22.5 years) to the consortium of Trenitalia S.p.A. and TPER via public call to tender. The renewal of the service contract with the Basilicata region (six years, renewable for another three years) and the direct assignment of the service contracts with Sicily (for ten years) and Sardinia (for nine years) are under negotiation. Negotiations began with the Molise and Calabria regions for a possible agreement with the Valle d'Aosta region for a temporary contract until the call for tenders is carried out. The contract with the Friuli Venezia Giulia region will expire on 31 December 2017.

The service contract with the Piedmont region expired on 31 December 2016 and an agreement has already been formalised for a temporary contract. Under the service contract with the MIT, only the so-called undivided services in the north-east area (mainly Verona-Brennero and Trieste-Venice) remain.

The results achieved in the last two years enabled Trenitalia S.p.A.'s customers to renew their trust in the company. Indeed, the commercial proposals made have been positively received, in terms of quality of services offered, cost containment and investments made in upgrading the fleet and on-board technologies.

The percentage of regional transport trains that arrived within 0 to 5 minutes of the scheduled time was 96.6%, showing a good improvement on the previous year (95.4%).

Customer satisfaction data have progressed substantially. In particular, overall passenger satisfaction reached 79.6% in 2016, compared to 76.1% in 2015. More specifically, the perceived quality of cleanliness on board regional trains improved considerably, rising from 62.6% in 2015 to 65.6% in 2016.

A series of initiatives have been carried out to improve service quality and make services easier to use, as well as to curb and combat evasion and avoidance, in particular:

- paper tickets have been replaced by e-tickets which indicate the origin and destination of the journey;
- ordinary regional tickets are now valid for one day rather than 60 days. The date is chosen upon purchase and is indicated on the ticket;
- after being validated, tickets are now valid for four hours, reduced from six hours;
- ordinary regional tickets can now be purchased four months (up from two) before the journey and up to five minutes (rather than twenty) before train departure, including those purchased digitally;
- in addition, passes purchased digitally no longer need to be printed. The end aim is the complete digitalisation of this service with no paper tickets, using tools like smart cards to facilitate the integration, including of fares, of the various modes of transport;
- the project to replace the old self service ticketing machines was completed, with the installation of 1,334 new devices at the main traffic hubs and crowded areas, such as universities and trade fair grounds. The new self service machines are much easier to use, enabling customers to buy any product in Trenitalia S.p.A.'s domestic offer using cash, credit cards or direct debit cards;
- new ticket punchers have been installed, making it possible, *inter alia*, to use new ticket recognition technologies, such as barcodes and microchips.

CARGO

Cargo transport continues to be affected by the uncertainties and difficulties of the macro-economic situation, with some sectors beginning to show signs of limited recovery, such as the automotive, steel and tooling mechanic sectors.

In 2016, an important process began to relaunch the cargo sector, by setting up a cargo and logistics hub aimed at boosting the share of rail transport and achieving important targets in the new 2017-2026 business plan.

Traditional traffic as a whole fell despite the positive signs from some rail-oriented sectors such as automotive and steel. The overall results were negatively impacted by problems in the chemical and raw materials sectors due to the unfavourable economic situation and some customers' reduction of traffic.

The combined transport data reconfirmed the results of the previous year, closing with a slight drop in cargo transported supported by a modest increase in domestic traffic to and from ports and unchanged volumes of traffic by land. Against this backdrop, the Cargo Division's overall revenue was 3.3% lower than in 2015.

Road transport

The Busitalia Sita-Nord group (also referred to as the "Busitalia group") handles most of FS Italiane group's road transport operations.

With respect to customer services, in the first few months of 2016, a new section dedicated to the regional offer in Umbria was added to the website (www.fsbusitalia.it), organised by service type and including all information for travellers in the region. The first Service Charter for Umbria was also issued for the local service in the region, with performance indicators for urban, suburban, railway and ferry services and a commitment to improve the service. At the same time, work continued in the year to restyle the places where customer see the Busitalia logo (opening hour signs, timetables, main ticket counters, tickets and maps).

To improve land use and develop integrated travel models, as previously noted, in the first few months of 2016, the "*BUS* & BICI" service was launched on the Terni – Scheggino and Spoleto – Norcia lines and extended in July. Equipped with bike racks, the buses enables cyclist tourists to enjoy itineraries throughout Valnerina and the former Spoleto - Norcia railroad track and bring their bikes on the bus. The "*BUS* & BICI" project, along with other similar initiatives, was presented at the Ecomondo trade fair to demonstrate the group's commitment to sustainable mobility. At institutional level, the Busitalia group has also ensured its presence at other Italian and international trade fairs, along with other FS Italiane group companies. Finally, for people affected by the earthquake in Umbria, the Busitalia group provided transport services in this region to take groups of Norcia and Cascia residents to the hotels at Trasimeno Lake and in Corciano and Perugia.

In Tuscany, the group continued to hold co-marketing campaigns to publicise events and projects, using advertising space on board buses, on the website, etc., to offer discounts and promotions to all ticket or travel pass holders for exhibitions, cinemas, trade fairs, and more. In January 2016, five new and modern double decker buses were commissioned for passengers on the Florence - "The Mall" route, with 84 seats each and the most sophisticated safety, environmental (Euro 6 engines to minimise harmful emissions and consumption), comfort and design (full sunroof for extra light, individual USB outlets for all seats, etc.) features. Sales have also been launched on the Busitalia e-commerce website for service to/from the "The Mall" outlet, offering passengers the convenience of online ticketing. The range of services offered to/from the outlet was completed in 2016 with the door-to-door pick-up and transport between hotels and the "The Mall".

In the scope of customer care and customer satisfaction analyses, the company developed new monitoring systems in both Umbria and Tuscany for customer satisfaction surveys by moving towards a consistent methodology for several municipalities, while preserving their specific particularities and needs. In May 2016, the first survey for Busitalia services was conducted in Umbria: urban and suburban bus services, railway services, ferries and alternative mobility. The overall satisfaction rating was 89.4% for suburban services and 95% for urban services in the cities of Perugia, Terni, Foligno, Spoleto, Orvieto, Assisi and Todi. The survey of suburban bus service macro-factors showed that satisfaction was highest for "safety", i.e., travel safety (prudent driving), with 90.5%, and on-board safety, while the micro-factor with the most room for improvement was "cleanliness" (65.8%). In urban services, information provided to customers (i.e., an overall score of the entire information offer) was the aspect that received the highest score (94.7%), while the macro-factor with the least satisfaction was "cleanliness of vehicles and structures", although it still showed a satisfaction rating of 80.3%. In Umbria, alternative mobility was surveyed (satisfaction rating of 96.3%), along with railway transport (satisfaction rating of 76.6%) and ferries (satisfaction rating of 97.4%). On the other hand, monitoring in Tuscany received an overall score of 85.6% for suburban services (up from 80.8% in 2015), again with the "safety" macro-factor receiving the highest satisfaction rating, 88.6% (travel safety - prudent driving - on-board safety), while the aspect with the most room for improvement was "service regularity and organisation" (including punctuality, regularity and frequency of runs), with satisfaction of 62.4%, which is, in any case, up on the previous year (58.9%). In the same period, satisfaction with

market services in Tuscany connecting the A. Vespucci airport market to “The Mall” outlet was surveyed using a specific model tailored to the type of service.
The group ensures it listens to customers through the regular, systematic management of complaints and reports using the tools given to customers (telephone numbers, traditional mail, email and the “Customer’s voice” form on the website to enable a rapid, well-structured way to send reports), with a view to defining one single management system for reports, which is optimised for both the back office and front office. The Service Charter was also regularly updated and issued for services in Tuscany, with respect to both suburban transport, offered by SCARL Autolinee Chianti Valdarno e Autolinee Mugello Valdisieve which Busitalia Sita-Nord owns, and market services (service to/from the “The Mall” outlet and the Florence airport).

Safety in railway operations The European Railway Agency (“ERA”) was set up pursuant to EU Directive no. 2004/881 to create a borderless European railway space, increasing the interoperability of railway systems and to develop a common culture of railway safety. In terms of safety, to monitor accidents, the ERA refers to the regulations under EU Directive no. 2004/49 and EU Directive no. 2014/88, which updated Attachment I concerning the common safety indicators and methods used to calculate the costs of accidents. Under the principles of EU Directives, an accident is considered significant when at least one moving railway vehicle is involved and if it causes at least one death or serious injury or damage exceeding €150,000 to the tracks, plants or environment, or if it stops traffic for six or more hours.
Accidents that occur on tracks that have been taken out of service, even temporarily, accidents in traffic operations (depots, workshops) and those caused voluntarily (suicides or vandalism) are not considered significant. In Italy, ANSF performs the duties provided for by EU Directive no. 2004/49 for the entire domestic railway system. It was established by Legislative decree no. 162/2007, which implemented the aforementioned EU directive.
There were 89 significant accidents on the railway lines managed by FS Italiane group’s infrastructure operator in 2016 (-9 on the 98 of 2015), of which only 3 were attributable to internal causes (1 derailment and 2 collisions).
The events that occurred in 2016, compared to 2015 data are summarised below according to the criteria established by the relevant EU legislation:

- 2 train collisions, compared to 5 in 2015;
- 2 derailments, compared to 3 in 2015, 1 of which was due to external reasons;
- 9 people were hit at railroad crossings overall, i.e., including pedestrians hit at closed railroad crossings, compared to 19 in the previous year;
- 73 serious accidents to people caused by moving rolling stock, compared to 67 in the previous year. This type of accident includes: people falling from moving railway vehicles (either passengers or railway personnel) and people being hit by vehicles (railway personnel and third parties);
- 3 accidents which, as they do not fall into any of the other categories, are classified as “other”, compared to 2 in 2015;
- 0 accidents due to fires involving rolling stock with serious consequences, compared to 2 accidents in 2015.

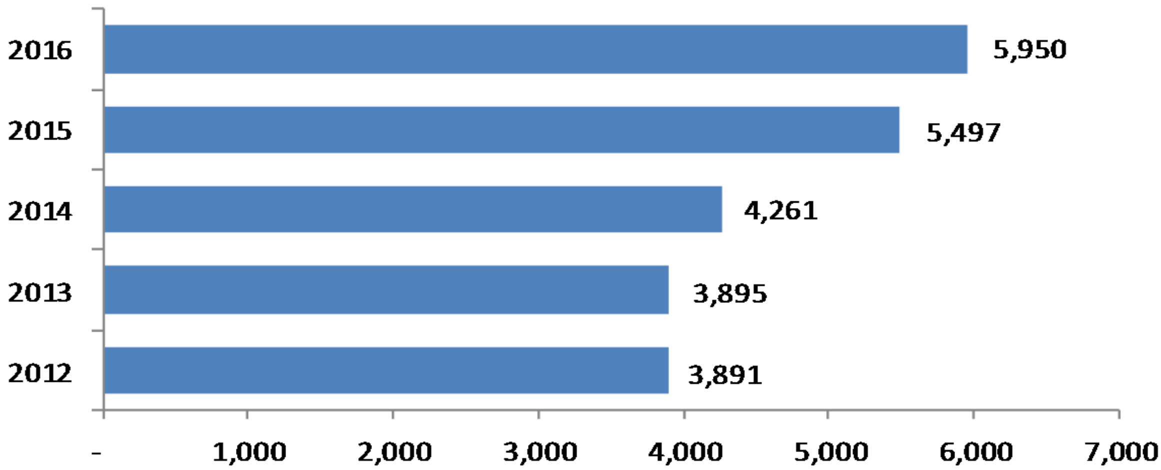
The considerable decrease in accidents at railroad crossings and the slight increase in accidents involving people caused by moving rolling stock are worthy of note. Both categories of accidents are due to voluntary, deliberate actions by people and, accordingly, could not be foreseen or prevented.
With respect to the consequences of these accidents on people, the number of deaths and serious injuries was 86 (61 deaths and 25 injuries). The most frequent cause of accidents leading to death was people illicitly accessing and crossing the railway tracks.

Investments

In Italy, the recovery of investments which began in the last few months of 2014 continued in 2016 thanks to the momentum regained by investments in plant and machinery (+2.8%), while investments in construction are still facing difficulties in recovering from the long downturn which began in 2008 (+0.9%).

However, according to experts, the recovery is moderate since investments in plant and machinery have not yet exceeded pre-crisis levels, unlike other major countries of the Eurozone. This is due to the increased sensitivity of demand to the political uncertainties, despite the many stimulus factors. Although the recovery is unfolding in an investment-poor context in which the market does not generally ensure the replacement of assets which become obsolete year after year (investments/depreciation ratio <1), FS Italiane group has managed to continuously implement its Investment plan and has maintained, from 2012 to date, an average investment/depreciation ratio of above 1 (1.67 in 2016 with an average of 1.6 since 2012). Furthermore, it has shown, again in 2016, an upwards trend in investment expenditure, confirming its position as the leading investor in the development of transport, infrastructure and logistics.

FS Italiane group's total spending for investments in 2016 came to €5,950 million (€1,649 million of which self-financed and €4,301 million through government grants) and it continues its targeted trend of the past few years, showing significant growth (+8.2%) on the previous year's already very large amounts.



This being said, FS Italiane group's[13] investments in plant and machinery totalled €6,018 million in 2016 (+6% on a like-for-like basis) up on 2015 due to projects involving the infrastructural network and the purchase/renewal of road and rail transport vehicles.

Approximately 71% of investments refers to the Infrastructure operating segment, with RFI S.p.A. investing a total of €4,173 million, while those of TELT Sas, which is in charge of constructing and operating the future Turin-Lyon cargo and passenger infrastructure, amounting to €81 million. Roughly 27% of investments refers to the Transport segment, specifically road and railway passenger services, both in Italy and abroad, and cargo transport services. Specifically, Trenitalia S.p.A. invested €1,557 million, Netinera Deutschland approximately €53 million and the Busitalia group companies, which operate in the Italian road transport sector, about €24 million. The Real estate segment accounts for

[13] They include works related to special-purpose entities (TELT and BBT)

approximately 2% of the group's investments and they mainly related to Grandi Stazioni S.p.A. (now Grandi Stazioni Rail S.p.A.) and Centostazioni S.p.A. to relaunch and improve the main railway stations, which are being redesigned as large service centres for cities and which, based on the group's 2017-2026 business plan, will become fully integrated mobility hubs.

Specifically, RFI S.p.A. invests as defined by the Government Programme Contract in accordance with the strategies agreed at EU and national level.

RFI S.p.A. has invested considerably in maintaining the efficiency of the national railway network and introducing innovative technologies to improve railway operating safety and management (TSCS, CCS, ERTMS, GSMR, etc.), achieving excellent results in these domains. Its commitment in these areas and actions taken to boost and reshape the capacity of the railway system offer by developing new railway lines is meant to ensure, in accordance with the 2017-2026 business plan, a railway network that is increasingly:

- integrated with the European network to create a single, interoperable railway market that is interconnected with other transport systems (roads, ports and airports) to offer integrated infrastructural services;
- widespread, branched out and connected with local companies to create a regional transport network with extensive coverage;
- customer centred, capable of creating added value for customers by offering solutions that are completely in line with their actual requirements;
- innovative and safe, featuring avant-garde and highly automated technologies;
- high performance, capable of ensuring high levels of reliability and regularity;
- environmentally and socially sustainable to help reduce the consumption of non-renewable resources and promote land development;
- efficient and profitable, capable of creating value and ensuring the adequate remuneration of invested assets, while guaranteeing sustainable public contribution levels at the same time.

RFI S.p.A. has invested a total of €4,173 million in 2016, including €4,007 million in the traditional/HC network and €166 million in the HS/HC Turin-Milan-Naples network. Its investments were for:

- maintaining the efficiency of infrastructure and projects carried out around Italy, accounting for 63%;
- construction of works for large infrastructural development projects, making up 37% and including the strengthening of corridors, metropolitan areas and regional catchment areas.

€363 million (roughly 9% of total spending) was invested in avant-garde technologies.

In 2016, design activities regarded:

<u>Definitive designs</u>

- railway connections to/from the Venice airport;
- making the Pescara - Foggia route a high speed line;
- laying double tracks on the Montecatini - Lucca, Frasso - Vitulano, Apice - Irpinia, Termoli - Ripalta and Giampilieri - Fiumefreddo lines;
- technological improvements at Milano Porta Garibaldi and the Voltri Mare hub (functional phase 1);
- technological upgrade of the Ferrara-Padua line;
- updating the central command at Venezia Mestre;
- the central computerised multi-station device for the Priverno-Minturno line.

Furthermore, the main roll-outs regarded the following infrastructures:

- the HS/HC Treviglio - Brescia line;

- laying double tracks on the Andora - S. Lorenzo and Fiumetorto - Campofelice lines;
- track variations in Cassano, Tarsia and Torano to improve the Metaponto - Sibari - Bivio S. Antonello line;
- a new stop at Ponte di Nona as part of the Rome hub;
- new stops in Guadagna and Lolli as part of the Palermo hub;
- upgrade the central computerised device (CCD) at Rome Termini;
- the central computerised device (CCD) at: Livorno Centrale, Grosseto, Ancona, Rome San Pietro, Casilina on the current railway level, S. Marcellino and Ponte Gardena;
- the central computerised multi-station device at Genoa Voltri and on the Verona Porta Vescovo - Altavilla, Avigliana - Collegno, Collegno - Torino Porta Susa and Altavilla - Padua Centrale (technological upgrade to the Turin-Padua route) lines;
- the central computerised multi-station device for the Casilina - Campoleone line;
- the command and control system (CCS) on the Aversa - Villa Literno and Cancello – Palma lines.

The following table shows 2016 activation volumes, broken down by type and comparative data for the previous two years.

		2016	2015	2014
HS/HC NETWORK				
New lines	**km**	**-**	**-**	**-**
TRADITIONAL NETWORK				
New infrastructure	**km**	**91**	**11**	**20**
New lines	km	91	11	20
Double tracks	km	-	-	-
Variations	km	-	-	-
Updating lines		**82**	**78**	**103**
Electrification	km	-	-	-
Blocks	km	82	78	103
Safety technology	**km**	**551**	**426**	**552**
TSCS	km	162	23	35
SSC	km	-	-	-
CCS/CTC	km	389	403	322
ERTMS	km	-	-	-
GSM-R	km	-	-	195
Station devices	**no.**	**18**	**13**	**15**
ARIS	no.	6	10	11
Computer-based interlocking system	no.	12	3	4
Train crossing elimination	**no.**	**34**	**56**	**52**
Train crossing automation	**no.**	**-**	**-**	**-**

Extraordinary Commissioner

With Law no. 21 of 25 February 2016, the “Conversion of Decree law no. 210 of 30 December 2015”, RFI S.p.A.’s CEO and General Manager was named Commissioner for the construction of works on the Naples – Bari and Palermo-Catania-Messina railway routes, replacing FS S.p.A.’s CEO and General Manager, previously appointed with article 1 of Decree law no. 133/2014 (known as the “Get Italy Moving” decree). The term of office was extended to 30 September 2017, past the originally established two years established under Decree law no. 133.9-*bis* of 2014.

The Commissioner approved the definitive projects for the following works:

- “Naples - Bari route”: work on the Cancello-Naples line for integration with the HS/HC line with ordinance no. 21 of 16 May 2016;
- “Naples - Bari route”: Cancello and Dugent / Frasso Telesino 1st functional lot and change to the historical Rome - Naples via Cassino line in the municipality of Maddaloni with ordinance no. 22 of 16 May 2016;

- “Naples - Bari route”: laying of double track on the Cancello – Frasso Telesino line and change to the Rome – Naples via Cassino line in the municipality of Maddaloni with ordinance no. 24 of 13 July 2016.

The Commissioner also approved the preliminary projects for the following works:

- “Naples - Bari route”: laying of double tracks on the Frasso Telesino – Vitulano line with ordinance no. 25 of 1 September 2016;
- “Naples - Bari route”: laying of double tracks on the Apice - Orsara line with ordinance no. 27 of 1 December 2016.

RFI S.p.A. also upgrades, redevelops and restructures real estate assets at the roughly 2,300 stations that it owns.

At the 14 largest railway stations (where retail activities have been entrusted to Grandi Stazioni Retail S.p.A. for management), RFI S.p.A. invests specifically in extraordinary maintenance (not including commercial areas) and work to meet legal obligations. At the end of 2016, the cumulative percentage of completion of this work equals 95% of the total amount of the work for which RFI S.p.A. is responsible.

The percentage of completion of investment spending on the 103 medium-sized stations (managed by Centostazioni S.p.A.) is approximately 79% of the total amount of the work for which RFI S.p.A. is responsible.

In accordance with the targets set in the 2017-2026 business plan for the development of local public transport, activities continue on the three projects to improve customer services at the stations (at 31 December 2016, approximately €392 million had been spent):

- raising platforms (to the 55 cm standard height);
- implementing an information system with digital messages for the public;
- improving station accessibility (lighting, lifts, ramps, tactile routes and maps, fixed signs, overhangs, etc.).

In 2016, work continued to redevelop the main 500 stations that RFI S.p.A. directly manages to make them easier for customers to use.

The project covers a variety of areas that differ but all are consistent with the business. They include the following:

- investments - resources have already been committed for projects on 65 stations to improve accessibility (including raising platforms to the standard height of 55 cm), lighting and public information and for standard extraordinary maintenance;
- commercial development - a feasibility analysis was commenced to identify available spaces, management models and focus on certain commercial services;
- improvement in comfort - furniture is being renovated (interior and exterior benches, waste bins, ashtrays, etc.) currently involving 170 stations;
- improvement in cleanliness and tidiness – a minimum work plan was introduced (medium/high level) to keep the stations included in the project clean. The plan will be extended to cover the network of all stations concerned, starting with the new contracts for 2017;
- facilitation of modal exchanges (car parks): the stations involved in the project already have 23 operating car parks under management by Metropark S.p.A. and another four car parks have been included in the development plan for 2017. Furthermore, a joint round table has been set up (for technical and commercial issues) to discuss the feasibility and potential returns on another 25 new car parks.

The traveller service has been rolled out at the following new HS stations: Torino Porta Susa, Reggio Emilia, Bologna Centrale and Rome Tiburtina. Below is the progress of related work (e.g., modal interchange car parks and access roads):

- Torino Porta Susa - this station opened to the public in 2013. Work to complete the station is underway after the contractor became insolvent in early 2016, and a new contractor has taken over the contract to complete the station.

On 19 December 2016, two parking levels were opened and delivered to Metropark S.p.A.. Both the station and car park are slated for completion in 2017;

- Reggio Emilia - the station began operating in 2013. Access roads are now complete and commercial operations opened to the public (newspaper stand, bar and tobacco shop), along with passenger services (waiting room, NTV S.p.A. and Trenitalia S.p.A. assistance);
- Bologna Centrale - the station began operating in 2013. Work on the underground car park was also completed at the two ends of the underground station;
- Rome Tiburtina - the station was opened in 2011. Activities functional for the operation of the station were completed and the work completion report was signed on 21 September 2015. The technical/administrative inspection is under conclusion and activities are continuing to update fixed signs, which should be complete by the end of the first half of 2017.

The new HS stations being designed and/or under construction are: Florence Belfiore, Naples Afragola and Vesuvio Est. The progress of work is as follows:

- Florence Belfiore: as part of the contract with the general contractor ("GC"), the railway bypass between Florence Castello and Florence Rifredi (Lot 1) was built and opened in 2011. Following the completion of the construction on all the HS station posts, the level 0 ceiling is being built and will be completed within the first quarter of 2017. The work site for the HS bypass is still inactive as, after the Ministry of the Environment expressed an opinion on 15 April 2016 on the classification of the soil excavated for the bypass, the GC sent an updated earth soil use plan requested on 22 November 2016 and the Ministry of the Environment and Land and Sea Protection is currently carrying out preliminary activities. The critical lack of landscape authorisation (it expired) for the bypass (south section) was resolved when the Florence municipal authorities re-issued it on 31 March 2016. A review of the project for the HS station was commenced in accordance with agreements with the MIT, Tuscan regional authorities and the Florence municipal authorities, which will take effect pending the outcome of the review;
- Napoli Afragola - the work is expected to be completed in April 2017 and the HS commercial service is slated to start in June 2017. The part of the station serving regional traffic will be made available when the "Naples – Cancello change" section is activated;
- passenger building at the Vesuvio Est Station – the work is included in the 2016 update to the 2012-2016 Government Programme Contract in Section 2 - Programme works. With resolution no. 26 of 10 August 2016, the Interministerial Committee for Economic Planning ("CIPE") approved the "Agreements for the South - railway and underground sector" resources and the specific project was included in those financed using Development and Cohesion Fund resources earmarked for the Campania region, amounting to €36 million from the 2014-2020 Development and Cohesion Fund. Accordingly, the activities were rescheduled and, if the financial resources are made available in the first half of 2017, the work will be rolled out by 2021.

In 2016, Trenitalia S.p.A. invested €1,557 million, 63% of which to purchase rolling stock, approximately 5% to recondition material that was already operating, 24% for maintenance to enhance the rolling stock fleet and the residual 8% for technological upgrades to vehicles and IT systems and to maintain and develop maintenance plants.

The main investment projects are described below, broken down by business segment:

- Long Haul Passenger Transport (investments of €630 million): roll-outs of the "Frecciarossa 1000" continued with 23 HS trains delivered in the year (-€614 million) making the total of operating trains 41. Work is underway to restructure and reinforce maintenance plants in order to create integrated maintenance hubs for HS fleet maintenance and reconditioning, particularly at the Naples and Milano Martesana plants and the new Turin shunting maintenance system. Furthermore, renovation work is still underway on Trenitalia S.p.A.'s ticket counters and commercial spaces at the main stations (approximately €1 million). ICT activities mainly relate to revenue management systems and the development of new customer service functions for hand held devices;

- Universal Passenger Transport Service (UPTS) (investments of €21 million): work mainly concerned the reconditioning of Intercity vehicles (approximately €8 million) and revamping the E 402 A locomotives (roughly €3 million);
- Transport Regional Passenger Transport (investments of €455 million): 23 electric Jazz trains (cost of approximately €132 million), 133 double decker Vivalto carriages (roughly €189 million), six new diesel Swing trains (-€5 million, net of advances paid in previous years of approximately €17 million), and three of the seven new Flirt trains to be used in the railway service of the Bolzano province (approximately €36 million) were delivered in the year.

  In June, Trenitalia S.p.A. concluded the procedure to contract the construction of new trains to be used for regional transport. In assessing the bids, the tender, worth an estimated maximum of approximately €4.5 billion, was awarded to the offer with the best value for money and prioritised the most sophisticated and effective technical solutions proposed. The first lot for the supply of 150 medium-capacity trains (minimum of 200 seats) was awarded to Alstom Ferroviaria S.p.A. for a total framework agreement amount of €904.8 million and a term of six years (renewable up to a maximum of three more years). The second lot for 300 high-capacity trains (minimum of 450 seats) was awarded to Hitachi Rail Italy for a total framework agreement amount of €2,589.7 million and a term of six years (renewable up to a maximum of three more years). The framework agreements for the first two lots were signed in the second half of the year. Simultaneously, the first two framework contracts were signed as per the contract with the Emilia-Romagna region, as mentioned earlier and purchase plans have commenced for 39 high capacity electric trains and 47 medium capacity trains.

  Revamping projects underway include the face-lift of medium haul carriages to improve comfort and updates to safety standards (roughly €31 million), along with upgrades and the Infotainment system for TAF trains (approximately €10 million) and changes to the door system on medium haul carriages, the low floor carriages and ALN 668/663 vehicles (about €12 million).

  Finally, work was carried out to update and streamline the division's systems (approximately €9 million) and the on-board technological system was implemented on 70 semi-pilot carriages (roughly €5 million);
- Technical Department (investments of €23 million): work mainly consisted of technological upgrades to workshops for approximately €7 million, particularly the strengthening of infrastructure at the Vicenza site;
- Transversal business investments: the company invested some €12 million in relation to on-board technologies for the safety of railway operations, the on-board technological system and to put a security officer in trains once more upon ANSF's request
- ITC investments entailed the upgrade of the sales platform by integrating various sales channels and developing the Infomobility feature which also includes developments related to the Smart Card for local public transport (roughly €4 million). A business continuity solution is under development for company processes and applications (approximately €5 million). Finally, there have been investments to extend licensing management (around €4 million) and the dynamic maintenance management system project to make the maintenance process more efficient (some €5 million).

The table below shows deliveries of the main materials purchased and the roll-out of renovated rolling stock.

NEW MATERIAL	no. of vehicles
Locomotives	
Long Haul Passenger Transport	-
Regional	-
Carriages	**133**
Long Haul Passenger Transport	-
Regional: double decker	133
Trains	**55**
Long Haul Passenger Transport	
Frecciarossa 1000 trains	23
Regional	
Jazz	23
Swing trains	6
Flirt trains	3

RECONDITIONED MATERIAL	no. of vehicles
Locomotives	**62**
Long Haul Passenger Transport	-
Regional	62
Carriages	**475**
Long Haul Passenger Transport	-
ES City	-
InterCity (Universal service)	25
Frecciarossa Bistrot carriage	-
Regional	
Double decker	222
Medium haul	158
UIC-X semi-automated	-
Cargo: Carriages	70
Trains	**94**
Regional	
TAF trains	44
Minuetto trains	50

Investment funding

Government Programme Contracts to manage maintenance (GPC-S) and infrastructural investments (GPC-I)

In accordance with that established by the Interministerial economic planning committee ("CIPE") in resolution no. 4 of 2012, the railway infrastructure operator and the MIT signed two separate contracts, detailed as follows:

- Government Programme Contract – Services (GPC-S) to regulate all funding of ordinary and extraordinary maintenance of the national railway network. The GPC-S also governs relationships between the operator and the government with respect to grants related to income for railway network management processes (railway traffic, safety, security and navigation) and assistance services for people with reduced mobility;
- Government Programme Contract – Investments (GPC-I) to regulate the planning of investments to develop infrastructure and investments relating to safety, legal obligations and technologies, in keeping with national and EU strategic guidelines for financial planning.

Government Programme Contract – Services (GPC-S)

Pursuant to article 7 of Decree law no. 210 of 30 December 2015 containing the "Extension of deadlines established by legislation", the GPC-S for 2012-2014 was extended to 31 December 2016 at the same terms and conditions to complete the new 2016-2021 GPC-S formalisation and approval process.

The definition of the new 2016-2021 GPC-S format is substantially consistent with the previous contract, introducing changes in accordance with developments with the applicable legislative and regulatory framework (in particular, Legislative decree no. 112/2015 and ART resolution no. 96/2015 defining the principles and criteria for the determination of fees to access the railway infrastructure). CIPE examined and approved the agreement for the new configuration at its meeting on 10 August 2016 and the approval process required by Law no. 238/1993 is pending completion.

Government Programme Contract – Investments (GPC-I)

With respect to the 2016 update, on 13 April 2016, RFI S.p.A. presented an initial outline of the update considering the new financial framework that was defined following the enactment of the 2016 "Legge di Stabilità". Following discussions between the MIT, the regions and RFI S.p.A., on 23 May 2016, the MIT was sent an updated version of the update, within the deadline established by CIPE resolution no. 112/2015 and in accordance with the schedule agreed with the MIT. After certain formal requests from the MIT were met, the final version of the update was sent to the MIT on 8 June 2016 and signed by the MIT and RFI S.p.A. on 17 June 2016, which CIPE approved during its meeting on 10 August 2016. Article 10.1 of Law no. 225 of 1 December 2016 converting Decree law no. 193 of 22 October 2016, known as the "Tax decree" approved the 2016 update of the Government Programme Contract. The 2016 update entails the contractual agreement of additional financial resources of €9,271.6 million and de-financing of approximately €338 million.

The contractual update implements the CIPE's instructions, which it gave when it approved the previous 2015 update, regarding:

- the preparation of specific project tables indicating the technical and financial developments of the individual works in the 2016 update of the GPC-I;
- 2016 assignment of the funding necessary to fully finance the "Pescara - Bari line: laying of double tracks on the Termoli - Lesina section".

Furthermore, on 1 December 2016, CIPE approved the MIT's infrastructure operating plan for the 2014-2020 Development and Cohesion Plan, which provides for investments of €11.5 billion and consists of six project areas with financial resources available for work in the railway sector of approximately €2 billion ("Development and Cohesion Plan Control Body"), resources that will be contractually formalised in the next GPC-I for 2017-2021.

11 December 2016 saw the issue of Law no. 232 "Government budget forecasts for the 2017 fiscal year and 2017-2019 budget" (known as the "2017 Budget Act") which provided for:

- the establishment of a specific fund to ensure the funding of investments and infrastructural development in Italy, as provided for by the MEF, with €1,900 million earmarked for 2017, €3,150 million for 2018, €3,500 million for 2019 and €3,000 million for each of the years from 2020 through 2032. use of the fund is authorised by one or more decrees of the Prime Minister upon the MEF's proposal, in collaboration with the concerned ministers, with respect to the plans promoted by the government's central administrations;
- the authorisation of the funding under the new Government Programme Contract – Investments for 2017-2021 between the MIT and RFI S.p.A., with allocation of €10 million for 2017, €32 million for 2018 and €42 million for each of the years from 2019 through 2022 for the new Ferrandina-Matera La Martella railway line.

The Institutional Development Contract (IDC)

The Institutional Development Contract (IDC), established by article 6 of Legislative decree no. 88/2011 governs the additional funds and special projects to eliminate socio-economic disparity and is aimed at speeding up the completion of projects on the major lines in Southern Italy under the Government Programme Contract – Investments.

In 2012, IDCs were signed for the construction of the Naples-Bari-Lecce-Taranto railway line (including the Potenza-Foggia line) and for the completion of the Salerno-Reggio Calabria railway line. On 28 February 2013, the third IDC was signed for the construction of the Messina-Catania-Palermo railway line. In 2016, RFI S.p.A. regularly updated the specific monitoring of the project management system.

The Implementation and Oversight Committee held meetings in July and December 2016 regarding the three IDCs, during which the committee discussed the progress made in implementing the projects included in the contracts. In particular, during the July meeting, the committee examined and discussed the annual report on the status of implementation of the IDCs, which the single contract manager had prepared in accordance with the contract.

The "Objective" Law

The main events in 2016 within the scope of the strategic infrastructures provided for by the "Objective" Law (Law no. 443/2001) were as follows:

- article 217.1 of Legislative decree no. 50 of 18 April 2016 repealed article 1.1-5 of Law no. 443 of 21 December 2001 (known as the "Objective" Law) and Legislative decree no. 163 of 12 April 2006 (Public contract code for works, services and supplies in implementation of EU directives no. 2004/17/EC and no. 2004/18/EC). All of Part V (articles 200-203) of the resolution also identifies, as new planning and programming tools, the General Transport and Logistics Plan and the Long-Term Planning Document, which will include the list of infrastructures of national interest. The first Long-Term Planning Document to be approved within one year of when the resolution takes effect must also include information on the procedural, physical and financial status of each work included. Until the approval of the first Long-term Planning Document, the planning and programming tools that have already been approved under current procedures apply to investment programming for infrastructure and transport. Furthermore, the ordinary rules must be followed for the investments rather than special laws as in the past. Indeed, the new guidelines are set forth in the articles of Part V, mentioned above;
- the following decisions were taken during the CIPE meeting on 10 August 2016:
    - the construction of the 4th lot on the HS/HC Milan - Genoa - Giovi third railway crossing worth €1,630 million was authorised, and RFI S.p.A. was allocated resources to fully fund the lot;

- the definitive project for the technological and infrastructural upgrade on the “tunnel below the bed of the Fiumicello River” of the Battipaglia - Reggio Calabria railway line was approved;

- on 12 August 2016, resolution no. 17/2016 was published in the Official Journal no. 188, whereby CIPE approved the start of construction of the 4th construction lot for the Brenner base tunnel worth a total of €1,250 million, assigning RFI S.p.A. work worth €1 billion.

GROUP PROJECTS/TRANSFERS OF PUBLIC FUNDS RELATING TO 2016

millions of Euros

	RFI	Ferrovie dello Stato	Trenitalia	Grandi Stazioni	Mercitalia Logistics	Cemat	Busitalia Ataf	Total
Operations								
Government Programme Contract	975.6							975.6
Other government grants			4.4		0.1	0.1		4.6
EU grants			0.6					0.6
From local public bodies							6.6	6.6
Investments								
Governments grants	3,107.3	45.3	40.5	6.1				3,199.2
From local public bodies			13.2				5.6	18.8
From the EU	5.2		0.4					5.6
Total	**4,088.1**	**45.3**	**59.1**	**6.1**	**0.1**	**0.1**	**12.2**	**4,211.0**

Research and development

Development activities

The group's investments in development in 2016 totalled €46.3 million, entirely borne by RFI S.p.A. Approximately 78% was allocated to traffic safety technologies, while the remaining 22% was allocated to studies and testing of new components and systems.

Below is a summary of the main activities carried out in 2016 in connection with projects that began in both the year and previous years:

- with respect to the ETR 1000 test train, specialist support activities were completed on the superstructure for runs on the Turin - Milan HS line, while test runs began on the Rome - Florence ultra-express line and those on the HS Rome - Naples route were scheduled. In particular, on the HS Turin - Milan and Rome - Florence ultra-express line, testing was completed on the different ways of laying stone chippings on the bed and different configurations for switching instrumentation to test stress at speeds faster than current commercial speeds;
- in collaboration with Università di Napoli Federico II in Naples, the group completed an analysis of the transversal stability of the reinforced track built with pre-compressed reinforced concrete sleepers and equipped with underlying sleeper pads to improve geometric track quality, as well as a study of the stability of the track using different configurations and the experimental use of drones to inspect railway bridges;
- in collaboration with the Scuola Superiore Sant'Anna di Pisa, developments continue to monitor infrastructure using fibre optic sensors, along with the testing of wide spectrum transmission techniques to expand the data transmission grids supporting RFI S.p.A.'s technological systems;
- in collaboration with the Politecnico University of Milan, testing continued on the light diagnostic system to check the quality of train/track quality, which connects with a central command station to dispatch findings in real time and alarms when certain thresholds are exceeded, which can lead to problems on or off board the train (infrastructure or contact lines);
- tunnels: mechanical surveying was completed to verify the conditions of wall coverings in more than 330 tunnels (spanning a total of approximately 240 km) and over 160 tunnels (spanning a total of approximately 180 km). These activities will make it possible to plan extraordinary maintenance/reconditioning design for the tunnels examined;
- monitoring systems: works continued for the integrated monitoring system (MISTRAL) which will provide objective support for the analysis of irregularities in the off-board and on-board ERTMS/ETCS systems;
- safety systems: executive design, construction, inspection and on-site testing are underway on four prototype monitoring/alarm systems to protect the railway bed from rapid falling masses and collapses (including large objects falling, narrow and widespread landslides and sink holes) in collaboration with the Research Centre for the Prediction, Prevention and Control of Geological Risks at the Università degli Studi di Roma La Sapienza;
- transversal load measurement systems: the design and supply activities continue for prototypes of a system to measure transversal loads of rolling stock on the track.

Research

In 2016, RFI S.p.A. handled the group's research. It continued to participate in:

- the research cluster on transport for the railway sector, TESYS RAIL, co-financed by the Ministry of Education, Universities and Research;
- the European In2rail research project to determine track geometry using diagnostics on commercial trains and the identification of the non-destructive systems to determine the neutral track temperature;
- the revision of the EN 50129 standard (for the development of electronic signalling systems) and the EN 50126 standard (to define Reliability, Availability, Maintainability and Safety processes for international operations;
- the European 3Insat project, which was completed, followed by the start of experimental on-site testing in Sardinia on the Cagliari – San Gavino section for the ERSAT (ERTMS Satellite) project, co-financed by the EU as part of Horizon 2020 calls, which was covered in an international workshop with the Directors of the ERA and GSA (European Global Navigation Satellite Systems Agency);
- the "Osmannoro technological demonstrators" project - which received approval - to create an example of excellence in all technological fields relating to railway signalling and telecommunications, i.e., to create a series of technological demonstrators that reproduce specific types of signalling plants of the traditional (ARIS, etc.) and innovative (computer-based interlocking system and ERTMS/ETCS) varieties.

Main events of the year

The new 2017-2026 business plan

On 13 September 2016, the board of directors of FS S.p.A. approved the 2017-2026 business plan of FS Italiane group. The new business plan covers a ten-year period to adequately follow up large infrastructural projects in progress, make appropriate use of FS Italiane group's long-standing experience in the transport sector and contextualise the industrial developments of the group companies amidst the rapidly evolving market and socio-economic environment.
In particular, in the mobility sector, these changes are occurring at a whirlwind pace: consider recent phenomena such as Uber, BlaBlaCar and FlixBus. Uber, for example, has generated approximately €15 billion in available resources since 2010, reached 425 cities in 72 countries and moves some 70 million people every month. In this context, the 2017-2026 business plan makes FS Italiane group the gate to accessing the mobility ecosystem, with a view to integration and coopetition, bringing together all the collective transport players and modes. Moreover, all this is possible thanks to the centrality of the railway system and the unique know how that FS Italiane group has developed in its 111 years of history. The prospective growth under the plan is impressive: increase in turnover from €8.3 billion in 2016 to €17.5 billion in 2026 and an increase in gross operating profit from €2.3 billion in 2016 to €5 billion in 2026, made possible by investments of €94.5 billion over the ten-year period to consolidate the group's position as the largest investor in Italy. Specifically, it will invest €73 billion in infrastructures, €14 billion in rolling stock and €7 billion in technological development. To meet total requirements, €23 billion will be self-financed, with €35 billion already earmarked in the Government Programme Contracts.
The ambitious growth plan includes adding another 21,000 employees, including through the acquisition of external businesses, to reach 100,000 by 2026, with substantial positive repercussions for employment in Italy.
The 2017-2026 business plan is based on five strategic pillars:

Modal integration

FS Italiane group's current share of the railway passenger transport market is 87.5%, but it only covers 5% of total mobility services in Italy (which are 80% road-based). The group's goal is to expand its collective mobility services, putting Italy at the avant-garde of sustainable transport by offering a range of services tailored to different mobility needs and giving customers an increasingly collective door-to-door travel experience. To this end, alongside substantial investments in new rolling stock already underway, the group has, among other things, reconditioned the 450 trains operating regional railway services and purchased 3,000 buses to dramatically increase service quality, an essential factor to drive the modal transport shift.

Integrated logistics

As in passenger transport, road transport is the prevalent model of transport for integrated logistics as well (road transport accounts for roughly 82% of land-based cargo transport). The group's objective is to contribute to a modal rebalance through the following main actions:

1. a turnaround to be achieved with the group's new logistics hub (Mercitalia) with a specific focus on taking a customer-centric approach, improving service quality and maximising efficiency;
2. reinforcement of intermodality;
3. expansion in high added value service segments (such as cargo forwarding).

In the cargo transport segment, the group has budgeted investments of €1.5 billion (including €1.1 billion for rolling stock, €300 million for terminals and logistics and €100 million for ICT) and revenue of €2.1 billion in 2026 (compared to €1 billion in 2016).
Once fully up and running, the Mercitalia hub will operate with 4,000 employees, all united by the same mission.

Integrated infrastructure

In this area, the group has budgeted investments of €62 billion, including €33 billion for the traditional network, €24 billion for the HS/HC network and European TEN-T corridors and €5 billion for technologies to create increasingly modern infrastructures offering faster, systemic mobility for passengers and cargo: the Giovi third railway crossing, the Brenner base tunnel and the Turin-Lyon line to complete the Italian side of the four TEN-T corridors crossing the country and connecting it to the European regions that are the most densely populated and most important for industry and production; infrastructural and technological improvements in urban hubs in major cities to increase traffic capacity; in the south, the opening of sites for the HS/HC Naples – Bari line and, in Sicily, the Palermo – Catania – Messina line. Speeds were ramped up on the Adriatic coast and Salerno – Reggio Calabria lines following technological upgrades and improvements in the railway route.
Transport optimisation has also been achieved by integrating RFI S.p.A.'s national network with more than 2,500 km of tracks out of a total of 3,500 km, the contribution of former railways to increase efficiency by bringing the national railway network under the same manager and new routes to shorten travel times and improve safety, meeting RFI S.p.A.'s highest technological standards.
The potential transaction with ANAS also falls within the scope of integrated infrastructures. This transaction, if it is confirmed and carried out, will make it possible to implement an integrated policy of infrastructural investments, to generate major industrial synergies and to manage – as an integrated player – long-term technological development, which will see roadway infrastructures increasingly equipped with technologies that are already used in the railway network (i.e., electrified highways).
Stations complete the framework, as they are the nerve centres between infrastructures and transport services, destined to become genuine mobility hubs with car parks, car rentals, car sharing, bike sharing, electric car recharging stations, etc., as well as spaces offering a wide range of services making the stations places where day-to-day activities may be carried out, like picking up a parcel or paying a utility bill, transforming any waiting times into time well spent. In this respect, the 2017-2026 business plan provides for the creation of a network of smart stations, i.e., over 600 stations managed as one network and poised to become the beating heart of a system of infrastructures and integrated mobility services.

International development

The 2017-2026 business plan places great importance on international growth. Today, business abroad makes up approximately 13% of total group revenue and the goal is for it to grow to 23% of total operations by 2026, with a four-fold increase in current international turnover, reaching €4.2 billion in 2026 and positioning the group among Europe's major railway players.
The group will pursue this growth following three main areas:

1. general contractor activities, with the capacity to build railway works, especially in countries lagging behind in terms of infrastructure. There are more than 200 railway companies around the world, but only seven of these are in countries with HS lines. Therefore, increasingly exporting its know how abroad is a tangible opportunity for FS Italiane group;

2. market railway services, considering the fact that Trenitalia S.p.A. can export the extremely high quality of travel that it already offers with the Frecce trains to other countries. This is possible in the wake of the deregulation of the European railway space beginning in 2020 under the Fourth Railway Package;
3. LPT services abroad in the regional railway and road transport segments, as the group plans to seek mainly rail/road modal integration opportunities for passenger transport in the larger cities.

Digital & Customer centricity

One enabler of FS Italiane group's 2017-2026 plan is the strong drive towards digitalisation, which lies at the heart of the extended customer experience that the group aims to make a part of its customers' daily lives (e.g., the travel companion), a solution that provides flexible, customisable door-to-door real-time journey planners that include other local public transport players' offers, as part of the group's coopetition approach.

In conclusion, the 2017-2026 business plan will accompany the FS Italian group in its transformation from a prevalently railway operator to an integrated mobility operator, radically updating logistics activities and taking the necessary leap forward by strengthening and integrating all transport infrastructures. This transformation is based on, inter alia, the strong drive towards digitalisation, which will be a determinant factor in speeding up the pace of our march into the future.

Developments in European legislation

Fourth Railway Package

In 2016, the legislative process continued and was completed for the approval of the Fourth Railway Package by the European Commission on 30 January 2013.

The package consists of a political pillar and a technical pillar, which are respectively established in directives and regulations, as specified below:

Political pillar

- EU directive no. 2016/2370 of the European Parliament and Council of 14 December 2016 amending EU directive no. 2012/34/EU with respect to the opening of the national railway passenger transport service market and governance of the railway infrastructure.
- EU regulation no. 2016/2337 of the European Parliament and Council of 14 December 2016 repealing the Council's regulation no. 1192/69 concerning standard rules for the normalisation of railway company accounts;
- EU regulation no. 2016/2338 of the European Parliament and Council of 14 December 2016 amending EC regulation no. 1370/2007 with respect to the opening of national railway passenger transport service market and how the services are awarded.

Technical pillar

- EU regulation no. 2016/796 of the European Parliament and Council of 11 May 2016, establishing a European Union Agency for Railways and repealing EC regulation no. 881;
- EU directive no. 2016/797 of the European Parliament and Council of 11 May 2016 relating to the interoperability of the European Union's railway system;
- EU directive no. 2016/798 of the European Parliament and Council of 11 May 2016 on railway safety.

In short, the rules that comprise the political pillar provide for the opening of commercial passenger transport services to competition throughout the EU in December 2020, with procedures to safeguard the scope of the public service. Furthermore, additional restrictions are provided for to protect the infrastructure operator's independence within integrated groups, i.e., those in which there is both a infrastructure operator and a railway company. EU regulation no. 2016/2338 provides for calls tenders in the passenger railway transport sector as a general rule for assigning public service obligations and regulating the possibility of departures differently, allowing the relevant national authorities to directly award service contracts (which, until 25 December 2023, will in any case be permitted on the basis of current rules).

The main changes to the rules that make up the technical pillar consist of reinforcing the powers of the European Union Agency for Railways (EUAR, formerly ERA), particular in relation to the authorisation to roll out the rolling stock used in most EU countries and certify it in accordance with safety standards.

Regulation on reducing greenhouse gas emissions

On 20 July 2016, the European Commission passed a proposal to issue a regulation setting annual binding targets for EU member states to reduce greenhouse gas emissions in 2021-2030 in the transport, building, agriculture, waste, land use and forestry sectors, and including areas not currently subject to the emission trading scheme.

Extension of EFSI (European Fund for Strategic Investment - Juncker plan)

The European Commission has proposed amending the EFSI regulations to extend the term and capacity of fund investments, and the railway sector stands to benefit.

The Commission’s proposals concerning connectivity

On 14 September 2016, the European Commission presented a package of measures to reform EU rules on telecommunications, introducing new initiatives to meet the growing need for the connectivity of Europeans and to improve competitiveness in Europe. These proposals intend to promote investments in ultra-high capacity networks and speed up public WiFi access to European users, with potential prospects for use in the railway sector as well (greater coverage of networks and railway stations; best use of the radio spectrum, to narrow gaps in the regulatory practices in the different EU countries).

Developments in Italian legislation

Law no. 9 of 22 January 2016 “Conversion of Decree law no. 185 of 25 November 2015, containing emergency measures for the territory, with amendments”

The main provisions include:

- work for the Jubilee: establishment of a fund for Jubilee-related works (with resources of €94 million in 2015 and €65 million for 2016) with the MEF, focusing, in particular, on mobility, urban landscaping and redevelopment of suburbs; allocation of €47 million to the Lazio region for 2015, of which €17 million to improve the regional railway service from/to the Rome San Pietro station;
- Trenitalia S.p.A. service contract: extension, throughout 2016, of the service contract between the government and Trenitalia S.p.A. governing medium-/long-haul universal railway services of national interest, with the MEF’s authorisation to pay Trenitalia S.p.A. the fees related to the contractual services provided in 2015 and 2016;
- railway cargo transport: changes to current provisions, stating that, with respect to 2016 and 2017:
  - the Ministry of Infrastructure and Transport will allocate the resources (€100 million p.a.) to railway companies (rather than to the railway infrastructure operator), to cover the additional costs to use the railway infrastructure including cargo transport and the related services, to transport goods originating and/or terminating in Abruzzo, Molise, Lazio, Campania, Puglia, Basilicata, Calabria, Sardinia and Sicily, in proportion to the train-km covered;
  - any unallocated resources will be assigned to cargo railway companies operating on the entire national railway infrastructure, up to €2.5 per train-km, in proportion to the train-km covered.

Legislative decree no. 50 of 18 April 2016, implementing the “delega appalti”

Law no. 11 of 28 January 2016, delegating the government to implement Directive no. 2014/23/EU on the awarding of concession contracts, Directive no. 2014/24/EU on public procurement (repealing Directive no. 2004/18/EC) and Directive no. 2014/25/EU on public purchasing-procurement by entities operating in the water, energy, transport and postal services sector (repealing Directive no. 2004/17/EC), known as the “**delega appalti**”, made the government responsible for the overall reorganisation of legislation applicable to public contracts for work, services and supplies, establishing the general principles. With Legislative decree no. 50 of 18 April 2016, the aforementioned “**delega appalti**” was implemented, consolidating in one text the legislation applicable to public contracts for work, services, procurement and concession contracts. The text does not provide for an execution and implementation regulation, but merely issues general guidelines to be approved with a decree of the MIT upon the recommendation of the National Anticorruption Authority (ANAC) and with the opinion of the relevant parliamentary commissions. It strengthens ANAC, revises the role of the High Council of the MIT and establishes a coordination and monitoring control body with the Office of the Prime Minister. In this way, it establishes the procedural rules for each type of contract: construction contracts, concessions, in-house assignments of work, general contracting, partnerships between public and private sector entities, including project financing, horizontal subsidiarity tools and "administrative trades". The new rules also establish ways to overcome the "Objective" Law using ordinary infrastructural programming tools, such as the three-year general transport and logistics plan and the Long-Term Planning Document. Public discussion is now mandatory for large works with environmental and social impacts. As for litigation, a special procedure in the regional administrative court's chamber of council has been introduced for inadequacies in the composition of the tender commission and ineligibility for failure to meet requirements. In addition, alternative remedies to court protection are governed.

Prime Minister's decree of 7 December 2015

The Prime Minister's decree of 7 December 2015 was published in the Official Journal on 3 February 2016, containing amendments to the Decree of 11 March 2013, in respect of criteria for the allocation of the national local public transport fund. The decree establishes that curtailments of the fund's resources, which are applied when an assessment shows that a region has not fully achieved the efficiency and rationalisation objectives of service programming and management, pursuant to article 16-*bis* of Decree law no. 95/2012, are applied to the resources due for the year following the assessment. The amendments also apply to the resources allocated in 2015.

Law no. 21 of 25 February 2016, "Milleproroghe"

Law no. 21 of 25 February 2016 converted, with amendments, Decree law no. 210 of 30 December 2015, extending terms pursuant to legislation (the so-called "Milleproroghe"). It provides for, inter alia, the following:

- extension of the 2012-2014 Government Programme Contract - Services in place between the MIT agreed with RFI S.p.A. was extended until the new Government Programme Contracts are signed for the 2016-2020 period and take effect;
- the appointment of RFI S.p.A.'s CEO and General Manager as the Commissioner for the construction of works on the Naples–Bari railway line and the Palermo-Catania-Messina section, with a term of office until 30 September 2017;
- the postponement of the application of the provisions under article 1.866 of the 2016 "Legge di Stabilità" (Law no. 208 of 28 December 2015) to 1 January 2017. The law provides for the establishment of a fund with the MIF for purchases - either directly or through specialised companies - and the electrification of lines or the rental of vehicles for local and regional public transport, including to ensure access to people with reduced mobility.

AEEGSI resolution no. 255/2016/R/eel; reform of the rate structure for system overheads in respect of non-domestic customers on the electrical energy market

On 24 May 2016, the AEEGSI published a consultation document on the "Reform of the rate structure for system overheads in respect of non-domestic customers on the electrical energy market". In the introduction to this document, the AEEGSI emphasises that Law no. 21/2016 indicates that the rate structure for general costs must tend to align with the criteria used for network service rates, which are based on a trinomal scheme, and submits three alternative rate proposals for consultation. The rate reform may impact costs to procure electrical energy for railway traction, and this impact will be more or less significant depending on the rate that the AEEGSI decides to apply in a subsequent resolution.

Legislative decree no. 97 of 25 May 2016 containing the "Revision and simplification of provisions for corruption prevention, publicity and transparency"

Legislative decree no. 97 of 25 May 2016 redefined the scope of application of transparency obligations and measures, introducing rules for the publication of information and measures to reduce expenses borne by the public administrations. It also identified the entities responsible for imposing sanctions in the event of violation of transparency obligations, introduced a new form of civic access to public data and documents. With respect to the subjective scope of application of Legislative decree no. 33 of 14 March 2013 on the publicity and transparency of the public administration, the new legislation provides that this scope includes, insofar as they are compatible, state-controlled unlisted companies, as defined by the Legislative decree currently being enacted to implement article 18 of Law no. 124 of 7 August 2015 (Consolidated act on companies in which the government holds an interest).

Law no. 119 of 30 June 2016, "Conversion of Decree law no. 59 of 3 May 2016, containing emergency measures on executive and insolvency procedures, including in favour of banks in liquidation" into law

Law no. 119 of 30 June 2016 introduced amendments to legislation governing the assignment of company receivables to factoring companies belonging to industrial groups. Indeed, the previously applicable legislation governed the activities of entities other than banks or financial intermediaries, allowing specific companies to acquire receivables from entities in the same group. However, this provision heavily limited the activities of factoring companies that belonged to industrial groups as it did not take into account the fact that the core business of such companies effectively consisted of acquiring from the other companies in their respective groups receivables due from third parties.

Law no. 122 of 7 July 2016 "2015-2016 European law"

With Law no. 122 of 7 July 2016, sanction regulations were introduced for infrastructure operators, railway companies and railway operators in the event of non-compliance with the rules and recommendations of the ANSF.

Decree of the MIF of 5 August 2016

With the MIF's decree of 5 August 2016, the regional railway networks that fall within the scope of application of Legislative decree no. 112 of 15 July 2015 (implementation of Directive no. 2012/34/EU, the "Recast" directive), under the jurisdiction of ANSF and the ART, were identified. Following this decree, railway infrastructure operators and railway companies must - inter alia - update their corporate and organisational structure to Legislative decree no. 112/2015 within 120 days from when it goes into effect.

Law no. 160 of 7 August 2016, converting Decree law no. 113 of 24 June 2016, containing emergency financial measures for local bodies and the territory

Law no. 160 of 7 August 2016 increased the 2016 funding under the national fund for government grants to cover local public transport costs, including railway transport, in ordinary-status regions, pursuant to article 16-bis of Decree law no. 95 of 6 July 2012, by €74,476,600. These resources are due to the application of fines in 2015 for some of the regions' failure to achieve the efficiency and rationalisation goals for local public transport (LPT) pursuant to article 3 of the Prime Minister's decree of 11 March 2013.

Legislative decree no. 175 of 19 August 2016, containing the "Consolidated regulations on companies in which the government holds an interest"

Legislative decree no. 175 of 19 August 2016 introduced regulations on the establishment of companies by the public administration and their acquisition, maintenance and management of equity investments in companies that are directly or indirectly fully or partially owned by the state. The provisions of the decree apply to listed companies only if explicitly provided for, where listed companies include those that issue listed shares on regulated markets, and those that have issued, at 31 December 2015, financial instruments, other than shares, that are listed on regulated markets, as well as the investees of such companies, unless they are controlled or held by public administrations. This consolidated text applies to FS Italiane group solely with respect to minor subsidiaries in which a government entity also holds an interest.

Law no. 225 of 1 December 2016, conversion into law of Decree law no. 193 of 22 October 2016, containing emergency tax measures and funding for non-deferrable requirements

Law no. 225 of 1 December 2016 includes, inter alia, the approval of the 2016 update to the Government Programme Contract – Investments between the MIT and RFI S.p.A. and the authorisation of €320 million to be spent in 2016, some of which was allocated to improve railway network safety and efficiency, and €400 million to be spent in 2018 for safety and updates to meet legal obligations. Furthermore, the Law assigned a one-off grant of €90 million to the Molise region to cover payables due to Trenitalia S.p.A..

Law no. 232 of 11 December 2016, "2017-2019 Budget Act"

Law no. 232 of 11 December 2016 includes, inter alia, provisions on group VAT, the introduction of the early pensioning plan and measures for workers who began working at a young age which included railway personnel in the year, funding for the construction of the Ferrandina-Matera railway line and an increase in the Fund to update the TPL and regional bus fleet.

Legislative decree no. 254 of 30 December 2016 containing provisions for the implementation of EU directive no. 2014/95/EU on the disclosure of non-financial and diversity information by certain large undertakings and groups

The purpose of Legislative decree no. 254 of 30 December 2016 is to govern the content of disclosures whereby certain categories of large undertakings and groups are required to provide environmental, social and employee-related disclosures in accordance with human rights, anti-corruption and anti-bribery. It also specifies how the disclosures should be published and the sanctions that are imposed in the event that these rules are violated. This Legislative decree applies to all public interest entities above the threshold for financial statements for periods ending on or after 1 January 2017.

ART regulations

The content of the main ART regulations in 2016 is summarised below:

Resolution no. 32 of 23 March 2016

With this resolution, the ART postponed to 22 April 2016 the deadline (pursuant to resolution no. 96/2015, it was initially set for 12 March 2016) by which service plant operators must publish on their websites a report containing the list of prices for the subsequent service schedule and inform the regulatory accounting authority for type-A service plants pursuant to resolution no. 96/2015.

Resolution no. 54 of 11 May 2016

Following a consultation, with this resolution, the ART approved certain measures relating to the minimum rights that passengers with “passes” may exercise with HS railway service operators. Railway companies are required to implement the ART’s new rules by 1 January 2017. Until these measures go into effect, the ART reiterated its recommendation to HS railway service operators that they continue to refrain from charging customers fines or surcharges for failing to make seat reservations. These measures provide for the following, among other things:

- railway companies that offer passes must provide passengers with specific information, the minimum content of which is identified in the resolution;
- pass holders have the right to change their reservation, regardless of how they made it, and they may not be penalised in any way following the improper functioning of reservation systems;
- if the service operator allows pass holders to reserve their seats after they have purchased the pass, it is the pass holders’ right to be able to travel on the route covered by the pass in the same day. If this is not possible, pass holders have the right to receive a refund for the additional ticket purchased to meet the travel needs that were meant to be covered by the pass;
- passengers with passes who have also made reservations have the right to receive compensation pursuant to EC regulation no. 1371/2007 if the service was repeatedly delayed or suspended in the period covered by the pass. The indemnity is to be determined using specific criteria for the calculation of delays and compensation and these criteria must differ from those used by service managers for individual tickets.

Resolution no. 72 of 27 June 2016

With this resolution, the ART clarified how to apply and interpret the measures established in Attachment 1 to resolution no. 96/2015 and approved postponing the terms of specific measures under the aforesaid resolution no. 96.

Resolution no. 75 of 1 July 2016

With this resolution, the ART approved the conformity - with a few specific requirements - of the new 2016-2021 rates for the minimum national railway infrastructure access package, presented by the infrastructure operator on 30 June 2016, with the criteria for determining railway infrastructure access and use rates pursuant to resolution no. 96/2015, as amended.

Resolution no. 77 of 7 July 2016

With this resolution, the ART approved postponing to 14 April 2017 the deadline for the procedure to establish the minimum railway transport service quality conditions for the national and local passenger services, which including public financing, commenced with resolution no. 54/2015.

Resolution no. 80 of 15 July 2016

With this resolution, the ART approved the conformity - with a few specific requirements - of the new 2017-2021 rates for services other than the minimum access package, presented by the infrastructure operator, with the criteria for determining railway infrastructure access and use tolls pursuant to resolution no. 96/2015, as amended.

Resolution no. 83 of 27 July 2016

With this resolution, the ART commenced a public consultation on the “regulation scheme containing the definition of the method to identify the public service scopes and most efficient financing methods” and postponed the deadline for the procedure to 30 November 2016.

Resolution no. 93 of 4 August 2016

With this resolution, the ART approved the call for input, a document requesting observations and other comments useful in establishing the most appropriate regulations to ensure that railway shunting services are cost-effective and efficient.

Resolution no. 130 of 8 November 2016

With this resolution, the ART began a survey to gather information on the analysis of types of regulations for the medium and long haul bus transport service market. In this context, the Authority highlighted the need to also analyse the repercussions that developments in medium and long haul bus transport services have on other modes of transport.

Resolution no. 143 of 30 November 2016

With this resolution, the ART extended to 31 March 2017 the deadline for the definition of the method to identify the public service scopes and most efficient financing methods (commenced with resolution no. 49/2015).

Internationalisation initiatives

FS S.p.A. will build two HS lines in Iran

On 12 April 2016, the framework cooperation was signed between the CEO and General Manager of FS S.p.A. and the Chairman of the Iranian Railways, to build two HS lines in Iran, build a test centre and train personnel. This framework cooperation comes in the wake of the Memorandum of Understanding that the parties signed on 9 February 2016. FS S.p.A., as general contractor, will design, build, test and roll out the HS Teheran – Hamedan and Qom – Arak lines. Italcertifer S.p.A., the group’s certification company, will instead work on the design, construction and certification of an Iranian railway test centre that will use avant-garde equipment to test both the infrastructure and the rolling stock. Iran’s railway infrastructure currently spans roughly 10,000 km and the network will be extended up to 25,000 km in 2025, 7,500 km of which are already under construction.

Contracts awarded to Italferr S.p.A. for the design and supervision of work to build a bridge in India

On 29 April 2016, Italferr S.p.A., FS Italiane group’s engineering company, won the contract for the design and supervision of works to build the Anji Khad Bridge in India. The bridge is 750 metres long, with a central span of over 260 metres. Worth a total of €40 million, the project is one of the most challenging of the whole railway line, which will cross India’s northwestern region along the hills of Kashmir to the border with Pakistan.

Italferr S.p.A. wins the contract in Qatar

On 10 May 2016, in a consortium with other leading companies in the sector, Italferr S.p.A. won a contract for project management consultancy services and technical assistance in work on the tram network in Lusail, which is 15 km away from Doha, Qatar's capital. The contract was signed with Qatar Railways and is worth approximately €96 million. The contract provides for the completion of civil works, the construction of technological and plant systems, the development of maintenance facilities and the supply of rolling stock serving the four planned lines, for a total of 38 km, including 10 km in tunnels, and 37 stations. The awarding of this contract consolidates Italferr S.p.A.'s presence in Qatar and the relationship with the customer Qatar Rail, with which it is collaborating on the detailed design of the Doha Underground's Red Line, which will connect the New Doha International Airport in the West Bay Area to the capital.

Italferr S.p.A. in Argentina for the Sarmiento urban railway project

In Argentina on 19 May 2016, Italferr S.p.A. signed a contract with the international consortium named CNS (Consorzio Nuevo Sarmento) and comprised of the Brazilian company Odebrecht, the Italian company Ghella and the Argentinian company Lecsa. The contract relates to the construction of Soterramiento Sarmiento, a 36-km long urban railway in Buenos Aires. The work consists of completely renovating the railway line by building a new, 18-km underground route and nine new stations. A tunnel with an internal diameter of 10.4 metres will bring underground service to over 150 million potential passengers per year. Italferr S.p.A. will handle technical assistance, planning and procurement strategies to finalise supply system and installation contracts on behalf of Consorzio Nuevo Sarmiento.

FS S.p.A. signs a memorandum of understanding with Russian Railways

On 6 July 2016, FS S.p.A.'s CEO and General Manager and the Chairman of Russian Railways signed a memorandum of understanding for railway cooperation. The agreement between FS S.p.A. and Russian Railways provides for the joint development of projects to build and modernise railway infrastructure, in addition to supply products and services for cargo and passenger logistics and transport. The understanding also entails the two companies' collaboration on the construction of HS lines in Russia, as well as joint projects to build new railway infrastructure in other countries.

FS S.p.A.'s CEO and General Manager and the Iranian Deputy Minister of Roads and Urban Development sign a joint declaration

On 14 July 2016, FS S.p.A.'s CEO and General Manager and the Iranian Deputy Minister of Transport met in Rome as part of the Italy-Iran Joint Technical Committee, in which the Italian and Iranian Ministers of Infrastructure and Transport also participated. Following the meeting, a joint declaration was signed, noting the status of cooperation and recognising its excellent progress. The meeting came after the signing of the memorandum of understanding on 9 February 2016 and the framework cooperation on 12 April 2016.

Italferr S.p.A. wins the tender for technical assistance in Bosnia and Herzegovina

On 27 July 2016, Italferr S.p.A. was awarded a new contract in Bosnia and Herzegovina, as part of a consortium with IRD Engineering, to provide technical assistance to the Railway Regulatory Board (RRB). The project is financed by the EU and will begin in September 2016 with a term of 12 months. It entails updating the rules and procedures for the issue of railway drivers' licences, the study of measures to improve energy efficiency in the railway sector (traction, in particular) and train personnel on new railway regulations.

Italferr S.p.A.: new contracts in Egypt

On 24 August 2016, Italferr S.p.A. and the Egyptian National Railways (ENR) signed a work supervision contract to modernise signalling systems on the Benha - Zagazig - El-Ismailia - Port Said and Zagazig - Abu-Kebir corridors. Work will begin in September and run for 48 months. The contract is worth €3 million and is in addition to the activities that Italferr S.p.A., jointly with RFI S.p.A. and Italcertifer S.p.A., is carrying out to migrate the to the ETCS level 1 signalling system on the Alessandria – Cairo – Asyut corridor. This second contract, worth €2.2 million and with a 27-month term, was assigned at the end of an international call for tenders launched in July 2014, in which Italferr S.p.A. placed first, ahead of large international engineering companies.

FS S.p.A.: three commercial contracts signed with the Republic of Congo

On 18, November 2016, three commercial contracts, worth €9 million, were signed with the Republic of Congo represented by the country's Minister of Spatial Planning and Major Projects, in the presence of the Minister of Economic Development. The contracts, which RFI S.p.A.'s CEO and General Manager and Italferr S.p.A.'s CEO and General Manager also signed, will be ratified by the President of the Republic of Congo. The contracts provide for the supply of a suitably equipped diagnostic train, specialised training for the Congolese railway infrastructure maintenance staff and the design of projects to upgrade and strengthen the infrastructure and technology of Congo's main railway, the Pointe Noire-Brazzaville.

A partnership in South Africa for a cargo terminal in Johannesburg

On 27 October 2016, in a consortium (35%) with another two South African partners, Southern Palace (45%), an investment and construction company active in many Sub-Saharan African countries, and Makoya (20%), specialised in railway logistics, FS Italiane group participated in a tender for the design, construction and management of a next-generation intermodal terminal near Johannesburg. If it wins the concession, the consortium will be the operator for at least 20 years, until the hand over to Transnet Freight Rail, the South African railway company operating in the cargo transport sector and wholly owned by Transnet (the South African railways). Named "Tambo Spring", the project is part of the development programme (Transnet Market Demand Strategy) financed by the South African government with ZAR300 billion (€18 billion), including ZAR200 billion (€12 billion) assigned to TransNet Freight Rail to increase cargo traffic volumes by rail. FS Italiane group is therefore beginning to penetrate the South African logistics market, and this entails, through its partnership with Southern Palace, acquiring projects and transferring know-how in the fields of commercial development at stations and railway infrastructure maintenance.

Italferr S.p.A. and AMA Group Corporation agreement to develop the Philippine rail transport system

On 30 November 2016, Italferr S.p.A. and AMA Group Corporation, a company specialising in information technology education services and active in major industrial sectors in Southeast Asia, signed a partnership agreement to develop a mass rail transport system in the area between Cebu and Mandaue, which is one of the most urbanised areas of the Philippines.

Trenitalia S.p.A., DB and SNCF join forces to ramp up the interoperability of European train schedules and rates

On 1 December 2016, Trenitalia S.p.A., Deutsche Bahn and SNCF signed the deed of incorporation for the creation of a new permanent governance non-profit entity based in Belgium, the TAP TSI Services Governance Association (TSGA), with the aim of facilitating the exchange of data on train schedules and prices in the European railway sector. The deed of incorporation is the result of a collaboration between the three railway companies that began three years ago, to implement the European Commission's regulatory provisions, for the overall railway sector. The TSGA is a crucial step in fully implementing the European regulation on TAP TSI (Telematics Applications for Passenger Services - Technical Specifications for Interoperability), advancing the digitalisation and interoperability process. The advantages will benefit European travellers in particular because the TSGA will ensure that railway companies fully share all ticketing data and information. This initiative was a top priority for the European Commission, and it is part of the broader internationalisation strategy, confirming the group's commitment to promoting cooperation throughout the continent.

FS S.p.A.: consultancy begins for Egyptian railway reform

6 December 2016 marked the start of FS S.p.A.'s collaboration on the Egyptian railway reform project sponsored by the Egyptian government and financed by the World Bank. The purpose of the eight-month consultancy, worth €240 thousand, is to improve the Egyptian railway system both in terms of governance and reorganisation, market regulation, access to infrastructure and safety. FS S.p.A. submitted its proposal to provide assistance jointly with the Egyptian engineering company Mena Rail, with the involvement of RFI S.p.A. and Trenitalia S.p.A. as well, for the recruitment of the necessary technical qualifications.

Italferr S.p.A. signs a contract in Iran for the country's first HS line

On 14 December 2016, Italferr S.p.A. signed a contract totalling roughly €12 million with the Iranian railways for project management consultancy (PMC) services in the creation of the country's first HS line connecting Tehran – Qom – Isfahan. Italferr S.p.A. will supervise activities relating to the construction of crucial infrastructural works for Iranian development plans. The new HS line will be 415 km long with an expected speed of at least 250 km/h. A local branch will be opened in the country for this project, so additional Iranian investment projects in railway infrastructure can be closely monitored.

Other events

Umbria: Framework agreement between the regional authorities and RFI S.p.A.

On 26 January 2016, the Regional Councilman for Infrastructure and Transport and RFI S.p.A.'s CEO signed the framework agreement between the Umbria regional authorities and RFI S.p.A. was signed in Perugia. This agreement, which follows the signing of the service contract with Trenitalia S.p.A., completes the Umbria region's work in recent months to guarantee and improve the quality of the railway transport service. For ten years, with the possibility of renewal for another five years, RFI S.p.A. ensures the availability of infrastructure for railway connections to and from Umbria, with plans to expand upon them.

The framework agreement is the technical tool enabling the Umbria regional authorities to reserve traffic capacity for the regional railway network, plan the use of railway infrastructure in the medium/long term based on the regional transport plan and equipping RFI S.p.A. with the main tool for understanding actual mobility needs in the region.

FS Italiane group's CEO and General Manager is made a member of the CER's Management Committee

On 17 February 2016, FS Italiane group's CEO and General Manager was named a member of the Management Committee of CER, the community of European railways and infrastructure companies. The CER represents the interests of its 70 members, which account for 73% of European railway infrastructure, 80% of cargo transport and 96% of passenger transport by European railways. CER's work focuses on improving development conditions and the regulatory framework of the railway business.

FS Italiane group joins the "30% Club"

On 13 May 2016, through its Chairwoman, FS Italiane group's board of directors joined the "30% Club", a global campaign to increase the number of women in the management of public and private organisations by 2020. At present, 21% of the group's managers are women, while 21% and 11% of its support staff and line employees, respectively, are women. The objective is to bring these percentages to 30% for support staff employees and 20% for line employees. In this direction, FS Italiane group's CEO and General Manager recently joined He For She*,* a UN initiative launched in 2014 to spread awareness and engage one billion men to help reduce gender inequality.

Freccialink is created

On 23 May 2016, Freccialink was born: Trenitalia S.p.A.'s high speed train to Siena, Perugia, L'Aquila, Matera and Potenza. It debuted in Siena and, in the days that followed, the new service was rolled out in the other cities as well. With the integrated bus + HS Frecce service, since 12 June 2016, another five cities were connected to Bologna, Milan, Rome, Naples, Salerno, Padua and Venice with a new train schedule. This is an important opportunity for the cities and their residents, as they are now fully part of the network of major cities with high speed service and can begin to enjoy the direct benefits of fast, comfortable and widespread services that, in a few short years, have revolutionised the lives of millions of Italians, encouraging tourism and driving business.

FS S.p.A.: the train of the future is born in Milan

The 2016 World Congress on Railway Research was held in Milan on 30 May 2016. Organised by FS S.p.A. and e Trenitalia S.p.A., the event attracted some 1,000 participants, including researchers, engineers and technicians from the world over, to Milan. The theme of the 2016 edition was, indeed "Research and Innovation from Today Towards 2050": beyond the train of the future, the congress participants sought to imagine mobility solutions made possible by new technologies. However, the congress also considered the present day: the "*Today's Research*" sessions saw the presentation of projects soon to be applied, which will contribute to the immediate improvement of railway mobility. Innovation could also be key to making best use of the new possibilities resulting from the Fourth Railway Package. FS Italiane group is determined to take its know-how and experience throughout Europe, with the creation of a single European railway market.

Trenitalia S.p.A. wins two Italy Travel Awards in 2016

On 31 May 2016, Trenitalia S.p.A. won two prestigious awards in the tourism industry. The group's transport company was given two 2016 Italy Travel Awards in the transport category for "best carrier according to customers" and "best carrier according to travel agencies". Approximately 6,500 travel agents and over 76,000 travellers voted for the finalists to name the winners. With a network of 230 Frecce trains per day, Trenitalia S.p.A. holds a leading position in the national tourism production chain.

Inauguration of the Gotthard Base Tunnel

On 1 June 2016, the Gotthard Base Tunnel was opened in Switzerland. It is the longest tunnel in the world and the most important works project on the Reno-Alps corridor between Rotterdam and Genoa, traversing a booming economic area that makes up 16% of the EU's GDP. Italy has a top interest in developing railway infrastructures in the Reno-Alps corridor and other European corridors in general given their strategic contribution to competitiveness and economic and employment growth. The Reno-Alps corridor will carry goods from the Netherlands, Belgium and Germany southwards, and direct loads will be transported from Italy north of the Alps, with benefits for the Italian economy. On the Italian side of the Saint Gothard tunnel, through RFI S.p.A., work is underway for infrastructural and technological upgrades to the European TEN-T Reno-Alps railway lines under Alptransit, which will make it possible to reap the benefits of the projects. The work is slated for completion in 2020, together with the Swiss railways. In 2020, once all work is complete on both the Italian and Swiss sides, the railways will have traffic capacity of 390 trains/day, compared to 290 today, including 170 over the Chiasso pass, 90 over the Luino pass and 130 over the Domodossola pass.

New Milan - Frankfurt connections beginning in December 2017

On 1 June 2016, FS S.p.A., the Swiss railways (FFS) and the German railways (DB) signed an understanding for the new international railway connections to begin operating in December 2017 between Milan and Frankfurt, passing through Switzerland. This is one of the points in the memorandum of understanding that the CEOs of FS S.p.A., FFS and DB signed in Lugano, Switzerland. Along with the new connections, the memorandum of understanding establishes the best connections between the various countries and an overall improvement in punctuality. In the same framework, the CEOs of all the European railway companies issued a joint statement confirming their plans to create synergies to face the challenges of the mobility of the future.

FS Italiane group's excellence in Innotrans 2016

From 20 to 23 September 2016, FS Italiane group and its main operating subsidiaries were at InnoTrans 2016, the most important international expo for railway transport and transport technologies.

This year, FS S.p.A. showed its infrastructural and technological excellence and its new vision of transport for the development of integrated, sustainable mobility. The FS Italiane group was also a key figure at the round tables and bilateral meetings on interoperability and intermodality in the railway system, environmental sustainability, infrastructural and technological excellence and the development of integrated mobility.

Trenitalia S.p.A. and SAP SE: innovation for transport

On 29 September 2016, SAP SE and Trenitalia S.p.A. unveiled the technologies that are redefining the digital future of transport with new levels of operating efficiency in train maintenance thanks to smart equipment solutions and devices and Internet of Things (IoT) technologies. Trenitalia S.p.A. has kicked off a process to implement a dynamic predicting maintenance system that uses SAP's IoT technology to analyse the data generated by sensors in real time, equipping resource management with more predictive capabilities than traditional models.

The regional fleet is equipped with video surveillance systems

On 14 October 2016, Trenitalia S.p.A. announced that all Jazz trains in the regional fleet were equipped with live video surveillance equipment. Indeed, the installation of monitors, video cameras and software was complete, making it possible to broadcast live images recorded on board trains so passengers, personnel and the law enforcement agencies could observe and record what was happening at all times. In collaboration with Almaviva S.p.A., Trenitalia S.p.A. designed the software technology installed on these trains, the first of its kind in Europe for commuter trains.

Assignment of LPT services in the province of Parma

On 20 October 2017, the Parma Mobility and Transport Agency publicly read the technical scores assigned by the Commission responsible for offers that were received in response to the call for bids by the same Agency to assign LPT services in the province. At the same time, the sealed envelopes with the economic offers were opened and the offers and related scores were read. The provisional ranking of competitors was then announced. The following parties participated: the incumbent (TEP), a temporary consortium of Seta and TPer (which manages LPT in Bologna, Modena, Reggio Emilia and Piacenza) and the consortium of Busitalia-Sita Nord S.r.l. (agent with a share of 60%) and Autoguidovie S.p.A.. The consortium headed by Busitalia-Sita Nord S.r.l. received the best score for both its economic and technical offers. To conclude the procedure, in March 2017, the contracting station formalised the provisional awarding of the contract to the Busitalia-Autoguidovie temporary consortium.

MEF-EIB reached an agreement to finance works for the upgrading of the traditional network

On 27 October 2016, the European Investment Bank (EIB) and RFI S.p.A. signed an agreement for €1 billion in financing to increase safety standards, improve station accessibility and prevent hydro-geological and seismic risks. The projects presented by the MEF through RFI S.p.A., relate to certain projects in the 2012-2016 Government Programme Contract - Investments. The EIB financing is part of the funds defined in the 2015 and 2016 "Legge di Stabilità"s, amounting to approximately €18 billion for the "rail therapy" that the MIT has made its priority in order to improve regional and urban transport, the HS/HC network and the TEN-T European corridors for passenger and cargo transport, thereby promoting an increase in the percentage of transport by rail.

The new service contract for management of public transport on the Lazio regional railways has been signed

The new service contract for the management of the public transport service on the Lazio regional railways was signed on 28 October 2016. The contract will remain in effect until 2020 and establishes that the amount of the fee to be paid to Trenitalia S.p.A. will total approximately €225 million per year, with a significant increase in the offer, the services provided to Lazio commuters and guarantees for travellers on all eight regional lines and the Leonardo Express to the intercontinental "Leonardo da Vinci" airport in Fiumicino. In addition to the investments already made in these past few years, another €539 million will be invested to purchase new rolling stock, to revamp TAF trains and for new technologies, with €444 million financed by Trenitalia and €95 million by the Lazio region. The new service contract between the Lazio region and Trenitalia S.p.A. also obliges the operator to issue a quality service charter to be written and published in accordance with current legislation and posted by 31 March of each year on its website.

The new service contract for the management public transport on the Abruzzo regional railways is signed

On 7 November 2016, the Abruzzo regional authorities and Trenitalia S.p.A. signed the new service contract defining the main characteristics of the regional railway offer, with a focus on further improvements in service quality for commuters in order to increasingly integrate road and rail services. The contract is effective until 2023 and is worth a total of €571 million, including fees and market revenue. The contract also establishes a self-financed investment of €27.4 million for the purchase of five new trains. The progressive roll-out of these five new trains, in addition to the four electric Jazz trains that began operating in December 2014 and the four Swing diesel trains that began operating in January 2016, will continue to reduce the average age of rolling stock in service in Abruzzo. Furthermore, the renewed service quality policy in the contract has led to a further increase in train punctuality standards, which are very positive to date. Finally, the contract provides for specific subsidies to encourage land-based mobility for residents of landlocked areas, free bike transport on trains and discounts for students.

RFI S.p.A. signs the protocol of understanding to improve connections to and from the port of Trieste

On 15 November 2016, the President of the autonomous region of Friuli Venezia Giulia and RFI S.p.A.'s CEO and General Manager signed a protocol of understanding to improve railway connections to and from the port of Trieste, one of the main Italian logistics and international hubs, to increase cargo traffic by ship and rail and to ensure sustainable, genuinely intermodal transport to and from markets in the rest of Europe and around the Mediterranean. The understanding will lead to improvements in the Trieste port's infrastructure and its connection with the national railway network, with a total investment of €70 millionbillion, €50 million of which is financed by RFI S.p.A. and the remainder by the port authority. Once the work is complete, cargo moved through the Trieste port may be routed to two of the four European TEN-T core corridors that cross Italia: the Mediterranean corridor connecting the Iberian peninsula with Eastern Europe, passing through the Italian Turin - Trieste line; or the Baltic - Adriatic corridor connecting major Italian ports like Ravenna and Trieste to Austria and the markets in Northern Europe. The objective is to improve cargo transport by railway, i.e., providing "rail therapy" and meeting the goals of the European Union's Transport White Paper: 30% shift of cargo journeys over 300 km from road to other, less pollutant modes of transport, such as rail and waterborne transport, by 2030 and a 50% shift by 2050.

RFI S.p.A. and Terna S.p.A. work together for sustainable energy

On 17 November 2016, RFI S.p.A.'s CEO and General Manager and Terna S.p.A.'s CEO signed a letter of intent for the two companies to collaborate in identifying and pursuing initiatives in their joint interest concerning renewable resources in Italy. In particular, in the agreements, the companies commit to a project for the construction of photovoltaic systems that will power RFI S.p.A.'s electrical energy consumption with clean energy. The project is currently being studied and stands to be the first large-scale photovoltaic energy transaction of its kind to be carried out in Italy in a grid parity context, i.e., without government incentives and, accordingly, without additional costs for households and businesses, as was always the case in the past.

Agreement between the regional authorities and RFI S.p.A. to develop infrastructure in the Friuli Venezia Giulia region

On 22 November 2016, the President of the region and RFI S.p.A.'s CEO and General Manager signed a protocol of understanding for infrastructural and technological upgrading to improve railway service quality standards and make connections between Friuli Venezia Giulia and the rest of the country faster. The protocol also covers the reactivation of the Sacile - Gemona line for passenger trains and tourist destinations, the development of intermodal rail/road/bike solutions, making stations more accessible to people with reduced mobility and work to encourage transborder connections. The total investment for the work included in the protocol amounts to €2.6 billion, €413 million of which has already been financed.

The group on the "*Webranking* 2016" podium

On 30 November 2016, at the *Webranking* 2016 awards, FS S.p.A. came in third in the digital communications of the unlisted companies category and won first place in the Travel&Infrastructure category. Webranking is the most widely known and reputable European research entity in the sector. The rankings are managed by Lundquist in collaboration with Comprend and 2016 was their third year.

FS Italiane group's CEO and General Manager is elected Chairman of the UIC

On 1 December 2016, FS Italiane group's CEO and General Manager was unanimously elected Chairman of the UIC, the association that represents the railway sector around the world. This election highlights the group's commitment to railway development and ability to best represent the interests of its sector. Moreover, internationalism is an essential factor for FS Italiane group, as can be easily seen in the strategic pillars of its 2017-2026 plan, as it plans to strengthen its presence abroad. It is also an important milestone for Italian business in general, which will now have the chance to impact global transport policies, transport being one of the most strategic industries in terms of investments and impacts on people's lives and their countries' economies. The UIC will also be asked to play a crucial role as consultant for large global investment programmes that are currently underway or forthcoming: from Europe's TEN-T corridors (passengers and cargo) to China, from the US to India, through Russia.

Trenitalia S.p.A. awarded in Monocle's Travel Top 50 for its new regional trains

On 2 December 2016, Trenitalia S.p.A. won third place in Monocle's Travel Top 50. Indeed, the FS Italiane group company was awarded for Best regional revival. The magazine recognised the significant of its investment - unprecedented in Italy - to purchase 450 new regional trains. The tender for the trains was called in August 2015 and ended without appeals or delays in August 2016. Commuters will begin to enjoy the tangible benefits of these new trains in 2019, when the first trains begin to operate, ensuring new, positive travel experiences and yet another improvement in quality in the wake of the recent deliveries of the Jazz and Vivalto trains. Emilia Romagna will be the first region to receive these trains.

FS Italiane group opens the new HS/HC Brescia-Treviglio line

On 10 December 2016, the ribbon was cut on the new HS/HC Treviglio - Brescia line, taking passengers from Brescia to Milan in only 36 minutes. The new HS/HC Brescia - Milan line is yet another step in the construction of the HS/HC Milan - Venice railway, forming an integral part of the Mediterranean TEN-T core corridor, which connects the Iberian peninsula to the Ukrainian border and extends, in Italy, from Turin to Trieste.

FS S.p.A. and Astaldi S.p.A.: agreement signed for the sale of M5 S.p.A.

On 12 December 2016, FS S.p.A. and Astaldi S.p.A. signed an agreement to transfer Astaldi S.p.A.'s investment in M5 S.p.A., the company that operates Line 5 of the Milan underground. The transaction consists of transferring a 36.7% interest in M5 (capital and shareholder loan) held by Astaldi S.p.A., valued at €64.5 million. Astaldi S.p.A. will remain a shareholder with a 2% interest in M5, guaranteeing its support in the development of activities for which it is concerned. The deal will close once the required authorisation process is complete and the Antitrust Authority has approved it.

Other information

Introduction

This section details the most significant criminal proceedings and general litigation and disputes (civil and administrative proceedings, arbitration, etc.) pending at the reporting date. Unless otherwise indicated, up to the date of preparation of this report, no information had arisen that would indicate that the companies, including FS S.p.A., or the group are exposed to contingent liabilities or losses of any amount, nor is any information known with a potentially material impact on the companies' or group's equity, financial position or results of operations. Furthermore, where appropriate, the companies concerned have joined the criminal proceedings as a civil party claiming damages.

In 2016, following criminal proceedings initiated by the public prosecutors against former or current group company representatives, there were no definitive rulings against senior management (company officers or general managers) for any of the following:

- particularly serious negligent criminal acts entailing significant damage to the concerned group company or that gave rise to the application of restrictive measures;
- negligent criminal acts covered by Legislative decree no. 231/2001;
- additional negligent criminal acts covered by Law no. 190/2012.

The following is a summary of the civil, administrative, arbitration and other proceedings pending before the Italian and EU authorities that, although they do not give rise to contingent assets and liabilities or provisions, are considered the most material in terms of the disclosures to be included in this report.

Litigation and significant proceedings pending with employees, third party service providers and/or contractors, the tax authorities, regions, etc., for which, where the relevant conditions are met, accruals have been made to specific provisions for risks and charges suppliers, are detailed in the Notes to the consolidated financial statements, to which reference should be made. Similarly, contingent assets and liabilities, as defined by group policies, are reported in the notes to the consolidated financial statements to which reference should be made.

Litigation pursuant to Legislative decree no. 231/01

- Criminal proceedings no. 25816/10 with the general register of crimes before the Florence Court relate to alleged crimes in the management of the contract assigned to a general contractor for the design and construction of the Florence hub HS station and bypass. With respect to this contract, the Florence Public Prosecutor's Office investigated an RFI S.p.A. employee, the pro-tempore Chairman and pro-tempore CEO of Italferr S.p.A. and certain Italferr S.p.A. employees, as well as members of other organisations and companies performing the work. Following the Florence Public Prosecutor's request to prosecute all the people and companies under investigation, including Italferr S.p.A. for violations of Legislative decree no. 231/2001, on 10 March 2016, after the preliminary hearing, the Florence Court's Preliminary Hearing Judge decided the case could not proceed against Italferr S.p.A., its former CEO, former Operating Manager and Project Manager, nor against the RFI S.p.A. manager, while it admitted the proceedings against Italferr S.p.A.'s former Chairman and two officials, although it significantly reduced the scope. The Public Prosecutor appealed before the Court of Cassation against this decision and, in October 2016, the Court of Cassation denied all appeals concerning Italferr S.p.A., its former Operating Manager and Project Manager and ordered the cancellation of the decision to not proceed, admitting certain allegations against Italferr S.p.A.'s Chairman, pro-tempore CEO and officials for proceedings before the Florence Court.

These proceedings, which involved Italferr S.p.A. with respect to the alleged violations of Legislative decree no. 231/2001, were concluded with its acquittal, which became a definitive ruling when issued by the Court of Cassation.

- Criminal proceedings no. 10095/2010 in the general register of crimes pending before the Catania Court for RFI S.p.A.'s alleged administrative liability in relation to the workplace accident that occurred on 1 September 2008 in Motta Sant'Anastasia, in which two RFI S.p.A. employees lost their lives was concluded in the first level proceedings with the 14 April 2016 hearing in which the company was acquitted on the grounds that no crime had been committed. The ruling became irrevocably definitive on 21 May 2016.

- Hearings are underway in criminal proceedings no. 2554/13 in the general register of crimes at the Foggia Court (merged with criminal proceedings no. 3253/2010 in the general register of crimes) against RFI S.p.A. for administrative liability pursuant to Legislative decree no. 231/01 and one of its employees and two employees of Fersalento S.r.l.. The proceedings concern the fatal workplace accident on 5 March 2010 at Agro di Cerignola, in which an employee of Fersalento S.r.l. died.

- With respect to criminal proceedings no. 6305/09 in the general register of crimes pending before the Public Prosecutor's Office at the Lucca Court, following the railway accident in Viareggio on 29 June 2009, at the 31 January 2017 hearing, the judge read the first-level ruling. For FS Italiane group, the Court found that FS S.p.A. and FS Logistica S.p.A. had not committed administrative liability violations pursuant to Legislative decree no. 231/2001 "*because there is no crime*" and acquitted - "*because they did not commit the crime*" - FS S.p.A.'s former pro-tempore CEO for the allegations against him in his position as pro-tempore CEO, FS Logistica S.p.A.'s former CEO and former Chairman, and five RFI S.p.A. officials. However, it found Trenitalia S.p.A. and RFI S.p.A. guilty of administrative violations pursuant to article 25-*septies* of Legislative decree no. 231/2001, fined them €700 thousand each and prohibited them from advertising their goods and services for three months. The Court also issued guilty rulings for 12 natural persons within FS Italiane group, including two of RFI S.p.A.'s former pro-tempore CEOs who succeeded each other between 2001 and 2009 and Trenitalia S.p.A.'s former pro-tempore CEO, in addition to another 11 natural persons and three companies outside the group for violations of Legislative decree no. 231/2001, while one person was found not guilty. The Court also ordered the guilty parties, jointly and severally and with the related civil liability, to pay damages (in addition to court and defence costs) to the aggrieved parties that had filed the lawsuit, submitting most of the damages to the civil court judge for liquidation, while ordering payment of an advance on the damages at the same time. The Court set a 90-day term to lodge arguments, with the consequent possibility of filing appeals with the Court of Appeals. None of the orders, except for the advance, are executive pursuant to law until the ruling has been issued.

- Arguments are being heard in criminal proceedings no. 7906/2009 in the general register of crimes with the Public Prosecutor's Office at the Latina Court concerning alleged injuries due to negligence in connection with alleged violations of anti-accident legislation (following an accident that occurred on 10 August 2009). Three of RFI S.p.A.'s officials are being investigated, in addition to the company itself for the alleged violation of Legislative decree no. 231/01. RFI S.p.A. has also been summoned for third party liability upon the petition of the aggrieved parties.

- Criminal proceedings no. 1430/2014 in the general register of crimes with the Public Prosecutor's Office at the Gela Court are pending for the alleged violation of article 589.1/2 and the last paragraph of the same article of the Italian Criminal Code (negligent manslaughter in violation of workplace safety regulations after three RFI S.p.A. maintenance workers were fatally hit). The former pro-tempore CEO and eight officials and former officials of RFI S.p.A. have been charged in these proceedings, and RFI S.p.A. has been charged with administrative liability in connection with violations of article 25-*septies* of Legislative decree no. 231/01. The preliminary investigations are underway.

- Criminal proceedings no. 3566/2015 in the general register of crimes with the Public Prosecutor's Office at the Rimini Court are pending in relation to the accident that occurred on 5 March 2015 in which an employee of A.T.S. Costruzioni was injured while working at OMC Locomotive in Rimini. Trenitalia S.p.A. has been charged with the administrative crimes covered by article 25-*septies* of Legislative decree no. 231/01, as the negligence that led to the injuries was allegedly committed in violation of anti-accident and health protection in the workplace legislation.

- Criminal proceedings no. 20765/2014 in the general register of crimes are pending before the Florence Court in reference to the operating accident that occurred on 12 January 2014 during rolling stock shunting operations. One employee working as a signalman at the watchtower at the entrance to where train carriages are kept lost his life in the accident. The preliminary hearing is being held against two managers and two employees of Trenitalia S.p.A. (charged with negligent manslaughter for violations of anti-accident legislation, and Trenitalia S.p.A. is also charged with administrative liability following a crime covered by article 25-*septies* of Legislative decree no. 231/01.

- Criminal proceedings no. 1525/08 in the general register of crimes (the "Truck Center" case) relate to negligent manslaughter due to violations of anti-accident legislation. The first-level proceedings were concluded with certain FS Logistica S.p.A. officials found guilty, along with the company itself, for both third party liability and violations of Legislative decree no. 231/2001. The court ruling is being appealed.

- Criminal proceedings no. 5643/10 in the general register of crimes pending before the Sassari Court were initiated following a fatal accident involving the driver of train 8921 when it hit an obstacle on the tracks after an exceptional, unexpectedly large mudslide. Arguments are being heard against the three RFI S.p.A. employees and the company itself for third party and administrative liability.

- Criminal proceedings no. 1933/2011 in the general register of crimes with the Public Prosecutor's office pending before the Latina Court were initiated following the fatal accident on 25 February 2011 involving an employee of an outside company on the Campoleone-Cisterna di Latina section of track. Preliminary hearings are being held against one manager and three employees of the company and the company itself, in respect of the charges against it for violation of Legislative decree no. 231/01.

- Criminal proceedings no. 1758/2014 in the general register of crimes before the Milan Court relate to alleged violations of the legislative limits established for the drainage of industrial waste water in public sewers at an industrial plant in Milan. In these proceedings, charges have currently been lodged against one manager of

Trenitalia S.p.A. and Trenitalia S.p.A. itself for liability under Legislative decree no. 231/01 in relation to the same alleged environmental violations.

- on 21 April 2017, Busitalia's legal representative was notified that the preliminary investigations regarding certain company employees had been concluded with respect to alleged administrative liability pursuant to articles 5, 24 and 25 of Legislative decree no. 231/2001 for the crime covered by article 640-bis of the Italian Criminal Code

Other significant criminal court proceedings

- Criminal proceedings no. 3034/2012 in the general register of crimes previously with the Public Prosecutor's Office at the Rossano Court and subsequently transferred to the Castrovillari Public Prosecutor's Office relate to a fatal accident in which a train hit a car with six people inside it at the private railroad crossing on the Rossano C. - Mirto Crosia section. The Public Prosecutor has issued a notice that the preliminary investigations against RFI S.p.A. managers and employees (some of whom are pensioners) and non-FS Italian group parties have been concluded.

- Criminal proceedings no. 6765/2012 in the general register of crimes with the Brindisi Court are pending with the Lecce Court of Appeals in connection with a claim relating to an accident involving the Freccia Argento train no. 9351 and a lorry on 24 September 2012 at the railroad crossing on the Bari - Lecce section near the Cisternino (BR) station. In these proceedings, RFI S.p.A. and Trenitalia S.p.A. have joined the criminal proceedings as a civil party claiming damages. The non-group defendant found guilty has appealed against the Brindisi Court ruling of 21 October 2014.

- Criminal proceedings no. 35874/13 in the general register of crimes with the Public Prosecutor's Office at the Rome Court originated from alleged violations of Legislative decree no. 81/2008 in connection with the introduction of the "single driver" module which, according to the accusations, allegedly weakened the measures in place to prevent risks in emergencies and/or first aid situations involving the train driver while the train is operating. The Rome Public Prosecutor directly summoned Trenitalia S.p.A.'s former CEO and Director of Frecciarossa Operations. Arguments are currently being heard.

Arbitration proceedings

Arbitration proceedings with general contractors

- Giovi third railway crossing: RFI/COCIV arbitration. RFI S.p.A. appealed against the award - concerning the development of certain designs previously completed by the COCIV consortium - COCIV lodged a cross appeal. The proceedings are still pending (the hearing of conclusions was postponed to 24 May 2018). Reference should be made to the 2015 annual report for additional details.

Civil and administrative proceedings

- K2 Discount pursuant to Ministerial decree no. 44T/2000. With respect to that indicated in the 2015 annual report, to which reference should be made for additional details, in relation to the two cases currently pending before the Lazio regional administrative court against URSF (the office that regulates railway service) decisions no. 18/2006 and 83/2007, a public hearing was scheduled for 14 June 2017. With respect to the appeal filed by the railway companies petitioning for compliance with the Council of State's decision cancelling DM 92T (reference should also be made to the 2015 annual report for a detailed description of all events in this stage of the proceedings), on 26 September 2016, the *ad Acta* Commissioner's delegate issued a conclusive report on the outcome of the preliminary investigations, specifying that the K2 discount period began on 1 January 2006 and ended on 30 June 2009, except for the traffic produced using rolling stock that, before 30 June 2009, met the conditions for a single driver (equipped with ground sub-system technologies, installation of the connected on-board signalling system and the issue of rules and procedures governing how single-driver trains are operated). The *ad Acta* Commissioner's delegate then quantified the individual amounts - including interest accrued at the legal rate up to 30 September 2016 and separated from self-applied discounts - to be paid to the four appellant railway companies affected by the order to comply (namely, Rail Traction Company, NordCargo, SBB Cargo and DB Schenker) totalling approximately €20 million (which, net of the amount already withheld by the appellant companies, will entail covering the balance of roughly €12.6 million). RFI S.p.A. then proposed the commencement of talks with the four appellant railway companies, in which the MIT will also participate, to quickly settle the matter, which may include the negotiation of settlement agreements between the parties. The company recognised a liability of the same amount to the railway companies and an asset of the same amount from the MEF, against an accrual of €30 million in the 2015 update to the GPC-I for "charges arising from the application of Ministerial decree no. 44T/2000" as part of the overall accrual for "train operating and efficiency technologies". Finally, the company has recalculated and increased the provision to cover any interest and related charges to be incurred should it be ordered pending reimbursement of the amounts that, in the first level decision, it might be ordered to pay eligible railway companies.

- Appeal against ART resolution no. 70/2014. Various FS Italiane group companies (RFI S.p.A., the former Grandi Stazioni S.p.A. and Centostazioni S.p.A.) lodged three extraordinary appeals with the President of Italy against ART resolution no. 70 of 31 October 2014 "*Regulation for fair and equal access to railway infrastructures and commencement of proceedings to define the criteria for the definition of the toll to use railway infrastructures*"). Initially lodged with the Lazio regional administrative court, the appeals were then transferred to the Piedmont regional administrative court where RFI S.p.A.'s and former Grandi Stazioni S.p.A.'s cases were summarised. Trenitalia S.p.A. appeared in both proceedings on 5 May 2016. During the 15 March 2017 hearing, the judge decided to hear one case only, that resulting from RFI S.p.A.'s appeal, and to postpone the hearing about Grandi Stazioni S.p.A.'s appeal to 28 June 2017.

- Appeal against ART resolution no. 96/2015. With an extraordinary appeal before the President of Italy, RFI S.p.A., Trenitalia S.p.A. and the former Grandi Stazioni S.p.A. appealed against ART resolution no. 96 of 13 November 2015 containing the principles and criteria for determining the fees to access and use the railway infrastructure. Their appeals were transferred to the Piedmont regional administrative court. RFI S.p.A. also appeared in the proceedings pending before the Piedmont regional administrative court for the railway transport operator Nuovo Trasporto Viaggiatori S.p.A.'s appeal against the same ART resolution no. 96/2015. During the hearing of 15 March 2017, the judge postponed discussion of Trenitalia S.p.A.'s appeal to the hearing scheduled for 28 June 2017. Since June 2016, while the FS Italiane group companies' appeals were pending, the ART resumed adjusting the fees to access and use the railway infrastructures by passing resolutions no. 72/2016, no. 75/2016 and no. 80/2016. These resolutions were also appealed by Trenitalia S.p.A. and other railway transport companies. In particular, with a brief presenting additional grounds, in September 2016, Trenitalia S.p.A. appealed against resolutions no. 72 and no. 75/2016. The hearing to discuss the precautionary injunction was held on 11 October 2016 in which the panel suggested, considering the complexity of the matter, discussing the merits of the case and postponing the proceedings to the public hearing of 15 March 2017, when they were postponed again to 28 June 2017. As for resolution no. 80/2016, Trenitalia S.p.A. lodged its appeal individually before the Piedmont regional administrative court. During the first public hearing held on 15 March 2017, the Piedmont regional administrative court postponed the discussion of the appeal and the related documents to the hearing scheduled for 28 June 2017.

- Appeal against ART resolution no. 33/2016. On 31 July 2015, with resolution no. 64, the ART commenced proceedings against RFI S.p.A., taking disciplinary action for any violation of the regulatory measures in resolution no. 70/2014. In the preliminary stage, for some of the ART's claims (namely those regarding measures 1.6.4, 3.6.1, 11.6.1 and 11.6.3), RFI S.p.A. has presented a set of commitments that, with ART resolution no. 91 of 5 November 2015, the Authority found to be admissible and published on its website, thereby beginning the market test stage. On 16 March 2016, the ART published resolution no. 24/2016 on its website, approving these commitments and making them mandatory, without assessing any violations by RFI S.p.A.. With respect to the claims in response to which RFI S.p.A. did not submit any commitments, it has instead lodged defensive briefs and presented its arguments in hearings before the ART's offices and board. With resolution no. 33/2016, the ART concluded the disciplinary proceedings with the assessment of two violations and a total fine of €30,000. With respect to the violation of measure 5.6.1.d) "organisation of the penalty/exemption clause system into tiers", the ART also required RFI S.p.A. to introduce a clause in the 2015 and 2017 Network Prospectuses - within 15 days of notification of the measure - establishing an exemption tier of 3% for the railway companies with network use contracts worth less than €6 million and publish the updated Network Prospectuses on its website with immediate notification to all concerned parties. RFI S.p.A. performed all of the above within the deadlines, publishing the updates to the 2015 and 2017 Network Prospectuses and paying the total fine due. However, without prejudice to these measures, to protect its interests, RFI S.p.A. lodged an appeal on 23 May 2016 with the Piedmont regional administrative court against resolution no. 33/2016 concerning only the assessment of the aforementioned violations. The date of the hearing has yet to be set.

- Appeal against AEEGSI resolution no. 654/2015. On 26 February 2016, RFI S.p.A. lodged an appeal with the Lombardy regional administrative court against resolution no. 654/2015 whereby the AEEGSI approved the rate regulation for electrical energy transmission, distribution and measurement services for the 2016-2023 regulation period. This measure consists of, inter alia, the "Integrated measures for the provision of electrical energy transmission and distribution services for the 2016-2019 period ("TIT")", including part IV governing "special rate regimes". In accordance with the special rate regime applicable to RFI S.p.A. and the railway system, the new TIT provides that, as from 1 January 2016, the benefit of applying a "single virtual point" is limited to energy used for the universal and cargo services only, and therefore cannot be applied to energy used for services sold on the market (for which monthly energy consumption is considered to "evenly distributed throughout [RFI S.p.A.'s] withdrawal points" and, accordingly at the maximum applicable rate). The first hearing in the legal proceedings has yet to be set.

- Appeal against ART resolution no. 54/2016. In September 2016, Trenitalia S.p.A. lodged an extraordinary appeal with the President of Italy to cancel ART resolution no. 54/2016 published on 11 May 2016 containing "*Measures concerning the minimum content of specific rights that passengers with long-term passes may demand from HS railway service operators*". The appeal was lodged on 7 September 2016. On 25 October 2016, the ART transposed the appeal to the Piedmont regional administrative court and the hearing has yet to be scheduled.

Proceedings before the Italian and EU authorities

- Antitrust Authority proceedings A/495. On 15 June 2016, the Antitrust Authority resolved to begin a preliminary investigation against Busitalia Veneto S.p.A. (Busitalia Veneto) and Busitalia Sita Nord S.r.l. (Busitalia SN), as well as against APS Holding SpA (APS), to ascertain whether there was a violation of article 102 of the Treaty on the Functioning of the European Union and article 3 of Law no. 287/1990 concerning the abuse of a dominant position. At the same time, the Authority authorised surprise inspections at the Busitalia SN's and Busitalia Veneto's Rome, Florence and Padua offices, which took place on 23 June 2016. The Antitrust Authority's initiative is part of the relevant government body/contracting station's preparation of documentation for the tender to assign urban and suburban car and tram services in the province of Padua. In the measure notifying the commencement of the preliminary investigation, the authority charged Busitalia Veneto – which manages the transport services subject to the future tender procedure – and its shareholders Busitalia SN and APS with using practices meant to delay the preparation of tender documentation, which included the omission of information and the delayed transmission of necessary data/pieces of information. The Authority also charged the companies with exerting allegedly undue pressure on the Padua provincial authorities to obtain authorisation to increase the prices of tickets sold electronically, i.e. SMS tickets. As for the first practice, the Antitrust Authority threatened to take, pursuant to article 14-*bis* of Law no. 287/1990, provisional precautionary measures against the parties in the proceedings. However, following the information and clarifications received, on 20 July 2016, the Authority resolved not to take precautionary measures against Busitalia SN and Busitalia Veneto (Antitrust Authority measure no. 26129 of 20 July 2016). On 14 December 2016, Busitalia SN and Busitalia Veneto proposed certain remedies in terms of conduct that, upon the outcome of the preliminary assessment of "*no clear lack of grounds*", were published on the Authority's website to enable the concerned third parties to submit any observations (i.e., market tests). Once the observations submitted in the market tests were considered, Busitalia SN and Busitalia Veneto proposed certain accessory changes to commitments. The proceedings are still underway. The procedure to evaluate the commitments must be completed within three months of when they are published. However, the term may be suspended for the time needed to obtain the European Commission's opinion pursuant to article 11.4 of regulation no. 1/2003.

- Antitrust Authority proceedings PS/10578. On 9 November 2016, the Antitrust Authority resolved to begin preliminary proceedings against Trenitalia S.p.A., alleging that its sales systems violate Consumers' Rights Code regulations protecting against unfair business practices. The notice that preliminary proceedings had commenced was served on 15 November 2016, when an inspection was conducted at the Trenitalia S.p.A. offices in Rome. In short, the Antitrust Authority claimed that the company was allegedly using unfair business practices, implemented through certain, limited sales channels, that impacted the public service obligations imposed on Trenitalia S.p.A. in the regional transport segment and, partly in the medium and long haul transport segment. Specifically, it claimed that the practice was "aggressive" under the Consumers' Rights Code. Within the deadlines established in the proceedings, Trenitalia S.p.A. has: *(i)* filed petitions to obtain the return and/or confidentiality of the documents that were gathered during the inspection, in order to protect any sensitive information from third parties; *(ii)* provided a response with respect to the Antitrust Authority's request for information when the preliminary proceedings began; and *(iii)* submitted briefs and documents to justify that its conduct was appropriate. Furthermore, with two notes dated December 2016 and January 2017, while confirming that its conduct was legitimate, Trenitalia S.p.A. formulated a series of commitments to remedy the practices that the Antitrust Authority deemed were improper in the preliminary evaluations when the proceedings began. With its resolution of 7 February 2017, the Antitrust Authority did not accept the company's proposed commitments, ordering the preliminary proceedings to continue. Originally scheduled for 8 April 2017, the conclusion of the proceedings was extended to 7 June 2017.

- EU cases SA 32179 and SA 32953. On 28 March 2014, the European Commission's Directorate-General for Competition notified Italy of a decision to begin a formal investigation in connection with two potential state aid programmes relating to:

  a) state aid measures under the forms of transfers of infrastructure assets (case SA 32179); and

  b) compensation for a public service obligation in the rail freight sector (case SA 32953).

  The first aid measure being investigated relates to four asset allocation operations within FS Italiane group, in which assets were allocated to Trenitalia S.p.A. and FS Logistica S.p.A., respectively. In particular, these transfers include assets that do not constitute railway infrastructure (they are mainly workshops) and are, in any case, no longer functional for the infrastructure operator. The second measure being investigated relates to the compensation by the Italian station to Trenitalia S.p.A. for the discharge of public service obligations in rail freight transport from 2000 to 2014 under three consecutive public service contracts. In 2015 and 2016, there were no other formal communications. The risk analysis for the EU cases detailed above shows that, to date, the European Community has not taken any other direct action against FS Italiane group for potential state aid and, accordingly, there are no actual disputes directly affecting the group at this time. Considering that this situation is still in a preliminary stage and is complex, it is in any case impossible to objectively identify a contingent liability or reliably estimate any amount that might be paid. Following our reading of the above analyses and based on the opinions of independent legal experts, we do not believe that the conditions established by IAS 37 have been met for the recognition of provisions.

- EU SA 44627. On 24 November 2016, the Directorate-General for Competition of the European Commission authorised the "Ferrobonus" scheme (SA 44627) as compatible state aid pursuant to article 93 of the Treaty on the Functioning of the European Union ("TFUE") and the guidelines for state aid to railway companies, following the Italian authorities' official notification to the European Commission on 22 June 2016. This authorisation makes it possible to disburse aid for three years (starting as from the authorisation date) of up to €30 million per year (accrual of €20 million pursuant to article 1.648 of Law no. 208 of 28 December 2015) to logistics operators that decide to increase the volume of cargo transported by rail to encourage the development of intermodal transport.

- EU SA 40887/SA 45482 On 19 December 2016, the European Commission authorised the 2015-2017 measure to support cargo railway transport (SA 40887/SA 45482) as compatible state aid pursuant to article 93 of the TFUE and the guidelines for state aid to railway companies. This authorisation makes it possible to disburse €255 million (€55 million for 2015, €100 million for 2016 and €100 million for 2017) to railway companies for three years (2015-2017) to offset the costs they incur to access the infrastructures and a portion of saved external costs.

Law no. 262/05

As described earlier in this report, upon the MEF's specific instructions, in 2007, FS S.p.A. created the position of "Manager in charge of financial reporting" in accordance with Law no. 262/05. The parent subsequently issued bonds listed on the Irish Stock Exchange (in July 2013), which made it legally mandatory to have a Manager in charge of financial reporting, as the parent now fully falls within the scope of application of article 154-*bis* of the Consolidated finance act. In this respect, for a more detailed description of the rules and context in which FS S.p.A.'s Manager in charge of financial reporting works, reference should be made to the Report on corporate governance and ownership structure included in this report and, in particular, the paragraph on "*The manager in charge of financial reporting of FS S.p.A."* in which the characteristics, responsibilities, duties, powers and means of this position are clearly indicated, and to the section on the "*Main characteristics of risk and internal control management systems in relation to the financial reporting process"* for a description of FS Italiane group's control model pursuant to Law no. 262/2005, which was updated to take a risk-based approach and strengthen the role of process owners. With respect to the activities carried out for the 2016 financial statements attestations, the main group companies included in the "262 scope" have, in particular, issued administrative/accounting procedures for processes that have not yet been covered or for the review of procedures to implement the new model and the organisational and process changes and/or the results of controls conducted in previous attestation processes. Moreover, specifically to check their application, independent tests were conducted on some of the corporate procedures concentrated in the key and super key controls which show that the controls are functioning well. The control owners and process owners self-assessed some of these procedures/controls for adequacy and effective operability – again in the relevant period. Furthermore, the main group companies have implemented the following:

- the Segregation of Duties (SoD) model to ensure that system and/or process responsibilities are defined and duly segregated to prevent the overlapping of functions or the concentration of critical activities on one single person so as to avoid possible errors and/or fraud in the financial statements;
- the IT General Controls (ITGC) model defining all internal controls on the basis of international standards (COBIT for SOX) for IT processes, in order to ensure the continuous and correct functioning of the application systems that process the data used for financial reporting.

The activities carried out to date, since FS S.p.A. appointed the Manager in charge of financial reporting, have strengthened the financial reporting internal control system, creating a mechanism of periodic controls to verify that controls are operational and rules are continuously updated, and has made it possible to take advantage of opportunities to improve processes, promoting the internal control culture within FS Italiane group, with greater involvement – downstream from the introduction of the new developments in the model - of all group resources, managerial and otherwise, with respect to their respective responsibility for the information they produce that has an impact on financial reports.

The parent's treasury shares

At 31 December 2016, FS S.p.A. neither owns treasury shares directly or through trustees or nominees nor has it acquired or sold treasury shares directly or through trustees or nominees in 2016.

Related party transactions

Transactions between FS S.p.A. and the group companies and their transactions with other related parties are carried out correctly in terms of substance and to the parties' mutual financial benefit on an arm's length basis, based on normal market conditions which are defined with the assistance of independent experts, when necessary.

The shared objective of intragroup transactions is to promote efficiency and, therefore, create value for the entire group. To this end, in line with Ferrovie dello Stato Italiane group's business plan for 2017-2026, a more rational reallocation of group assets and resources is underway, to enable each company to focus on its core business, to improve the use of assets not directly related to the core activities of the group companies, transferring these activities to specialised entities, including through demergers and contributions, and to increase intragroup synergies.

These processes and transactions are carried out in accordance with sector regulations, the Italian Civil Code and tax laws, in line with the guidelines issued by the relevant ministries and the group's administrative/accounting procedures and considering the specific characteristics of the activities performed by many group companies.

Receivables and payables, income and expense arising on transactions during the year with parents and other group companies and information on related party transactions are presented in the notes to the separate and consolidated financial statements, to which reference should be made.

Outlook

Ferrovie dello Stato Italiane group

In 2017, FS Italiane group – which in 2016 further improved the outstanding performance that it has consolidated in previous years, achieving unprecedented exceptional results and a profit for the year of €772 million, thanks in part to the completion of major asset enhancement operations and sales – will be involved in the launch and implementation of the 2017–2026 business plan, approved by the board of directors on 13 September 2016 and presented to the public on 28 September 2016.

In line with its strategic goals, the group intends to remain the top investor in Italy. In 2016, it invested over €4 billion in technical and infrastructural projects and more than €1.5 billion in the transport sector, with investments in the residual segments reaching approximately €6 billion. It plans to invest over €94.5 billion over the course of the plan. These investment volumes are a harbinger of extraordinary growth, not only for the group but for the entire Italian economy as well, with an exponential impact on the potential economic development of both.

In this context, in 2017, RFI S.p.A. will continue the railway transport strengthening process (known as the “railway therapy”), launched in 2016, making the most of the potential and financial resources provided by the government in the 2016 “Legge di Stabilità”, while Trenitalia S.p.A. will continue to renew its fleet – in 2017, the delivery of new HS material will be completed and, in the local transport sector, the delivery of new electric and diesel trains will continue – with the constant general goal of improving the safety, punctuality, customer satisfaction and complete economic, equity and financial sustainability of its businesses, and, in particular, launching a process in the local transport segment that gradually leads to a balanced modal shift between travel by car and travel by rail and road.

In terms of economic performance, in 2017, the group expects further improvement in ordinary profit margins, both through the organic development of its businesses, including growth and improvements in logistics through the integrated management of the newly established Mercitalia group and new acquisitions (some of which were made at the end of 2016). This is all in line with the broader vision of the 2017-2026 business plan which, in the wake of a new mission (to become a global integrated mobility company), forecasts that consolidated turnover will double within 10 years, mostly (more than 70%) through growth, including international growth, in the scope of current operations, thanks to the development of the five strategic pillars at the basis of the business plan.

Ferrovie dello Stato Italiane S.p.A.

FS S.p.A. ended the year with excellent results and is committed to managing and coordinating processes to outline the group strategies discussed in this report, confirming positive forecasts of a profit for the year in 2017 as well.

Consolidated financial statements of Ferrovie dello Stato Italiane group as at and for the year ended 31 December 2016

Consolidated financial statements

Statement of financial position

	Notes	31.12.2016	31.12.2015
			millions of Euros
Assets			
Property, plant and equipment	8	44,590	44,692
Investment property	9	1,565	1,578
Intangible assets	10	766	713
Deferred tax assets	11	183	192
Equity-accounted investments	12	331	302
Non-current financial assets (including derivatives)	13	2,326	2,788
Non-current trade receivables	16	8	94
Other non-current assets	14	1,995	1,866
Total non-current assets		**51,764**	**52,225**
Construction contracts	15	53	46
Inventories	15	2,053	1,953
Current trade receivables	16	2,337	2,776
Current financial assets (including derivatives)	13	630	607
Cash and cash equivalents	17	2,337	1,305
Tax assets	18	121	125
Other current assets	14	3,392	4,069
Total current assets		**10,923**	**10,881**
Assets held for sale and disposal groups			
Total assets		**62,687**	**63,106**
Total equity and liabilities			
Share capital	19	36,340	36,340
Reserves	19	10	(96)
Valuation reserves	19	(512)	(533)
Retained earnings	19	1,559	1,388
Profit for the year	19	758	448
Equity attributable to the owners of the parent	**19**	**38,155**	**37,547**
Profit attributable to non-controlling interests	20	14	16
Share capital and reserves attributable to non-controlling interests	20	243	273
Total equity attributable to non-controlling interests	**20**	**257**	**289**
Equity		**38,412**	**37,836**
Liabilities			
Non-current loans and borrowings	21	8,652	8,571
Post-employment benefits and other employee benefits	22	1,785	1,799
Provisions for risks and charges	23	968	889
Deferred tax liabilities	11	271	293
Non-current financial liabilities (including derivatives)	24	83	112
Non-current trade payables	26	15	18
Other non-current liabilities	25	142	344
Total non-current liabilities		**11,916**	**12,026**
Current loans and borrowings and current portion of non-current loans and borrowings	21	3,210	2,572
Current portion of provisions for risks and charges	23	44	30
Current trade payables	26	4,097	3,952
Tax liabilities	27	4	10
Current financial liabilities (including derivatives)	24	119	244
Other current liabilities	25	4,885	6,436
Total current liabilities		**12,359**	**13,244**
Total liabilities		**24,275**	**25,270**
Total equity and liabilities		**62,687**	**63,106**

Income statement

millions of Euros

	Notes	2016	2015
Revenue			
Revenue from sales and services	28	7,908	7,881
Other income	29	1,020	704
Total revenue		**8,928**	**8,585**
Operating costs			
Personnel expense	30	(3,951)	(3,934)
Raw materials, consumables, supplies and goods	31	(1,230)	(1,159)
Services	32	(2,421)	(2,386)
Use of third-party assets	33	(183)	(181)
Other operating costs	34	(199)	(165)
Internal work capitalised	35	1,349	1,215
Total operating costs		**(6,635)**	**(6,610)**
Amortisation and depreciation	**36**	**(1,306)**	**(1,228)**
Net reversals of impairment losses	**37**	**(70)**	**(55)**
Provisions	**38**	**(25)**	**(48)**
Operating profit		**892**	**644**
Financial income and expense			
Financial income	39	62	116
Financial expense	40	(170)	(231)
Net financial expense		**(108)**	**(115)**
Share of profits of equity-accounted investees	41	14	8
Pre-tax profit		**798**	**537**
Income taxes	42	(26)	(73)
Profit for the year (attributable to the owners of the parent and non-controlling interests)		**772**	**464**
Profit for the year attributable to the owners of the parent		758	448
Profit for the year attributable to non-controlling interests		14	16

Statement of comprehensive income

millions of Euros

	Notes		2016		2015
Profit for the year (attributable to the owners of the parent and non-controlling interests)			**772**		**464**
Other comprehensive income					
Items that will not be reclassified to profit or loss, net of the tax effect:					
Actuarial gains (losses)	19		(29)		72
attributable to the owners of the parent		(29)		72	
attributable to non-controlling interests					
Items reclassified to profit or loss	**19**		**21**		**24**
Items that will or may be reclassified to profit or loss, net of the tax effect:					
Cash flow hedges - effective portion of changes in fair value	19		28		56
attributable to the owners of the parent		26		55	
attributable to non-controlling interests		2		1	
Net exchange rate gains (losses)	19		(1)		1
Total other comprehensive income, net of the tax effect			**19**		**153**
Comprehensive income (attributable to the owners of the parent and non-controlling interests)			**791**		**617**
Comprehensive income attributable to:					
Owners of the parent			775		600
Non-controlling interests			16		17

Statement of changes in equity

millions of Euros

	Equity													
		Reserves												
		Reserves				Valuation reserves								
	Share capital	Legal reserve	Extraordinary reserve	Other reserves	Translation reserve	Hedging reserve	Actuarial reserve	Fair value reserve	Total reserves	Retained earnings	Profit for the year	Equity attributable to the owners of the parent	Equity attributable to non-controlling interests	Total equity
Balance at 1 January 2015	**38,790**	**25**	**28**	**255**	**3**	**(291)**	**(395)**		**(375)**	**(1,661)**	**292**	**37,046**	**272**	**37,318**
Capital increase (capital decrease)	(2,450)	(25)	(28)	(255)			2		(306)	2,756			9	9
Dividend distribution													(8)	(8)
Allocation of profit for the previous year										292	(292)			
Change in consolidation scope													1	1
Other changes				(100)					(100)	1		(99)	(2)	(101)
Comprehensive income					1	79	72		152		448	600	17	617
of which:														
Profit for the year											448	448	16	464
Net gains recognised directly in equity					1	79	72		152			152	1	153
Balance at 31 December 2015	**36,340**			**(100)**	**4**	**(212)**	**(321)**		**(629)**	**1,388**	**448**	**37,547**	**289**	**37,836**
Capital increase (capital decrease)													20	20
Dividend distribution											(31)	(31)	(15)	(46)
Allocation of profit for the previous year		7		100					107	310	(417)			
Change in consolidation scope						3			3	(142)		(139)	(46)	(185)
Other changes										3		3	(7)	(4)
Comprehensive income					(1)	47	(29)		17		758	775	16	791
of which:														
Profit for the year											758	758	14	772
Gains/(losses) recognised directly in equity					(1)	47	(29)		17			17	2	19
Balance at 31 December 2016	**36,340**	**7**			**3**	**(162)**	**(350)**		**(502)**	**1,559**	**758**	**38,155**	**257**	**38,412**

Statement of cash flows

	2016	2015
		millions of Euros
Profit for the year	**772**	**464**
Amortisation and depreciation	1,306	1,228
Share of profits of equity-accounted investees	(14)	(8)
Accruals to provisions and impairment losses	116	267
Profits on sales	(36)	(52)
Change in inventories	(54)	18
Change in trade receivables	631	(368)
Change in trade payables	(175)	317
Change in current and deferred taxes	(4)	15
Change in other liabilities	(1,826)	(1,139)
Change in other assets	896	1,005
Utilisation of the provisions for risks and charges	(121)	(153)
Payment of employee benefits	(95)	(126)
Net cash flows generated by operating activities	**1,395**	**1,468**
Increases in property, plant and equipment	(5,599)	(5,203)
Investment property	(12)	(5)
Increases in intangible assets	(135)	(167)
Increases in equity investments	(154)	(144)
Investments, before grants	**(5,899)**	**(5,519)**
Grants for property, plant and equipment	4,280	2,884
Grants for investment property		
Grants for intangible assets	6	161
Grants for equity investments	128	133
Grants	**4,414**	**3,178**
Decreases in property, plant and equipment	291	432
Decreases in investment property	11	
Decreases in intangible assets	2	1
Decreases in equity investments and profit-sharing arrangements	4	30
Decreases	**308**	**463**
Net cash flows used in investing activities	**(1,177)**	**(1,878)**
Disbursement and repayment of non-current loans	(596)	(426)
Disbursement and repayment of current loans	1,098	457
Change in financial assets	445	468
Change in financial liabilities	(107)	12
Dividends	(46)	
Changes in equity	20	(104)
Net cash flows generated by financing activities	**815**	**407**
Total cash flows	**1,032**	**(3)**
Opening cash and cash equivalents	**1,305**	**1,308**
Closing cash and cash equivalents	**2,337**	**1,305**

Notes to the consolidated financial statements

1. The business of FS Italiane group and structure of the consolidated financial statements

Ferrovie dello Stato Italiane S.p.A. was set up in accordance with Italian law and is based in Italy. Its registered office is in Piazza della Croce Rossa 1, Rome.
The parent and its subsidiaries ("Ferrovie dello Stato Italiane group", "FS Italiane group" or the "group") provide passenger transport, cargo transport and logistics services, both in Italy and abroad (mainly in Germany), and manage an extensive railway network. FS Italiane group's structure is shown in Annex 5.

2. Basis of preparation

These consolidated financial statements have been prepared in accordance with IFRS (which include the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS)) issued by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), endorsed by the European Union pursuant to EC Regulation no. 1606/2002 and in effect at the reporting date ("IFRS"). Specifically, the group consistently applies the IFRS to all periods presented in these financial statements.

The consolidated financial statements have been prepared and presented in Euro, which is FS Italiane group's functional currency, i.e. the currency of the primary economic environment in which FS Italiane group operates. All amounts included in the financial statements and the tables and comments of the following notes are expressed in millions of Euros.

The financial statements format applied and the related classification criteria adopted by FS Italiane group in accordance with the options provided for in IAS 1 - Presentation of Financial Statements are set out below:

- the statement of financial position has been prepared by classifying assets and liabilities as "current/non-current";
- the income statement has been prepared by classifying operating costs by nature;
- the statement of comprehensive income includes the profit for the year, as well as any other changes in equity captions, specifically actuarial gains or losses on employee benefits, fair value gains or losses on hedging instruments and gains and losses on the translation of the financial statements of foreign operations;
- the statement of cash flows has been prepared by reporting cash flows arising from operating activities using the indirect method.

These consolidated financial statements have been prepared on a going-concern basis, as the directors established that there are no financial or operational indicators or any other indications of critical issues about FS Italiane group's ability to meet its obligations in the foreseeable future and, specifically, in the next twelve months. Reference should be made to the note to "Financial and operational risk management" for a description of the group's financial risk management procedures, including those applicable to the liquidity risk.

The consolidated financial statements have been prepared on the historical cost basis, except for financial assets and liabilities, including derivatives, which are measured at fair value.

The group has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

In order to more correctly present the 2015 comparative balances, tax assets and liabilities at 31 December 2015 have been decreased by €3 million while, with respect to factoring, trade receivables and payables at the same date have been increased by €126 million.

On 21 April 2017, the directors approved the draft separate financial statements at 31 December 2016 and their submission to the shareholder pursuant to article 2429 of the Italian Civil Code. These separate financial statements will be subsequently presented for the shareholder's approval within the terms set by law and will be filed within the terms established by article 2435 of the Italian Civil Code. The shareholder is entitled to make changes to these separate financial statements. For the purposes of IAS 10.17, the directors authorised these separate financial statements for issue on 21 April 2017, which is the date when they approved them.

KPMG S.p.A. was assigned the engagement to carry out the legally-required audit for the 2014-2022 period pursuant to Legislative decree no. 39/2010.

3. Consolidation scope

The consolidation policies applied by FS Italiane group to define the consolidation scope and, specifically, subsidiaries, jointly controlled entities and associates, and the related consolidation criteria, are described below.

i) Subsidiaries

The consolidated financial statements comprise the financial statements of the parent and those of the companies directly and indirectly controlled by the parent, from the date it gains control until the date when control ceases. Control can be exercised through direct or indirect holding of the majority of voting rights or through the right to variable returns from its involvement with the investees and the ability to affect those returns through its power over the investee, including regardless of shareholding relationships. The existence of potential voting rights exercisable at the reporting date is considering when determining control.

When non-controlling interests are acquired, goodwill is recognised only to the extent attributable to the parent. Non-controlling interests are calculated based on the percentage of investment held by third parties in the identifiable net assets of the acquiree.

With respect to business combinations achieved in stages, when control is acquired, the previously held equity interest in the acquiree is remeasured at fair value, recognising the resulting gain or loss, if any, in profit or loss.

When non-controlling interests are acquired, once control is obtained, the positive difference between the acquisition cost and the carrying amount of the non-controlling interests acquired is recognised as a decrease in the parent's equity. Conversely, when control over an entity is retained despite the sale of a portion of equity interests, the difference between the consideration received and the carrying amount of the portions transferred is recognised directly as an increase in equity.

The group recognises business combinations under common control, which are not covered by IFRS 3 or other standards, in accordance with IAS 8 in order to correctly and faithfully present the transaction in accordance with OPI 1 (Assirevi's preliminary guidance on the IFRS).

The reporting date of the financial statements of subsidiaries, jointly controlled entities and associates included in the consolidation scope is 31 December, which is the reporting date of the consolidated financial statements. These financial statements have been specifically prepared and approved by the boards of directors of each company and duly adjusted, where necessary, to comply with the accounting policies of FS Italiane group.

Subsidiaries have been consolidated as follows:

- the assets and liabilities, income and expense of these companies are consolidated on a line-by-line basis, allocating, where necessary, the relevant portion of equity and profit or loss for the year to non-controlling interests. Equity and profit or loss for the year attributable to non-controlling interests are presented separately in consolidated equity and the consolidated income statement;
- business combinations of entities not under common control, whereby control of an entity is acquired, are recognised using the purchase method. The acquisition cost is the acquisition-date fair value of transferred assets, liabilities assumed and equity instruments issued. Identifiable acquired assets and identifiable assumed liabilities are recognised at their acquisition-date fair value. If positive, the difference between the acquisition cost and the fair value of identifiable acquired assets and identifiable assumed liabilities is recognised under intangible assets as goodwill; if negative, after having remeasured the fair values of the above assets and liabilities and the acquisition cost, said difference is recognised directly in profit or loss, as income. When the fair value of the identifiable acquired assets and identifiable assumed liabilities assets can only be determined provisionally, the business combination is recognised using such provisional amounts. Any adjustments related to the completion of the measurement process are recognised within twelve months of the acquisition date, recalculating comparative figures;
- profits and losses, including the related tax effects, from transactions among consolidated companies and not yet realised vis-à-vis third parties, are eliminated, except for unrealised losses when the transaction reflects an impairment loss on the transferred asset. Receivables and payables and costs and revenue are also eliminated, as well as financial income and expense;
- with respect to the acquisition of non-controlling interests in companies already controlled, any difference between the acquisition cost and the related portion of the acquiree's equity is recognised in equity.

All subsidiaries are consolidated from the date the group acquires control and are excluded from the consolidation scope on the date the group no longer retains control.

ii) Joint arrangements and associates

Joint arrangements can be classified as joint operations or joint ventures based on the underlying rights and contractual obligations. Specifically: (i) a joint operation is a joint arrangement whereby the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement. In this case, individual assets and liabilities and the related costs and revenue are recognised in the financial statements of the parties based on their individual rights and obligations, regardless of the interest held; (ii) a joint venture is a joint arrangement whereby the parties have rights to the net assets of the arrangement.

Associates are those companies over which FS Italiane group exercises significant influence, being the power to govern the financial and operating policies of the investee, without having control or joint control thereof. When assessing the existence of significant influence, potential substantive voting rights are considered.

Interests in joint ventures and associates are initially recognised at cost and subsequently measured using the equity method, whereby:

- the carrying amount of interests in joint ventures and associates is aligned to their equity, adjusted, where necessary, to comply with the accounting policies of FS Italiane group; it includes the greater amounts allocated to assets and liabilities and goodwill, if any, identified upon acquisition;

- the associates' profits or losses attributable to FS Italiane group are recognised from the date significant influence begins to the moment it ceases, while those of joint ventures from the date the rights to the net assets of the arrangement begin to the moment they cease. If, because of the losses incurred, the companies have a net deficit, the carrying amount of the investment is eliminated and any excess amount pertaining to FS Italiane group, where the latter is committed to fulfil the investee's legal or constructive obligations, or to cover their losses, is recognised in a specific provision. The statement of comprehensive income items of equity-accounted investees are recognised in specific equity reserves;
- unrealised profits and losses on transactions between the parent/subsidiaries and the equity-accounted investee are eliminated based on the amount of the interest held by FS Italiane group in the investee. Unrealised losses are eliminated, except for impairment losses.

Interests in joint operations are accounted for by recognising the assets/liabilities and the costs/revenue related to the arrangement based on the relevant rights/obligations, regardless of the interest held.

Subsidiaries, jointly controlled entities and associates, whose consolidation or recognition in the consolidated financial statements using the equity method does not generate significant effects on the group's financial position and results of operations, are excluded from the consolidation scope and recognised at fair value, where available, or at cost, net of any impairment losses.

4. Change in consolidation scope and non-recurring transactions

In April 2016, as part of the seventh capital increase of a maximum of €158 million, the first and second instalments of Tunnel Ferroviario Brennero S.p.A.'s share capital increase were authorised for €108 million. Following the transactions, FS Italiane group's investment in this company, held through its subsidiary RFI S.p.A., decreased from 88.79% to 87.16% at 31 December 2016 as a result of the shareholders' different subscriptions.

On 11 May 2016, the quotaholders of FS Telco S.r.l. resolved unanimously to change the company's name to Mercitalia Rail S.r.l. and its business object as follows "The company is active in the production and sale of cargo rail transport in Italy and abroad, including the transport of hazardous goods and/or waste".

The partial, non-proportionate and asymmetrical demerger deed for Grandi Stazioni S.p.A. was signed on 28 June 2016, providing for the contribution of part of its assets to two newcos limited by shares, Grandi Stazioni Retail S.p.A. and Grandi Stazioni Immobiliare S.p.A.. The demerged company changed its name to Grandi Stazioni Rail S.p.A. and the demerger became effective on 1 July 2016.
The demerged company Grandi Stazioni S.p.A., now Grandi Stazioni Rail S.p.A., wholly-owned by Ferrovie dello Stato Italiane S.p.A., kept assets and liabilities equal to equity of approximately €34 million.
Grandi Stazioni Retail S.p.A. and Grandi Stazioni Immobiliare S.p.A. received assets and liabilities equal to equity of around €73 million and roughly €31 million, respectively.
The business object of Grandi Stazioni Retail S.p.A. ("GS Retail S.p.A."), 55% owned by Ferrovie dello Stato Italiane S.p.A. and 45% owned by Eurostazioni S.p.A., is to manage, as deemed appropriate, renovate and enhance the value of station areas for commercial activities, left luggage offices and waiting rooms as well as other related areas, including through studies into the promotion, implementation and management of works to make them more functional and diversified. Grandi Stazioni Immobiliare S.p.A. ("GS Immobiliare S.p.A."), 60% and 40% owned by Ferrovie dello Stato Italiane S.p.A. and Eurostazioni S.p.A., respectively, is engaged in the purchase, construction, lease, restructuring and sale of properties or property complexes in general, the management, lease and administration of company properties and the provision of all building management and maintenance services.
After the partial demerger, the share capital of the demerged company and the two newcos was as follows:

• Grandi Stazioni Rail S.p.A. (formerly Grandi Stazioni S.p.A.)	100% Ferrovie dello Stato Italiane S.p.A
• Grandi Stazioni Retail S.p.A.	55% Ferrovie dello Stato Italiane S.p.A
	45% Eurostazioni S.p.A.
• Grandi Stazioni Immobiliare S.p.A.	60% Ferrovie dello Stato Italiane S.p.A
	40% Eurostazioni S.p.A.

On 20 July 2016, Ferrovie dello Stato Italiane S.p.A. and Eurostazioni S.p.A. sold and transferred their entire investments in GS Retail S.p.A. and its subsidiary Grandi Stazioni Česká Republika Sro (61% held by GS Retail S.p.A.) to Alba Bidco S.p.A. for €762 million.

On 29 July 2016, Busitalia - Sita Nord S.r.l. incorporated Busitalia Campania S.p.A. (100% owned), following its participation in the public call to tender promoted by CSTP - Azienda della Mobilita S.p.A. under extraordinary administration for the sale of its operating business unit, excluding the receivables and payables that accrued before the sale. On 17 October 2016, the tender was definitely awarded and Busitalia Campania S.p.A. became operational on 1 January 2017 with the business object of road passenger transport in Campania.

On 5 September 2016, Trenitalia S.p.A. obtained full control of the subsidiary Thello SaS, acquiring 33.33% from the French company Transdev Ile De France for the symbolic price of €1 thus implementing the share purchase agreement with the French company after it exercised its put option and paid the agreed €4.7 million.

On 20 October 2016, Trenitalia S.p.A. incorporated the wholly-owned Trenitalia UK Limited, included in the London company register. This company is based in London and its business object is rail passenger transport.

On 13 December 2016, the share/quotaholders of FS Logistica S.p.A., FS Jit Italia S.r.l. and SGT S.p.A. resolved to change their companies' names to Mercitalia Logistics S.p.A., Mercitalia Transport & Services S.r.l. and Mercitalia Terminal S.p.A., respectively, with effect from 1 January 2017 as part of the Mercitalia hub project.

In accordance with the provisions of the Ministry of Infrastructure and Transport's decree of 4 August 2016, FS S.p.A. received the entire investment in Società Ferrovie del Sud Est e Servizi Automobilistici - FSE S.r.l. with quota capital of €10 million on 28 November 2016 (acquisition and consolidaton date) free of charge. This company provides passenger and cargo transport services of all kinds and especially by rail, bus, tram, cable car and other vehicles.
The following table shows the net IFRS-compliant assets at 31 December 2016 of FSE S.r.l. obtained from the accounting data Group GAAP compliant specifically delivered by the managment. As already disclosed in note 3 "Consolidation scope", the transfer of its quotas was accounted for as a business combination involving entities or businesses under common control (IFRS 3) as the transaction players are the Ministry of Infrastructure and Transport (MIT)/Ministry of the Economy and Finance (MEF) and FS S.p.A., which is 100% owned by the MEF. The transaction was recognised using thebook value accounting method.

	millions of Euros
Assets	
Property, plant and equipment	17
Intangible assets	9
Deferred tax assets	5
Equity investments	
Other non-current assets	58
Total non-current assets	**89**
Inventories	6
Trade receivables and service contracts	50
Cash and cash equivalents	2
Tax assets	1
Other current assets	118
Total current assets	**177**
Total assets	**266**
Liabilities	
Non-current loans and borrowings	15
Post-employment benefits and other employee benefits	31
Provisions for risks and charges	61
Other non-current liabilities	
Total non-current liabilities	**107**
Current loans and borrowings and current portion of non-current loans and borrowings	103
Current trade payables	158
Other current liabilities	31
Total current liabilities	**292**
Total liabilities	**398**
Net assets	**(133)**

5. Translation of foreign operations' financial statements

The financial statements of subsidiaries, jointly controlled entities and associates have been prepared using their functional currency, being the currency of the primary economic environment in which they operate. Foreign operations' financial statements expressed in a functional currency other than the Euro are translated as follows:

- assets and liabilities are translated using closing rates;
- goodwill and fair value adjustments related to the acquisition of a foreign operation are considered as assets and liabilities of the foreign operation and translated using closing rates;
- revenue and expense are translated at the average exchange rate of the year;
- the "translation reserve", recognised under consolidated equity captions, includes both exchange rate gains and losses arising from the translation of amounts, using rates other than closing rates, and those arising from the translation of opening equity applying a rate other than the closing rate. This reserve is released to profit or loss when the related equity investment is sold.

The following exchange rates were applied to translate the financial statements of foreign operations prepared in a functional currency other than the Euro:

	Average exchange rate for		**Closing rate at 31 December**	
Euros	**2016**	**2015**	**2016**	**2015**
Swiss Franc	1.09	1.07	1.07	1.08
Czech koruna		27.28		27.02
Danish krone	7.45	7.46	7.43	7.46
Swedish krona	9.46	9.35	9.55	9.19
Serbian dinar	123.46	120.72	123.46	121.52
Turkish lira	3.34	3.02	3.71	3.17

Translation of foreign currency amounts

Any transactions in a currency other than the functional currency are recognised at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in a currency other than the Euro are subsequently adjusted at the closing rate. Non-monetary assets and liabilities denominated in a currency other than the Euro are recognised at historical cost using the exchange rate prevailing at the date of initial recognition. Exchange rate differences are taken to profit or loss.

6. Accounting polices

The most significant accounting policies applied to the preparation of these consolidated financial statements are described below.

Property, plant and equipment

General criteria

Property, plant and equipment are recognised at purchase or production cost, net of accumulated depreciation and impairment losses, if any. The purchase or production cost includes any charges that are directly incurred to make assets available for use, as well as dismantlement and removal charges, if any, that will be incurred as a result of contractual obligations that require the asset to be returned to its original conditions. Any financial expense that is directly attributable to the acquisition, construction or production of qualifying assets is capitalised and depreciated on the basis of the useful life of the asset to which it refers. Leasehold improvements or costs to upgrade and transform property, plant and equipment are recognised under assets.

Any charges incurred for ordinary maintenance and repairs are directly charged to profit or loss when incurred. Costs to expand, upgrade or improve the structural elements owned or used by third parties are capitalised when they meet the requirements for separate recognition as assets or as parts of an asset, applying the component approach, whereby a component must be accounted for separately if its useful life can be measured independently.

Depreciation is charged on a monthly straight-line basis using rates that reflect the assets' useful life. When the depreciable asset comprises separately identifiable items with a useful life that is significantly different from that of the other items comprising the asset, depreciation is charged separately using the component approach.

Trenitalia S.p.A.'s calculation of rolling stock depreciation

Under the component approach, rolling stock was broken down into similar clusters based on the relevant technology level.

Four classes of "parts" were identified for each cluster:

1. parts to be reconditioned: these are serialised items of a high economic value which are regularly reconditioned at set travelling/time intervals;
2. worn parts: these are fully replaced with the spare parts in stock;
3. parts to be restyled for obsolescence/technical ageing/safety reasons;
4. parts which are not altered throughout the life of the rolling stock.

These parts are depreciated over the following periods: 5/6.5 years for classes 1 and 2; 12.5 years for driving material and 10 years for hauled stock under class 3, and 23/30 years for class 4 parts.

Rolling stock maintenance over the asset's useful life can be broken down into three macro-types:

- ordinary maintenance which ensures rolling stock efficiency; it is recognised in profit or loss;
- second-level maintenance which mainly involves replacing/repairing rolling stock components subject to wear and tear (classes 1 and 2);
- revamping activities which mainly increase the asset's performance, efficiency or useful life (class 3).

Based on the current structure of the entire maintenance process, second-level maintenance usually takes place every 5/6.5 years. These activities mainly refer to parts subject to wear and tear and replacement thereof.

Investments in revamping activities, i.e., all activities which increase the asset's performance, efficiency or useful life, provide for three main types of activities:

- activities that dramatically change the characteristics of the rolling stock and require CESIFER's re-approval, resulting in a new serial number. In this case, the useful life of the rolling stock is generally around 18 years and the depreciation rate applied is equal to 5.5%;
- technological activities which, in accordance with the provisions of the Supervisory Authority, ensure safety by adjusting the operating fleet, or part thereof. Again, these activities take place approximately every 18 years and are depreciated using a 5.5% rate;

- all other revamping activities which are not part of the above categories fall under class 3 and are therefore depreciated using an 8% or 10% depreciation rate, depending on whether the asset is a driving or hauled part.

RFI S.p.A.'s calculation of depreciation of property, plant and equipment

Depreciation is calculated on a straight-line basis at variable rates based on train-km production volumes. "Train-km" means the total number of kilometres travelled by trains on a railway infrastructure expressed in millions/year. Specifically, depreciation is calculated based on the ratio of quantities generated in the year to total production expected throughout the concession term, applied to the depreciable cost of the infrastructure at the reporting date. On this point, with respect to the infrastructure, the circumstance in which future investments (limited to those which guarantee a sufficient efficiency and security level of the infrastructure equal to that of the current year, specifically, extraordinary maintenance and renewals) is considered. Indeed, they are fully covered by grants and are fully financed by the government and are considered when determining the infrastructure's total production capacity. Consequently, they contribute to confirming the infrastructure's current production over the term of the concession, its useful life, and because of this profile, have an impact on the calculation of the depreciation rate. If the government had not provided any grants, the depreciation would have been calculated based on the ratio of quantities generated in the year to total production expected throughout the concession term, without considering those related to the future costs necessary to ensure the infrastructure's efficiency in the same period (specifically, extraordinary maintenance and renewals), applied to the depreciable cost of the railway infrastructure at the reporting date.

The depreciable cost of investments is the sum of all costs incurred not yet amortised, including any interest expense accrued during or for the development of assets, net of grants related to assets, excluding the expected residual carrying amount of the railway infrastructure at the end of the concession, in order to consider the related transferability against consideration.

Property, plant and equipment which, together with intangible assets and investment property, make up the railway infrastructure, comprise seven lines as shown in the table below.

For each line, RFI S.p.A. uses the number of train-km actually sold during the year and resulting from the company's specific monitoring system, as the indicator of the quantity generated during the year.

The depreciation rates applied in 2016 and 2015 are as follows:

	Production indicator	
Line	**2016**	**2015**
HS/HC network	**2.02%**	**1.94%**
Traditional network		
Po Plain line and international transits	2.13%	2.17%
North Tyrrhenian line and branch lines	2.10%	2.12%
Backbone and branch lines	2.13%	1.98%
South Tyrrhenian line	2.22%	1.98%
Adriatic line and Apennines lines	2.21%	2.17%
Secondary network	2.18%	2.16%

The useful life of property, plant and equipment and their residual value are updated, where necessary, at least at each reporting date. Land is depreciated to the extent related to site reclamation costs. Property, plant and equipment are derecognised when they are sold or when no future economic benefit is expected to arise from use; any gain or loss (calculated as the difference between the sale price, less costs to sell, and the carrying amount) is recognised in profit or loss in the year the asset is derecognised.

The depreciation rates used by FS Italiane Group for any other categories of property, plant and equipment are as follows:

Category	**Depreciation rate**
Buildings	2%-5%
Plant and machinery	5%-10%
Rolling stock	3.3%-20%
Industrial and commercial equipment	7.5%-25%
Other assets	8%-25%

Assets under finance lease

Assets under finance lease, through which the risks and rewards incidental to ownership are substantially transferred to FS Italiane group, are recognised as assets of FS Italiane group at their fair value on the date the lease was signed or, if lower, at the present value of minimum lease payments, including the amount to be paid to purchase the asset, if any. The corresponding liability to the lessor is recognised under financial liabilities. Assets are depreciated using the above rates and criteria, unless the term of the lease is below that of the useful life reflected by said rates and there is no reasonable certainty that ownership of the leased asset will be transferred at the natural expiry of the lease. In this case, depreciation reflects the lease term. Leases whereby the lessor substantially retains the risks and rewards associated to ownership of the assets are classified as operating leases. Operating lease costs are recognised on a straight-line basis in profit or loss over the term of the lease.

Investment property

Investment property is property held to earn rentals and/or for capital appreciation rather than for sale in the ordinary course of business. Furthermore, investment property is not used in the production or supply of goods or services or for administrative purposes. The accounting policies applied to recognise this caption comply with those applied to "Property, plant and equipment" described earlier.
When a development project for the future sale of a property begins, the property is reclassified to inventories following its change in use. The carrying amount at the date of change in use is the property's cost for subsequent accounting under inventories and depreciation ceases.

Intangible assets

Intangible assets are identifiable, non-monetary assets without physical substance, that can be controlled and can generate future economic benefits. They are recognised at purchase and/or production cost, including any directly-attributable expenses incurred to make the asset available for use, net of accumulated amortisation (except for intangible assets with an indefinite useful life) and impairment losses, if any. Interest expense, if any, that accrues during and for the development of intangible assets, is considered part of the purchase cost. Amortisation begins when the asset is available for use and is charged on a straight-line basis over its estimated useful life. Specifically, FS Italiane group has the following main intangible assets:

a) Concessions, licenses and trademarks

They are amortised on a straight-line basis over their term.
Costs of software licences, including any expenses incurred to make the software available for use, are amortised on a straight-line basis and on the basis of the licence term.
Any costs relating to software maintenance are expensed when incurred.

b) Industrial patents and intellectual property rights

They are amortised on a straight-line basis over their useful life.

c) Goodwill

Goodwill is the difference between the cost incurred to acquire an asset and the fair value of the related identifiable assets and liabilities acquired. It is classified as an asset with an indefinite useful life and, consequently, is not amortised on a straight-line basis, but tested for impairment at least every year to identify any impairment losses. Impairment losses on goodwill are not reversed.

For impairment test purposes, goodwill acquired in a business combination is allocated to individual cash-generating units (CGUs) or groups of CGUs which are expected to benefit from the synergies of the combination, in line with the minimum level at which goodwill is monitored within the group. Goodwill related to unconsolidated subsidiaries or associates is included in the carrying amount of the equity investment.

d) Research and development expenditure

Research expenditure is recognised in profit or loss when incurred, while development expenditure is recognised under intangible assets where all the following conditions are met:

- the project is clearly identified and any costs referred thereto are identifiable and can be measured reliably;
- the technical feasibility of completing the project can be demonstrated;
- the intention to complete the project and to sell the generated intangible assets can be demonstrated;
- there is a potential market or, in case of internal use, it is demonstrated that the intangible asset is useful for the production of the intangible assets generated by the project;
- technical and financial resources are available which are necessary to complete the project.

The amortisation of development expenditure, if any, recognised under intangible assets begins from the date when the result generated by the project can be used and is carried out in a period of five years.

If the research phase of an identified internal project to create an intangible asset cannot be distinguished from the development phase, the expenditure on that project is fully charged to profit or loss as if it were incurred in the research phase only.

The gain or loss arising from the derecognition of an intangible asset is equal to the difference between the net disposal proceeds and the carrying amount of the asset. It is recognised in profit or loss when the asset is derecognised.

Service concession arrangements

Service concession arrangements, where the grantor is a public sector entity and the operator is a private sector entity (public-to-private) fall under the scope of IFRIC 12 only when the requirements for service regulation and control of the residual interest are met. This interpretation is applied when the infrastructure is essential to provide the public with services and the arrangement establishes that the grantor:

- controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and

- controls - through ownership, beneficial entitlement or otherwise - any significant residual interest in the infrastructure at the end of the term of the arrangement.

The group does not recognise infrastructure for concessions under the scope of IFRIC 12 as property, plant and equipment but rather recognises at fair value either alternatively or jointly: the intangible asset, if the operator has the right to charge users of the public service for the construction or upgrading of the infrastructure; and the financial asset when its construction or upgrade generate an unconditional contractual right to receive cash from or at the direction of the grantor and the grantor has little, if any, discretion to avoid payment.The operator recognises revenue and costs in line with the contractual terms and the stage of completion as provided for construction contracts. Revenue from the prices paid by users continues to be recognised in line with that set out in the subsequent paragraph on revenue recognition. Any intangible assets are amortised over the concession term using a method that reflects the estimated consumption of the economic benefits embedded in the right and the manner of consumption. Accordingly, amortisation is calculated considering, when material, changes in the estimated production in train-km over the concession term. Provisions for concession commitments include accruals made for the operator's obligation to restore the infrastructure to a specified condition or replace the infrastructure to return it to its normal state of use. They are made when the concession arrangement includes these obligations and the grantor does not receive additional financial benefits.

Impairment losses on intangible assets and property, plant and equipment

i) Intangible assets and property, plant and equipment with a finite useful life

At each reporting date, a test is carried out to check if there is any evidence that property, plant and equipment and intangible assets may be impaired. For this purpose, account is taken of both external and internal sources of information. With respect to internal sources of information, the following must be considered: the obsolescence of or physical wear and tear of the asset, significant changes, if any, in the use of the asset and the economic performance of the asset with respect to expectations. As regards external sources of information, the following must be considered: the trend in the market prices of the assets, negative changes, if any, in technology, markets or laws, the trend in market interest rates or in the cost of capital used to measure investments.

If any such indication exists, the company estimates the recoverable amount of the asset, recognising the impairment loss in profit or loss. The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use, i.e., the present value of the future cash flows expected to be derived from the asset. In calculating value in use, the expected future cash flows are discounted using a discount rate which reflects the time value of money, compared to the investment period and risks specific to the asset. The recoverable amount of an asset that does not generate largely independent cash flows is calculated in relation to the cash-generating unit to which this asset belongs.

Impairment losses are recognised in profit or loss when the carrying amount of the asset, or of the related cash-generating unit to which the asset is allocated, exceeds its recoverable amount. Impairment losses on cash-generating units are first allocated to reduce the carrying amount of the goodwill, if any, allocated to the cash-generating unit and then, to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit and within the limits of the related recoverable amount. If the reasons for a previously recognised impairment loss no longer apply, the carrying amount of the asset is reversed in profit or loss without exceeding the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years and had the related amortisation or depreciation been charged.

ii) Goodwill and intangible assets not yet available for use

The recoverable amount of goodwill and intangible assets not yet available for use is tested for impairment every year or more frequently if there is an indication that the asset may be impaired. However, should the reasons behind the impairment loss cease to exist, the original amount of goodwill is not reversed.

Financial instruments

Financial assets and trade receivables

Financial assets can be classified as follows:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity investments;
- available-for-sale financial assets.

Classification is decided by management upon initial recognition.

Financial assets at fair value through profit or loss

This category includes financial assets held for trading, derivatives (see the paragraph below) and assets designated as such upon initial recognition. Their fair value is calculated based on the reporting date bid price. The fair value of unquoted derivatives is calculated by applying commonly used financial valuation techniques. Fair value changes of the instruments included in this category are immediately recognised in profit or loss.

Classification as current or non-current assets reflects management's trading expectations: those that are expected to be realised within 12 months or designated as held for trading are included under current assets.

Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. If there is objective evidence of impairment, their carrying amount is decreased to reflect the discounted value of future flows: the impairment losses identified by impairment tests are recognised in profit or loss. If, in a subsequent period, the reasons behind the impairment loss cease to exist, the carrying amount of the asset is reversed without exceeding what the amortised cost would have been had the impairment not been recognised. These assets are classified as current, except for the portions due after one year which are included under non-current assets.

Held-to-maturity investments

These assets are measured at amortised cost and are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity. They are classified under current assets when the term is within 12 months. If there is objective evidence of impairment, their carrying amount is decreased to reflect the discounted value of future flows: the impairment losses identified by impairment tests are recognised in profit or loss. If, in a subsequent period, the reasons behind the impairment loss cease to exist, the carrying amount of the asset is reversed without exceeding what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

This category includes financial assets, other than derivative financial assets, that are designated as available for sale or are not classified in any of the above categories. They are measured at fair value which is calculated based on market prices at annual or interim reporting dates or using financial valuation models and techniques. Fair value changes are recognised in a specific equity caption (“reserve for available-for-sale financial assets”). This reserve is released to profit or loss only when the asset is actually sold or, in the case of a decrease, when the significant and prolonged decrease in fair value already recognised in equity cannot be recovered. Classification under current or non-current assets depends on management’s intention and the effective trading of the security: those assets which are expected to be realised within twelve months are classified under current assets.

If there is objective evidence of impairment, their carrying amount is decreased to reflect the discounted value of future flows: the decreases in fair value previously recognised in equity are reversed to profit or loss. The impairment losses recognised in prior years are reversed when the reasons behind their recognition cease to exist. This only applies to financial instruments other than equity instruments.

Derivatives

Derivatives are considered as assets held for trading and are measured at fair value through profit or loss, unless they effectively hedge a specific risk underlying the group’s assets or liabilities or commitments.

Specifically, the group uses derivatives as part of hedging strategies which mitigate the risk of fair value changes of recognised assets or liabilities or assets or firm commitments (fair value hedges) or changes in cash flows expected from firm commitments or highly probable transactions (cash flow hedges). Reference should be made to note 24 for information about the recognition of hedges of the currency risk on long-term contracts.

The effectiveness of hedges is documented and tested since the inception of the transaction which is periodically (at least at each annual or interim reporting date) measured by comparing the fair value changes of the hedge to those of the hedged item (dollar offset ratio) or, with respect to more complex financial instruments, through statistical analyses based on risk changes.

Fair value hedges

Fair value changes of derivatives designated as fair value hedges and which qualify as such, are recognised in profit or loss, similarly to fair value changes of hedged assets or liabilities attributable to the risk hedged.

Cash flow hedges

Fair value gains or losses on derivatives designated as cash flow hedges which qualify as such, are recognised, only to the extent of the “effective” portion, in other comprehensive income in the hedging reserve. They are subsequently reclassified to profit or loss when the underlying hedged item affects profit or loss. Fair value gains or losses related to the ineffective portion are immediately recognised in profit or loss. Should the underlying transaction no longer be considered highly probable, the related portion of the “hedging reserve” is immediately reclassified to profit or loss. Conversely, should the derivative be sold, expire or no longer qualify as an effective hedge of the risk for which the transaction was created, the related portion of the “hedging reserve” is maintained until the underlying item affects profit or loss. Recognition of the hedge as a cash flow hedge is discontinued prospectively.

Fair value estimate

The fair value of instruments quoted on an active market is calculated based on the bid price at the reporting date, while that of instruments not quoted on an active market is determined using financial valuation techniques: specifically, the fair value of interest rate swaps is calculated by discounting expected cash flows, while that of currency forwards considers closing rates and the expected differentials of the relevant currencies.

Financial assets and financial liabilities measured at fair value are classified using the following three levels of the fair value hierarchy, based on the relevance of the inputs used to determine fair value. Specifically:

- Level 1: financial assets and financial liabilities whose fair value is calculated based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the group can access at the measurement date;
- Level 2: financial assets and financial liabilities whose fair value is calculated based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3: financial assets and financial liabilities whose fair value is calculated based on unobservable inputs for the asset or liability.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and available bank deposits and any other forms of short-term investment, with an initial maturity of three months or less. At the reporting date, current account overdrafts are classified in the statement of financial position as financial liabilities under current liabilities. Cash and cash equivalents are measured at fair value through profit or loss.

Loans, trade payables and other financial liabilities

Loans, trade payables and other financial liabilities are initially recognised at fair value, net of directly-attributable costs, and are subsequently measured at amortised cost, applying the effective interest method. When there is a change in the estimated expected cash flows, the carrying amount of the liabilities is recalculated to reflect this change on the basis of the present value of the new expected cash flows and of the effective internal rate as initially determined. Loans, trade payables and other financial liabilities are classified under current liabilities, except for those with a contractual term beyond twelve months after the reporting date and those for which FS Italiane group has an unconditional right to defer their settlement for at least twelve months after the reporting date. Loans, trade payables and other financial liabilities are derecognised when repaid and when FS Italiane group has transferred all risks and charges related to the instrument.

Inventories

Inventories are recognised at the lower of purchase and/or production cost and net realisable value. Cost is calculated using the weighted average cost method.

Net realisable value corresponds, for finished goods and properties, to the selling price estimated in the ordinary course of business, net of estimated selling costs. Replacement cost is used for raw materials, consumables and supplies.

Purchase cost includes additional charges, while production cost comprises directly-attributable costs and a portion of indirect costs that are reasonably attributable to the products.

Obsolete and/or slow-moving inventories are written down to reflect their estimated possible use or future sale, through the recognition of a specific allowance for inventory write-down. The write-down is derecognised in subsequent years if the reasons therefor no longer apply.
Properties held for trading are recognised under this caption at the lower of purchase cost and fair value, calculated by an independent appraiser. They are recognised net of the allowance for inventory write-down, while costs that enhance the assets are capitalised. The write-down is reversed in subsequent years if the reasons therefor cease to exist.

Construction contracts

Construction contracts (or “contracts”) are recognised at the reasonably accrued contractually agreed fees in accordance with the percentage of completion method, considering the progress made and the expected contractual risks. Progress is measured by comparing the contract costs incurred at the reporting date to the total estimated costs for each contract.
When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable. When the outcome of a construction contract can be estimated reliably and it is probable that the economic benefits associated with the contract will flow to the entity, revenue is recognised over the term of the contract. When it is probable that total contract costs exceed total contract revenue, the potential loss is immediately recognised in profit or loss, regardless of the contract progress.
Contracts are shown net of allowances, if any, losses to complete contracts and payments on account and advances related to the contract in progress. Differences are recognised under assets when positive, while negative differences are taken to the liability caption “Trade payables”.

Employee benefits

Short-term benefits comprise wages, salaries, related social security contributions, holidays paid and incentives paid out in the form of bonuses payable in the twelve months after the reporting date. These benefits are accounted for as personnel expense components in the period in which the employees provide their service.

Post-employment benefits and other employee benefits

The companies of FS Italiane group have both defined contribution and defined benefit plans in place. The defined contribution plans are managed by third-party fund managers, in relation to which there are no legal or any other obligations to pay additional contributions if the fund has no sufficient assets to meet the commitments with employees. With respect to the defined contribution plans, FS Italiane group pays contributions, either voluntarily or as required by contract, into public and private insurance pension funds. Contributions are recognised as personnel expense on an accruals basis. Advance payments for contributions are recognised as an asset that will be repaid or offset against future payments, if due.
A defined benefit plan is a plan that cannot be classified as a defined contribution plan. Under defined benefit plans, the amount of the benefit to be paid to the employee can be quantified only after the termination of the employment relationship, and is linked to one or more factors, such as age, years of service and remuneration. Therefore, defined benefit obligations are determined by an independent actuary using the projected unit credit method. The present value of defined benefit plans is determined by discounting future cash flows at an interest rate equal to that of (high-quality corporate) bonds issued in the foreign currency in which the liability will be settled and that takes account of the term of the related pension plan. Actuarial gains and losses are fully recognised in profit or loss in the relevant year, taking account of the related deferred tax effect.

Specifically, FS Italiane group manages a defined benefit plan that consists of post-employment benefits (Italian "TFR"). Italian companies are required to accrue a provision pursuant to article 2120 of the Italian Civil Code, which is treated as deferred remuneration and is based on employees' duration of service and the remuneration they receive during that time. Starting from 1 January 2007, Law no. 296 of 27 December 2006, the "2007 Finance Act" and subsequent decrees and regulations introduced significant amendments to TFR regulations, including the employees' right to choose to transfer the TFR being accrued either to supplementary pension funds or to the "Treasury Fund" managed by INPS (the Italian Social Security Institute). Consequently, the obligation to INPS and the contributions paid into supplementary pension funds are now treated, pursuant to IAS 19 - Employee benefits, as defined contribution plans, while the amounts recognised under post-employment benefits at 1 January 2007 are still treated as defined benefit plans.

Some FS Italiane group companies also have a defined benefit pension plan in place, the "Free Travel Card" (Carta di Libera Circolazione, CLC) that gives current and retired employees and their relatives, the right to use – free of charge or, in some cases, for an admission fee – the trains managed by Trenitalia.

Consequently, in accordance with the above-mentioned actuarial techniques, a provision is recognised which reflects the discounted charge for retired employees entitled to benefits, and the benefits accrued for employees in force to be disbursed at the end of the employment.

The Free Travel Card benefits and the effects arising from actuarial valuations are the same as those of post-employment benefits.

Provisions for risks and charges

Provisions for risks and charges are recognised for certain or probable losses and charges, whose amount and/or due date cannot be determined. They are recognised only when the company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. This amount represents the best estimate of the expenditure required to settle the obligation. The rate used to determine the present value of the liability reflects the current market values and takes account of the specific risk that can be associated to each liability.

Where the effect of the time value of money is material and the settlement dates of obligations can be estimated reliably, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Risks for which a liability is only possible are disclosed in the specific section on contingent liabilities without accruing any provisions.

Revenue

Revenue is recognised when it is probable that future economic benefits will flow to FS Italiane group and these benefits can be measured reliably, net of returns, rebates, trade discounts and bulk discounts.

Revenue from services is recognised in profit or loss on a percentage of completion basis and only when the outcome of the service can be estimated reliably.

Similarly to that described in relation to construction contracts, revenue from contract work in progress is recognised using the percentage of completion method.

Revenue from the sale of goods is recognised at the fair value of the consideration received or receivable. It is recognised when the company has transferred to the buyer the significant risks and rewards of ownership of the goods and the related costs can be measured reliably.

Interest income is recognised in profit or loss on the basis of the effective rate of return.

Government grants

Government grants, when formally assigned and, in any case, when the right to their disbursement is deemed definitive as it is reasonably certain that FS Italiane group will comply with any conditions attached to the grant and that the grants will be received, are recognised on an accruals basis in direct correlation with the costs incurred.

i) Grants related to assets

They refer to amounts paid by the government and other public authorities to FS Italiane group for the implementation of initiatives aimed at the construction, reconditioning and expansion of property, plant and equipment. They are recognised as a direct reduction in the cost of the assets to which they refer and decrease the depreciation rates.

ii) Grants related to income

They refer to amounts paid by the government or other public authorities to FS Italiane group to offset costs and charges incurred. They are recognised under "Revenue from sales and services" and "Other income", as a positive component of income.

Dividends

They are recognised in profit or loss when the shareholders' right to receive payment thereof arises. The latter usually coincides with the shareholders' resolution approving dividend distribution.

Dividends distributed to Ferrovie dello Stato Italiane S.p.A.'s shareholders are presented as a change in equity and recognised under liabilities when their distribution is approved by the shareholders.

Cost recognition

Costs are recognised when they relate to goods and services acquired or consumed in the year or by systematic allocation.

Income taxes

Current taxes are calculated based on estimated taxable profit and in accordance with ruling tax legislation.
Deferred tax assets, related to prior tax losses, are recognised when it is probable that future taxable profit will be available against which these losses can be recovered. Deferred tax assets and liabilities are calculated using the tax rates that are expected to be applied in the years in which the differences will be realised or settled.
Current taxes, deferred tax assets and liabilities are recognised in profit or loss, except for those relating to items recognised under other comprehensive income and directly taken to equity. In the latter cases, deferred tax liabilities are recognised under the "Tax effect" caption related to the other comprehensive income or directly in equity, respectively. Deferred tax assets and liabilities are offset when they are levied by the same tax authorities, there is a legally enforceable right to set off the recognised amounts and a settlement on a net basis is expected.
Taxes other than income taxes, such as indirect taxes and duties, are included in profit or loss under "Other operating costs".

Assets and liabilities held for sale and disposal groups

Non-current assets and liabilities (or disposal groups) whose carrying amount will be recovered principally through a sale transaction rather than through continuing use are classified as held for sale and recognised separately from any other assets and liabilities in the statement of financial position. The corresponding prior year statement of financial position figures are not reclassified. A discontinued operation is a component of the company that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Profits or losses of discontinued operations – either disposed of or classified as held for sale and being divested – are recognised separately in profit or loss, net of tax effects. Prior year corresponding figures, where present, are reclassified and presented separately in the separate income statement, net of tax effects, for comparative purposes. Non-current assets and liabilities (or disposal groups) classified as held for sale, are firstly recognised in accordance with the specific standard applicable to each asset and liability and, subsequently, are recognised at the lower of carrying amount and fair value, less costs to sell. Subsequent impairment losses are recognised directly as an adjustment to non-current assets (or disposal groups) classified as held for sale through profit or loss.

Impairment losses are reversed for any subsequent increase in fair value less costs to sell of an asset, not in excess of the cumulative impairment loss that has been previously recognised.

New standards

FIRST-TIME ADOPTION OF STANDARDS, AMENDMENTS AND INTERPRETATIONS

The following new standards are effective for annual periods beginning after 1 January 2016.

Amendments to IAS 19 – Employee benefits

On 21 November 2013, the IASB issued some amendments to IAS 19 – Employee benefits, named "Defined benefit plans: employee contributions". The EU endorsed these documents with Regulation no. 2015/29 of 17 December 2014, with the aim of simplifying the accounting treatment of employees' or third-party contributions to defined benefit plans, which are to be offset against the service cost.

These amendments apply to annual periods beginning on or after 1 February 2015.

Application of the amendments did not have a material effect on these consolidated financial statements due to their nature and/or scope.

Annual Improvements to IFRS: 2010-2012 Cycle

On 12 December 2013, the IASB issued the "Annual improvements to IFRS: 2010-2012 cycle". The EU endorsed this document with Regulation no. 2015/28 of 17 December 2014. The following standards were amended:

- The amendment to IFRS 2 clarifies the definition of "vesting condition", separately defining the concepts of "performance condition" and "service condition".
- The amendments to IFRS 3 clarify how to classify a contingent consideration in a business combination. They clarify that, if the contingent consideration is a financial instrument, it shall be classified as either a financial liability or an

equity instrument. They also clarify that changes in fair value of a contingent consideration, which are not measurement period adjustments and are not classified under equity, shall be recognised in profit or loss.

- With respect to the amendments to IFRS 8, entities are required to provide additional disclosure with a brief description of the criteria used by management to combine operating segments and an explanation of the economic indicators that were considered in establishing that the combined operating sectors have similar financial characteristics. The amendments also clarify that the reconciliation between the segment's total assets and total consolidated assets is only necessary when this is already regularly provided to management.
- The amendment to IAS 24 modifies the definition of "related party" to include "management entities", i.e., those entities which provide key management services to the reporting entity. The management entity shall be included in the related parties of the reporting entity and, therefore, the disclosure requirements of IAS 24 about related parties shall be complied with, indicating the costs for services paid or payable to the management entity and other transactions such as loans. The amendment also clarifies that, if an entity obtains key management services from another entity, it is not required to state the fees paid or due by the management entity to its directors or employees.
- The amendments to IAS 16 and 38 clarify that, when the revaluation model is applied, the adjustments to accumulated depreciation/amortisation are not always consistent with the adjustment to the gross carrying amount. Specifically, at the revaluation date, the asset's carrying amount can be adjusted to the revalued amount either as follows: a) the asset's gross carrying amount is adjusted in a manner that is consistent with the revaluation and the accumulated amortisation/depreciation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset, net of accumulated impairment losses; b) accumulated amortisation/depreciation is offset against the asset's gross carrying amount.

These amendments apply to annual periods beginning on or after 1 February 2015.

Application of the amendments did not have a material effect on these consolidated financial statements due to their nature and/or scope.

Amendments to IFRS 11 – Joint arrangements

On 6 May 2014, the IASB published Accounting for acquisitions of interests in joint operations (Amendments to IFRS 11), which was endorsed by the European Union with Regulation no. 2173 of 24 November 2015. These amendments provide new guidance on the accounting for acquisitions of interests in joint operations that are a business combination. A joint operator that acquires an interest in a joint operation in which the activity constitutes a business shall apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11. This implies that the assets and liabilities of the interest in a joint operation shall be measured at fair value and any goodwill or bargain price gain shall also be recognised. The acquisition-related costs shall be expensed and all the disclosures required by IFRS 3 shall be provided.

The amendments apply to annual periods beginning on or after 1 January 2016.

Application of the amendments did not have a material effect on these consolidated financial statements due to their nature and/or scope.

Amendments to IAS 16 – Property, plant and equipment and IAS 38 – Intangible assets

On 12 May 2014, the IASB issued Clarification of acceptable methods of depreciation and amortisation (Amendments to IAS 16 and IAS 38). This document was endorsed by the European Union with Regulation no. 2231 of 2 December 2015. The amendments to IAS 16 clarify that the use of revenue-based methods to calculate the depreciation/amortisation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects

factors other than the consumption of the economic benefits embodied in the asset. The same clarification was provided for IAS 38 although this presumption can be rebutted in rare cases.
These amendments apply to annual periods beginning on or after 1 January 2016. Application of the amendments did not have a material effect on these consolidated financial statements due to their nature and/or scope.

Amendments to IAS 27 – Separate financial statements

On 12 August 2014, the IASB issued Equity Method in Separate Financial Statements (Amendments to IAS 27). This document was endorsed by the European Union with Regulation no. 2441 of 18 December 2015. The amendments restore the option to use the equity method, described in IAS 28 - Investments in associates and joint ventures, to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.
These amendments apply to annual periods beginning on or after 1 January 2016.
The group has decided not to assess adoption of this option at present given the application issues tied to use of the equity method, especially as regards subsidiaries.

Annual Improvements to IFRS: 2012-2014 Cycle

On 25 September 2014, the IASB issued the Annual Improvements to IFRS: 2012-2014 Cycle. This document was endorsed by the European Union with Regulation no. 2343 of 15 December 2015. The amendments introduced are part of the ordinary streamlining and clarification process of IFRS. They refer to the following standards:

- the amendment to IFRS 5 clarifies that the change in classification of an asset (or a disposal group) from held for sale to held for distribution to owners shall not be considered as a new plan of disposal nor shall the classification date be modified;
- the amendment to IFRS 7 clarifies that there could be continuing involvement entailing the related disclosure obligations when a fee is paid to a vehicle servicing assets transferred;
- the amendment to IAS 19 clarifies that when a discount rate referred to a deep market for high quality corporate bonds is used, the market depth shall be assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located;
- the amendment to IAS 34 provides that the required interim disclosures not included in the interim reports may be included by cross-reference to another document available to users within the same term as the interim financial statements (e.g., in any management report).

These amendments apply to annual periods beginning on or after 1 January 2016. Application of the amendments did not have a material effect on these consolidated financial statements due to their nature and/or scope.

Amendments to IAS 1 – Presentation of financial statements

On 18 December 2014, the IASB issued Disclosure Initiative (Amendments to IAS 1). This document was endorsed by the European Union with Regulation no. 2406 of 18 December 2015. The amendments clarify some aspects related to disclosure about materiality (with respect to the financial statements as a whole); disaggregation and aggregation of line items; the order of the notes (flexibility is encouraged but understandability and comparability must be considered); equity-accounted investees (an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss). The initiative is part of the Disclosure Initiative project to improve the presentation of, and disclosures in, IFRS financial statements and resolve some of the critical issues reported by operators.
These amendments apply to annual periods beginning on or after 1 January 2016. Application of the amendments did not have a material effect on these consolidated financial statements due to their nature and/or scope.

Amendments to IFRS 10 – Consolidated financial statements, IFRS 12 – Disclosure of interests in other entities and IAS 28 – Investments in associates and joint ventures

On 18 December 2014, the IASB issued Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28). The document was endorsed by the European Union with Regulation no. 1703 of 22 September 2016. The amendment introduces some changes to the three standards, clarifies the requirements for recognition of an investment entity and provides for special exceptions. The amendments apply to annual periods beginning on or after 1 January 2016. Application of the amendments did not have a material effect on these consolidated financial statements due to their nature and/or scope.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS RECENTLY ENDORSED BY THE EUROPEAN UNION, BUT NOT YET ADOPTED

At the preparation date, the competent bodies of the European Union have completed the endorsement process necessary to adopt the following standards and amendments. FS Italiane group decided not to exercise the option for earlier adoption (when provided for).

The group is currently assessing the future impacts these standards, amendments and interpretations may have on the consolidated financial statements and has set up special teams for the new IFRS 9 and IFRS 15.

IFRS 15 – Revenue from contracts with customers and amendments

On 28 May 2014, as part of the IFRS-US GAAP convergence project, the IASB and the FASB published IFRS 15 - Revenue from contracts with customers. This document was endorsed by the European Union with Regulation no. 1905 of 22 September 2016. This standard is a unique and comprehensive framework for revenue recognition and sets out the provisions to be applied to all contracts with customers (except for those covered by other standards on leases, insurance contracts and financial instruments). IFRS 15 replaces the previous standards applicable to revenue: IAS 18 - Revenue and IAS 11 - Construction contracts, as well as the following interpretations: IFRIC 13 - Customer loyalty programmes, IFRIC 15 - Agreements for the construction of real estate, IFRIC 18 - Transfers of assets from customers and SIC 31 - Revenue - Barter transactions involving advertising services. The new five-step model for revenue recognition requires that revenue be recognised upon transfer of the goods or services to the customer (and no longer with the substantial transfer of risks and benefits) at the consideration the entity expects to be entitled to (i.e., no longer at fair value).

On 11 September 2015, the IASB issued an amendment to IFRS 15, postponing the coming into force of the standard to 1 January 2018. However, earlier application is permitted. In addition, it published clarifications to the standard on 12 April 2016. IFRS 15 is applicable to annual periods beginning on or after 1 January 2018.

IFRS 9 – Financial instruments

On 24 July 2014, the IASB issued the definitive version of IFRS 9 - Financial instruments. This document was endorsed by the EU with Regulation no. 2067 of 22 November 2016. It presents the results of the IASB's project to replace IAS 39 and supersedes all the previous versions of IFRS 9 on classification, measurement, derecognition, impairment and hedge accounting. The key new issues introduced with respect to classification and measurement include the business model used to manage financial assets and liabilities and the characteristics of cash flows. The standard also introduces new guidance for the measurement of impairment losses (expected credit losses) and a new hedge accounting model. IFRS 9 is applicable to annual periods beginning on or after 1 January 2018.

ACCOUNTING STANDADRS, AMENDMENTS AND INTERPRETATIONS NOT YET ENDORSED BY THE EUROPEAN UNION

At the date of preparation of these consolidated financial statements, the competent bodies of the European Union have not yet completed the endorsement process necessary to adopt the following accounting standards and amendments. The group is currently assessing the future impacts these standards, amendments and interpretations may have on its financial position and performance.

IFRS 14 – Regulatory deferral accounts

On 30 January 2014, the IASB issued IFRS 14 - Regulatory deferral accounts, an interim standard applicable to the rate-regulated activities project. IFRS 14 permits only entities which are first-time adopters of IFRS to continue to account for rate regulation balances in accordance with their previous GAAP. In order to improve comparability with the entities that already apply IFRS and that do not recognise these balances, the standard provides that the impact of rate regulation be separately presented in an entity’s financial statements. The standard is applicable to annual periods beginning on or after 1 January 2016 and earlier adoption is allowed. The European Commission suspended the endorsement process pending the issue of the definitive version of the standard by the IASB.

Amendments to IFRS 10 – Consolidated financial statements and IAS 28 – Investments in associates and joint venture

On 11 September 2014, the IASB issued Sales or contribution of assets between an investor and its associate or joint venture (Amendments to IFRS 10 and IAS 28) to resolve an inconsistency between IAS 28 and IFRS 10. Under IAS 28, the gain or loss resulting from the sale or transfer of a non-monetary asset to a joint venture or an associate in exchange for an investment in the latter is recognised only to the extent of unrelated investors’ interests in the associate or joint venture. Conversely, under IFRS 10, when control is lost, the full amount of the gain or loss is recognised, even if the entity maintains a non-controlling interest in the company, including the sale or contribution of a subsidiary to a joint venture or an associate. The amendments establish that when an asset or subsidiary is transferred/contributed to a joint venture or an associate, the amount of the relevant gain or loss to be recognised in the financial statements of the transferor depends on whether the transferred/contributed assets or subsidiary constitute a business, as defined in IFRS 3. When the transferred/contributed assets or subsidiary constitute a business, the entity shall recognise the gain or loss on the entire investment previously held. Conversely, it shall recognise the portion of gain or loss attributable to the share of its investment that it still holds which it shall derecognise.
In December 2015, the IASB issued the amendment that defers for an unlimited period of time the coming into force of the amendments to IFRS 10 and IAS 28.

IFRS 16 – Leases

On 13 January 2016, the IASB issued IFRS 16 - Leases, which replaces IAS 17. IFRS 16 is applicable to annual periods beginning on or after 1 January 2019. The new standard eliminates the different recognition of operating and finance leases, while containing elements that simplify its application. It also introduces the concept of control within the definition of a lease. In order to determine whether a contract is a lease, IFRS 16 states that a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
Earlier application is permitted to entities that also adopt IFRS 15 - Revenue from contracts with customers. Completion of the due process for issue of the endorsement advice is slated for 2017.

Amendments to IAS 12 – Income taxes

On 19 January 2016, the IASB issued some amendments to IAS 12 - Income taxes. The document Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12) clarifies the accounting for deferred tax assets on debt instruments measured at fair value. The amendments apply to annual periods beginning on or after 1 January 2017. Earlier application is permitted. The EU endorsement is expected by the second quarter of 2017.

Amendments to IAS 7 – Statement of cash flows

On 29 January 2016, the IASB issued some amendments to IAS 7 - Statement of cash flows. The Disclosure initiative (Amendments to IAS 7) document is meant to improve the presentation and disclosure of the financial information provided to users of financial statements and to resolve some of the critical issues reported by operators. The amendments introduce new disclosures for changes in assets and liabilities arising from financing activities. The amendments apply to annual periods beginning on or after January 1, 2017. The EU endorsement is expected by the second quarter of 2017.

Amendments to IFRS 2 – Share-based payment

On 20 June 2016, the IASB issued some amendments to IFRS 2 - Share-based payment to clarify how to account for certain share-based payment transactions. The amendments apply to annual periods beginning on or after 1 January 2018, with earlier application being permitted. The EU endorsement is expected by the second quarter of 2017.

Amendments to IFRS 4 – Insurance contracts

On 12 September 2016, the IASB issued some amendments to IFRS 4 - Insurance contracts designed to address the consequences of the different effective dates of IFRS 9 and IFRS 4.

Annual Improvements to IFRS: 2014-2016 Cycle

On 8 December 2016, the IASB published the Annual improvements to IFRS. 2014-2016 Cycle. The amendments are part of the normal rationalisation and clarification of the IFRS and covered IFRS 1 - First-time adoption of International Financial Reporting Standards, IFRS 12 - Disclosure of interests in other entities and IAS 28 - Investments in associates and joint ventures.

IFRIC 22 – Foreign currency transactions and advance consideration

On 8 December 2016, the IASB published IFRIC 22 - Foreign currency transactions and advance consideration to clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation is applicable to annual periods beginning on or after 1 January 2018, with earlier application being permitted. The EU endorsement is expected by the second half of 2017.

Amendment to IAS 40 – Investment property

On 8 December 2016, the IASB published some amendments to IAS 40 - Investment property, which provide guidance on transfers to, and from investment property. They apply to annual periods beginning on or after 1 January 2018, with earlier application being permitted. The EU endorsement is expected by the second half of 2017.

Use of estimates and valuations

In preparing the consolidated financial statements in accordance with IFRS, the directors applied accounting standards and methods, which in some circumstances rely on difficult and subjective valuations and estimates based on past experience and on assumptions that are from time to time considered to be reasonable and realistic depending on the circumstances. Therefore, the actual amounts of certain financial statements captions calculated according to the above estimates and assumptions may differ in the future, even materially, from those reported in the financial statements, because of the uncertainty that characterises the assumptions and conditions on which the estimates are based. Estimates and assumptions are reviewed periodically and the effects of any changes are recognised in profit or loss when they affect the year only. If the revision affects both current and future years, the change is recognised in the year the revision is made and in the related future years.

Therefore, actual results may differ, even materially, from these estimates following possible changes in the factors considered in the determination of these estimates.

The following accounting policies require the most subjectivity from the directors in the preparation of estimates and would have a material impact on the financial figures if there were a change in the conditions underlying the assumptions used:

i) Impairment losses

In accordance with FS Italiane group's accounting policies, property, plant and equipment and intangible assets with a finite life are tested for impairment. Impairment losses are recognised when there is evidence that it will be difficult to recover the related carrying amount through the use of the asset. Impairment tests require the directors to make subjective valuations based on the information available within the company and in the market, as well as from past experience. Furthermore, when a potential impairment loss exists, the group calculates such loss using suitable valuation techniques. The correct identification of impairment indicators and the estimates for calculating them depend on factors that may vary over time, thus affecting valuations and estimates made by the directors.

ii) Amortisation and depreciation

Amortisation and depreciation are a significant cost for the group. The cost of property, plant and equipment and intangible assets with a finite useful life and of investment property is depreciated and amortised, respectively, over the estimated useful lives of the assets, except for RFI S.p.A. which applies the product unit method. The directors determine the useful lives of the group's assets when the assets are purchased. They are based on past experience for similar assets, market conditions and forecasts concerning future events that may have an impact on the useful life. Therefore, the actual economic life may differ from the estimated useful life. FS Italiane group assesses any technological and sector changes to update residual useful lives on a regular basis. These updates may entail a change in the amortisation and depreciation period and in the amortisation and depreciation rates of future years.

iii) Provisions for risks and charges

Provisions are accrued against legal and tax risks which represent the risk of a negative outcome. The recognised provisions relating to these risks reflect the best estimate made by the directors at the reporting date. This estimate entails the adoption of assumptions that depend on factors which may vary over time and which may have significant effects compared to the current estimates made by the directors for the preparation of FS Italiane group's consolidated financial statements.

iv) Taxes

Deferred tax assets are recognised based on the income expected in future years. The valuation of any expected income for the purposes of the recognition of deferred taxes depends on factors that may vary over time and determine significant effects on the measurement of deferred tax assets.

v) Fair value of derivatives

The fair value of derivatives that are not quoted on active markets is measured using valuation techniques. FS Italiane group applies valuation techniques that use inputs that can be observed in the market, either directly or indirectly, at the reporting date, and that are connected to the assets and liabilities being measured. Even if the estimates of the above fair values are considered reasonable, any possible changes in the estimate factors on which the calculation of the aforesaid amounts is based may generate different valuations.

vi) Residual value of the railway infrastructure

Under IAS 16, 38 and 40, the depreciable cost of the railway infrastructure (including property, plant and equipment, intangible assets and investment property) is calculated by subtracting its residual value. The residual value of the railway infrastructure is calculated as the estimated amount that an entity would currently obtain from disposal of an asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of the concession. The subsidiary RFI S.p.A., which operates the railway infrastructure, periodically revises the residual value and measures its recoverability using the best information available at that date. Periodic updates may cause a change in the depreciation rate for future years.

7. Financial and operational risk management

FS Italiane group is exposed to the following risks arising from the use of financial instruments:

- credit risk;
- liquidity risk;
- market risk, specifically, interest rate and currency risks.

This section provides information on the group's exposure to each of the risks listed above, the objectives, policies and processes for the management of these risks and the methods used to assess them, as well as capital management. These consolidated financial statements also include additional quantitative information.

FS Italiane group's risk management focuses on the volatility of financial markets and is aimed at minimising potential undesired effects on its financial position and results of operations.

Credit risk

Credit risk is the risk that a customer or one of the counterparties of a financial instrument may cause a financial loss by not complying with an obligation. It mainly arises from loan assets with the public administration, trade receivables and the financial investments of FS Italiane group.

With regard to credit risk deriving from investing activities, the group applies a liquidity investment policy which is centrally managed by the parent and which defines:

- the minimum requirements of the financing counterparty in terms of creditworthiness and the related concentration thresholds; and
- the types of financial products that can be used.

With respect to the derivatives used for hedging purposes and which can potentially generate credit exposure to counterparties, the group applies a specific policy that defines concentration thresholds by counterparty and credit rating.

With respect to the assessment of customers' credit risk, each FS Italiane group company manages and analyses the risk of all new significant customers, regularly checks their commercial and financial exposure and monitors the collection of receivables from the public administration within the contractually agreed timeframe.

The following table shows FS Italiane group's exposure to credit risk at 31 December 2016, compared with that at 31 December 2015.

millions of Euros

	31.12.2016	31.12.2015
Current trade receivables	2,848	3,286
Allowance for impairment	(511)	(510)
Current trade receivables, net of the allowance for impairment	**2,337**	**2,776**
Other current assets	3,039	3,518
Allowance for impairment	(42)	(17)
Other current assets, net of the allowance for impairment	**2,997**	**3,501**
Non-current financial assets (including derivatives)	2,248	2,716
Allowance for impairment		
Non-current financial assets (including derivatives), net of the allowance for impairment	**2,248**	**2,716**
Other non-current assets	1,003	1,126
Allowance for impairment	(2)	(2)
Other non-current assets, net of the allowance for impairment	**1,001**	**1,124**
Cash and cash equivalents	**2,337**	**1,305**
Current financial assets (including derivatives)	631	608
Allowance for impairment	(1)	(1)
Current financial assets (including derivatives), net of the allowance for impairment	**630**	**607**
Non-current trade receivables	8	112
Allowance for impairment		(18)
Non-current trade receivables, net of the allowance for impairment	**8**	**94**
Construction contracts	54	47
Allowance for inventory write-down	(1)	(1)
Construction contracts, net of the allowance for inventory write-down	**53**	**46**
Total exposure, net of the allowance for impairment (*)	**11,611**	**12,169**

(*) Tax assets and equity investments are not included

The 31 December 2015 balances have been reclassified for the factoring transactions to ensure comparability with the reporting period-end balances. Specifically, trade receivables and payables have been increased by €126 thousand.

The tables below show the exposure to credit risks by counterparty, in absolute terms and as a percentage, excluding cash and cash equivalents.

millions of Euros

	31.12.2016	31.12.2015
Public administration, Italian government and regions	7,660	9,291
Ordinary customers	937	849
Financial institutions	35	34
Other debtors	642	690
Total exposure, net of the allowance for impairment	**9,274**	**10,864**

	31.12.2016	31.12.2015
Public administration, Italian government and regions	82.6%	85.5%
Ordinary customers	10.1%	7.8%
Financial institutions	0.4%	0.3%
Other debtors	6.9%	6.4%
Total exposure, net of the allowance for impairment	**100%**	**100%**

A significant portion of trade receivables and loan assets relates to government and public authorities, such as the MEF and the regions.

The amount of financial assets whose recoverability is uncertain is negligible. However, an adequate allowance for impairment was accrued in this respect.

The table below gives a breakdown of financial assets and trade receivables at 31 December 2016 by overdue amounts, net of cash and cash equivalents.

millions of Euros

	31.12.2016					
		Overdue by				
	Not overdue	0-180 days	180-360 days	360-720 days	beyond 720 days	Total
Public administration, Italian government and regions (gross)	6,887	233	106	510	14	7,750
Allowance for impairment	(8)	(1)	(2)	(69)	(10)	(90)
Public administration, Italian government and regions (net)	**6,879**	**232**	**104**	**441**	**4**	**7,660**
Ordinary customers (gross)	608	281	31	193	291	1,404
Allowance for impairment	(42)	(21)	(5)	(129)	(270)	(467)
Ordinary customers (net)	**566**	**260**	**26**	**64**	**21**	**937**
Financial institutions	**34**			**1**		**35**
Other debtors (gross)	479	69	13	54	59	674
Allowance for impairment	1	(1)	(1)	(16)	(15)	(32)
Other debtors (net)	**480**	**68**	**12**	**38**	**44**	**642**
Total exposure, net of the allowance for impairment	**7,959**	**560**	**142**	**544**	**69**	**9,274**

millions of Euros

	31.12.2015					
		Overdue by				
	Not overdue	0-180 days	180-360 days	360-720 days	beyond 720 days	Total
Public administration, Italian government and regions (gross)	7,964	515	272	381	216	9,348
Allowance for impairment	(13)		(2)	(9)	(33)	(57)
Public administration, Italian government and regions (net)	**7,951**	**515**	**270**	**372**	**183**	**9,291**
Ordinary customers (gross)	531	259	61	198	260	1,309
Allowance for impairment	(49)	(19)	(22)	(132)	(238)	(460)
Ordinary customers (net)	**482**	**240**	**39**	**66**	**22**	**849**
Financial institutions	**32**	**2**				**34**
Other debtors (gross)	541	66	29	33	53	722
Allowance for impairment	1	(1)		(13)	(19)	(32)
Other debtors (net)	**542**	**65**	**29**	**20**	**34**	**690**
Total exposure, net of the allowance for impairment	**9,007**	**822**	**338**	**458**	**239**	**10,864**

Liquidity risk

Liquidity risk is the risk that an entity may have difficulties in complying with the obligations associated with financial liabilities to be settled by delivering cash or another financial asset. Cash flows, cash requirements and the liquidity of group companies are generally monitored and centrally managed by the parent to ensure efficient and effective management of financial resources.

The parent adopts asset liability management techniques in collecting debt and loan principal from the group companies.

The group’s objective is the prudent management of the liquidity risk arising from ordinary operations.

Furthermore, the group has committed and uncommitted credit lines made available by the parent to meet temporary cash needs and optimises liquidity through Ferrovie dello Stato Italiane group’s cash pooling system.

The following tables show the due dates of financial liabilities and trade payables at 31 December 2016 and 2015, including interest to be paid:

millions of Euros

31 December 2016	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	Beyond 5 years
Non-derivative financial liabilities							
Bonds	4,069	4,399	20	53	667	1,996	1,663
Bank loans and borrowings	6,076	6,495	2,320	438	631	1,922	1,184
Loans and borrowings from other financial backers	1,717	1,952	296	142	283	844	387
Financial liabilities	111	113	110		1	2	
Total non-derivative financial liabilities	**11,973**	**12,959**	**2,746**	**633**	**1,582**	**4,764**	**3,234**
Trade payables	**4,112**	**4,110**	**3,846**	**104**	**158**	**1**	**1**
Derivative financial liabilities	**91**	**96**	**23**	**17**	**26**	**23**	**7**

millions of Euros

31 December 2015	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	Beyond 5 years
Non-derivative financial liabilities							
Bonds	3,917	4,288	549	52	74	2,033	1,580
Bank loans and borrowings	5,419	5,958	1,128	498	738	1,858	1,736
Loans and borrowings from other financial backers	1,807	2,096	395	132	262	788	519
Financial liabilities	227	227	224		1	2	
Total non-derivative financial liabilities	**11,370**	**12,569**	**2,296**	**682**	**1,075**	**4,681**	**3,835**
Trade payables	**3,971**	**3,969**	**3,864**	**100**	**1**	**3**	**1**
Derivative financial liabilities	**129**	**131**	**40**	**23**	**34**	**31**	**3**

The contractual flows from variable-rate loans have been calculated using the forward rates estimated at the reporting date. The amounts include both principal and interest.

The following table shows the repayments of non-derivative financial liabilities and trade payables within one year, 1-5 years and beyond five years.

millions of Euros

31 December 2016	Carrying amount	Within one year	1-5 years	Beyond 5 years
Non-derivative financial liabilities				
Bonds	4,069	36	2,449	1,584
Bank loans and borrowings	6,076	2,695	2,359	1,022
Loans and borrowings from other financial backers	1,717	386	1,016	315
Financial liabilities	111	110	1	
Total non-derivative financial liabilities	**11,973**	**3,227**	**5,825**	**2,921**
Trade payables	**4,112**	**3,912**	**199**	**1**

millions of Euros

31 December 2015	Carrying amount	Within one year	1-5 years	Beyond 5 years
Non-derivative financial liabilities				
Bonds	3,917	563	1,872	1,482
Bank loans and borrowings	5,419	1,553	2,321	1,545
Loans and borrowings from other financial backers	1,807	470	903	434
Financial liabilities	227	225	1	1
Total non-derivative financial liabilities	**11,370**	**2,811**	**5,097**	**3,462**
Trade payables	**3,971**	**3,966**	**4**	**1**

Amounts due within six months or less are mainly related to trade payables for HS/HC contracts and works which are mainly repaid through government grants. The residual part is repaid using cash flows from operations.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument may fluctuate following changes in market prices, due to changes in exchange rates, interest rates or prices of equity instruments.
As part of its operations, FS Italiane group is exposed to several market risks, specifically interest rate risk and, to a lesser extent, currency risk. The objective of market risk management is to keep the group companies' exposure to these risks within acceptable levels, while optimising returns on investments. FS Italiane group uses hedging transactions to manage the volatility of the results.

Interest rate risk

The group is mainly exposed to interest rate risk relating to non-current loans indexed to variable rates. The group companies which are mainly exposed to this risk (including Trenitalia and RFI) decided to enter into hedging transactions based on specific risk management polices approved by the relevant boards of directors and implemented with the technical and operational support of the parent.
Despite the various customisations due to the financial and business characteristics of each company, the common objective of the applied policies is to limit cash flow fluctuations in financing transactions in place and, where possible, to exploit the cost of debt optimisation opportunities offered by the indexing of variable-rate debt.
In accordance with the above polices, the group only uses plain vanillas, such as interest rate swaps, interest rate collars and interest rate caps.
The table below shows variable and fixed rate loans and borrowings:

millions of Euros

	Carrying amount	Contractual cash flows	Current portion	1 and 2 years	2 and 5 years	beyond 5 years
Variable rate	7,495	7,679	2,582	1,028	1,898	2,171
Fixed rate	4,478	5,280	797	554	2,866	1,063
Balance at 31 December 2016	**11,973**	**12,959**	**3,379**	**1,582**	**4,764**	**3,234**
Variable rate	6,163	6,928	2,232	544	2,286	1,866
Fixed rate	5,207	5,642	747	531	2,395	1,969
Balance at 31 December 2015	**11,370**	**12,570**	**2,979**	**1,075**	**4,681**	**3,835**

The table below shows the impact of variable and fixed rate loans and borrowings, before and after hedging derivatives, which convert variable rates into fixed rates or which hedge against rises in variable rates beyond the maximum levels defined.

	31.12.2016	31.12.2015
Before hedging with derivatives		
Variable rate	63%	54%
Fixed rate	37%	46%
After hedging with derivatives		
Variable rate	24%	16%
Hedged variable rate	13%	10%
Fixed rate	64%	74%

The impact is in line with the above interest rate risk management policy.

The following sensitivity analysis shows the effects that would have been recorded in terms of changes in interest expense had an increase or a decrease of 50 basis points in the Euribor interest rates affected loans in 2016:

millions of Euros

	+ 50 bps	*- 50 bps*
Interest expense on variable-rate debt	20	(13)
Net cash flow from hedges	(22)	18
Total	**(2)**	**5**

This table shows the effects of an increase or a decrease of 50 basis points in the Euribor interest rates on the carrying amount of derivatives, represented by a net liability at 31 December 2016.

millions of Euros	+ 50 bps	- 50 bps
Fair value of hedging derivatives	35	(31)
Total	**35**	**(31)**

Currency risk

FS Italiane group is mainly active in Italy as well as in countries of the Eurozone. Therefore, the risk arising from the different currencies in which it operates is very limited and mostly relates to the contracts agreed by Italferr S.p.A..
The group also has loans and borrowings in Swiss francs totalling CHF68.5 million.

Capital management

FS Italiane group's main objective with respect to capital risk management is to safeguard its ability to continue as a going concern, while ensuring returns for shareholders and benefits for the other stakeholders. FS Italiane group also intends to maintain an optimal capital structure in order to reduce the cost of debt.

Financial assets and financial liabilities by category

To complete financial risk information, the table below gives a reconciliation between financial assets and financial liabilities as reported in the consolidated statement of financial position and the categories of financial assets and financial liabilities identified pursuant to IFRS 7.

millions of Euros

31 December 2016	Loans and receivables	Loans and borrowings	of which: hedging derivatives
Non-current financial assets (including derivatives)	2,248		1
Non-current trade receivables	8		
Other non-current assets	1,001		
Construction contracts	53		
Current trade receivables	2,337		
Current financial assets (including derivatives)	630		
Cash and cash equivalents	2,337		
Tax assets	121		
Other current assets	2,997		
Non-current loans and borrowings		8,652	
Non-current financial liabilities (including derivatives)		83	81
Non-current trade payables		15	
Other non-current liabilities		142	
Current loans and borrowings and current portion of non-current loans and borrowings		3,210	
Current trade payables		4,097	
Tax liabilities		4	
Current financial liabilities (including derivatives)		119	10
Other current liabilities		4,885	

(*) VAT receivables and equity investments are not included

millions of Euros

31 December 2015	Loans and receivables	Loans and borrowings	of which: hedging derivatives
Non-current financial assets (including derivatives)	2,716		
Non-current trade receivables	94		
Other non-current assets	1,124		
Construction contracts	46		
Current trade receivables	2,776		
Current financial assets (including derivatives)	607		
Cash and cash equivalents	1,305		
Tax assets	125		
Other current assets	3,501		
Non-current loans and borrowings		8,571	
Non-current financial liabilities (including derivatives)		112	109
Non-current trade payables		18	
Other non-current liabilities		344	
Current loans and borrowings and current portion of non-current loans and borrowings		2,572	
Current trade payables		3,952	
Tax liabilities		10	
Current financial liabilities (including derivatives)		244	20
Other current liabilities		6,436	

(*) VAT receivables and equity investments are not included

8. Property, plant and equipment

The opening and closing balances of property, plant and equipment and changes therein are shown in the table below. The assets' estimated useful lives did not change during the year.

millions of Euros

	Land, buildings, railway and port infrastructure	Plant and machinery	Industrial and commercial equipment	Other assets	Assets under construction and payments on account	Total
Historical cost	85,943	17,301	835	857	23,912	128,848
Depreciation and impairment losses	(24,968)	(9,397)	(517)	(622)	(1,556)	(37,060)
Grants	(29,363)	(638)	(135)	(55)	(17,595)	(47,786)
Balance at 1.1.2015	**31,612**	**7,266**	**183**	**180**	**4,761**	**44,002**
Investments	9	59	5	5	5,130	5,208
Roll-outs	2,842	1,866	14	23	(4,745)	
Depreciation	(114)	(974)	(16)	(31)		(1,135)
Impairment losses		(3)			(2)	(5)
Non-recurring transactions	(386)	13		1		(372)
Exchange rate gains and losses						
Disposals and divestments	(13)	13		(2)	(2)	(4)
Other changes						
Reclassifications from/to "Assets held for sale"						
Increases in grants	(2,493)	(19)	(11)	(14)	(334)	(2,871)
Other reclassifications	(85)	(54)	3	70	(65)	(131)
Total changes	**(239)**	**901**	**(5)**	**53**	**(19)**	**690**
Historical cost	87,449	19,082	858	1,075	24,165	132,629
Depreciation and impairment losses	(24,646)	(10,242)	(535)	(748)	(1,558)	(37,729)
Grants	(31,432)	(672)	(146)	(94)	(17,864)	(50,208)
Balance at 31.12.2015	**31,371**	**8,168**	**177**	**233**	**4,743**	**44,692**
Investments	56	71	8	4	5,529	5,668
Roll-outs	1,100	1,643	29	31	(2,803)	
Depreciation	(119)	(1,060)	(13)	(29)		(1,221)
Impairment losses		(13)			(10)	(23)
Non-recurring transactions (1)	(145)	(52)		(1)		(198)
Change in consolidation scope (2)		17				17
Disposals and divestments (3)	(46)	(7)	(1)	(2)		(56)
Reclassifications from/to "Assets held for sale" (4)						
Increases in grants	(897)	(33)	(26)	(17)	(3,314)	(4,287)
Other reclassifications (4)	(9)	(14)		(2)	23	(2)
Total changes	**(60)**	**552**	**(3)**	**(16)**	**(575)**	**(102)**
Historical cost	88,440	20,628	888	1,090	26,898	137,944
Depreciation and impairment losses	(24,788)	(11,187)	(543)	(762)	(1,568)	(38,848)
Grants	(32,341)	(721)	(171)	(111)	(21,162)	(54,506)
Balance at 31.12.2016	**31,311**	**8,720**	**174**	**217**	**4,168**	**44,590**

Notes (1), (2), (3) and (4) are broken down in the following table.

millions of Euros

	Land, buildings, railway and port infrastructure	Plant and machinery	Industrial and commercial equipment	Other assets	Assets under construction and payments on account	Total
1) Non-recurring transactions						
Historical cost	(165)	(32)		(2)		(199)
Depreciation	20	(6)		1		15
Impairment losses						
Grants		(14)				(14)
	(145)	**(52)**		**(1)**		**(198)**
2. Change in consolidation scope						
Historical cost		72		2		74
Depreciation		(41)		(2)		(43)
Impairment losses						
Grants		(14)				(14)
		17				**17**
3) Disposals and divestments						
Historical cost	(55)	(54)	(8)	(28)	(1)	(146)
Depreciation	3	48	6	24		81
Impairment losses	5					5
Grants	1	(1)	1	2	1	4
	(46)	**(7)**	**(1)**	**(2)**		**(56)**
4) Other reclassifications and transfers from / to "Assets held for sale"						
Historical cost	55	(99)	1	10	8	(25)
Depreciation	(11)	75	(1)	(10)		53
Impairment losses	(40)	10				(30)
Grants	(13)			(2)	15	
	(9)	**(14)**		**(2)**	**23**	**(2)**

The increase in investments under "Assets under construction and payments on account" (€5,529 million) is mainly due to:

- the costs incurred to complete high speed network infrastructures and to design and construct HS/HC and traditional network facilities (€3,930 million);
- the costs incurred to purchase, recondition and redevelop rolling stock (€1,500 million), specifically, the continuation of the renewal of the fleet for both the HS service with the purchase of new ETR1000 electric trains and the regional transport service with the purchase of additional Vivalto trains, Jazz electric trains and new Swing diesel engines;
- the capitalisation of internal and external costs related to designs and works for the ongoing redevelopment of the main stations, in addition to the extraordinary maintenance work to make the plant safe and compliant (€63 million);
- the cost incurred by Busitalia group companies to invest in new buses or carry out extraordinary maintenance activities (approximately €20 million).

The roll-outs of "Land, buildings, railway and port infrastructure" mainly refer to RFI S.p.A.'s railway infrastructures (€982 million), the main Italian stations (€33 million) and the industrial buildings for rolling stock (€28 million). The roll-outs of "Plant and machinery" principally relate to new locomotives and new buses (€1,626 million) and ancillary works for station complexes (€16 million).

The non-recurring transactions involving "Land, buildings, railway and port infrastructure" and "Plant and machinery" refer to the sale of GS Retail S.p.A. and Grandi Stazioni Ceska Republika Sro to third parties (decrease in assets of €198 million) and the transfer of the assets of Ferrorvie del Sud Est e Servizi Automobilistici - FSE S.r.l. to FS group (increase in assets of €17 million). Both these transactions have already been described in the "Change in consolidation scope and non-recurring transactions" section.

At 31 December 2016, there are no mortgages or privileges on property, plant and equipment, except for part of Trenitalia S.p.A.'s rolling stock worth €3,410 million, which was pledged to Eurofima SA to secure non-current loans and borrowings agreed through the parent.

Government grants

During the year, in line with the progress of work on property, plant and equipment, intangible assets and investment property, the following grants related to assets, totalling €4,301 million, were paid.

- €43 million related to the advances for grants from the MEF for investments in HS/HC infrastructures;
- €3,320 million related to the advances for grants from the MEF and €422 million related to the advances for grants related to assets from the MIT and other bodies for infrastructural investments in the traditional network;
- €6 million related to work in progress concerning "complementary works for station complexes", approved as part of the strategic infrastructure programme (Law no. 443/2001 – the so-called Objective law);
- €59 million related to the maintenance/renewal of the rolling stock for railway and road transport;
- other grants (€433 million) mainly refer to the European Union and local bodies.

Finally, contractual constraints, with an average term of 12 years, apply to the grants received in connection with the investments into the bus fleet for the operation of LPT services. The repayment obligation, in the event of early sale of the contributed asset, is replaced with the possibility of using the residual grant to purchase a new asset, of the same type and for the same use, replacing the previous asset.

9. Investment property

The following table shows the opening and closing balances of investment property at 31 December 2016 and 2015.

millions of Euros

	2016		2015	
	Land	**Buildings**	**Land**	**Buildings**
Balance at 1 January				
Cost	2,446	717	2,508	700
of which:				
Historical cost	2,447	768	2,509	742
Grants	(1)	(51)	(1)	(42)
Accumulated depreciation		(357)		(351)
Allowance for impairment	(1,136)	(92)	(1,128)	(86)
Carrying amount	**1,310**	**268**	**1,380**	**263**
Changes of the year				
Acquisitions/Increases		12	1	4
Roll-outs				
Reclassifications (1)	(24)	23	(49)	25
Grants		(3)		(9)
Depreciation and impairment losses	(5)	(5)	(22)	(14)
Non-recurring transactions	(1)	(10)		
Total changes	**(30)**	**17**	**(70)**	**5**
Balance at 31 December				
Cost	2,421	743	2,446	717
of which:				
Historical cost	2,422	797	2,448	767
Grants	(1)	(54)	(1)	(51)
Accumulated depreciation		(354)		(357)
Allowance for impairment	(1,141)	(104)	(1,136)	(92)
Carrying amount	**1,280**	**285**	**1,310**	**268**
Reclassifications (1)				
Cost	(24)	28	(62)	20
Accumulated depreciation		8		6
Allowance for impairment		(13)	14	(4)
Grants			(1)	4
Total	**(24)**	**23**	**(49)**	**25**

"Investment property" includes land and buildings not used in operations measured at cost, areas to be enhanced and several buildings, workshops and properties leased to third parties.

The reclassifications of the year of both land and buildings are mainly due to a change in the use of certain areas and a better representation thereof under property, plant and equipment and inventories.

Non-recurring transactions relate to "Land" and "Buildings" which belonged to GS Retail S.p.A. and were sold to third parties (decrease of €11 million in assets).

10. Intangible assets

millions of Euros

	Development expenditure	Industrial patents and intellectual property rights	Concessions, licences, trademarks and similar rights	Assets under development and payments on account	Other	Goodwill	Total
Historical cost	118	11	1,034	199	77	112	1,550
Amortisation and impairment losses	(90)	(10)	(686)	(3)	(50)		(838)
Grants	(5)		(41)	(19)			(65)
Balance at 1.1.2015	**23**	**1**	**307**	**177**	**27**	**112**	**647**
Investments		1	5	159	2		167
Roll-outs			105	(105)			
Amortisation	(1)	(1)	(67)		(10)		(79)
Disposals and divestments				(1)			(1)
Non-recurring transactions			1				1
Impairment losses							
Reclassifications from/to “Assets held for sale”							
Increases in grants			(159)	(1)			(160)
Other reclassifications			137	1	1		139
Total changes	**(1)**		**20**	**54**	**(7)**		**66**
Historical cost	118	12	1,282	254	80	112	1,858
Amortisation and impairment losses	(91)	(11)	(755)	(3)	(60)		(919)
Grants	(5)		(200)	(20)			(226)
Balance at 31.12.2015	**22**	**1**	**327**	**231**	**20**	**112**	**713**
Investments		1	4	137	2		144
Roll-outs	3		64	(67)			
Amortisation	(1)	(1)	(65)		(11)		(78)
Disposals and divestments (1)			(1)				(1)
Non-recurring transactions (2)			1				1
Impairment losses				(5)			(5)
Reclassifications from/to “Assets held for sale (3)							
Change in consolidation scope					9		9
Increases in grants	(2)		(8)	(1)			(11)
Other reclassifications (3)	1			(7)			(6)
Total changes	**1**		**(5)**	**57**			**53**
Historical cost	122	13	1,368	317	93	112	2,025
Amortisation and impairment losses	(92)	(12)	(838)	(8)	(73)		(1,023)
Grants	(7)		(208)	(21)			(236)
Balance at 31.12.2016	**23**	**1**	**322**	**288**	**20**	**112**	**766**

Notes (1), (2) and (3) are broken down in the following table

millions of Euros

	Development expenditure	Industrial patents and intellectual property rights	Concessions, licences, trademarks and similar rights	Assets under development and payments on account	Other	Goodwill	Total
1) Disposals and divestments							
Historical cost			(1)				(1)
Amortisation							
Impairment losses							
Grants							
Total			**(1)**				**(1)**
2) Non-recurring transactions							
Historical cost			20				20
Amortisation			(19)				(19)
Impairment losses							
Grants							
Total			**1**				**1**
3) Reclassifications from / to "Assets held for sale" and Other reclassifications							
Historical cost	2		(1)	(7)			(6)
Amortisation			7				7
Impairment losses			(7)				(7)
Grants	(1)		1				
Total	**1**			**(7)**			**(6)**

Investments in "Assets under development and payments on account" and roll-outs refer to the software development and implementation costs, measures to improve the efficiency of production processes, the increase in the efficiency and streamlining of sales channels for the group's business.

Impairment test

In accordance with IAS 36 – Impairment of assets, impairment tests were performed on goodwill and non-current assets with an indefinite useful life or on other non-current assets where necessary (i.e., if there were trigger events).
Specifically, in 2016, the impairment test focused exclusively on the goodwill of Netinera Deutschland GmbH group, Mercitalia Logistics S.p.A. (formerly FS Logistica S.p.A.), Ataf Gestioni S.r.l. and Busitalia - Sita Nord S.r.l. (the latter "inherited" the goodwill of Umbria Mobilità Esercizio S.r.l., which merged into Busitalia Sita Nord S.r.l., effective from 1 December 2015), each of which is an independent CGU.
With respect to these CGUs (except for ATAF Gestioni S.r.l.), the test was carried out using 2017 forecast figures and the amounts of the latest business plan prepared by their management.
Conversely, Ataf Gestioni S.r.l. used the economic forecasts and the changes in some statement of financial position items included in the updated financial plan underlying the tender procedure for the acquisition of ATAF Gestioni, for the 2016-2028 period (i.e., the expected term provided for in the tender). The plan period underlying the impairment test is based on the forecasts and the investments included in the long-term plan prepared, upon the company's acquisition, for the purposes of participating in the nine-year tender. Furthermore, the company carried out additional analyses and assessments about the possibility that the sale price to the potential operator – calculated in accordance with the recently completed tender procedure – be such to fully remunerate invested capital.

With respect to the above companies, the test was carried out by comparing net invested capital with the recoverable amount of each CGU, being the higher of a CGU's fair value and its value in use. The terminal value was estimated using the perpetual capitalisation of prospective cash flows in the last year of the explicit projection period, using growth rates similar to those included in the long-term forecasts of the inflation rate (1.0%-1.5%). The discount rate used is the weighted average cost of capital ("WACC") for each CGU.

The following table shows the main figures of the test:

CGU	Goodwill (millions of Euros)	Discount rate (WACC)	Growth rate
Netinera Deutschland	78	5.21%	1.00%
Mercitalia Logistics (formerly FS Logistica)	7	6.60%	1.00%
ATAF Gestioni	9	5.19%	n.a.
Busitalia - Umbria CGU	18	5.19%	1.50%

No impairment losses were identified for the CGUs of FS Italiane group.

Furthermore, the sensitivity analysis applied to the discount and the growth rates showed no effects on the outcome of the assessments made.

11. Deferred tax assets and deferred tax liabilities

The table below shows deferred tax assets and deferred tax liabilities at 31 December 2016 and changes of the year due to the main temporary differences between carrying amounts and the related tax amounts.

millions of Euros

	31.12.2015	Incr. (decr.) through profit or loss	Incr. (decr.) OCI	Other changes	31.12.2016
Deferred tax assets	192	(9)			183
Deferred tax liabilities	293	(22)			271

Deferred tax assets and liabilities relate to the misalignment between the carrying amount and the tax value of property, plant and equipment, investment property and inventories (specifically, buildings held for trading, with respect to revaluations not relevant for tax purposes).

Changes in deferred tax assets and liabilities include the new temporary differences generated by group companies during the year, the effects of the non-recurring transactions of the year, mainly the sale of GS Retail (see note 4) and the inclusion of Ferrovie Sud Est e Servizi Automobilistici - FSE S.r.l. in the consolidation scope.

12. Equity-accounted investments

They include the carrying amount of investments in jointly controlled entities and associates.

The following table gives a breakdown of the carrying amount of equity investments at 31 December 2016, together with the percentage of investment and the related carrying amount, net of callable shares, with prior year corresponding figures.

millions of Euros

	Carrying amount at 31.12.2016	% of investment	Carrying amount at 31.12.2015	% of investment
Investments in jointly controlled entities				
Cisalpino SA	3.87	50.00	4.10	50.00
ODEG Ostdeutsche Eisenbahngesellschaft mbH	2.80	50.00	3.20	50.00
Trenord S.r.l.	39.30	50.00	34.08	50.00
TELT Sas (formerly LTF Sas)	95.05	50.00	95.05	50.00
Verkehrsbetriebe Osthannover GmbH*	2.09	57.45	2.05	57.45
Other**	9.77		7.83	
Investments in associates				
B.B.T. SE S.p.A.	107.41	50.00	87.19	50.00
Ferrovie Nord Milano S.p.A.	54.22	14.74	51.56	14.74
Quadrante Europa Terminal Gate S.p.A.	7.34	50.00	7.51	50.00
Other**	9.17		8.98	
Total	**331**		**302**	

* Despite holding more than 50% of Verkehrsbetriebe Osthannover GmbH and more than half of the related voting rights, through the subsidiary Netinera Deutschland GmbH, the group does not control this entity in accordance with an agreement entered into with the other shareholders.
** "Other" equity investments in associates and jointly controlled entities include similar situations which are not broken down as they are not significant.

The following table gives a breakdown of equity investments, grouped by category, and changes therein:

millions of Euros

	Closing balance at 31.12.2015	**Decrease due to dividends**	**Capital increases**	**Income statement impact**	**Other**	**Closing balance at 31.12.2016**
Investments in jointly controlled entities	146	(3)		10		153
Investments in associates	156	(1)	20	4	(1)	178
Total	**302**	**(4)**	**20**	**14**	**(1)**	**331**

Capital increases in associates refer to TFB S.p.A.'s subscription (€108 million) of the share capital of BBT SE, partly offset by the grants related to assets disbursed by the MEF to RFI S.p.A. for financial investments (€88 million) as per section 7122, which were recognised as an adjustment to the carrying amount of the investment. With respect to investments in jointly controlled entities, TELT Sas increased its capital by €40 million, entirely offset by the increase in the grants related to assets received from the MEF for financial investments as per section 7122.

The income statement impact mainly refers to the profits/losses for 2016.

"Other" includes changes in the "Hedging reserve", the "Actuarial reserve" and the exchange rate differences related to companies operating in currencies other than the Euro.

Investments in jointly controlled entities

The following financial information is provided about the most significant investments in jointly controlled entities. The following tables also include a reconciliation between the investment's summarised financial information and its consolidated carrying amount.

Cisalpino SA, whose business object is the preparation and management of high quality train offers connecting Italy and Switzerland and lines related to other networks, is no longer active.

Trenord S.r.l.'s business object is the operation of railway local public transport in Lombardy and the various areas defined in the relevant public service contracts.

millions of Euros

Trenord S.r.l.	31.12.2016	31.12.2015
% of investment	**50%**	**50%**
Cash and cash equivalents	74	45
Current financial assets		
Other current assets	283	329
Non-current financial assets		
Other non-current assets	261	244
Current financial liabilities	(99)	(95)
Other current liabilities	(330)	(330)
Non-current financial liabilities	(10)	(17)
Other non-current liabilities	(91)	(98)
Equity	**88**	**78**
Equity attributable to the owners of the parent	**44**	**39**
Elimination of gain on business unit contribution	(9)	(9)
Other adjustments	4	4
Carrying amount of the equity investment	**39**	**34**
Revenue	782	782
Operating costs	(705)	(719)
Amortisation, depreciation and impairment losses	(55)	(51)
Provisions		
Operating profit	**22**	**12**
Financial income	1	
Financial expense	(2)	(3)
Pre-tax profit	**21**	**10**
Net tax expense	(10)	(6)
Profit for the year	**11**	**4**
Other comprehensive income		
Comprehensive income	**11**	**4**
Portion of comprehensive income attributable to the owners of the parent	**6**	**2**
Dividends received		

ODEG Ostdeutsche Eisenbahngesellschaft mbH's business object is passenger transport by rail in Germany, specifically, regional transport in northern Germany.

millions of Euros

ODEG Ostdeutsche Eisenbahngesellschaft mbH	31.12.2016	31.12.2015
% of investment	**50%**	**50%**
Cash and cash equivalents	24	7
Current financial assets		
Other current assets	30	33
Non-current financial assets	4	5
Other non-current assets	4	6
Current financial liabilities	(12)	(2)
Other current liabilities	(30)	(17)
Non-current financial liabilities	(7)	(20)
Other non-current liabilities	(7)	(5)
Equity	**6**	**7**
Equity attributable to the owners of the parent	**3**	**3**
Carrying amount of the equity investment	**3**	**3**
Revenue	155	146
Operating costs	(146)	(139)
Amortisation, depreciation and impairment losses	(1)	(1)
Provisions		
Operating profit	**8**	**6**
Financial income	1	1
Financial expense	(1)	(2)
Pre-tax profit	**8**	**5**
Net tax expense	(4)	
Profit for the year	**4**	**5**
Other comprehensive income		
Comprehensive income	**4**	**5**
Portion of comprehensive income attributable to the owners of the parent	**2**	**2**
Dividends received		

The business object of Tunnel Euralpin Lyon Turin Sas – TELT (formerly LTF - Lyon Turin Ferroviarie Sas) is the construction of the new Turin-Lyon railway line and the performance of studies, surveys and preliminary works in the Italian-French area of the international section.

millions of Euros

TELT Sas (formerly LTF Sas)	31.12.2016	31.12.2015
% of investment	**50%**	**50%**
Cash and cash equivalents	4	48
Current financial assets		
Other current assets	26	26
Non-current financial assets		
Other non-current assets	5	29
Current financial liabilities		(75)
Other current liabilities	(34)	(27)
Non-current financial liabilities		
Other non-current liabilities		
Equity	**1**	**1**
Equity attributable to the owners of the parent		
Difference arising from the different accounting treatment of grants related to assets*	95	95
Carrying amount of the equity investment	**95**	**95**
Revenue	160	89
Operating costs	(160)	(89)
Profit/loss for the year		
Comprehensive income		
Portion of comprehensive income attributable to the owners of the parent		
Dividends received		

* Reclassification of the government's grants disbursed until 2006 and related to assets in accordance with the group's accounting policies (as per IAS 20.27) through the former parent RFI S.p.A.. These grants will be used to finance the studies and preliminary works for the construction of the international section of the Turin-Lyon railway line. They are presented in equity in accordance with French GAAP.

Investments in associates

The following tables provide summarised financial information about the group's investments in associates which are deemed individually material. Furthermore, they include a reconciliation between the summarised financial information and the consolidated carrying amount of each investment.

B.B.T. SE focuses on the development and design of a railway tunnel under the Brenner mountain between Innsbruck and Fortezza.

millions of Euros

B.B.T. SE	31.12.2016	31.12.2015
% of investment	**50%**	**50%**
Cash and cash equivalents	99	151
Current financial assets		
Other current assets	286	36
Non-current financial assets		
Other non-current assets	1,108	914
Current financial liabilities		
Other current liabilities	(81)	(47)
Non-current financial liabilities	(471)	(436)
Other non-current liabilities		
Equity	**941**	**618**
Equity attributable to the owners of the parent	**471**	**309**
Effect of grants on consolidated carrying amount of equity investment*	(375)	(233)
Other adjustments	11	11
Carrying amount of the equity investment	**107**	**87**
Revenue	17	15
Operating costs	(16)	(14)
Amortisation, depreciation and impairment losses	(1)	(1)
Profit/loss for the year		
Comprehensive income		
Portion of comprehensive income attributable to the owners of the parent		
Dividends received		

* Reclassification of the grant as a shareholder injection, offset against the equity investment's carrying amount in the consolidated financial statements

Ferrovie Nord Milano S.p.A. negotiates and manages investments in companies, specifically, but not limited to, companies operating in the transport and real estate sectors.

FNM S.p.A. is listed on Borsa Italiana's OTC market. At 30 December 2016, its unit price per share was €0.494.

The following figures are taken from the consolidated financial statements of FNM group.

millions of Euros

Ferrovie Nord Milano group	**31.12.2016**	**31.12.2015**
% of investment	**14.74%**	**14.74%**
Cash and cash equivalents	71	111
Current financial assets	105	123
Other current assets	105	116
Non-current financial assets	10	15
Other non-current assets	437	382
Current financial liabilities	(25)	(23)
Other current liabilities	(191)	(219)
Non-current financial liabilities	(82)	(83)
Other non-current liabilities	(62)	(72)
Equity	**368**	**350**
Equity attributable to the owners of the parent	**54**	**52**
Carrying amount of the equity investment	**54**	**52**
Revenue	264	299
Operating costs	(216)	(258)
Amortisation, depreciation and impairment losses	(27)	(22)
Provisions		
Operating profit	**21**	**20**
Financial income	13	9
Financial expense	(2)	(4)
Pre-tax profit	**32**	**26**
Tax expense	(6)	(5)
Profit for the year	**26**	**20**
Other comprehensive income	2	
Comprehensive income	**24**	**20**
Portion of comprehensive income attributable to the owners of the parent	**4**	**3**
Dividends received	**1**	**1**

13. Financial assets (including derivatives)

The following table gives a breakdown of financial assets at the 2016 and 2015 year ends:

millions of Euros

	Carrying amount								
	31.12.2016			31.12.2015			Changes		
	Non-current	**Current**	**Total**	**Non-current**	**Current**	**Total**	**Non-current**	**Current**	**Total**
Hedging derivatives	1		1				1		1
Other equity investments	78		78	72		72	6		6
Securities and loans	10	24	34	11	23	34	(1)	1	
Receivables from the MEF for the fifteen-year grants to be collected	2,122	573	2,695	2,606	566	3,172	(484)	7	(477)
Loan assets	115	29	144	99	13	112	16	16	32
Other loan assets		4	4		5	5		(1)	(1)
Total	**2,326**	**630**	**2,956**	**2,788**	**607**	**3,395**	**(462)**	**23**	**(439)**

The decrease in this caption is mainly due to the reduction in "Receivables from the MEF for the fifteen-year grants to be collected" partly offset by the increase in "Loan assets".

The "Receivables from the MEF for the fifteen-year grants to be collected", of €2,695 million, can be analysed as follows:

- €835 million related to the fifteen-year grants pursuant to article 1.84 of the 2006 Finance Act for the implementation of railway investments. They are recognised against the amounts to be used for the loan agreement entered into by the parent with Cassa Depositi e Prestiti and authorised by the MEF's specific decree;
- €1,860 million related to the fifteen-year grants pursuant to article 1.964 of the 2007 Finance Act for the continuation of the projects involving the HS/HC system of the Turin-Milan-Naples line.

The €477 million decrease in the receivables from the MEF is mainly due to:

- the decrease (€167 million) in the grants related to the 2006 Finance Act which is attributable to the reduction in the corresponding financial liability with Cassa Depositi e Prestiti (traditional network and HS/HC network) due to the combined effect of the additional accrual of €37 million for 2016 interest and the collection of the annual grant pertaining to 2016 (€204 million);
- the net decrease (€310 million) in the grants related to the 2007 Finance Act, due to the combined effect of the additional accrual of €90 million for 2016 interest and the collection of the annual grant pertaining to 2016 (€400 million).

The €32 million increase in "Loan assets" is mostly a result of the recognition of financial assets for the services provided under concession by Netinera group.

14. Other non-current and current assets

They can be analysed as follows:

millions of Euros

	31.12.2016			31.12.2015			Changes		
	Non-current	**Current**	**Total**	**Non-current**	**Current**	**Total**	**Non-current**	**Current**	**Total**
Other receivables from group companies		19	19		15	15		4	4
VAT receivables	994	390	1,384	742	564	1,306	252	(174)	78
MEF and MIT	967	2,629	3,596	1,030	3,155	4,185	(63)	(526)	(589)
Grants related to assets from the EU, other Ministries and other		83	83		27	27		56	56
Other government authorities		44	44		53	53		(9)	(9)
Sundry receivables and prepayments and accrued income	36	269	305	96	272	368	(60)	(3)	(63)
Total	**1,997**	**3,434**	**5,431**	**1,868**	**4,086**	**5,954**	**129**	**(652)**	**(523)**
Allowance for impairment	(2)	(42)	(44)	(2)	(17)	(19)		(25)	(25)
Total net of the allowance for impairment	**1,995**	**3,392**	**5,387**	**1,866**	**4,069**	**5,935**	**129**	**(677)**	**(548)**

"Vat receivables" increased by €78 million, mainly due to the tax authorities' reimbursement of the 2012, 2013 and 2015 VAT claimed for reimbursement, partly offset by the VAT receivable for the current year and the VAT receivables of Ferrovie del Sud Est e Servizi Automobilistici - FSE S.r.l., transferred to the group at the end of the year (€57 million). Details on the acquisition of this company are provided in the "Change in consolidation scope and non-recurring transactions" section.

The receivables from the MEF and the MIT are mainly related to:

- grants earmarked for FS S.p.A. (€611 million) for the Tunnel Euralpin Lyon Turin - TELF (formerly Lyon Turin Ferroviarie - LFT) project;
- MIT grants earmarked for Ferrovie del Sud Est e Servizi Automobilistici - FSE S.r.l. to ensure its business continuity (€70 million) pursuant to article 1.867 of Law no. 208 of 28 December 2015 (the "2016 "Legge di Stabilità").
- the grants for RFI S.p.A. (€2,910 million).

The table below shows the relevant figures:

millions of Euros

Grants to FS group	Carrying amount at 31.12.2015	Increases	Decreases	Carrying amount at 31.12.2016
Grants related to income:				
- Due from the MEF and MIT		1,027	(976)	51
Grants related to assets:				
due from the MEF	2,663	1,841	(2,815)	1,689
due from the MIT	1,522	582	(318)	1,786
Total grants	**4,185**	**2,423**	**(3,133)**	**3,475**
Capital injections:				
due from the MIT		70		70
Total transfers to FS Italiane group	**4,185**	**3,520**	**(4,109)**	**3,596**

The receivables from the MEF for grants related to income under the “Government Programme Contract” were recognised for an amount of €976 million, equal to that set by Law no. 208 of 28 December 2015, the “2016 “Legge di Stabilità”. All 2016 receivables were collected in the year.

The caption also includes the MIT grants in line with the 2015 “Legge di Stabilità” for the eco bonus to railway transport companies for 2015.

With respect to grants related to assets, the receivables from the MEF related to the “Government Programme Contract” recognised in 2016 amount to €1,821 million. These amounts refer to infrastructural investments and extraordinary maintenance or emergency measures that cannot be postponed concerning the railway network, as established by the 2016 “Legge di Stabilità” and refinanced by the 2015 “Legge di Stabilità”. The group also recognised receivables of €20 million from the MEF as provided for by Ministerial decree no. 44T/2000 for the discount on the payment to use the railway infrastructure (“K2 discount”).

During the year, the receivables for grants related to assets from the MIT rose €582 million following the completion of the HS/HC lines and railway network improvement measures for the Turin-Lyon tunnel design.

The Group also has receivables of €70 million for capital injections from MIT to ensure the business continuity of Ferrovie del Sud Est e Servizi Automobilistici – FSE S.r.l..

During the year, €3,133 million was collected in total.

The receivables for grants related to assets recognised as amounts due from the MEF and the MIT as per the Government Programme Contract mostly refer to work not yet performed. Accordingly, they have a balancing entry in liabilities under payments on account.

The increase in grants related to assets from the EU, other Ministries and other and the allowance for impairment is due to the grants for investments co-funded with EU/national resources for extraordinary maintenance work performed by Ferrovie del Sud Est e Servizi Automobilistici – FSE S.r.l..

Sundry receivables and prepayments and accrued income decreased by €63 million, mostly as a result of the sale of GS Retail S.p.A. (€56 million). The “Change in consolidation scope and non-recurring transactions” section provides more information about this transaction.

The following table gives a breakdown of other non-current and current assets by geographical segment:

	31.12.2016	31.12.2015	Changes
			millions of Euros
Italy	5,376	5,897	(521)
Eurozone countries	49	51	(2)
United Kingdom			
Other European countries (EU, non-Euro)	2	1	1
Other non-EU European countries	2	2	
United States			
Other countries	2	3	(1)
Total	**5,431**	**5,954**	**(523)**

15. Inventories and construction contracts

This caption can be analysed as follows:

	31.12.2016	31.12.2015	Changes
			millions of Euros
Raw materials, consumables and supplies	1,343	1,272	71
Allowance for inventory write-down	(180)	(191)	11
Carrying amount	**1,163**	**1,081**	**82**
Work in progress and semi-finished products	3	2	1
Allowance for inventory write-down			
Carrying amount	**3**	**2**	**1**
Derecognised assets to be disposed of	23	23	
Allowance for inventory write-down	(12)	(11)	(1)
Carrying amount	**11**	**12**	**(1)**
Buildings and land held for trading	1,177	1,212	(35)
Allowance for inventory write-down	(301)	(354)	53
Carrying amount	**876**	**858**	**18**
Total inventories	**2,053**	**1,953**	**100**
Construction contracts	54	47	7
Allowance for inventory write-down	(1)	(1)	
Carrying amount	**53**	**46**	**7**
Total construction contracts	**53**	**46**	**7**

Raw materials, consumables and supplies comprise the inventories necessary to meet the demand for materials to be used in investments, superstructure material, electrical systems, navigation equipment and maintenance materials. The €82 million increase is due to the higher purchase volumes, and related consumption, of infrastructure materials (€2 million), the greater production output of Officine Nazionali Armamento e Apparecchiature Elettriche (Bari, Pontassieve and Bologna) by €83 million and the inclusion of Ferrovie del Sud Est e Servizi Automobilistici S.r.l. in the group (€11 million), offset by smaller purchases of maintenance materials, mostly spare parts for rolling stock, due to the more efficient calculation of requirements and the procurement plan (-€26 million). The allowance for inventory write-down decreased by €11 million mainly as a result of the use of roughly €21 million to cover the scrapping of inventories (principally rolling stock), offset by the accrual recognised in respect to the impairment of slow moving stock (€10 million, including €5 million related to Ferrovie del Sud Est e Servizi Automobilistici - FSE S.r.l.).

The balance of derecognised assets to be disposed of, which reflect the reclassification of the corresponding asset captions related to goods which are no longer recoverable, is substantially unchanged and shows the estimated realisable value of the reclassified assets.

Buildings and land held for trading refer to the properties held by the group which will be sold. The increase is mainly due to the reclassification of some real estate complexes held for trading to inventories (€19 million). They were classified as Investment property at 31 December 2015.

Construction contracts reflect the gross amount due from customers for contract work in progress whose costs incurred plus recognised profit margins (less recognised losses) exceed the invoicing of work progress. They amount to €53 million, an increase of €7 million on the previous year end due to work performed on third party contracts.

16. Non-current and current trade receivables

millions of Euros

	31.12.2016			31.12.2015			Changes		
	Non-current	**Current**	**Total**	**Non-current**	**Current**	**Total**	**Non-current**	**Current**	**Total**
Ordinary customers	6	1,345	1,351	11	1,250	1,261	(5)	95	90
Government authorities and other public authorities	2	218	220	101	229	330	(99)	(11)	(110)
Foreign railways		18	18		23	23		(5)	(5)
Railways under concession		23	23		18	18		5	5
Agencies and other transport companies		25	25		23	23		2	2
Receivables for public service contracts:									
- regions		794	794		1,103	1,103		(309)	(309)
- government		289	289		478	478		(189)	(189)
Group companies		136	136		162	162		(26)	(26)
Total	**8**	**2,848**	**2,856**	**112**	**3,286**	**3,398**	**(104)**	**(438)**	**(542)**
Allowance for impairment		(511)	(511)	(18)	(510)	(528)	18	(1)	17
Total net of the allowance for impairment	**8**	**2,337**	**2,345**	**94**	**2,776**	**2,870**	**(86)**	**(439)**	**(525)**

The €438 million decrease in current trade receivables, gross of the allowance for impairment, is mainly due to:

- a €95 million increase in receivables from "Ordinary customers", mostly due to the larger receivables due from Rete S.r.l., formerly S.EL.F. S.r.l. (€10 million), and GS Retail S.p.A. (€6 million), previously due from the group company GS Rail S.p.A., the longer payment times of the Saudi Public Investment Fund (€10 million) and the impact of the group's acquisition of Ferrovie del Sud Est e Servizi Automobilistici S.r.l. (€55 million) described in more detail in the "Change in consolidation scope and non-recurring transactions" section;

- a decrease in “Receivables for public service contracts - regions” (€309 million) and receivables from the MEF (€189 million) due to their more efficient settlement; this positive variation is due to the procedures (including of a legal nature) introduced to settle receivables, which may include collection plans that are regularly monitored;
- the €11 million decrease in receivables from the government and other public authorities.

The decrease of €104 million in non-current trade receivables gross of the allowance for impairment is mainly due to settlement of the fees for services provided to the Campania waste emergency commissioner in previous years to manage USW in the region (€100 million).
In this respect, once the waste emergency situation in Campania ended, a Settlement unit was set up on 31 December 2009 to start the valuation of the assets and liabilities arising from the activities performed during the emergency period, which were subsequently “transferred” to the Technical and administrative unit. In March 2016, the settlement deed was signed with the approval of the Technical and administrative unit and the Office of the Prime Minister, acknowledging that Mercitalia Logistics (formerly FS Logistica) was due €91 million as settlement.

The allowance for impairment decreased by €17 million, mainly due to its utilisation for the above settlement deed (€18 million).

The 31 December 2015 trade receivables and payables have been increased by the same amount (€126 million) to more correctly present them in these consolidated financial statements and ensure their comparability and reflect factoring transactions.

The following table gives a breakdown of non-current and current trade receivables by geographical segment:

millions of Euros

	31.12.2016	31.12.2015	Changes
Italy	2,688	3,200	(512)
Eurozone countries	118	148	(30)
United Kingdom	1		1
Other European countries (EU, non-Euro)	11	10	1
Other non-EU European countries	19	30	(11)
Other countries	19	10	9
Total	**2,856**	**3,398**	**(542)**

17. Cash and cash equivalents

They can be analysed as follows:

millions of Euros

	31.12.2016	31.12.2015	Changes
Bank and postal accounts	1,060	333	727
Cash and cash on hand	38	33	5
Cash pooling accounts	1,239	938	301
Total	**2,337**	**1,305**	**1,032**

The increase in this caption mainly refers to:

- "Bank and postal accounts", most affected by the sale of GS Retail S.p.A. to Alba Bidco S.p.A. (€424 million), already described in the "Change in consolidation scope and non-recurring transactions" section, and the group companies' financial requirements;
- "Cash pooling accounts", which hold the payments made by the MEF for the Government Programme Contract and other EU grants (€270 million).

For a breakdown of the changes in the balance, reference should be made to the statement of cash flows.

18. Tax assets

Tax assets of €121 million at 31 December 2016 decreased by €4 million on the previous year end (€125 million). They refer to prior year income tax receivables.

19. Equity attributable to the owners of the parent

Changes in the main equity captions in 2016 and 2015 are shown in the statement of changes in equity.

Share capital

At 31 December 2016, the company's share capital fully subscribed and paid up by the sole shareholder, the MEF, was made up of 36,340,432,802 ordinary shares, with a par value of €1 each, for a total of €36,340 thousand.

Legal reserve

The legal reserve, of €7 million, rose to the extent related to the profit of the parent allocated to this caption.

Other reserves

Other reserves with a negative balance of €100 million at 31 December 2015 were eliminated following the shareholder's resolution taken on 4 July 2016 approving the parent's 2015 financial statements and the distribution of part of the 2015 profit (€100 million). The reserve had been set up with payment of two advances in 2015 as per article 20 of Law no. 89 of 23 June 2014 (subsequently amended by article 10.12 of Decree law no. 192/2914, converted into Law no. 11 of 27 February 2015).

Translation reserve

This reserve includes all exchange rate differences arising from the translation of the financial statements of foreign operations. It amounts to €3 million, down €1 million on 31 December 2015.

Hedging reserve

The hedging reserve includes the effective portion of the cumulative net change in the fair value of cash flow hedges relating to transactions that have not yet taken place and the portion of the cumulated reserve with previous financial instruments in relation to which, in 2012, the counterparties exercised the contractually-permitted early termination option. At 31 December 2016, this reserve was negative by €162 thousand (negative by €212 million at 31 December 2015) due to the fair value measurement of hedging instruments at the reporting date (increase of €23 million) and the release of the portion of the year following the above-mentioned early termination of contracts (increase of €21 million).

Actuarial reserve

The actuarial reserve, which includes the effects of actuarial gains and losses on post-employment benefits and the Free Travel Card, is a negative €350 million at the reporting date (31 December 2015: negative by €321 million).

Retained earnings

The positive balance of €1,559 million is mainly due to the retained earnings and losses carried forward of consolidated companies and prior year consolidation adjustments, as well as the effects of the partial demerger of Grandi Stazioni S.p.A., described earlier, the subsequent sale of GS Retail S.p.A. and the acquisition of the entire quota capital of Ferrovie del Sud Est e Servizi Automobilistici S.r.l..

The decrease in the caption reflects the dividend distributed to the shareholder on 19 October 2016 (€31 million) in addition to the interim dividends described above.

Other comprehensive income (net of the tax effect)

The statement of comprehensive income, to which reference should be made, shows other comprehensive income net of the tax effect.

20. Equity attributable to non-controlling interests

The following table shows the financial highlights of each subsidiary with significant non-controlling interests for the group, gross of intragroup eliminations. Consequently, these figures do not match the information provided by these companies in their financial statements. With respect to Netinera Deutschland group, these figures reflect those of the consolidated financial statements of the German group, gross of the elimination related to FS Italiane group.

millions of Euros

	Grandi Stazioni Immobiliare	Centostazioni S.p.A.	Ataf Gestioni S.r.l.	Cemat S.p.A.	Tunnel Ferroviario del Brennero S.p.A.	Netinera Deutschland Group	Other subsidiaries which are not individually material	Eliminations / Adjustments	Total
Balances at 31.12.2016									
Non-controlling interests (%)	40%	40%	30%	46.72%	12.84%	49%			
Current assets	6	32	38	90	31	170			
Non-current assets	63	50	43	72	470	723			
Current liabilities	(7)	(39)	(33)	(94)		(202)			
Non-current liabilities	(22)	(6)	(40)	(21)		(428)			
Net assets	40	37	8	47	501	263			
Net assets pertaining to non-controlling interests	**16**	**15**	**2**	**22**	**64**	**129**	**7**	**2**	**257**
Revenue	3	76	83	201		603			
Profit for the year		8	1			6			
Other comprehensive income									
Comprehensive income		8	1			6			
Profit attributable to non-controlling interests		**3**				**4**	**7**		**14**
Other comprehensive income attributable to non-controlling interests									
Net cash flows generated by operating activities	1	25	8	12		50			
Net cash flows generated by (used in) investing activities		(2)	2	(14)	(150)	(15)			
Net cash flows generated by (used in) financing activities	7	(17)	(8)	3	108	(26)			
Total net cash flows for the year	8	6	2	1	(42)	9			
Dividends paid to non-controlling interests		(4)				(7)			

millions of Euros

	Grandi Stazioni Rail S.p.A. (formerly Grandi Stazioni S.p.A.)	Centostazioni S.p.A.	Ataf Gestioni S.r.l.	Cemat S.p.A.	Tunnel Ferroviario del Brennero S.p.A.	Netinera Deutschland Group	Other subsidiaries which are not individually material	Eliminations/ Adjustments	Total
Balances at 31.12.2015									
Non-controlling interests (%)	40%	40%	30%	46.72%	11.21%	49%			
Current assets	137	37	42	88	72	148			
Non-current assets	399	52	47	70	320	706			
Current liabilities	(228)	(39)	(35)	(84)		(198)			
Non-current liabilities	(148)	(11)	(47)	(27)		(388)			
Net assets	160	39	7	47	393	268			
Net assets pertaining to non-controlling interests	**64**	**15**	**2**	**22**	**44**	**131**	**14**	**(3)**	**289**
Revenue	224	83	80	199		573			
Profit for the year	21	9	1	1		5			
Other comprehensive income	1								
Comprehensive income	22	9	2	1		5			
Profit attributable to non-controlling interests	**8**	**4**		**1**		**2**	**1**		**16**
Other comprehensive income attributable to non-controlling interests	1								
Net cash flows generated by (used in) operating activities	46	11		(5)		51			
Net cash flows used in investing activities	(63)	(2)	(11)	(8)	(113)	(19)			
Net cash flows generated by (used in) financing activities	17	(8)	13	4	142	(6)			
Total net cash flows for the year			2	(10)	30	26			
Dividends paid to non-controlling interests	(6)	(2)							

Net assets pertaining to non-controlling interests of €257 million include the €51 million decrease due to the partial demerger of Grandi Stazioni Rail S.p.A. (formerly Grandi Stazioni S.p.A.) and the sale of GS Retail S.p.A. (described earlier), the €5 million increase for the group's acquisition of another 33.33% of Thello Sas on 5 September 2016, giving it 100% ownership, and the combined effect of the above-mentioned increase in non-controlling interests in the equity of Tunnel Ferroviario del Brennero S.p.A. and its capital increase (€20 million).

21. Non-current and current loans and borrowings

This caption amounts to €11,862 million and can be analysed as follows:

millions of Euros

	Carrying amount		
Non-current loans and borrowings, net of the current portion	**31.12.2016**	**31.12.2015**	**Changes**
Bonds	4,031	3,354	677
Bank loans and borrowings	3,276	3,866	(590)
Loans and borrowings from other financial backers	1,345	1,351	(6)
Total	**8,652**	**8,571**	**81**

millions of Euros

	Carrying amount		
Current loans and borrowings and current portion of non-current loans and borrowings	**31.12.2016**	**31.12.2015**	**Changes**
Bonds (current portion)	38	563	(525)
Bank loans and borrowings (current portion)	2,800	1,553	1,247
Loans and borrowings from other financial backers (current portion)	372	456	(84)
Total	**3,210**	**2,572**	**638**
Total loans and borrowings	**11,862**	**11,143**	**719**

"Bonds" comprise:

- eighteen bonds issued by the parent and fully subscribed by the Swiss investee, Eurofima SA (private placement). The aim of these bonds is to finance the investments for the plan to renew and upgrade rolling stock. Repayment will take place in one instalment at the maturity date. Coupons accrue every six months at the variable interest rate for sixteen bonds and at a fixed annual rate for the remaining two bonds. They are not listed on "official markets", domestic or foreign stock exchanges, cannot be traded and will be maintained in Eurofima's financial statements as the sole holder;
- five bonds, for a total of €2,050 million, related to the Euro Medium Term Notes Programme issued by FS S.p.A. on the Dublin Stock Exchange in 2013, 2014, 2015 and 2016. The first bond issue, with a nominal amount of €750 million and annual fixed coupon of 4%, matures on 22 July 2020; the second bond issue, with a nominal amount of €600 million and annual fixed coupon of 3.5%, matures on 13 December 2021; the third bond issue, with a nominal amount of €300 million and a variable six-monthly coupon indexed to the 6M Euribor, matures on 31 December 2025; the fourth bond issue, with a nominal amount of €350 million and a variable six-monthly coupon indexed to the 6M Euribor, matures on 18 July 2022, and the fifth bond issue, with a nominal amount of €50 million and an annual fixed coupon of 1.65%, matures on 25 July 2031.

The bonds (both current and non-current portions) increased by €152 million during the year as a result of three new bond issues for €700 million, partly offset by the repayment of the Eurofima bonds of €548 million.

Bank loans and borrowings (both current and non-current portions) increased during the year by €657 million mainly due to:

- the approximate €1,200 million increase in short-term funding and the larger loans of €300 million provided by Cassa Depositi e Prestiti and Intesa Sanpaolo to purchase new rolling stock for the medium and long haul services and regional transport;
- the transfer of Ferrovie del Sud Est e Servizi Automobilistici - FSE S.r.l. for €102 million, already commented on in the "Change in consolidation scope and non-recurring transactions" section;

partly offset by

- repayment of principal of €784 million at the related due dates; and
- the sale of GS Retail S.p.A. (€178 million), already commented on in the "Change in consolidation scope and non-recurring transactions" section.

Loans and borrowings from other financial backers (both current and non-current portions) include the loans and borrowings from Cassa Depositi e Prestiti for the railway infrastructure (traditional network and high speed), repayment of which is ensured by the fifteen-year grants received in 2016 (€167 million), new loans and borrowings from funding transactions agreed to cover factoring transactions and loans and borrowings for the leases of Netinera Deuschland group, up by €27 million following the 12 new diesel trains delivered during the year.

Some group companies are required to comply with financial covenants for their loans, which they had done at the reporting date.

The table below analyses net financial debt at the reporting date compared to that at 31 December 2015:

millions of Euros

Net financial debt	31.12.2016	31.12.2015	Change
Current net financial debt	**353**	**884**	**(531)**
Treasury current accounts	(1,239)	(938)	(301)
Receivables from the MEF for the fifteen-year grants to be collected	(573)	(566)	(7)
Loans and borrowings from other financial backers	372	456	(84)
Bank loans and borrowings	2,800	1,553	1,247
Bonds	38	563	(525)
Other financial liabilities	109	224	(115)
Other	(1,154)	(408)	(746)
Net non-current financial debt	**6,407**	**5,858**	**549**
Receivables from the MEF for the fifteen-year grants to be collected	(2,122)	(2,606)	484
Loans and borrowings from other financial backers	1,345	1,351	(6)
Bank loans and borrowings	3,276	3,866	(590)
Bonds	4,031	3,354	677
Other	(123)	(107)	(16)
Total	**6,760**	**6,742**	**18**

22. Post-employment benefits and other employee benefits

millions of Euros

	2016	2015
Present value of post-employment benefit obligations	1,738	1,751
Present value of Free Travel Card obligations	47	48
Total present value of obligations	**1,785**	**1,799**

Changes in the present value of liabilities for defined benefit obligations are shown in the table below.

millions of Euros

	2016	2015
Defined benefit obligations at 1 January	1,799	1,964
Service cost	1	1
Interest cost (*)	18	22
Actuarial (gains) losses recognised in equity	30	(69)
Advances, utilisations and other changes	(68)	(119)
Total defined benefit obligations	**1,785**	**1,799**

(*) through profit or loss

Actuarial assumptions

The main assumptions for the actuarial estimate process are described below:

	2016	2015
Discount rate (post-employment benefits)	1.25%	1.38%
Discount rate (Free Travel Card)	1.31%	2.03%
Annual increase rate of post-employment benefits	2.63%	2.80%
Discount rate (post-employment benefits)	1.50%	1.74%
Discount rate (Free Travel Card)	1.50%	1.74%
Expected turnover rate for employees - post-employment benefits	2.15%	3.45%
Expected turnover rate for employees - Free Travel Card	3.59%	3.61%
Expected rate of advances	1.96%	1.96%
Death probability	RG48 mortality rate published by the General Accounting Office	
Disability	INPS tables broken down by gender and age	
Retirement age	100% upon meeting the Compulsory general insurance requirements	

The following sensitivity analysis shows the effects that would have been recorded in terms of changes in the present value of liabilities for defined benefit obligations, following reasonably possible changes in actuarial assumptions.

The last table shows the average duration of the defined benefit obligations and the disbursements provided by the plan.

millions of Euros

	Post-employment benefits	Free Travel Card	Other employee benefits
Inflation rate +0.25%	1,750	49,636	2
Inflation rate -0.25%	1,715	43,906	2
Discount rate +0.25%	1,705	45,535	2
Discount rate -0.25%	1,761	47,927	2
Turnover rate +1%	1,725		2
Turnover rate -1%	1,741		2
Plan duration	7	11	24
Payment - first year	186	3	0.2
Payment - second year	153	3	0.2
Payment - third year	88	3	0.2
Payment - fourth year	183	3	0.2
Payment - fifth year	162	3	0.2

23. Provisions for risks and charges

The opening and the closing balances of, and changes in, the provisions for risks and charges for 2016 are given below, indicating the current and non-current portions.

millions of Euros

Provisions for risks and charges	31.12.2015	Accruals	Utilisations and other changes	Release of excess provisions	31.12.2016
Provision for taxation	4	7	20		31
Other provisions	885	143	(77)	(14)	937
Total non-current portion	**889**	**150**	**(57)**	**(14)**	**968**

millions of Euros

Current portion of provisions for risks and charges	31.12.2015	Accruals	Utilisations and other changes	31.12.2016
Other provisions	30	8	6	44
Total current portion	**30**	**8**	**6**	**44**

The provision for taxation includes probable future tax charges. It increased by €7 million due to assessment notices and payment orders for tax on buildings and registration tax. It was also increased by €20 million, shown under “Utilisations and other changes”, due to the inclusion of Ferrovie del Sud Est e Servizi Automobilistici - FSE S.r.l. in the consolidation scope.

“Other provisions” is broken down below.

The Bilateral fund for income assistance, set up for proactive income and employment assistance, amounts to €87 million and was increased by €25 million during the year for extraordinary benefits to be paid in future years.

The provision for termination benefits amounts to €40 million. It was increased by accruals of approximately €7 million and decreased by utilisations of €12 million during the year, to cover costs incurred for the change management processes and the group’s production structure rationalisation.

The provision for litigation with employees, which covers the probable charges arising from pending disputes and cases brought before the competent courts in respect of economic and career claims and compensation for occupational illness, amounts to €106 million. During the year, a total of €33 million was accrued. The provision was used by a total of €34 million to cover the social security contribution charges and costs related to disputes with personnel. The provision also increased as a result of the inclusion of Ferrovie del Sud Est e Servizi Automobilistici S.r.l. in the consolidation scope (€28 million).

The provisions for litigation with third parties of €348 million were accrued to cover probable charges arising from the disputes underway with suppliers for subcontracting, services and supplies, the potential dispute for suppliers’ claims and the charges prudently accrued for probable disputes with the regions about the quality of the transport services rendered as part of the public service contracts. During the year, approximately €32 million was accrued, with several income statement captions as balancing entries. The provisions were used by approximately €19 million following the settlement of disputes with an unfavourable outcome for the group and the payment of penalties to customers and the regions.

Approximately €2 million was released through profit or loss to reflect the smaller needs related to some pending disputes.

In 2016, approximately €1 million was used from the provision accrued to cover the charges related to the reclamation of polluted sites and the enhancement of works to be sold amounting to €55 million.

"Other provisions" of approximately €345 million include accruals for maintenance, workshop expense, expense related to buildings held for trading and disputes with agents. During the year, the group accrued €27 million for probable future risks and charges. It also used €13 million, including €6 million for charges arising from the contract renewal and €5 million to cover the cost of contractual obligations on buildings held for trading. It reclassified €8 million to payables to employees and released €12 million to profit or loss due to smaller-then-expected requirements for pending contractual disputes. Other provisions also increased as a result of the inclusion of Ferrovia del Sud Est e Servizi Automobilistici - FSE S.r.l. in the consolidation scope (€11 million).

Finally, the changes of the year include the €27 million accrual related to the estimated risks related to the agreement to sell Grandi Stazioni Retail S.p.A..

24. Non-current and current financial liabilities (including derivatives)

millions of Euros

	Carrying amount								
	31.12.2016			31.12.2015			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Financial liabilities									
Hedging derivatives	81	10	91	109	20	129	(28)	(10)	(38)
Other financial liabilities	2	109	111	3	224	227	(1)	(115)	(116)
Total	**83**	**119**	**202**	**112**	**244**	**356**	**(29)**	**(125)**	**(154)**

Hedging derivatives essentially reflect interest rate swaps (IRS), interest rate collars and fair value hedges, calculated using standard market valuation techniques (at fair value) in accordance with IFRS 13. They were entered into by the FS Italiane group companies to hedge non-current loans at variable rates and financial rates. The €38 million decrease is chiefly due to fair value losses thereon and the sale of GS Retail S.p.A. (€8 million).

Other financial liabilities decreased by €116 million, mostly in conjunction with the factoring transactions whereby current bank loans and borrowings decrease in line with collections and the reduction in current trade receivables.

Fair value measurement

The hedging derivatives included in the group's portfolio are OTC and fall under Level 2 of the fair value hierarchy laid down in IFRS 7.

Financial instruments have been measured at fair value using financial models based on market standards. Specifically, this entailed:

- determining the net present value of future flows for swaps;
- calculating the market value, using the Black & Scholes model, for collars and caps.

The inputs used to feed the above models reflect observable market parameters which are available with the main financial info-providers.

Specifically, the swap vs. 3M Euribor curve figures were used, as well as those related to the swap vs. 6M Euribor curve, the Eur interest rate volatility curve and the credit default swap (CDS) curve of the parties to the derivative contract, which reflect the input widely accepted by market operators to calculate non-performance risk. This risk is calculated using adequate financial valuation techniques and models which include, inter alia, the following factors i) the risk exposure, being the potential mark-to-market exposure throughout the life of the financial instrument, ii) adequate CDS curves to reflect their probabilities of default (PD).

25. Other non-current and current liabilities

They can be analysed as follows:

millions of Euros

	31.12.2016			31.12.2015			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Advances for grants		3,410	3,410		4,988	4,988		(1,578)	(1,578)
Advances to customers		1	1					1	1
Social security charges payable	48	319	367	60	292	352	(12)	27	15
VAT liabilities		17	17		28	28		(11)	(11)
Other liabilities with group companies		4	4		5	5		(1)	(1)
Other liabilities and accrued expenses and deferred income	94	1,134	1,228	284	1,123	1,407	(190)	11	(179)
Total	**142**	**4,885**	**5,027**	**344**	**6,436**	**6,780**	**(202)**	**(1,551)**	**(1,753)**

"Advances for grants" are mainly related to:

- additional accruals for FS S.p.A. in connection with the Tunnel Euralpin Lyon Turin Sas – TELT Sas (formerly Lyon Turin Ferroviarie Sas – LTF Sas) project, as already described in the note to "Other non-current and current assets" to which reference should be made;
- the accruals mainly recognised by RFI S.p.A. against the grants related to assets from the government (MEF and MIT), the EU and other, for infrastructural investments.

The table below shows the changes in advances for grants related to the FS Italiane group:

millions of Euros

	31.12.2015	Increases	Decreases	Other changes	31.12.2016
Advances for grants:					
- MEF	3,009	1,982	(3,640)		1,351
- MIT	1,425	582	(422)		1,585
- European Regional Development Fund	119	168	(189)	(8)	89
- Trans-European Network	161	15	(20)	(1)	155
- Other	274	174	(219)		229
Total	**4,988**	**2,921**	**(4,489)**	**(9)**	**3,410**

The increases in advances for grants from the MEF and the MIT include the new receivables related to the grants allocated during the year, as described in the notes to "Other non-current and current assets" and "Financial assets".

The decrease in advances refer to the recognition of grants under "Property, plant and equipment", "Intangible assets" and "Equity investments", to which reference should be made for additional information. Furthermore, €111 million refers to grants recognised in profit or loss to cover financial expense.
"Other changes" relate to the definancing of the TEN and ERDF community grants (€9 million).

The €179 million decrease in non-current "Other liabilities and accrued expenses and deferred income" is principally due to the elimination of the bilateral fund for income assistance in the form of extraordinary solidarity benefits (€124 million) following the winding up of the relevant Foundation and transfer of its assets to INPS (Italy's social security institution).

26. Non-current and current trade payables

They can be analysed as follows:

millions of Euros

	31.12.2016			31.12.2015			Changes		
	Non-current	**Current**	**Total**	**Non-current**	**Current**	**Total**	**Non-current**	**Current**	**Total**
Suppliers	14	3,985	3,999	17	3,799	3,816	(3)	186	183
Payments on account	1	65	66	1	64	65		1	1
Group companies		33	33		77	77		(44)	(44)
Payables for construction contracts		14	14		12	12		2	2
Total	**15**	**4,097**	**4,112**	**18**	**3,952**	**3,970**	**(3)**	**145**	**142**

The €186 million increase in the current portion of trade payables to suppliers is mainly due to the smaller payments made during the year and the impact of acquiring Ferrovie del Sud Est e Servizi Automobilistici - FSE S.r.l. (€158 million) as described in detail in the "Change in consolidation scope and non-recurring transactions" section.
Payments on account refer to advances received and did not change significantly from the previous year end. Payables for construction contracts reflect the gross amount due from customers for contract work in progress whose costs incurred, net of profit margins recognised, exceed the invoicing of work progress. These payables refer to the asset caption "Construction contracts" and are substantially unchanged.
The €44 million net decrease in current trade payables to group companies is mainly due to the financial settlements with Trenord S.r.l..
The 31 December 2015 trade receivables and payables have been increased by the same amount (€126 million) to more correctly present them in these consolidated financial statements and ensure their comparability and reflect factoring transactions.

27. Tax liabilities

The balance at 2016 year end, equal to €4 million (€10 million at 2015 year end), principally includes the income taxes of foreign companies.

28. Revenue from sales and services

The table and comments below give a breakdown of changes in revenue from sales and services.

millions of Euros

	2016	2015	Change
Revenue from transport services	**6,385**	**6,383**	**2**
Passenger traffic products	3,164	3,207	(43)
Cargo traffic products	860	878	(18)
Market revenue	**4,024**	**4,084**	**(60)**
Public service contracts and other contracts	248	247	1
Fees from the regions	2,113	2,052	61
Public service contract fees	**2,361**	**2,299**	**62**
Revenue from infrastructure services	**1,282**	**1,256**	**26**
Other service revenue	**193**	**197**	**(4)**
Capitalisation of work on buildings held for trading and other changes in product inventories	**5**	**5**	
Revenue for contract work in progress	**43**	**40**	**3**
Total	**7,908**	**7,881**	**27**

The €43 million decrease in revenue from "Passenger traffic products" is due to the different performances of the various passenger service sectors. Indeed, revenue from medium and long haul passenger transport decreased by €90 million in Italy and by €9 million in the international market; the regional transport sector grew by €27 million in Italy and by €22 million in the international market. Revenue from the road passenger service rose by €7 million.

The adverse performance of the medium and long haul passenger transport sector was mainly the result of the change in the competitive scenario, as the other major player focused on cutting prices in the HS market, as well as the reduction in demand (worsened by the recent terrorist attacks) following the sharp drop in oil prices which made travel by cars and planes more cost efficient. A comparison with the previous year should consider that the passenger transport volumes benefited greatly from EXPO 2015 in that year.

Specifically, the decrease of €107 million in domestic traffic in "Market" services was mainly due to the reduction in revenue from the "Freccia" products even though the Frecciarossa brand recorded an increase in volumes to the detriment of the other Freccia, charter and international services, related to the above trend. The "Universal" service's revenue from domestic traffic improved slightly (€17 million) compared to a downturn in revenue from international traffic with France (-€9 million).

The improvement in revenue from domestic regional transport services is the result of higher production volumes, especially in Lazio, Calabria and Sicily, and the strengthening of control activities, while the increase in international regional transport, in particular in Germany, is mostly due to the new tenders won by the Netinera Deutschland group towards the end of 2015.

The decrease in revenue from "Cargo traffic products" (down around €18 million) was caused by the different results obtained on the domestic and international markets. Companies active on the domestic market saw a slight improvement of approximately €2 million in their revenue, due to the increase in revenue of the combined business sector and a reduction in revenue of the traditional business, which continues to be affected by the negative performances of the chemical and commodities sectors although the metal and automotive sectors are improving. Companies active on foreign markets, and especially Germany, saw a decrease in their revenue (-€20 million).

Public service contract fees were substantially unchanged while the fees from the regions improved by €61 million, due to the rise in fees received by the Netinera Deutschland group (€13 million) and the Busitalia group companies (€10 million), the inclusion of Ferrovie del Sud Est e Servizi Automobilistici - FSE S.r.l. in the consolidation scope on 29 November 2016 (€7 million), the higher fees received from the Lazio region for the increase in services related to the Jubilee and the recognition of adjustments following negotiation of the closure of old contracts (€31 million).

The table below gives a breakdown of fees by public service contracts with the government:

millions of Euros

	2016	2015	Changes
Rate and service obligations: for passenger transport	246.9	246.6	0.3
Total	**246.9**	**246.6**	**0.3**

Revenue from infrastructure services includes:

- revenue from the government for grants related to income, which increased by €5 million due to inclusion of Ferrovie del Sud Est e Servizi Automobilistici - FSE S.r.l. in the consolidation scope, while that earmarked for RFI S.p.A. pursuant to the 2016 “Legge di Stabilità” was unchanged on the previous year;
- revenue from the sale of electrical energy for traction rose by €2 million due to the offsetting of the higher revenue resulting from recalculation of the electricity rate system pursuant to Law no. 116/2014 (€10 million) and smaller revenue after the sale of S.EL.F. S.r.l. (-€8 million);
- revenue from toll services increased by €20 million, principally as a result of higher production volumes for the non-group railway companies and
- revenue from ferry services, unchanged from the previous year.

“Other service revenue” refers to traffic-related services and services provided to railway companies. The decrease is mostly due to drop in services for rolling stock maintenance (especially to Trenord S.p.A., -€8 million) and shunting services (-€2 million) as well as to higher accruals of approximately €5 million to provisions for disputes with customers, partly offset by the rise in revenue from leases (€10 million) and other traffic-related services (€1 million).

Revenue from the capitalisation of work on buildings held for trading, other changes in product inventories and for contract work in progress is substantially unchanged on 2015.

29. Other income

This caption can be analysed as follows:

			millions of Euros
	2016	**2015**	**Change**
Leases	180	193	(13)
Recharging of condominium expenses and IRES tax	18	20	(2)
Sale of buildings and land held for trading	11	22	(11)
Sale of advertising spaces	15	29	(14)
Revenue from property management	**224**	**264**	**(40)**
Other sundry income	**796**	**440**	**356**
Total	**1,020**	**704**	**316**

The €40 million reduction in "Revenue from property management" is mostly due to:

- less sales made in the year of buildings and land held for trading (-€11 million);
- smaller revenue from leases, recharges of condominium expenses and sale of advertising spaces (-€28 million), following the sale of the retail business unit of GS Rail S.p.A. (formerly Grandi Stazioni S.p.A.) as a result of its partial, non-proportionate and asymmetrical demerger (described in note 4 "Change in consolidation scope and non-recurring transactions").

Other sundry income, which includes revenue from penalties and sanctions, insurance compensation, commissions on ticket sales, health services provided to third parties, subcontracting and gains on the sale of assets and materials, increased considerably on the previous year mainly due to the above-mentioned sale of GS Retail S.p.A., which generated a gain of €365 million. As disclosed in note 23 to the provisions for risks and charges, this gain is comprehensive of the cost of possible transaction risks. During the year, the group also recognised higher releases of the provisions following the positive conclusion of disputes in its favour (€8 million). This income was offset by the recognition of the gain on the sale of "electrical assets" to Terna in the previous year (€18 million).

30. Personnel expense

This caption can be analysed as follows:

millions of Euros

	2016	2015	Change
Wages and salaries	2,854	2,835	19
Social security charges	769	787	(18)
Other expense for employees	17	6	11
Post-employment benefits	179	180	(1)
Post-employment benefits/Free Travel Card service costs			
Accruals/releases	29	25	4
Employees	**3,848**	**3,833**	**15**
Wages and salaries	6	9	(3)
Social security charges		1	(1)
Other costs			
Consultants and freelancers	**6**	**10**	**(4)**
Other costs	**97**	**92**	**5**
Total	**3,951**	**3,934**	**17**

Personnel expense increased slightly (+€17 million) on the previous year.

Specifically, the financial aspect of the new national labour agreement for railway workers became fully effective following signing of this agreement, leading to an increase in the cost for employees, which was almost fully offset by the workforce organisation efficiency project and the reduction in the average employee numbers (from 69,276 for 2015 to 69,056 for this year, as shown below), social security contribution relief on production bonuses and smaller costs for termination benefits. The increase in personnel expense for employees was also due to the higher costs of Netinera Deutschland group, as it took on staff after acquiring new routes (€9 million) and the inclusion of Ferrovie del Sud Est e Servizi Automobilistici - FSE S.r.l. in the consolidation scope(€5 million).

The table below gives a breakdown of FS Italiane group's average number of employees by category:

	2016	2015	Changes
Managers	719	712	7
Junior managers	10,954	10,835	119
Other	57,383	57,729	(346)
TOTAL	**69,056**	**69,276**	**(220)**

31. Raw materials, consumables, supplies and goods

They can be analysed as follows:

millions of Euros

	2016	2015	Change
Raw materials and consumables	834	748	86
Electrical energy and fuel for traction	333	319	14
Lighting and driving force	49	55	(6)
Change in buildings and land held for trading	7	37	(30)
Accruals/releases	7		7
Total	**1,230**	**1,159**	**71**

"Raw materials and consumables" rose by €86 million as a result of greater consumption of materials in stock and other materials used in operations, especially for the infrastructure sector (€121 million), offset by smaller costs for rolling stock and to eliminate spare parts and components (-€35 million).

The increase in "Electrical energy and fuel for traction" (€14 million) was mainly the result of the net effect of higher electrical energy costs (€33 million), due to the changes introduced in the electricity market, as already mentioned in note 28 "Revenue from sales and services", and smaller fuel costs, caused by the generalised drop in fuel prices (-€7 million).

The change in buildings and land held for trading is substantially due to the lower cost of sales (-€5 million) and smaller impairment losses of the year (-€25 million).

In addition, the group made larger accruals to the allowance for inventory write-down to reflect analyses of obsolete materials to be scrapped (€7 million).

32. Services

This caption can be analysed as follows:

			millions of Euros
	2016	**2015**	**Change**
Other transport-related services	78	71	7
Toll	268	241	27
Shunting services	27	27	
Cargo transport services	325	319	6
Accruals/releases for transport services		(2)	2
Transport services	**698**	**656**	**42**
Contracted services and work	28	29	(1)
Cleaning and other contracted services	379	364	15
Maintenance and repair of intangible assets and property, plant and equipment	584	609	(25)
Accruals/releases for maintenance	(2)	8	(10)
Maintenance, cleaning and other contracted services	**989**	**1,010**	**(21)**
Property services and utilities	**78**	**82**	**(4)**
Administrative and IT services	**160**	**150**	**10**
External communication and advertising expense	**28**	**30**	**(2)**
Professional services and consultancies	46	41	5
Prize competitions and fees to other railway companies	5	13	(8)
Insurance	63	68	(5)
Sleeping carriages and catering	106	98	8
Agencies’ fees	67	71	(4)
Engineering services	37	35	2
Other costs for services, accruals/releases	24	(20)	44
Other	120	152	(32)
Other	**468**	**458**	**10**
Total	**2,421**	**2,386**	**35**

The rise in “Transport services” is mainly attributable to the rise in toll costs, chiefly as a result of the increase in the services provided by Netinera Deutschland group following the acquisition of new routes in Germany (€20 million) and the generalised increase in production and domestic market rates (€7 million). The higher production output also generated greater costs for the cargo transport services (€6 million) and other related services such as traffic-related services and replacement bus services (€7 million).

The decrease in “Maintenance, cleaning and other contracted services” (-€21 million) is mainly due to smaller maintenance costs (-€25 million), especially as a result of the roll-out of rolling stock and the release of the provision for reclamation costs (-€10 million). These smaller costs were partly offset by a rise in the cost of cleaning and other contracted services (€15 million).

The €10 million increase in “Other” is chiefly attributable to:

- the higher cost of accruals/releases (€44 million), due to the greater need to provide for civil and real estate disputes (€16 million) and the non-release of a provision accrued for charges on buildings held for trading (€28 million), compared to 2015;
- greater costs for “Sleeping carriages and catering” (€8 million), mostly as a result of the extension of the new catering model to the entire HS fleet offset by
- smaller costs for agencies’ fees, insurance premiums and other services (-€47 million).

33. Use of third-party assets

This caption can be analysed as follows:

millions of Euros

	2016	**2015**	**Change**
Operating lease payments	1	2	(1)
Lease payments, condominium expenses and registration tax	72	66	6
Leases and indemnities for rolling stock and other	109	112	(3)
Accruals/releases	1	1	
Total	**183**	**181**	**2**

This caption is substantially unchanged from the previous year.

The most significant change was seen in “Lease payments, condominium expenses and registration tax”, up €6 million, reflecting the generalised increase in market costs and the group’s greater use of service car lease agreements.

34. Other operating costs

This caption can be analysed as follows:

millions of Euros

	2016	2015	Change
Other costs	171	148	23
Losses	5	5	
Accruals/releases	23	12	11
Total	**199**	**165**	**34**

“Other operating costs” rose by €34 million following the increase in membership fees and contributions to sundry bodies, penalties received and compensation, non-deductible VAT and other taxes, and the larger accruals of the years, specifically in respect of sundry taxes on areas zoned for building.

35. Internal work capitalised

Internal work capitalised mainly relates to the cost of materials, personnel and transport expense capitalised in 2016 against work performed on the infrastructure and value-increasing maintenance of the rolling stock carried out at the FS group’s workshops.

This caption amounts to €1,349 million, up by €134 million on 2015 (€1,215 million). The rise in capitalisations is mainly due to the increase in infrastructure investments, especially for technological upgrades and to improve safety, and greater value-increasing maintenance of rolling stock.

36. Amortisation and depreciation

This caption can be analysed as follows:

millions of Euros

	2016	2015	Change
Amortisation	76	79	(3)
Depreciation	1,230	1,149	81
Total	**1,306**	**1,228**	**78**

The increase in the depreciation of property, plant and equipment (€81 million) is mainly due to investments in, and value-increasing maintenance of rolling stock activities during the year.

37. Impairment losses (reversals of impairment losses)

This caption can be analysed as follows:

millions of Euros

	2016	2015	Change
Impairment losses on intangible assets	5	2	3
Impairment losses on property, plant and equipment and investment property	42	35	7
Impairment losses and reversals of impairment losses on receivables	23	18	5
Total	**70**	**55**	**15**

"Impairment losses on property, plant and equipment" increased mainly due to the net balance of greater impairment losses recognised in 2016 on rolling stock to be scrapped (€19 million) and group assets (€6 million) and smaller impairment losses recognised on buildings held for trading (-€19 million).

The €5 million increase in "Impairment losses and reversals of impairment losses on receivables" reflects the normal annual alignment of the carrying amount of receivables to their market value.

38. Provisions

Provisions, totalling €25 million (2015: €48 million), include the accruals recognised by FS Italiane group companies for the extraordinary portion of the Bilateral fund for income assistance (see note 23 "Provisions for risks and charges").

39. Financial income

This caption can be analysed as follows:

millions of Euros

	2016	2015	Change
Financial income from non-current loans and receivables and securities	1	1	
Financial income from derivatives	4		4
Other financial income	55	112	(57)
Exchange rate gains	2	3	(1)
Total	**62**	**116**	**(54)**

Financial income decreased by €54 million over the previous year.

"Other financial income" decreased by €57 million due to the non-recognition of financial income from the investee Eurofima SA (-€75 million) in 2016, partly offset by the collection of financial expense and costs incurred and the discount on deferred payment interest charged (approximately €8 million) related to the settlement deed between Mercitalia Logistics S.p.A. and the Technical and administrative unit together with the Office of the Prime Minister covering the

receivables for services provided in the past to the Campania waste emergency commissioner, described earlier. The group also released the previously set up provision for default interest to be recharged to the government commissioner (€6 million).
"Financial income from derivatives" increased by €4 million due to the change in the time value of the collars.

40. Financial expense

This caption can be analysed as follows:

millions of Euros

	2016	2015	Change
Interest on financial liabilities	143	184	(41)
Financial expense for employee benefits	23	26	(3)
Financial expense on derivatives	2	1	1
Impairment losses on financial assets		10	(10)
Exchange rate loss	1	9	(8)
Accruals/releases	1	1	
Total	**170**	**231**	**(61)**

Financial expense amounts to €170 million, down by €61 million.
"Interest on financial liabilities", which includes interest expense on bonds, interest on non-current loans and borrowings from banks and other financial backers and sundry interest and fees, decreased by €41 million mainly as a consequence of the drop in the average cost of debt and its composition, with the group's greater use of current loans and borrowings which bear smaller interest rates.
"Financial expense for employee benefits", which includes the measurement of post-employment benefits and the Free Travel Card, decreased by €3 million due to the change in the discounting rate applied to post-employment benefits and personnel who left the company.
The €8 million decrease in the "Exchange rate loss" is mostly a result of the Swiss franc's favourable exchange rate (some group companies use this currency).
The above financial expense is shown net of government grants of €111 million (reference should also be made to note 24 "Other non-current and current liabilities").

41. Share of profits of equity-accounted investees

This caption, which includes the profits and losses of the group's associates and jointly controlled companies recognised using the equity method, shows a profit of €14 million, up by €6 million on 2015.
For additional information, reference should be made to note 12 "Equity-accounted investments".

42. Current and deferred taxes

Income taxes can be analysed as follows:

millions of Euros

	2016	2015	Change
IRAP	25	37	(12)
IRES	3	2	1
Foreign current taxes	6	5	1
Deferred taxes	(6)	39	(45)
Foreign deferred taxes	(2)	(4)	2
Adjustments to prior year income taxes		(6)	6
Total income taxes	**26**	**73**	**(47)**

The IRES tax of €3 million is net of the "Income from the tax consolidation scheme" of €109 million, recognised on the tax losses transferred to the group over the years and used during the year, as their subsequent remuneration is not deemed probable. For additional information about changes in deferred taxes, reference should be made to note 11 "Deferred tax assets and deferred tax liabilities".

43. Contingent assets and contingent liabilities

FS group is a party in civil and administrative proceedings and legal actions related to its normal business activities. In addition to the provisions already set up in the consolidated financial statements, the group may assume additional liabilities, currently deemed improbable and/or unquantifiable. The main contingent assets and liabilities are described below.

Novara - Milan subsection: Appeal against the RFI – FIAT (now FCA-Fiat Chrysler Automobiles NO.V.) award

After the appeal against the award, covering part of the claims recorded by FCA during the contract works, the appeal made by FCA to the Court of Cassation is pending and RFI S.p.A. has presented its counterclaim for more than €170 million. The ruling on the revocation proposed by FCA to the Rome appeal court is also pending (the hearing for the final briefs has been set for 7 June 2017).

RFI vs ANAS – Satap: case pending before the Rome civil court

This dispute is based on a number of agreements signed in previous years by the then TAV S.p.A. with ANAS S.p.A. and the grantor of the Turin-Milan motorway concession ASTM (now SATAP) to modernise and extend the motorway as part of the overall upgrading of the multimodal Turin-Milan corridor concurrently with the construction of the new HS/HC Turin-Milan railway section. It was not possible for TAV S.p.A., RFI S.p.A. and ANAS S.p.A. and SATAP S.p.A. to reach a compromise as the latter two parties rejected RFI S.p.A.'s requests for the allocation of some of the costs to upgrade the multimodal corridor to them for the motorway modernisation and extension part. Therefore, RFI S.p.A. issued a writ of summons to ANAS/SATAP to appear before the Rome Court on 9 June 2016. ANAS has summonsed the MIT and, as the judge has accepted this application, they have deferred the first hearing to 6 June 2017.

44. Audit fees

Pursuant to article 37.16 of Legislative Decree no. 39/2010 and letter 16-bis of article 2427 of the Italian Civil Code, the total fees due to the independent auditors amount to €4,327 thousand and include the fees paid for services other than the legally-required audit (€1,630 thousand).

45. Directors' and statutory auditors' fees

The following fees were paid to directors and statutory auditors for the performance of their duties:

thousands of Euros

RECIPIENTS	2016	2015	Change
Directors	1,213	1,427	(214)
Statutory auditors	100	100	
TOTAL	**1,313**	**1,527**	**(214)**

Directors' fees include the amounts envisaged for the positions of Chairwoman and Chief Executive Officer, as well as any amounts envisaged for the remaining board members. In addition to the above fees, the external member of the supervisory body received €20 thousand (2015: €45 thousand). The fees to the representatives of the MEF (directors and statutory auditors) are transferred to such Ministry when the related parties are employees thereof.

46. Related parties

Related parties were identified in accordance with IAS 24.

Transactions with key managers

The general conditions that govern transactions with key managers and the parties related to them are not more favourable than those applied, or that could have been reasonably applied, to similar transactions with managers other than key managers associated to the same entities at market conditions.

Key managers' fees are as follows:

millions of Euros

	2016	2015
Short-term benefits	12.2	12.6
Post-employment benefits	0.8	0.8
Other long-term benefits		
Termination benefits	0.6	
Total	**13.6**	**13.4**

The benefits relate to the fees paid to the above parties. In addition to short-term benefits of €12.2 thousand paid out in 2016, a variable portion is to be paid in 2017, for an amount not exceeding €2.2 thousand (€2.6 thousand in 2015).

During the year, the key managers did not carry out any transactions, directly or through close family members, with FS Italiane group, group companies or other related parties.

Related party transactions

The main transactions between FS Italiane group and its related parties, which were all carried out on an arm's length basis, are described below.

Trade and other transactions

millions of Euros

	Receivables	Payables	Purchases for investments	Guarantees	Revenue	Costs
ENEL group	1	22		24	1	74
Eni group	2	2			11	12
Leonardo - Finmeccanica group	(2)	71			5	9
ANAS group	2				5	
Cassa Depositi e Prestiti group	15	145		376	29	87
GSE group	36	72		150		253
Poste Italiane group	1	1			1	3
SO.G.I.NO. group	1				3	
EXPO 2015 S.p.A.	1					
EUROFER		(6)				3
PREVINDAI		1				1
Other pension funds		2				35
Total	**58**	**310**		**550**	**55**	**477**

Financial transactions

millions of Euros

	Receivables	Payables	Income	Expense
Eni group	2			
Cassa Depositi e Prestiti group		1,170		39
Poste Italiane group	7			
Total	**9**	**1,170**		**39**

The nature of the main transactions with independent related parties is described below.

Receivables from Enel group and Eni group mainly refer to lease payments and material transport costs, while payables related to sundry utility payments.

Receivables from Leonardo - Finmeccanica group mainly relate to lease payments, transport costs and lease of rolling stock, while payables refer to sundry maintenance (rolling stock, lines and software) and purchase of materials.

Payables to GSE group mainly refer to the purchasing of electrical energy for train traction.

Receivables from Cassa Depositi e Prestiti group mainly refer to lease and easement payments of land, while payables relate to loans and borrowings and electrical energy with Terna S.p.A..

Receivables from Poste Italiane group mainly refer to lease payments, while payables principally relate to postal charges.

47. Guarantees and commitments

Guarantees given mainly refer to:

- collateral on Trenitalia S.p.A.'s rolling stock, issued by the company in favour of Eurofima SA, guaranteeing non-current loans and borrowings through Ferrovie dello Stato Italiane S.p.A. (the liability with Eurofima SA at 31 December 2016 amounts to €2,014 million);
- guarantees issued by FS S.p.A. in favour of the EIB on behalf of RFI S.p.A. (€250 million) and Trenitalia S.p.A. (€76 million), guaranteeing non-current loans and borrowings granted by the above bank to the companies;
- guarantees issued on behalf of Trenitalia S.p.A. to the regions (€11 million), including in relation to the public service contracts agreed, and to other bodies by financial institutions;
- parent company guarantees issued on behalf of the group to the tax authorities (€1,678 million);
- parent company (€4 million) and bank (€7 million) guarantees issued on behalf of RFI S.p.A. to public authorities (including, but not limited to: good and timely performance of the works related to the HS/HC line and reclamation activities, against the disbursement of financial grants);
- guarantees issued on behalf of RFI S.p.A. and in favour of Terna S.p.A. for the service contract governing electrical energy dispatching by withdrawal points which feed rail traction and for other uses (€24 million) and parent company and bank guarantees issued on behalf of RFI S.p.A. and in favour of Areti S.p.A., e-distribuzione S.p.A., Unareti S.p.A., Inrete Distribuzione Energia S.p.A. and Edyna S.r.l. for contracts regulating energy transport services for rail traction and other uses (€48 million);
- bank sureties issued to other parties such as bid bonds, performance bonds and advance payment bonds.

For additional information about the parent's guarantees and commitments issued on behalf of group companies, reference should be made note 41 of the notes to the separate financial statements.

48. Segment reporting by business segment

The financial highlights of the group's operating segments for 2016 and 2015 are show below:

millions of Euros

2016	Transport	Infrastructure	Real Estate Services	Other Services	Adjustments and intrasegment eliminations	Ferrovie dello Stato Italiane group
Revenue from third parties	6,668	1,425	532	21	22	8,668
Inter-segment revenue	269	1,202	170	245	(1,626)	260
Revenue	**6,937**	**2,627**	**702**	**266**	**(1,604)**	**8,928**
Personnel expense	(2,299)	(1,506)	(31)	(141)	26	(3,951)
Other costs, net	(3,141)	(770)	(248)	(117)	1,593	(2,683)
Operating costs	**(5,440)**	**(2,276)**	**(279)**	**(258)**	**1,619**	**(6,634)**
Gross operating profit	**1,497**	**351**	**423**	**8**	**15**	**2,294**
Amortisation and depreciation	(1,174)	(94)	(26)	(13)		(1,306)
Impairment losses and accruals	(43)	(49)	(5)	2		(95)
Operating profit (loss)	**280**	**208**	**392**	**(3)**	**15**	**893**
Net financial income (expense)	(85)	(35)	(3)	67	(39)	(95)
Income taxes	(31)	(1)	(17)	36	(13)	(26)
Segment profit (loss) (attributable to the owners of the parent and non-controlling interests)	**164**	**174**	**372**	**100**	**(38)**	**772**

millions of Euros

31.12.2016	Transport	Infrastructure	Real Estate Services	Other Services	Adjustments and intrasegment eliminations	Ferrovie dello Stato Italiane group
Net invested capital	**10,218**	**33,219**	**1,744**	**311**	**(235)**	**45,257**

millions of Euros

2015	Transport	Infrastructure	Real Estate Services	Other Services	Adjustments and intrasegment eliminations	Ferrovie dello Stato Italiane group
Revenue from third parties	6,673	1,377	226	40		8,316
Inter-segment revenue	268	1,150	174	234	(1,557)	269
Revenue	**6,941**	**2,527**	**400**	**274**	**(1,557)**	**8,585**
Personnel expense	(2,290)	(1,502)	(33)	(135)	26	(3,934)
Other costs, net	(3,106)	(754)	(262)	(85)	1,531	(2,676)
Operating costs	**(5,396)**	**(2,256)**	**(295)**	**(220)**	**1,557**	**(6,610)**
Gross operating profit	**1,546**	**271**	**105**	**54**		**1,975**
Amortisation and depreciation	(1,086)	(94)	(31)	(17)		(1,228)
Impairment losses and accruals	(43)	(26)	(25)	(9)		(103)
Operating profit	**417**	**151**	**49**	**28**		**644**
Net financial income (expense)	(169)	(37)	(4)	92	11	(107)
Income taxes	(22)	(3)	(34)	66	(81)	(73)
Segment profit (attributable to the owners of the parent and non-controlling interests)	**226**	**111**	**11**	**186**	**(70)**	**464**

millions of Euros

31.12.2015	Transport	Infrastructure	Real Estate Services	Other Services	Adjustments and intrasegment eliminations	Ferrovie dello Stato Italiane group
Net invested capital	**9,898**	**32,880**	**2,000**	**160**	**(243)**	**44,695**

Reference should be made to the Directors' report for information on the performance of the individual segments.

49. Events after the reporting date

Demerger of TrenitaliaS.p.A.'s cargo division

The deed for the partial demerger of Trenitalia S.p.A.'s Cargo Division to Mercitalia Rail S.r.l. was signed on 21 December 2016, effective from 1 January 2017.

The demerged division includes Trenitalia's equity investments in cargo and/or logistics transport companies and those transferred to Mercitalia Rail include TX Logistik AG; Trenitalia Logistics France SaS; La Spezia Shunting Railways S.p.A., Pol-Rail S.r.l., Alpe Adria S.p.A., Logistica SA, Eurogateway S.r.l., Interporto Centro Italia-Orte S.p.A., ICF Intercontainer Interfrigo (in liquidation), Interporto di Padova S.p.A., Interporto Toscano Americo Vespucci S.p.A., Interporto Bologna S.p.A., SIBEM S.p.A. (in liquidation) and Ralpin AG.

The transaction is part of FSI group's 2017-2026 business plan to relaunch the cargo and logistics transport business.

On 10 January 2017, the shareholders of Mercitalia Logistics S.p.A. approved a capital increase of €236.7 million in an extraordinary meeting, entirely subscribed and paid up by the sole shareholder Ferrovie dello Stato Italiane S.p.A. through its contribution of its investment in Mercitalia Rail S.r.l.. As a result of this non-recurring transaction, Mercitalia Logistics S.p.A.'s share capital amounts to €379,797,524.00, consisting of 759,595,048 ordinary shares with a nominal amount of €0.5.

Commencement of the new Turin-Lyon railway line

Law no. 1 was enacted on 5 January 2017 ratifying the agreement between the Italian and French governments for the commencement of the definitive works for the cross border section of the new Turin-Lyon railway line. Specifically, the law authorised ratification of the last three deeds necessary to commence the works: the 2015 agreement for the commencement of the works for the cross border section of the new Turin-Lyon line; the additional Protocol of 2016, which updated the cost of the works agreed in January 2012; and Regulation of the contracts, which extended the Italian anti-mafia rules to the awarding and performance of tenders for the Turin-Lyon line, regulated by French laws under the 2012 agreement.

Trenitalia Campania region: new service contract signed

On 17 January 2017, the new service contract between Trenitalia S.p.A. and Campania region was signed in Naples and is effective until 2023. The agreement is worth more than an annual €159 million and provides for a 5% increase in production against payment of the consideration, an increase in the commercial offer, an improvement in the fleet, revamping of the HC trains (to undergo significant reconditioning), greater comfort and security: new led lighting, live video surveillance, infotainment and a people counter.

FS Italiane acquires Trainose, the leading Greek railway transport company

On 18 January 2017, in Athens, FS Italiane signed the agreement for acquisition of Trainose, the Greek railway transport company. The Greek company is the leading local railway operator of cargo and passenger transport services at suburban, regional, national and international level, including logistics services. The acquisition is subject to the positive outcome or dismissal of the ongoing proceeding about the alleged state aid to Trainose commenced by the EU against the Greek government.

New intercity service contract signed by the MIT, MEF and Trenitalia S.p.A.

On 19 January 2017, the MIT and the MEF signed the new ten-year universal, day and night intercity railway service contract with Trenitalia S.p.A..

The agreement's ten-year term is unprecedented and will allow the complete relaunch of the intercity trains, including through the planning of large investments in technology, revamping of the trains and the ongoing alignment of offer with effective demand.

Trenitalia S.p.A. and Hitachi Rail present "Rock", the new regional train

On 20 January 2017, production of the new Rock trains commenced. Hitachi Rail Italy is building this new double decker regional train for Trenitalia S.p.A..

The framework agreement between Hitachi Rail Italy and Trenitalia provides for the possible delivery of up to 300 trains for approximately €2.6 billion. This new next generation train goes beyond the current double decker trains in use in Italy, thanks to the technological innovation of its parts and the optimisation and assembly of the traction components on the upper part of the chassis, making the interior fully accessible to passengers, who will benefit from maximum comfort enhanced by the eco-leather ergonomic seats.

ART resolution no. 11

On 25 January 2017, the ART adopted the regulation setting out the procedures for performance of its inspections with resolution no. 11.

FS Italiane regains 100% control of Centostazioni

On 30 January 2017, FS Italiane S.p.A. regained full control of Centostazioni.

The procedure to repurchase 40% of the shares held by Archimede 1 (Save Group) was concluded in Milan with the transfer of the shares to FS Italiane S.p.A..

The acquisition was authorised by the Italian Antitrust Authority (AGCM) and cost the parent €65.5 million.

Its objective in regaining 100% of Centostazioni S.p.A. was to achieve unified management of the stations which, under the full control of FS Italiane group, will become intermodal hubs, providing useful related and new services as well as temporary offices for start-up incubators.

FS Italiane group signs an agreement with the Indian Railways

On 2 February 2017, the CEO and general manager of FS Italiane signed the Memorandum of Understanding (MoU) in the presence of the Indian Railways Minister and the chairperson of Indian Railways in New Delhi. Their intention is to increase the safety of the Indian trains by revising the management and control procedures of the infrastructure and transport systems, certification of the technologies based on SIL4 (Safety Integrity Level 4) system and training about safety issues to personnel.

Another MoU was signed in the presence of Italferr S.p.A.'s CEO (the FS engineering company) and the chairperson of Rites, the Indian government company active in the engineering sector, for the two companies' cooperation on the Indian and Asian markets.

ART resolution no. 18

On 10 February 2017, the ART approved the regulation measure with resolution no. 18 designed to ensure the cost effectiveness and operating efficiency of the railway shunting services. These measures are applicable to the 13 railway districts specified in the resolution.

Trenitalia S.p.A. completes the acquisition of C2C in the UK

On 10 February 2017, Trenitalia S.p.A. completed its acquisition of NXET, which manages the c2c (City to Coast) franchise, in London. NXET operates between London and Shoeburyness on the east coast of South Essex.

The acquisition was achieved through the English subsidiary Trenitalia UK and cost GBP72.6 million. It was formalised by the Department of Transport and the c2c franchise will be continued until November 2029.

The transaction is another milestone in the group's internationalisation plan, a fundamental cornerstone of its 2017-2026 business plan.

On the same day as the closing, FS Italiane S.p.A. also gave the following financing and guarantees, in turn counter guaranteed by Trenitalia S.p.A.:

- intragroup loan of GBP60 million (roughly €70.6 million) provided directly by FS Italiane S.p.A. to Trenitalia UK to finance part of the acquisition, together with a guarantee given by Trenitalia S.p.A. on FS S.p.A.'s behalf;
- in order to comply with the financial requirements imposed by the Department for Transport in the Funding Deed signed by FS S.p.A., the Department and NXET, FS S.p.A. also provided the operating company NXET with a subordinated credit facility of GBP140 million (of which GBP35 million made available on the closing) and bank guarantees (with hold harmless letters from FS S.p.A.) and direct guarantees of approximately GBP82 million, which will also be counter-guaranteed by Trenitalia S.p.A..

The intragroup lending transactions in pounds sterling have been hedged against currency risk by cross currency swaps and FX swaps.

Issue of Law no. 19, extension and definition of terms

Law no. 19 was issued on 17 February 2017, converting Decree law no. 244/2016 on the extension and definition of terms.

The law provides for, inter alia:

- a one-year extension (to 7 October 2017) of the deadline to comply with fire prevention regulations;
- the deferral to 1 January 2018 of the effectiveness of the reform of the rate component structure of the electricity system charges applied to non-domestic customers;
- extension of the 2012-2014 Government Programme Contract - Services for RFI S.p.A. until approval of the new 2016-2021 contract and, moreover, until and no later than 30 September 2017;
- extension of the effects of the contract agreed with Selex Se-Ma in liquidation to the waste tracking system, SISTRI, until the new operator takes it over until no later than 31 December 2017 and, as a result, confirmation of the validity of the necessary requirements for the traceability of waste.

Provisional award of the Parma LPT service to BusItalia and Autoguidovie

In March 2017, Busitalia, the road transport company, was awarded the LPT service concession for the Parma Province in a consortium with Autogiudovie.

Trenitalia S.p.A. and First shortlisted for the East Midlands tender

On 1 March 2017, First Trenitalia East Midlands Rail Limited, the joint venture between First Group and Trenitalia UK, was shortlisted by the Department for Transport for the tender to operate the railway franchise in the East Midlands.

Operation of the East Midlands franchise will start in 2018 and will lead to significant improvements to the infrastructure. The main sections are London - Derby - Sheffield, London - Nottingham, London - Corby, Liverpool - Sheffield - Nottingham - Norwich, in addition to regional services.

The West Coast franchise includes the current intercity services between London, Manchester, Chester, Liverpool, Preston, Edinburgh and Glasgow and the new operator will commence in 2019. The franchise includes the development and introduction of HS services (High Speed 2 from London to Birmingham) in 2026.

Italcertifer: three contracts for railway safety tests in India

On 6 March 2017, Italcertifer, the FS group certification company, signed three contracts in India worth €1.7 million, winning international tenders for the testing of the railway system's safety.

The first contract covers the safety of the signalling systems and train direction controls of the eastern cargo corridor (Delhi-Kolkata) from Bhaupur to Khurja. The second relates to the eastern corridor (Delhi-Mumbai) from Rewari to Makurpura, over 1,258 km of double track electrified lines.

The third awarded contract comprises the checks of the project and audit of the first section of the Navi Mumbai metro line 1 from Belapur to Pendhar (roughly 11 km).

ART resolutions no. 70-76/2014 and no. 96/2015: appeals before the Piedmont regional administrative court

With respect to that described in detail in the section on litigation and disputes in the Directors' report about the Piedmont regional administrative court hearing of 15 March 2017, should just ART resolution no. 70/2014 be cancelled for the period covered by such resolution (from 6 November 2014 to 31 December 2015), the previous regulatory framework would be revived leading to application of a toll fee as per the MIT's decree no. 330 of 10 September 2013.

Senior management of Italferr meets the Iraqi Transport Minister to discuss the development of railway infrastructure

On 16 March 2017, the CEO and chairman of Italferr met the Iraqi Transport Minister, accompanied by the Iraqi ambassador to Italy and a large delegation, in Rome. Italferr was invited to present a bid as a potential strategic partner for the construction of infrastructure projects in Iraq.

Incorporation of Busitalia Simet S.p.A.

On 23 March 2017, thanks to the execution of a contribution deed with Simet S.p.A., Busitalia Simet S.p.A.'s start-up phase was concluded.

The company was incorporated on 22 February 2017 to acquire title to private and public road transport services of people and goods, on behalf of and in the interests of private sector companies, using own or third party means of transport. Until then, the grantor had performed these services.

The contribution deed is effective from 1 April 2017 to all effects (legal, accounting and tax).

Naples - Bari HS/HC line: Cancello - Frasso Telesino lot awarded

On 24 March 2017, the tender for the executive design and work to lay double tracks on the Cancello - Frasso Telesino line and upgrade it for high speed service was awarded by Italferr, the group's engineering company, on behalf of RFI S.p.A., as part of the new HS/HC Naples - Bari line, to the consortium including Pizzarotti (lead contractor), Itinere and Ghella. The contract is worth €312 million.

This award took place just a few days after that for the Naples - Cancello variation, while the Cervaro - Bovino section will be activated in a couple of months to complete the Puglia side of the line. This confirms RFI's commitment to complete the works in line with the schedule established by the “Get Italy moving” law. Work on the two new lots will commence in 2022.

Upon completion of all the work, HS connections between Naples and Bari will be ensured and travel between the main cities in Campania and Puglia will also be easier, thus achieving the “rail therapy” in southern Italy promoted by the MIT.

The new Naples - Bari HS/HC line will be included in the TEN-T Scandinavia - Mediterranean railway corridor, linking North Europe with Germany and South Italy through the Brenner base tunnel under construction for a total estimated cost of roughly €6.2 billion.

Annexes

Scope of consolidation and the group's equity investments

1. PARENT AND LIST OF SUBSIDIARIES

Parent

Name	Registered office	Main office	Share capital	Investor	% of voting rights	% of equity ratio	Consolidation method
Ferrovie dello Stato Italiane S.p.A.	Rome	Italy	36,340,432,802				

Operating segment: Transport

Name	Registered office	Main office	Share/quota capital	Investor	% of voting rights	% of equity ratio	Consolidation method
In Italy							
Ataf Gestioni S.r.l.	Florence	Italy	5,927,480	Busitalia - Sita Nord S.r.l. Non-controlling interests	70.00 30.00	70.00	Line-by-line
Bluferries S.r.l.	Messina	Italy	20,100,000	Rete Ferroviaria Italiana - RFI S.p.A.	100.00	100.00	Line-by-line
Busitalia - Sita Nord S.r.l.	Rome	Italy	73,000,000	FS Italiane S.p.A.	100.00	100.00	Line-by-line
Busitalia Rail Service S.r.l.	Rome	Italy	3,497,788	Busitalia - Sita Nord S.r.l.	100.00	100.00	Line-by-line
Busitalia Veneto S.p.A.	Padua	Italy	5,500,000	Busitalia - Sita Nord S.r.l. ASP Holding S.p.A.	55.00 45.00	55.00	Line-by-line
Cemat S.p.A.	Milan	Italy	7,000,000	FS Logistica S.p.A. Non-controlling interests	53.28 46.72	53.28	Line-by-line
Firenze City Sightseeing S.r.l.	Florence	Italy	200,000	Ataf Gestioni S.r.l. Non-controlling interests	60.00 40.00	42.00	Line-by-line
Ferrovie del Sud Est e Servizi Automobilistici S.r.l.	Bari	Italy	10,012,750	FS Italiane S.p.A.	100.00	100.00	Line-by-line
Mercitalia Logistics S.p.A. (formerly FS Logistica S.p.A)	Rome	Italy	143,095,524	FS Italiane S.p.A.	100.00	100.00	Line-by-line
Mercitalia Transport & Services S.r.l. (formerly FS JIT Italia S.r.l)	Rome	Italy	500,000	FS Logistica S.p.A.	100.00	100.00	Line-by-line
I-Mago S.p.A.	Florence	Italy	408,000	Ataf Gestioni S.r.l. Non-controlling interests	58.00 42.00	40.60	Line-by-line
Mercitalia Rail S.r.l. (formerly FS Telco S.r.l)	Rome	Italy	20,000	FS Italiane S.p.A.	100.00	100.00	Line-by-line
Savit S.r.l.	Terni	Italy	1,000,000	Busitalia - Sita Nord S.r.l. Non-controlling interests	72.25 27.75	72.25	Line-by-line
Rail services - Serfer S.r.l.	Genoa	Italy	5,000,000	Trenitalia S.p.A.	100.00	100.00	Line-by-line
Mercitalia Terminal S.p.A. (formerly Società Gestione Terminali Ferro Stradali-SGT)	Pomezia-Rome	Italy	200,000	FS Logistica S.p.A. Cemat S.p.A. Non-controlling interests	43.75 43.75 12.5	67.06	Line-by-line
Terminali Italia S.r.l.	Rome	Italy	7,345,686	Rete Ferroviaria Italiana - RFI S.p.A. Cemat S.p.A.	89.00 11.00	94.86	Line-by-line
Trenitalia S.p.A.	Rome	Italy	1,654,464,000	FS Italiane S.p.A.	100.00	100.00	Line-by-line

Name	Registered office	Main office	Share/quota capital	Investor	% of voting rights	% of equity ratio	Consolidation method
Abroad							
Autobus Sippel GmbH	Hofheim am Taunus (Germany)	Germany	50,000	Netinera Deutschland GmbH	100.00	51.00	Line-by-line
Erixx GmbH	Celle (Germany)	Germany	25,000	Osthannoversche Eisenbahnen Aktiengesellschaft	100.00	44.63	Line-by-line
Kraftverkehr Osthannover GmbH	Celle (Germany)	Germany	256,000	Osthannoversche Eisenbahnen Aktiengesellschaft	100.00	44.63	Line-by-line
Metronom Eisenbahngesellschaft mbH	Uelzen (Germany)	Germany	500,000	NiedersachsenBahn GmbH & Co. KG	69.90	37.18	Line-by-line
Neißeverkehr GmbH	Guben (Germany)	Germany	1,074,000	Prignitzer Eisenbahngesellschaft mbH	80.00	40.80	Line-by-line
Netinera Bachstein GmbH	Celle (Germany)	Germany	150,000	Netinera Deutschland GmbH	95.34	51.00	Line-by-line
Netinera Deutschland GmbH	Berlin (Germany)	Germany	1,025,000	FS Italiane S.p.A. Non-controlling interests	51.00 49.00	51.00	Line-by-line
Netinera Immobilien GmbH	Berlin (Germany)	Germany	240,000	Netinera Deutschland GmbH	100.00	51.00	Line-by-line
Netinera Werke GmbH	Neustrelitz (Germany)	Germany	25,000	Prignitzer Eisenbahngesellschaft mbH	100.00	51.00	Line-by-line
NiedersachsenBahn GmbH & Co. KG	Celle (Germany)	Germany	100,000	Osthannoversche Eisenbahnen Aktiengesellschaft	60.00	44.63	Line-by-line
NiedersachsenBahn Verwaltungsgesellschaft mbH	Celle (Germany)	Germany	25,000	Osthannoversche Eisenbahnen Aktiengesellschaft	60.00	26.78	Line-by-line
OHE Cargo GmbH	Celle (Germany)	Germany	26,000	Osthannoversche Eisenbahnen Aktiengesellschaft	100.00	44.63	Line-by-line
Osthannoversche Eisenbahnen Aktiengesellschaft	Celle (Germany)	Germany	21,034,037	Netinera Bachstein GmbH	87.51	44.63	Line-by-line
Prignitzer Eisenbahngesellschaft mbH	Berlin (Germany)	Germany	200,000	Netinera Deutschland GmbH	100.00	51.00	Line-by-line
Regentalbahn AG	Viechtach (Germany)	Germany	2,444,152	Netinera Deutschland GmbH	100.00	51.00	Line-by-line
Sei Mobil Verkehrsgesellschaft mbH (formerly Lausitzer Nahverkehrsgesellschaft mbH)	Senftenberg (Germany)	Germany	26,000	Verkehrsbetriebe Bils GmbH	100.00	51.00	Line-by-line
Sippel-Travel GmbH	Frankfurt am Main (Germany)	Germany	127,950	Autobus Sippel GmbH	100.00	51.00	Line-by-line
Südbrandenburger Nahverkehrs GmbH	Senftenberg (Germany)	Germany	1,022,584	Netinera Deutschland GmbH	100.00	51.00	Line-by-line
Thello SAS	Paris (France)	France	1,500,000	Trenitalia S.p.A.	100.00	100.00	Line-by-line
Trenitalia Logistics France Sas	Paris (France)	France	43,420	Trenitalia S.p.A.	100.00	100.00	Line-by-line
TX Logistik AG	Troisdorf (Germany)	Germany	286,070	Trenitalia S.p.A.	100.00	100.00	Line-by-line
TX Consulting GmbH	Troisdorf (Germany)	Germany	25,000	TX Logistik AG	100.00	100.00	Line-by-line
TX Logistik Austria GmbH	Schwechat (Austria)	Germany	35,000	TX Logistik AG	100.00	100.00	Line-by-line
TX Logistik A/S	Padborg (Denmark)	Germany	500,000 (1)	TX Logistik AG	100.00	100.00	Line-by-line
TX Logistik AB	Helsingborg (Sweden)	Germany	400,000 (1)	TX Logistik AG	100.00	100.00	Line-by-line
TX Logistik GmbH	Basel (Switzerland)	Germany	50,000 (1)	TX Logistik AG	100.00	100.00	Line-by-line
TX Service Management GmbH	Troisdorf (Germany)	Germany	50,000	TX Logistik AG	100.00	100.00	Line-by-line
Uelzener Hafenbetriebs- und Umschlaggesellschaft mbH	Uelzen (Germany)	Germany	102,258	Osthannoversche Eisenbahnen Aktiengesellschaft	74.00	33.02	Line-by-line
UNIKAI Hafenbetrieb Lüneburg GmbH	Lüneburg (Germany)	Germany	25,600	Osthannoversche Eisenbahnen Aktiengesellschaft	100.00	44.63	Line-by-line
Verkehrsbetriebe Bils GmbH	Sendenhorst (Germany)	Germany	25,000	Netinera Deutschland GmbH	100.00	51.00	Line-by-line
Vlexx GmbH	Mainz (Germany)	Germany	25,000	Regentalbahn AG	100.00	51.00	Line-by-line
Die Länderbahn GmbH DLB (formerly Vogtlandbahn-GmbH)	Viechtach (Germany)	Germany	1,022,584	Regentalbahn AG	100.00	51.00	Line-by-line

(1) Figures expressed in local currency

Operating segment: Infrastructure

Name	Registered office	Main office	Share capital	Investor	% of voting rights	% of equity ratio	Consolidation method
In Italy							
Rete Ferroviaria Italiana - RFI S.p.A.	Rome	Italy	31,525,279,633	FS Italiane S.p.A.	100.00	100.00	Line-by-line
Italferr S.p.A.	Rome	Italy	14,186,000	FS Italiane S.p.A.	100.00	100.00	Line-by-line
Tunnel Ferroviario del Brennero S.p.A.	Rome	Italy - Austria	498,790,910	Rete Ferroviaria Italiana - RFI S.p.A. Non-controlling interests	87.16 12.84	87.16	Line-by-line

Name	Registered office	Main office	Share capital	Investor	% of voting rights	% of equity ratio	Consolidation method
Abroad							
Infrastructure Engineering Services doo Beograd	Belgrade (Serbia)	Serbia	39,626,684 (1)	Italferr S.p.A.	100.00	100.00	Line-by-line

(1) Figures expressed in local currency

Operating segment: Real estate services

Name	Registered office	Main office	Share/quota capital	Investor	% of voting rights	% of equity ratio	Consolidation method
In Italy							
Centostazioni S.p.A.	Rome	Italy	8,333,335	FS Italiane S.p.A. Non-controlling interests	59.99 40.01	59.99	Line-by-line
FS Sistemi Urbani S.r.l.	Rome	Italy	532,783,501	FS Italiane S.p.A.	100.00	100.00	Line-by-line
Grandi Stazioni Rail S.p.A.	Rome	Italy	4,304,201	FS Italiane S.p.A.	100.00	100.00	Line-by-line
Grandi Stazioni Immobiliare S.p.A.	Rome	Italy	4,000,000	FS Italiane S.p.A. Eurostazioni S.p.A.	60.00 40.00	60.00	Line-by-line
Metropark S.p.A.	Rome	Italy	3,016,463	FS Sistemi Urbani S.r.l.	100.00	100.00	Line-by-line

Operating segment: Other services

Name	Registered office	Main office	Share capital	Investor	% of voting rights	% of equity ratio	Consolidation method
In Italy							
Fercredit - Servizi Finanziari S.p.A.	Rome	Italy	32,500,000	FS Italiane S.p.A.	100.00	100.00	Line-by-line
Ferservizi S.p.A.	Rome	Italy	8,170,000	FS Italiane S.p.A.	100.00	100.00	Line-by-line
Italcertifer S.p.A.	Florence	Italy	480,000	FS Italiane S.p.A.	55.66	55.66	Line-by-line

2. LIST OF JOINT VENTURES

Operating segment: Transport

Name	Registered office	Main office	Quota capital	Investor	% of voting rights	% of equity ratio	Consolidation method
In Italy							
Terminal Alptransit S.r.l.	Milan	Italy	2,100,000	FS Logistica S.p.A. Non-controlling interests	50.00 50.00	50.00	*Equity*
Trenord S.r.l.	Milan	Italy	76,120,000	Trenitalia S.p.A. Non-controlling interests	50.00 50.00	50.00	*Equity*

Name	Registered office	Main office	Share capital	Investor	% of voting rights	% of equity ratio	Consolidation method
Abroad							
Cisalpino SA	Berne (Switzerland)	Switzerland	100,750 (1)	Trenitalia S.p.A. Non-controlling interests	50.00 50.00	50.00	*Equity*
Berchtesgardener Land Bahn GmbH	Freilassing (Germany)	Germany	25,000	Die Länderbahn GmbH DLB	50.00 50.00	25.50	*Equity*
Kraftverkehr - GMBH - KVG Lüneburg	Lüneburg (Germany)	Germany	25,565	KVG Stade GmbH & Co. KG	100.00	13.75	*Equity*
Kraftverkehr Celle Stadt und Land GmbH	Celle (Germany)	Germany	1,099,278	Verkehrsbetriebe Osthannover GmbH Non-controlling interests	61.00 39.00	13.98	*Equity*
KVG Stade GmbH & Co. KG	Stade (Germany)	Germany	4,600,000	Verkehrsbetriebe Osthannover GmbH Non-controlling interests	60.00 40.00	13.75	*Equity*
KVG Stade Verwaltungs GmbH	Stade (Germany)	Germany	25,000	Verkehrsbetriebe Osthannover GmbH Non-controlling interests	60.00 40.00	13.75	*Equity*
ODEG Ostdeutsche Eisenbahngesellschaft mbH	Parchim (Germany)	Germany	500,000	Prignitzer Eisenbahngesellschaft mbH Non-controlling interests	50.00 50.00	25.50	*Equity*
ODIG Ostdeutsche Instandhaltungsgesellschaft mbH	Eberswalde (Germany)	Germany	250,000	ODEG Ostdeutsche Eisenbahngesellschaft mbH	100.00	25.50	*Equity*
Verkehrsbetriebe Osthannover GmbH	Celle (Germany)	Germany	590,542	Osthannoversche Eisenbahnen AG	100.00	22.92	*Equity*

(1) Figures expressed in local currency

Operating segment: Infrastructure

Name	Registered office	Main office	Share/quota capital	Investor	% of voting rights	% of equity ratio	Consolidation method
Abroad							
Italferr+Altinok partnership	Istanbul	Turkey	1,000 (1)	Italferr S.p.A. Altinok Müşavir Mühendislik Taahüt San. Ve Tic. Ltd. Şti.	50.10 49.90	50.10	*Equity*
Tunnel Euralpin Lyon Turin - TELT SaS (formerly Lyon-Turin Ferroviarie - LTF Sas)	Le Bourget du Lac (France)	Italy - France	1,000,000	FS Italiane S.p.A. Non-controlling interests	50.00 50.00	50.00	*Equity*

(1) Figures expressed in local currency

3. LIST OF ASSOCIATES

Operating segment: Transport

Name	Registered office	Main office	Share/quota capital	Investor	% of voting rights	% of equity ratio	Consolidation method
In Italy							
Alpe Adria S.p.A.	Trieste	Italy	120,000	Trenitalia S.p.A. Non-controlling interests	33.33 66.67	33.33	*Equity*
City Boat S.r.l.	Florence	Italy	1,300,000	Busitalia - Sita Nord S.r.l. Non-controlling interests	25.00 75.00	25.00	*Equity*
Eurogateway S.r.l.	Novara	Italy	99,000	Cemat S.p.A. Trenitalia S.p.A. Non-controlling interests	37.00 11.00 52.00	30.71	*Equity*
FNM S.p.A. (formerly Ferrovie Nord Milano S.p.A.)	Milan	Italy	230,000,000	FS Italiane S.p.A. Non-controlling interests	14.74 85.26	14.74	*Equity*
La Spezia Shunting Railways S.p.A.	La Spezia	Italy	1,000,000	Serfer S.r.l. Trenitalia S.p.A. Non-controlling interests	15.50 4.50 80.00	20.00	*Equity*
Li-Nea S.p.A.	Scandicci (Florence)	Italy	2,340,000	Ataf Gestioni S.r.l. Non-controlling interests	34.00 66.00	23.80	*Equity*
Pol Rail S.r.l.	Rome	Italy	2,000,000	Trenitalia S.p.A. Non-controlling interests	50.00 50.00	50.00	*Equity*
Quadrante Europa Terminal Gate S.p.A.	Verona	Italy	16,876,000	Rete Ferroviaria Italiana - RFI S.p.A. Non-controlling interests	50.00 50.00	50.00	*Equity*
Terminal Tremestieri S.r.l.	Messina	Italy	900,000	Bluferries S.r.l. Non-controlling interests	33.33 66.67	33.33	*Equity*

Name	Registered office	Main office	Share/quota capital	Investor	% of voting rights	% of equity ratio	Consolidation method
Abroad							
Cesar Information Services - CIS Scrl	Brussels (Belgium)	Belgium	100,000	Cemat S.p.A. Non-controlling interests	25.10 74.90	13.37	*Equity*
CeBus GmbH & Co. KG	Celle (Germany)	Germany	25,000	Kraftverkehr Celle Stadt und Land GmbH Celler Straßenbahngesellschaft mbH Non-controlling interests	34.50 1 64.50	4.82	*Equity*
CeBus Verwaltungsgesellschaft mbH	Celle (Germany)	Germany	25,000	Kraftverkehr Celle Stadt und Land GmbH Celler Straßenbahngesellschaft mbH Non-controlling interests	34.40 1 64.60	4.81	*Equity*
Celler Straßenbahngesellschaft mbH	Celle (Germany)	Germany	571,450	Kraftverkehr Celle Stadt und Land GmbH Non-controlling interests	34.70 65.30	4.85	*Equity*
EVG Euregio - Verkehrsgesellschaft mbH & Co. KG	Münster (Germany)	Germany	60,000	Verkehrsbetriebe Bils GmbH Non-controlling interests	33.33 66.66	17.00	*Equity*
EVG Euregio Verwaltungs- und Beteiligungs GmbH	Münster (Germany)	Germany	25,500	Verkehrsbetriebe Bils GmbH Non-controlling interests	33.33 66.66	17.00	*Equity*
GVB Gifhorner Verkehrsbetriebe GmbH	Gifhorn (Germany)	Germany	25,000	Verkehrsgesellschaft Landkreis Gifhorn mbH	100.00	5.78	*Equity*
Hafen Lüneburg GmbH	Lüneburg (Germany)	Germany	1,750,000	Osthannoversche Eisenbahnen AG UNIKAI Hafenbetrieb Lüneburg GmbH - Non-controlling interests	0.70 29.30 70.00	13.39	*Equity*
KVB Kraftverkehrsbetriebe GmbH	Isenbüttel (Germany)	Germany	50,000	Verkehrsgesellschaft Landkreis Gifhorn mbH	100.00	5.78	*Equity*
Logistica SA	Levallois (France)	France	37,000	Trenitalia S.p.A. Non-controlling interests	50.00 50.00	50.00	*Equity*
Osthannoversche Umschlagsgesellschaft mbH	Wittingen (Germany)	Germany	153,600	Osthannoversche Eisenbahnen AG Non-controlling interests	33.33 66.66	14.88	*Equity*

Verkehrsgesellschaft Landkreis Gifhorn mbH	Gifhorn (Germany)	Germany	25,565	Verkehrsbetriebe Osthannover GmbH Non-controlling interests	25.20 74.80	5.78	*Equity*

Operating segment: Infrastructure

Name	Registered office	Main office	Share capital	Investor	% of voting rights	% of equity ratio	Consolidation method
In Italy							
Brenner base tunnel – Brenner Basistunnel BBT SE	Bolzano	Italy - Austria	10,240,000	Tunnel Ferroviario del Brennero S.p.A. Non-controlling interests	50.00 50.00	43.58	*Equity*

Operating segment: Other services

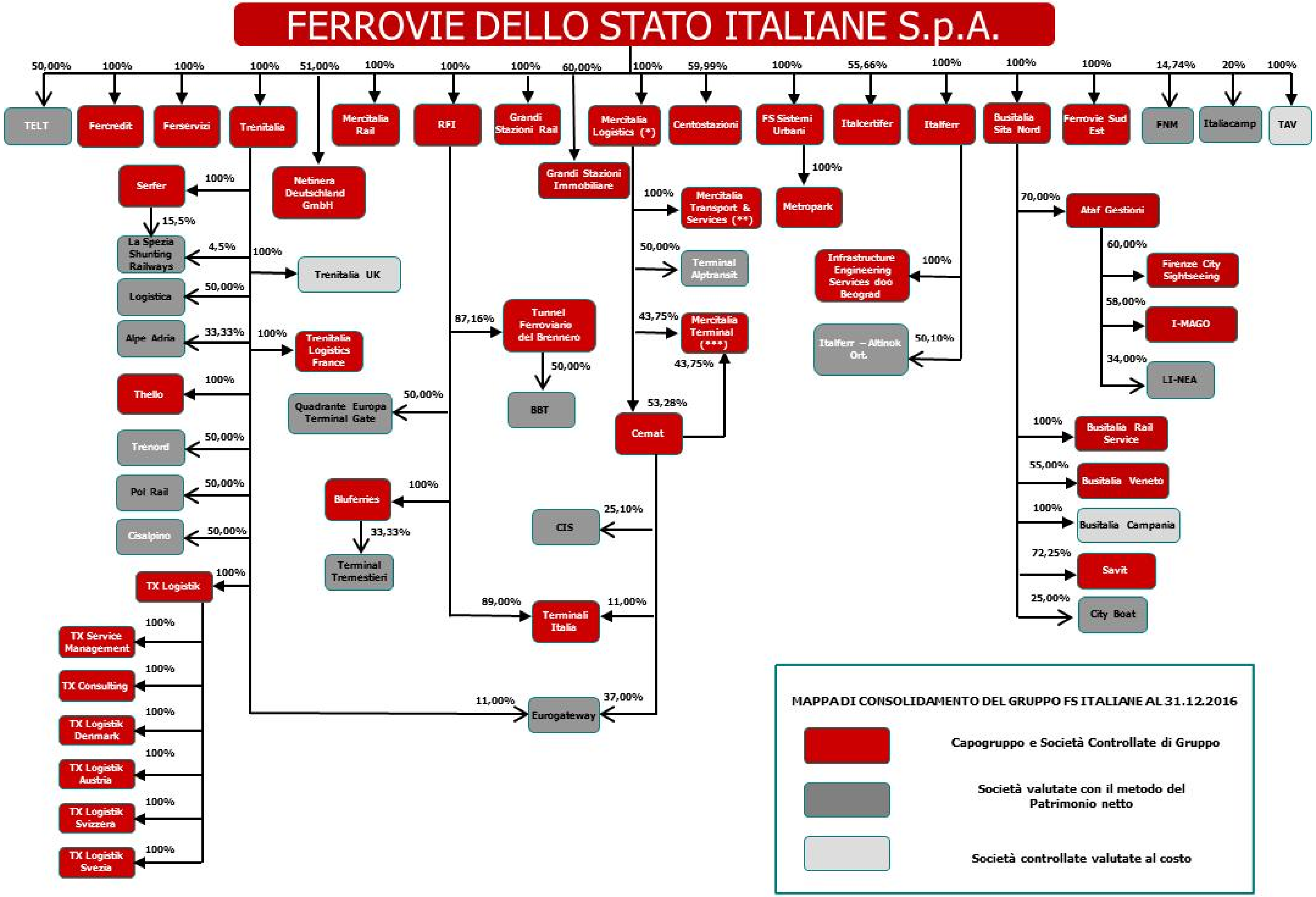
Name	Registered office	Main office	Quota capital	Investor	% of voting rights	% of equity ratio	Consolidation method
In Italy							
Italiacamp S.r.l.	Rome	Italy	114,500	FS Italiane S.p.A. Non-controlling interests	20.00 80.00	20.00	*Equity*

4. LIST OF OTHER UNCONSOLIDATED EQUITY INVESTMENTS

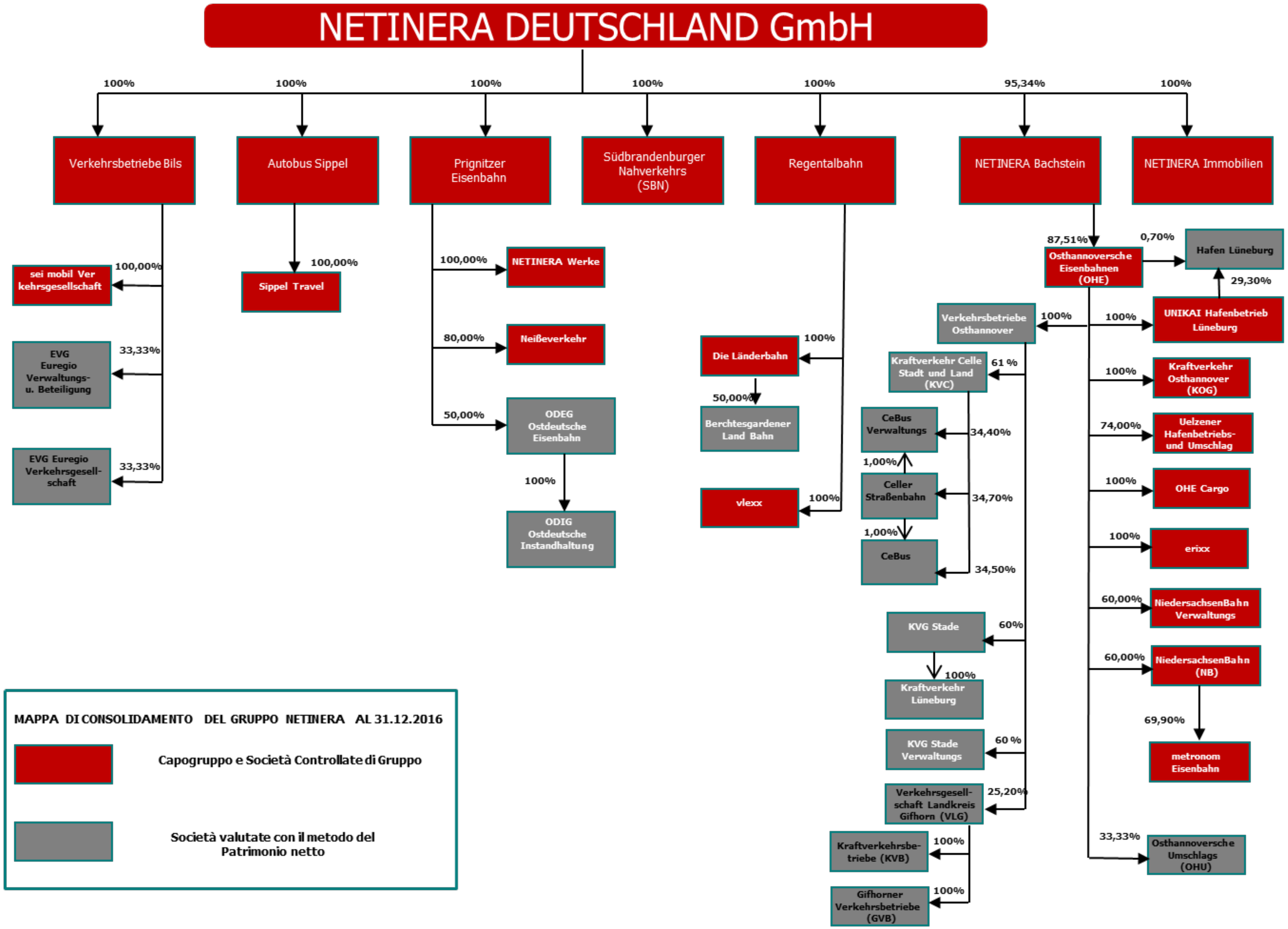
Name	Registered office	Share/quota capital	Investor	% of voting rights
Busitalia Campania S.p.A.	Salerno	5,900,000	Busitalia - Sita Nord S.r.l.	100.00
TAV S.r.l.	Rome	50,000	FS Italiane S.p.A.	100.00
Nord Est Terminal - NET S.p.A. in liquidation	Padua	200,000	RFI S.p.A.	51.00
Servizi Ferroviari Portuali – Ferport Genova S.r.l. in liquidation	Genoa	712,000	Serfer S.r.l.	51.00
Sita S.p.A. in liquidation	Rome	200,000	FS Italiane S.p.A.	55.00
Trenitalia UK	London	100 (1)	Trenitalia S.p.A.	100.00

(1) Figures expressed in local currency

5. CONSOLIDATION MAP OF FERROVIE DELLO STATO ITALIANE GROUP



(*) già FS Logistica
(**) già FS JIT ITALIA
(***) già S.G.T. – Società Gestione Terminali


NETINERA DEUTSCHLAND GmbH
100%
100%
100%
100%
100%
95,34%
100%
Verkehrsbetriebe Bils
Autobus Sippel
Prignitzer Eisenbahn
Südbrandenburger Nahverkehrs (SBN)
Regentalbahn
NETINERA Bachstein
NETINERA Immobilien
100,00%
sei mobil Verkehrsgesellschaft
33,33%
EVG Euregio Verwaltungs- u. Beteiligung
33,33%
EVG Euregio Verkehrsgesellschaft
100,00%
Sippel Travel
100,00%
NETINERA Werke
80,00%
Neißeverkehr
50,00%
ODEG Ostdeutsche Eisenbahn
100%
ODIG Ostdeutsche Instandhaltung
100%
Die Länderbahn
50,00%
Berchtesgardener Land Bahn
100%
vlexx
87,51%
Ostahnnoversche Eisenbahnen (OHE)
0,70%
Hafen Lüneburg
29,30%
UNIKAI Hafenbetrieb Lüneburg
100%
Verkehrsbetriebe Osthannover
100%
Kraftverkehr Celle Stadt und Land (KVC)
61 %
CeBus Verwaltungs
34,40%
1,00%
Celler Straßenbahn
34,70%
1,00%
CeBus
34,50%
KVG Stade
60%
100%
Kraftverkehr Lüneburg
KVG Stade Verwaltungs
60 %
Verkehrsgesellschaft Landkreis Gifhorn (VLG)
25,20%
Kraftverkehrsbetriebe (KVB)
100%
Gifhorner Verkehrsbetriebe (GVB)
100%
100%
Kraftverkehr Osthannover (KOG)
74,00%
Uelzener Hafenbetriebs- und Umschlag
100%
OHE Cargo
100%
erixx
60,00%
NiedersachsenBahn Verwaltungs
60,00%
NiedersachsenBahn (NB)
69,90%
metronom Eisenbahn
33,33%
Osthannoversche Umschlags (OHU)
MAPPA DI CONSOLIDAMENTO DEL GRUPPO NETINERA AL 31.12.2016
Capogruppo e Società Controllate di Gruppo
Società valutate con il metodo del Patrimonio netto

Certification of the Chief Executive Officer and the Manager in charge of the company's accounting documents preparation of the consolidated financial statements of Ferrovie dello Stato Italiane Group at 31 December 2016 pursuant to article 154-bis, paragraph 5, of Legislative decree no. 58/1998

1. The undersigned Renato Mazzoncini and Roberto Mannozzi, as respectively Chief Executive Officer and Manager in charge of the company's accounting documents preparation of Ferrovie dello Stato Italiane SpA, also pursuant to article 154-bis, paragraphs 3 and 4 of Legislative decree no. 58 of 24 February 1998, certify:

   - the adequacy with regard to the characteristics of Ferrovie dello Stato Italiane Group and
   - the effective application

   of the administrative and accounting procedures in preparing the consolidated financial statements at 31 December 2016.

2. In this regard, we report that:

   a. the valuation of the adequacy and effective application of the administrative and accounting procedures used to prepare the consolidated financial statements of the Ferrovie dello Stato Italiane Group was based on the internal control model, consistent with the *"Internal Controls – Integrated Framework"* issued by the *"Committee of Sponsoring Organizations of the Treadway Commission"* which represents an internationally-accepted framework for the internal control system;

   b. this assessment did not identify any significant issues.

3. In addition, we certify that:

   3.1. the consolidated financial statements:

   a. have been prepared in accordance with International Financial Reporting Standards endorsed by the European Community pursuant to regulation (CE) 1606/2002 of European Parliament and Council of 19 July 2002;

   b. correspond to the entries in the books and accounting records;

   c. give a true and fair view of the financial position and results of operations of Ferrovie dello Stato Italiane SpA and the companies included in the Ferrovie dello Stato Italiane Group's consolidation scope.

   3.2. the directors' report provides a reliable analysis of the financial position, performance and results of operations of Ferrovie dello Stato Italiane SpA and the consolidated companies as a whole, together with a description of the main risks and uncertainties to which they are exposed.

21 April 2017

Renato Mazzoncini
Chief Executive Officer

Roberto Mannozzi
Manager in charge of the company's accounting documents preparation

KPMG S.p.A.
Revisione e organizzazione contabile
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Telefono +39 06 80961.1
Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to articles 14 and 16 of Legislative decree no. 39 of 27 January 2010

To the sole shareholder of
Ferrovie dello Stato Italiane S.p.A.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of the Ferrovie dello Stato Italiane Group (the "group"), which comprise the statement of financial position as at 31 December 2016, the income statement, the statements of comprehensive income, cash flows and changes in equity for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The parent's directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union.

Independent auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing (ISA Italia) promulgated pursuant to article 11 of Legislative decree no. 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the group's financial position as at 31 December 2016 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union.

Report on other legal and regulatory requirements

Opinion on the consistency of the directors' report and certain information presented in the report on corporate governance and ownership structure with the consolidated financial statements

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion, as required by the law, on the consistency of the directors' report and the information presented in the report on corporate governance and ownership structure provided for by article 123-bis.4 of Legislative decree no. 58/98, to the extent of the information required by article 123-bis.2.b of Legislative decree no. 58/98, which are the responsibility of the parent's directors, with the consolidated financial statements. In our opinion, the directors' report and the information presented in the report on corporate governance and ownership structure referred to above are consistent with the consolidated financial statements of the Ferrovie dello Stato Italiane Group as at and for the year ended 31 December 2016.

Rome, 15 May 2017

KPMG S.p.A.

(signed on the original)

Stefano Bandini
Director of Audit

Separate financial statements of Ferrovie dello Stato Italiane S.p.A. as at and for the year ended 31 December 2016

Financial statements

Statement of financial position

			Euros
	Notes	**31.12.2016**	**31.12.2015**
Assets			
Property, plant and equipment	5	45,912,015	46,631,796
Investment property	6	496,581,439	495,697,316
Intangible assets	7	36,567,865	40,751,376
Deferred tax assets	8	209,764,905	216,513,175
Equity investments	9	35,131,499,060	35,061,749,047
Non-current financial assets (including derivatives)	10	5,675,844,687	4,955,020,659
Non-current trade receivables	13	6,097,873	5,951,878
Other non-current assets	11	937,430,282	741,695,836
Total non-current assets		**42,539,698,126**	**41,564,011,083**
Inventories	12	489,140,792	489,746,963
Current trade receivables	13	125,646,941	129,455,018
Current financial assets (including derivatives)	10	2,594,210,723	2,701,009,924
Cash and cash equivalents	14	984,494,166	257,675,108
Tax assets	15	86,430,873	82,388,664
Other current assets	11	988,372,683	1,068,079,921
Total current assets		**5,268,296,178**	**4,728,355,598**
Total assets		**47,807,994,304**	**46,292,366,681**
Share capital	16	36,340,432,802	36,340,432,802
Reserves	16	6,868,981	(100,000,000)
Valuation reserves	16	251,083	357,416
Profit for the year	16	638,773,063	137,379,615
Total equity		**36,986,325,929**	**36,378,169,833**
Liabilities			
Non-current loans and borrowings	17	5,675,526,623	4,953,357,794
Post-employment benefits and other employee benefits	18	11,160,014	11,878,392
Provisions for risks and charges	19	171,147,753	146,844,806
Deferred tax liabilities	8	428,103,401	497,569,561
Non-current financial liabilities (including derivatives)	20	372,822	1,331,993
Other non-current liabilities	21	1,013,665,270	958,185,773
Total non-current liabilities		**7,299,975,883**	**6,569,168,319**
Current loans and borrowings and current portion of non-current loans and borrowings	17	2,096,878,874	1,416,336,462
Current trade payables	22	79,601,131	89,034,700
Tax liabilities	15		4,094,971
Current financial liabilities (including derivatives)	20	275,049,399	458,263,790
Other current liabilities	21	1,070,163,088	1,377,298,606
Total current liabilities		**3,521,692,492**	**3,345,028,529**
Total liabilities		**10,821,668,375**	**9,914,196,848**
Total equity and liabilities		**47,807,994,304**	**46,292,366,681**

Income statement

	Notes	2016	2015
			Euros
Revenue from sales and services	23	140,716,589	139,585,661
Other income	24	15,974,879	7,375,619
Total revenue		**156,691,468**	**146,961,280**
Personnel expense	25	(53,887,166)	(43,578,423)
Raw materials, consumables, supplies and goods	26	(6,616,521)	(15,133,477)
Services	27	(70,589,474)	(51,760,695)
Use of third-party assets	28	(3,442,392)	(3,556,502)
Other operating costs	29	(32,906,271)	(31,375,939)
Internal work capitalised	30	175,917	259,262
Total operating costs		**(167,265,907)**	**(145,145,774)**
Amortisation and depreciation	31	(19,994,276)	(23,672,488)
Net reversals of impairment losses	32	(1,055,258)	(13,300,509)
Provisions for risks and charges			(2,968,643)
Operating loss		**(31,623,973)**	**(38,126,134)**
Gains on equity investments	33	130,901,228	85,693,134
Other financial income	33	577,383,046	250,192,095
Losses on equity investments	34	(326,791)	(11,431,788)
Other financial expense	34	(142,052,956)	(147,532,610)
Net financial income		**565,904,527**	**176,920,831**
Pre-tax profit		**534,280,554**	**138,794,697**
Income taxes	35	104,492,509	(1,415,082)
Profit from continuing operations		**638,773,063**	**137,379,615**
Profit for the year		**638,773,063**	**137,379,615**

Statement of comprehensive income

	Notes	2016	2015
			Euros
Profit for the year		**638,773,063**	**137,379,615**
Items that will not be reclassified to profit or loss:			
Actuarial gains (losses)	16/18	(145,969)	491,879
Tax effect on actuarial gains (losses)	16/18	39,636	(134,463)
Other comprehensive income (expense), net of the tax effect		**(106,333)**	**357,416**
Comprehensive income		**638,666,730**	**137,737,031**

Statement of changes in equity

Euros

	Equity								
		Reserves							
		Other reserves			Valuation reserves				
	Share capital	Legal reserve	Extraordinary reserve	Other reserves	Actuarial reserve	**Total reserves**	Retained earnings (losses carried forward)	Profit for the year	**Total equity**
Balance at 1 January 2015	**38,790,425,485**	**25,106,231**	**27,896,982**	**254,599,169**	**(1,869,832)**	**305,732,551**	**(2,844,937,242)**	**89,212,009**	**36,340,432,802**
Share capital decrease	(2,449,992,683)	(25,106,231)	(27,896,982)	(254,599,169)	1,869,832	(305,732,551)	2,755,725,233		
Dividend distribution									
Allocation of profit for the previous year							89,212,009	(89,212,009)	
Other changes				(100,000,000)		(100,000,000)			(100,000,000)
Comprehensive income									
of which:									
Profit for the year								137,379,615	137,379,615
Net gains recognised directly in equity					357,416	357,416			357,416
Balance at 31 December 2015	**36,340,432,802**			**(100,000,000)**	**357,416**	**(99,642,584)**		**137,379,615**	**36,378,169,833**
Share capital decrease									
Dividend distribution								(30,510,634)	(30,510,634)
Allocation of profit for the previous year		6,868,981		100,000,000		106,868,981		(106,868,981)	
Other changes									
Comprehensive income									
of which:									
Profit for the year								638,773,063	638,773,063
Net losses recognised directly in equity					(106,333)	(106,333)			(106,333)
Balance at 31 December 2016	**36,340,432,802**	**6,868,981**			**251,083**	**7,120,064**		**638,773,063**	**36,986,325,929**

STATEMENT OF CASH FLOWS

	2016	2015
		Euros
Profit for the year	**638,773,063**	**137,379,615**
Income taxes	(104,492,509)	1,415,081
Net financial income	(10,605,622)	(85,207,821)
Amortisation and depreciation	19,994,276	23,672,488
Accruals to provisions and impairment losses	34,339,454	80,558,643
Impairment losses	26,791	13,732,217
Accruals for employee benefits	124,411	152,160
Accruals and impairment losses	**34,490,656**	**94,443,020**
Profits on sales	(383,279,451)	(17,623,746)
Change in inventories	1,605,534	1,620,896
Change in trade receivables	3,662,081	(7,780,400)
Change in trade payables	(9,433,996)	13,011,585
Change in other assets	4,512,792	(434,913,133)
Change in other liabilities	(372,140,795)	687,768,596
Utilisation of the provisions for risks and charges	(10,091,732)	(11,664,608)
Payment of employee benefits	(988,758)	(1,687,540)
Financial income collected/financial expense paid	10,605,622	9,712,606
Change in tax assets/liabilities	33,677,074	58,209,163
Net cash flows generated by (used in) operating activities	**(143,711,765)**	**468,355,802**
Increases in property, plant and equipment	(361,277)	(553,402)
Investment property	(10,138,952)	(556,612)
Increases in intangible assets	(12,746,353)	(16,442,193)
Increases in equity investments	(123,867,008)	(5,489,500)
Investments, before grants	**(147,113,590)**	**(23,041,707)**
Grants for property, plant and equipment	38,741	
Grants for intangible assets	5,022,361	
Grants for equity investments	40,250,296	
Grants	**45,311,398**	
Decreases in property, plant and equipment	19	18,417
Decreases in investment property	114,540	43,396
Decreases in intangible assets	1,096,882	
Decreases in equity investments	397,119,360	405,036,872
Decreases	**398,330,801**	**405,098,685**
Net cash flows generated by investing activities	**296,528,609**	**382,056,978**
Disbursement and repayment of non-current loans	207,689,888	(176,029,302)
Disbursement and repayment of current loans	1,195,021,353	405,194,574
Change in financial assets	(1,415,548,898)	(223,636,279)
Change in financial liabilities	(879,715)	2,295,450
Dividends	(30,510,634)	
Changes in equity		(100,000,000)
Net cash flows used in financing activities	**(44,228,006)**	**(92,175,557)**
Total cash flows	**108,588,838**	**758,237,223**
Opening cash and cash equivalents	1,046,135,280	287,898,057
Closing cash and cash equivalents	1,154,724,118	1,046,135,280
of which intragroup	170,229,952	788,460,175

Notes to the separate financial statements

1. Company business

Ferrovie dello Stato Italiane S.p.A. was set up in accordance with Italian law and is based in Italy. Its registered office is in Piazza della Croce Rossa 1, Rome.

Due to its significant controlling investments and in compliance with IFRS 10 - Consolidated financial statements, the company prepares consolidated financial statements which show equity and profit attributable to the owners of the parent of €38,155 million and €758 million, respectively.

2. Basis of preparation

These separate financial statements have been prepared in accordance with IFRS (which include the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS)) issued by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), endorsed by the European Union pursuant to EC Regulation no. 1606/2002 and in effect at the reporting date ("IFRS"). Specifically, the company consistently applies the IFRS to all periods presented in these financial statements.

The separate financial statements have been prepared and presented in Euro, which is the company's functional currency, i.e. the currency of the primary economic environment in which the company operates. All amounts included in the tables of the following notes, except as otherwise specified, are expressed in thousands of Euros.

The financial statements format applied and the related classification criteria adopted by the company in accordance with the options provided for in IAS 1 - Presentation of Financial Statements are set out below:

- the statement of financial position has been prepared by classifying assets and liabilities as "current/non-current";
- the income statement has been prepared by classifying operating costs by nature;
- the statement of comprehensive income includes the profit for the year, as well as any other changes in equity captions attributable to transactions that are not carried out with owners in their capacity as owners;
- the statement of cash flows has been prepared by reporting cash flows arising from operating activities using the indirect method.

These separate financial statements have been prepared on a going-concern basis, as the directors established that there are no financial or operational indicators or any other indications of critical issues about the company's ability to meet its obligations in the foreseeable future and, specifically, in the next twelve months. Reference should be made to note 4 "Financial risk management" for a description of the company's financial risk management procedures.

The separate financial statements have been prepared on the historical cost basis, except where fair value measurement is mandatory.

The company has consistently applied the accounting policies to all periods presented in these separate financial statements.

On 21 April 2017, the directors approved the draft separate financial statements at 31 December 2016 and their submission to the shareholder pursuant to article 2429 of the Italian Civil Code. These separate financial statements will be subsequently presented for the shareholder's approval within the terms set by law and will be filed within the terms established by article 2435 of the Italian Civil Code. The shareholder is entitled to make changes to these separate financial statements. For the purposes of IAS 10.17, the directors authorised these separate financial statements for issue on 21 April 2017, which is the date when they approved them.

KPMG S.p.A. was assigned the engagement to carry out the legally-required audit for the 2014-2022 period pursuant to Legislative decree no. 39/2010.

3. Accounting policies

The accounting policies and measurement criteria are the same as those applied in preparing the consolidated financial statements, to which reference should be made, except for the recognition and measurement of investments in subsidiaries, associates and joint ventures, which are recognised at acquisition or incorporation cost. If there is an indication of impairment, the recoverability of their carrying amount is checked by comparing the carrying amount and the higher of the investment's value in use, calculated by discounting forecast cash flows, where possible, and its fair value, less costs to sell. Impairment losses are reversed when the reasons that led to their recognition no longer exist. In this case, reversal shall never exceed the original cost. The amount of loss exceeding the carrying amount is recognised in a specific provision under liabilities to the extent that the company deems necessary to meet legal or inherent obligations to cover the loss and/or restore the share capital required by the law. Should the subsequent performance of the impaired investment improve to the point that the reasons for the impairment losses no longer apply, such losses are reversed within the limits of the impairments recognised in previous years, under "Gains (losses) on equity investments". Other equity investments, other than subsidiaries, jointly controlled entities and associates not listed in an active market and for which a suitable measurement model would not be reliable, are measured at cost.

Dividends from investees are taken to profit or loss in the year they are resolved.

New standards

Reference should be made to the consolidated financial statements.

Use of estimates and valuations

Reference should be made to the consolidated financial statements.

4. Financial risk management

The activities that the company carries out expose it to various types of risks that include market risk (interest rate, price and currency risk), liquidity risk and credit risk.

This section provides information on the company's exposure to each of the risks listed above, the objectives, policies and processes for the management of these risks and the methods used to assess them, as well as capital management. These financial statements also include additional quantitative information. The company's risk management focuses on the volatility of financial markets and is aimed at minimising potential undesired effects on its financial position and results of operations.

Credit risk

Credit risk is the risk that a customer or one of the counterparties of a financial instrument may cause a financial loss by not complying with an obligation. It mainly arises from trade receivables and the company's financial investments with third parties. However, the company's financial assets mainly relate to loans granted to FS Italiane group companies; therefore, they do not generate a significant credit risk.

The main trade receivables relate to sales of property held for trading, with the payments made in instalments or deferred payments backed by bank guarantees. Accordingly, there is a very low credit risk involved.

The recoverability of trade receivables is forecast considering each individual position, taking account of the instructions given by the heads of department and by the internal and external legal advisors who handle recovery procedures. Accordingly, trade receivables whose recovery is uncertain at the reporting date are impaired.

With regard to credit risk deriving from investing activities, the company applies a liquidity investment policy which defines the minimum requirements of the financing counterparty in terms of creditworthiness and the related concentration thresholds and the types of financial products that can be used.

The table below shows the company's exposure to credit risk:

thousands of Euros

	31.12.2016	31.12.2015
Non-current financial assets (including derivatives)	5,675,845	4,955,021
Non-current financial assets (including derivatives)	**5,675,845**	**4,955,021**
Non-current trade receivables	6,244	6,098
Allowance for impairment	(146)	(146)
Non-current trade receivables, net of the allowance for impairment	**6,098**	**5,952**
Other non-current assets	1,291	1,251
Allowance for impairment	(1,073)	(1,073)
Other non-current assets, net of the allowance for impairment	**218**	**178**
Current trade receivables	153,009	154,485
Allowance for impairment	(27,362)	(25,030)
Current trade receivables, net of the allowance for impairment	**125,647**	**129,455**
Current financial assets (including derivatives)	2,594,211	2,701,010
Current financial assets (including derivatives)	**2,594,211**	**2,701,010**
Cash and cash equivalents	**984,494**	**257,675**
Other current assets	660,717	597,296
Other current assets	**660,717**	**597,296**
Total exposure, net of the allowance for impairment (*)	**10,047,230**	**8,646,587**

*Tax assets and equity investments are not included

The tables below show the exposure to credit risks by counterparty, in absolute terms and as a percentage, excluding cash and cash equivalents.

thousands of Euros

	31.12.2016	31.12.2015
Public administration, Italian government and regions	615,266	534,696
Ordinary customers	60,492	26,447
Other debtors	5,512	6,082
Group companies	8,381,466	7,821,687
Total exposure, net of the allowance for impairment	**9,062,736**	**8,388,912**

	31.12.2016	31.12.2015
Public administration, Italian government and regions	6.8%	6.4%
Ordinary customers	0.7%	0.3%
Financial institutions	0%	0%
Other debtors	0.1%	0.1%
Group companies	92.5%	93.2%
Total exposure, net of the allowance for impairment	**100%**	**100%**

The tables below gives a breakdown of financial assets at 31 December 2016 and 2015 by overdue amounts, net of the allowance for impairment.

thousands of Euros

	31.12.2016					
		Overdue by				
	Not overdue	**0-180 days**	**180-360 days**	**360-720 days**	**beyond 720 days**	**Total**
Public administration, Italian government and regions (gross)	613,491	439	785	415	4,969	620,099
Allowance for impairment	(3,104)	(47)	(92)	(74)	(1,516)	(4,833)
Public administration, Italian government and regions (net)	**610,387**	**392**	**693**	**341**	**3,453**	**615,266**
Ordinary customers (gross)	47,329	16,057	2,026	2,334	15,421	83,167
Allowance for impairment	(9,443)	(336)	(364)	(835)	(11,697)	(22,675)
Ordinary customers (net)	**37,886**	**15,721**	**1,662**	**1,499**	**3,724**	**60,492**
Other debtors (gross)	6,585					6,585
Allowance for impairment	(1,073)					(1,073)
Other debtors (net)	**5,512**					**5,512**
Group companies	8,323,011	33,842	1,941	9,502	13,170	8,381,466
Group companies (net)	**8,323,011**	**33,842**	**1,941**	**9,502**	**13,170**	**8,381,466**
Total exposure, net of the allowance for impairment	**8,976,796**	**49,955**	**4,296**	**11,342**	**20,347**	**9,062,736**

thousands of Euros

	31.12.2015					
		Overdue by				
	Not overdue	**0-180 days**	**180-360 days**	**360-720 days**	**beyond 720 days**	**Total**
Public administration, Italian government and regions (gross)	534,042	179	367	1,381	3,124	539,093
Allowance for impairment	(2,864)	(26)	(46)	(66)	(1,395)	(4,397)
Public administration, Italian government and regions (net)	**531,178**	**153**	**321**	**1,315**	**1,729**	**534,696**
Ordinary customers (gross)	18,359	10,801	1,508	2,229	14,329	47,226
Allowance for impairment	(8,181)	(334)	(535)	(788)	(10,940)	(20,779)
Ordinary customers (net)	**10,178**	**10,467**	**973**	**1,441**	**3,389**	**26,447**
Other debtors (gross)	7,155					7,155
Allowance for impairment	(1,073)					(1,073)
Other debtors (net)	**6,082**					**6,082**
Group companies	7,772,579	27,600	7,423	3,130	10,955	7,821,687
Group companies (net)	**7,772,579**	**27,600**	**7,423**	**3,130**	**10,955**	**7,821,687**
Total exposure, net of the allowance for impairment	**8,320,017**	**38,220**	**8,717**	**5,886**	**16,073**	**8,388,912**

Liquidity risk

Liquidity risk is the risk that an entity may have difficulties in complying with the obligations associated with financial liabilities to be settled by delivering cash or another financial asset.

The company's financial debt is mainly due to the payment of loans to FS Italiane group companies. It adopts asset liability management techniques in collecting debt and loan principal from the group companies. Currently, the loans received and bonds issued offer the subsidiaries the technical features of the underlying debt in order to enable the cash inflows and outflows deriving from interest and principal repayments to occur at the same time.

In order to meet potential and temporary cash requirements, the company agreed a three-year revolving and committed backup credit facility in 2015 (€1,500,000 thousand) for general purposes. Based on the above facility and substantially applying the same terms and conditions in terms of restrictions and commitments for the parties, FS S.p.A. has granted two three-year intragroup credit lines (revolving and committed) to the subsidiaries Trenitalia S.p.A. (€800,000 thousand) and RFI S.p.A. (€400,000 thousand).

Furthermore, again to meet temporary cash requirements, the company has numerous uncommitted credit lines granted by banks.

The following tables shows the due dates of financial liabilities, including interest to be paid, and trade payables:

thousands of Euros

31 December 2016	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	Beyond 5 years
Non-derivative financial liabilities							
Bonds	4,071,967	4,401,247	22,467	53,096	667,103	1,996,195	1,662,386
Bank loans and borrowings	2,735,285	2,806,484	1,800,276	110,925	111,281	784,002	
Loans and borrowings from other financial backers	964,907	1,051,047	100,024	100,016	200,134	650,873	
Loans and borrowings from group companies	275,422	275,422	275,422				
Total non-derivative financial liabilities	**8,047,581**	**8,534,200**	**2,198,189**	**264,037**	**978,518**	**3,431,070**	**1,662,386**
Trade payables	**79,601**	**79,601**	**79,601**				

thousands of Euros

31.12.2015	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	Beyond 5 years
Non-derivative financial liabilities							
Bonds	3,917,734	4,288,458	548,825	51,763	74,525	2,033,166	1,580,178
Bank loans and borrowings	1,474,781	1,576,611	605,727	111,367	111,894	636,793	110,830
Loans and borrowings from other financial backers	977,169	1,100,000	100,000	100,000	200,000	600,000	100,000
Loans and borrowings from group companies	459,596	459,596	459,596				
Total non-derivative financial liabilities	**6,829,279**	**7,424,664**	**1,714,148**	**263,129**	**386,420**	**3,269,959**	**1,791,008**
Trade payables	**89,035**	**89,035**	**89,035**				

Derivative and non-derivative financial liabilities

The contractual flows of variable-rate loans have been calculated using the forward rates estimated at the reporting date. The amounts include both principal and interest.

thousands of Euros

31 December 2016	Carrying amount	Within one year	1-5 years	Beyond 5 years
Non-derivative financial liabilities				
Bonds	4,071,967	38,348	2,449,718	1,583,901
Bank loans and borrowings	2,735,285	1,889,395	845,890	
Loans and borrowings from other financial backers	964,907	168,889	796,018	
Loans and borrowings from group companies	275,422	275,422		
Total non-derivative financial liabilities	**8,047,581**	**2,372,054**	**4,091,626**	**1,583,901**
Trade payables	**79,601**	**79,601**		

thousands of Euros

31.12.2015	Carrying amount	Within one year	1-5 years	Beyond 5 years
Non-derivative financial liabilities				
Bonds	3,917,734	563,311	1,872,196	1,482,226
Bank loans and borrowings	1,474,781	690,738	678,173	105,870
Loans and borrowings from other financial backers	977,169	162,276	717,833	97,060
Loans and borrowings from group companies	459,596	459,596		
Total non-derivative financial liabilities	**6,829,279**	**1,875,921**	**3,268,202**	**1,685,155**
Trade payables	**89,035**	**89,035**		

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument may fluctuate following changes in market prices, due to changes in exchange rates, interest rates or prices of equity instruments. The objective of market risk management is to keep the company's exposure to these risks within acceptable levels, while optimising returns on investments.

The company's exposure to interest rate and currency risk is limited.

Interest rate risk

The company is not exposed to any interest rate risk as the variable rate financial liabilities are fully offset by the related financial assets with subsidiaries.

The table below shows the company's variable and fixed rate current and non-current financial liabilities.

thousands of Euros

	Carrying amount	Contractual cash flows	Current portion	1 and 2 years	2 and 5 years	beyond 5 years
Variable rate	5,277,863	5,374,430	2,076,230	614,777	1,079,287	1,604,136
Fixed rate	2,769,965	3,160,017	386,242	363,742	2,351,783	58,250
Balance at 31 December 2016	**8,047,828**	**8,534,447**	**2,462,472**	**978,519**	**3,431,070**	**1,662,386**
Variable rate	3,849,338	3,949,997	1,599,645	1,212	1,389,962	959,178
Fixed rate	2,979,952	3,474,678	377,643	385,208	1,879,997	831,830
Balance at 31 December 2015	**6,829,290**	**7,424,675**	**1,977,288**	**386,420**	**3,269,959**	**1,791,008**

The following sensitivity analysis shows the effects that would have been recorded in terms of changes in interest expense had an increase or a decrease of 50 basis points in the Euribor interest rates affected loans in 2016, along with the offsetting deriving from the simultaneous increase or decrease in financial income following the same change in the interest rates.

thousands of Euros

	+ 50 bps	*- 50 bps*
Interest expense on variable-rate debt	14,886	(13,175)
Interest income from loans	(14,886)	13,175
Total		

Currency risk

The company is mainly active in Italy as well as in Eurozone countries.

The company is not exposed to any currency risk on the bonds in Swiss francs as they are covered by the related intragroup loans granted to the subsidiary Trenitalia S.p.A. at the same amount and in the same currency.

Capital management

The company's main objective with respect to capital risk management is to safeguard its ability to continue as a going concern, while ensuring returns for shareholders and benefits for the other stakeholders. The company also intends to maintain an optimal capital structure in order to reduce the cost of debt.

Financial assets and financial liabilities by category

To complete financial risk information, the table below gives a reconciliation between financial assets and financial liabilities as reported in the statement of financial position by categories of financial assets and financial liabilities identified pursuant to IFRS 7.

31 December 2016	Loans and receivables	Loans and borrowings
Non-current financial assets (including derivatives)	5,675,845	
Non-current trade receivables	6,098	
Other non-current assets	937,430	
Current trade receivables	125,647	
Current financial assets (including derivatives)	2,594,211	
Cash and cash equivalents	984,494	
Tax assets	86,431	
Other current assets	988,373	
Non-current loans and borrowings		5,675,527
Non-current financial liabilities (including derivatives)		373
Other non-current liabilities		1,013,665
Current loans and borrowings and current portion of non-current loans and borrowings		2,096,879
Current trade payables		79,601
Current financial liabilities (including derivatives)		275,049
Other current liabilities		1,070,163

31.12.2015	Loans and receivables	Loans and borrowings
Non-current financial assets (including derivatives)	4,955,021	
Non-current trade receivables	5,952	
Other non-current assets	741,696	
Current trade receivables	129,455	
Current financial assets (including derivatives)	2,701,010	
Cash and cash equivalents	257,675	
Tax assets	82,389	
Other current assets	1,068,080	
Non-current loans and borrowings		4,953,358
Non-current financial liabilities (including derivatives)		1,332
Other non-current liabilities		958,186
Current loans and borrowings and current portion of non-current loans and borrowings		1,416,336
Current trade payables		89,035
Tax liabilities		4,095
Current financial liabilities (including derivatives)		458,264
Other current liabilities		1,377,299

5. Property, plant and equipment

Property, plant and equipment at 31 December 2016 and changes therein are shown in the table below. The assets' estimated useful lives did not change during the year.

thousands of Euros

	Land and buildings	Industrial and commercial equipment	Other assets	Assets under construction and payments on account	Total
Historical cost	58,098	523	13,316	770	**72,707**
Depreciation and impairment losses	(14,788)	(523)	(12,595)		**(27,906)**
Balance at 1.1.2015	**43,310**		**721**	**770**	**44,801**
Investments				552	**552**
Roll-outs	62		55	(117)	
Depreciation	(857)		(217)		**(1,074)**
Disposals and divestments			(1)	(17)	**(18)**
Other reclassifications	2,455			(84)	**2,371**
Total changes	**1,660**		**(163)**	**334**	**1,831**
Historical cost	61,453	523	13,189	1,104	**76,269**
Depreciation and impairment losses	(16,483)	(523)	(12,631)		**(29,637)**
Balance at 31.12.2015	**44,970**		**558**	**1,104**	**46,632**
Investments				360	**360**
Roll-outs	151		206	(357)	
Depreciation	(857)		(191)		**(1,048)**
Increases in grants			(39)		**(39)**
Other reclassifications*	(10)			15	**5**
Total changes	**(716)**		**(24)**	**18**	**(722)**
Historical cost	57,822	395	3,879	1,124	**63,220**
Depreciation and impairment losses	(13,568)	(395)	(3,306)		**(17,269)**
Grants			(39)		**(39)**
Balance at 31.12.2016	**44,254**		**534**	**1,124**	**45,912**
Historical cost	(3,782)			15	**(3,767)**
Depreciation	3,772				**3,772**
Total reclassifications*	**(10)**			**15**	**5**

Land and buildings refer to a section of the Villa Patrizi building where the company has its registered office. The remaining section is included under investment property. The €722 thousand variatio in this caption is mostly due to depreciation (€1,048 thousand) and extraordinary maintenance of Villa Patrizi (€360 thousand). Other reclassifications (€5 thousand) refer to software (€15 thousand) and investment projects for investment property with a mixed nature which, once they became an asset, were duly reclassified to the relevant captions (€10 thousand).

6. Investment property

Investment property at 31 December 2016 and changes therein are shown in the table below. The assets' estimated useful lives did not change during the year.

thousands of Euros

	2016		2015	
	Land	**Buildings**	**Land**	**Buildings**
Balance at 1 January				
Cost	498,414	434,580	500,364	435,550
Accumulated depreciation	(15,932)	(202,303)	(13,972)	(196,552)
Allowance for impairment	(185,533)	(33,529)	(173,677)	(32,440)
Carrying amount	**296,949**	**198,748**	**312,715**	**206,558**
Changes of the year				
Increase		10,140		557
Reclassifications*	(1,424)	434	(1,346)	(1,310)
Depreciation	(1,965)	(6,186)	(1,960)	(6,423)
Impairment losses			(12,439)	(612)
Divestments**	(115)		(21)	(22)
Total changes	**(3,504)**	**4,388**	**(15,766)**	**(7,810)**
Balance at 31 December				
Cost	486,167	429,213	498,414	434,580
Accumulated depreciation	(36,874)	(205,948)	(15,932)	(202,303)
Allowance for impairment	(155,848)	(20,129)	(185,533)	(33,529)
Carrying amount	**293,445**	**203,136**	**296,949**	**198,748**
Reclassifications*				
Cost	(12,132)	(15,507)	(1,888)	(1,372)
Accumulated depreciation	(18,977)	2,541		638
Allowance for impairment	29,685	13,400	542	(576)
Total	**(1,424)**	**434**	**(1,346)**	**(1,310)**
Divestments**				
Cost	(115)		(62)	(155)
Accumulated depreciation				34
Allowance for impairment			41	99
Total	**(115)**		**(21)**	**(22)**

Investment property includes the land and buildings leased to group companies and third parties or not used by the company, but not held for sale. The €10,140 thousand increase for the year is mainly due to the restructuring of the Pietrarsa Museum, used by (leased to) Fondazione FS (€8,627 thousand) and the extraordinary maintenance work on Villa Patrizi (€675 thousand). The net decrease due to reclassifications is attributable to the €1,000 thousand transfer to inventories of property included in sales plans, while the remainder of €10 thousand relates to transfers to property, plant and equipment of mixed-nature investments (see note 5).

During the year, the company recalculated the cost components of the properties recognised under inventories to more correctly allocate their costs and accumulated depreciation without changing the properties' carrying amounts.

7. Intangible assets

This caption exclusively comprises costs incurred for software development related mainly to the group's IT system. Opening and closing balances are shown in the table below.

thousands of Euros

	Concessions, licences, trademarks and similar rights	Assets under development and payments on account	Total
Historical cost	140,897	3,437	144,334
Amortisation and impairment losses	(100,469)		(100,469)
Grants	(5,426)		(5,426)
Balance at 1.1.2015	**35,002**	**3,437**	**38,439**
Investments		16,443	16,443
Roll-outs	12,902	(12,902)	
Amortisation	(14,215)		(14,215)
Other reclassifications	84		84
Total changes	**(1,229)**	**3,541**	**2,312**
Historical cost	153,882	6,978	160,860
Amortisation and impairment losses	(114,683)		(114,683)
Grants	(5,426)		(5,426)
Balance at 31.12.2015	**33,773**	**6,978**	**40,751**
Investments		12,745	12,745
Roll-outs	15,647	(15,647)	
Amortisation	(10,795)		(10,795)
Disposals and divestments	(1,096)		(1,096)
Increases in grants	(5,022)		(5,022)
Other reclassifications		(15)	(15)
Total changes	**(1,266)**	**(2,917)**	**(4,183)**
Historical cost	168,433	4,061	172,494
Amortisation and impairment losses	(125,478)		(125,478)
Grants	(10,448)		(10,448)
Balance at 31.12.2016	**32,507**	**4,061**	**36,568**

The company received grants related to assets of €5,061 thousand during the year as part of the 2007-2013 National Operating Programme (PON) - Network and Mobility, including €5,022 thousand for software and €39 thousand for other assets (recognised under property, plant and equipment).

8. Deferred tax assets and deferred tax liabilities

The table below shows deferred tax assets and deferred tax liabilities at 31 December 2016 and changes of the year due to the main temporary differences between carrying amounts and the related tax amounts.

thousands of Euros

	31.12.2015	Incr. (decr.) through profit or loss	Other changes	31.12.2016
Deferred tax assets				
Differences related to intangible assets and PPE	94,211	(8,445)		85,766
Provisions for risks and charges and impairment losses with deferred tax deductibility	46,226	6,715		52,941
Differences related to buildings held for trading - inventories	75,808	(4,966)		70,842
Other	268	(12)	(40)	216
Total deferred tax assets	**216,513**	**(6,708)**	**(40)**	**209,765**
Deferred tax liabilities				
Provision for deferred tax liabilities				
Differences related to intangible assets and PPE	70,124	(8,546)		61,578
Differences related to buildings held for trading - inventories	29,076	(3,837)		25,239
Total provision for deferred tax liabilities	**99,200**	**(12,383)**		**86,817**
- Provision for IRES tax consolidation scheme	398,370	(53,450)	(3,634)	341,286
Total	**497,570**	**(65,833)**	**(3,634)**	**428,103**

Deferred tax assets and liabilities are mainly related to the misalignment between the carrying and tax amounts of property, plant and equipment and intangible assets, on which depreciation and amortisation are calculated, and buildings held for trading, in addition to the deferred deductibility applied to provisions for risks and charges and impairment losses on non-current assets. The changes in the year basically refer to the net effect of recognising deferred tax assets of €6,715 thousand on the net accruals to the provisions for risks and charges and the net releases due to the difference between the carrying and tax amounts of amortisation and depreciation and the gains on the sale of assets (€1,040 thousand).

The provision for the IRES tax consolidation scheme includes the taxes transferred by the group companies and used to offset taxes related to the company and other subsidiaries that participate in the tax consolidation scheme. The provision also reflects the utilisations needed to remunerate the same companies for the tax losses previously transferred and offset against their taxable profit during the year. The company used €53,450 thousand of the provision during the year, mainly for Trenitalia S.p.A., Busitalia Sita Nord S.p.A. and Mercitalia Logistics S.p.A..

9. Equity investments

The tables below show equity investments' opening and closing balances, broken down by category, and changes therein in 2016 and 2015.

thousands of Euros

	Carrying amount at 31.12.2016	Carrying amount at 31.12.2015	Cumulative allowance for impairment
Investments in:			
Subsidiaries	34,998,547	34,928,797	32,794
Associates	23,084	23,084	
Jointly controlled entities	95,120	95,120	
Other companies	14,748	14,748	
Total	**35,131,499**	**35,061,749**	**32,794**

Changes in 2016

thousands of Euros

		Changes of the year						
	Carrying amount at 31.12.2015	Acquisitions/ Subscriptions	Disposals/ Decreases	Impairment losses/ Reversals of impairment losses	Reclassifications	Other changes	Carrying amount at 31.12.2016	Cumulative allowance for impairment
Investments in subsidiaries								
Centostazioni S.p.A.	3,050						3,050	
Fercredit S.p.A.	31,413						31,413	
Ferservizi S.p.A.	8,378						8,378	
Mercitalia Logistics S.p.A.	110,436						110,436	32,659
FS Sistemi Urbani S.r.l.	534,094						534,094	
Grandi Stazioni Rail S.p.A.	17,601				(14,456)		3,145	
Grandi Stazioni Immobiliare S.p.A.					616		616	
Grandi Stazioni Retail S.p.A.			(13,840)		13,840			
Netinera Deutschland GmbH (formerly FS2Move GmbH)	144,355						144,355	
Mercitalia Rail S.r.l. (formerly FS Telco S.r.l)	20						20	135
Italcertifer S.p.A.	738						738	
Italferr S.p.A.	8,047						8,047	
RFI S.p.A.	32,414,368						32,414,368	
Self S.r.l.								
Sita S.p.A. in liquidation								
Trenitalia S.p.A.	1,612,874			41,590			1,654,464	
Busitalia - Sita Nord S.r.l.	43,373	42,000					85,373	
TAV S.r.l.	50						50	
Ferrovie del Sud Est e Servizi Automobilistici - FSE S.r.l.								
	34,928,797	**42,000**	**(13,840)**	**41,590**			**34,998,547**	**32,794**
Investments in associates								
Ferrovie Nord Milano S.p.A.	23,061						23,061	
Italiacamp S.r.l.	23						23	
	23,084						**23,084**	

Investments in jointly controlled entities								
TELT Sas (formerly LTF Sas)	95,120	40,250				(40,250)	95,120	
	95,120	**40,250**				**(40,250)**	**95,120**	
Other companies								
BCC Bureau Central de Clearing	6						6	
Eurofima SA	14,584						14,584	
Hit Rail B.V.	97						97	
Isfort S.p.A.	61						61	
	14,748						**14,748**	
Total	**35,061,749**	**82,250**	**(13,840)**	**41,590**		**(40,250)**	**35,131,499**	**32,794**

The changes during the year relate to:

- **Grandi Stazioni S.p.A.:** as described earlier in this report, the partial, non-proportionate and asymmetrical demerger deed for Grandi Stazioni S.p.A. was signed on 28 June 2016, providing for the contribution of part of its assets to two newcos limited by shares, Grandi Stazioni Retail S.p.A. and Grandi Stazioni Immobiliare S.p.A.. The demerged company changed its name to Grandi Stazioni Rail S.p.A. and the demerger became effective on 1 July 2016. As a result of this demerger, the carrying amount of the investment decreased by €14,456 thousand while the carrying amount of the investments in Grandi Stazioni Retail S.p.A. and Grandi Stazioni Immobiliare S.p.A. increased by €13,840 thousand and €616 thousand, respectively. Moreover, on 20 July 2016, the shareholders, Ferrovie dello Stato Italiane S.p.A. and Eurostazioni S.p.A. sold and transferred their entire investments in Grandi Stazioni Retail S.p.A. and its subsidiary Grandi Stazioni Česká Republika sro to Alba Bidco S.p.A. for the provisional consideration of €761,532 thousand. This transaction generated cash inflows of €423,719 thousand and a gain of €383,279 thousand, calculating considering the estimated cost of the contractually-provided guarantee of €26,600 thousand.
- **Busitalia Sita Nord S.r.l.:** the carrying amount of this investment increased by €42,000 thousand following the shareholders' resolution of 29 July 2016 to inject capital to strengthen the subsidiary's equity in line with its business plan.
- **Ferrovie del Sud Est e Servizi Automobilistici – FSE S.r.l.:** the MIF's decree of 4 August 2016 confirmed Ferrovie dello Stato Italiane S.p.A. as the recipient of the entire investment in this company, given that approved by the investee's qutoaholders on 29 July 2016. On 28 November 2016, the Ministry transferred the investment to the company free of charge.
- **Trenitalia S.p.A.:** the previously set-up allowance for impairment for this investment was released in full, based on this subsidiary's positive results for the last few years, which made the reasons for impairment no longer valid.
- **TELT SaS**: the carrying amount of this investment increased by €40,250 thousand, entirely offset by the increase in the grants related to assets received from the MEF for financial investments as per section 7122.

Changes in 2015

		Changes of the year							
	Carrying amount at 31.12.2014	Acquisitions/ Subscriptions	Disposals/ Decreases	Impairment losses/ Reversals of impairment losses	Other changes	Reclassifications	Decreases	Carrying amount at 31.12.2015	Cumulative allowance for impairment
Investments in subsidiaries									
Centostazioni S.p.A.	3,050							3,050	
Fercredit S.p.A.	31,413							31,413	
Ferservizi S.p.A.	8,378							8,378	
FS Logistica S.p.A.	110,436							110,436	32,659
FS Sistemi Urbani S.r.l.	534,094							534,094	
Grandi Stazioni S.p.A.	17,601							17,601	
Netinera Deutschland GmbH (formerly FS2Move GmbH)	144,355							144,355	
FS Telco S.r.l.	5			(120)			135	20	135
Italcertifer S.p.A.	883		(145)					738	
Italferr S.p.A.	8,047							8,047	
RFI S.p.A.	32,896,721				(482,353)			32,414,368	
Self S.r.l.	35		(387,268)		387,233				
Sita S.p.A. in liquidation	562			(562)					
Trenitalia S.p.A.	1,612,874							1,612,874	41,590
Busitalia - Sita Nord S.r.l.	37,884	5,489						43,373	
TAV S.r.l.	50							50	
	35,406,388	**5,489**	**(387,413)**	**(682)**	**(95,120)**		**135**	**34,928,797**	**74,384**
Investments in associates									
Ferrovie Nord Milano S.p.A.	23,061							23,061	
Italiacamp S.r.l.	23							23	
	23,084							**23,084**	
Investments in jointly controlled entities									
TELT Sas (formerly LTF Sas)						95,120		95,120	
						95,120		**95,120**	
Other companies									
BCC Bureau Central de Clearing	6							6	
Eurofima SA	133,325						(118,741)	14,584	
Hit Rail B.V.	97							97	
Isfort S.p.A.	61							61	
	133,489						**(118,741)**	**14,748**	
Total	**35,562,961**	**5,489**	**(387,413)**	**(682)**	**(95,120)**	**95,120**	**(118,606)**	**35,061,749**	**74,384**

In the following table, the carrying amounts of investments in subsidiaries, associates and jointly controlled entities are compared with the corresponding portions of equity.

thousands of Euros

	Registered office	Share/ quota capital	Profit (loss) for the year	Equity at 31.12.2016	% of investment	Attributable equity (a)	Carrying amount at 31.12.2016 (b)	Difference (b) - (a)
Investments in subsidiaries								
Busitalia - Sita Nord S.r.l.	Rome	73,000	4,020	86,576	100.00%	86,576	85,374	(1,202)
Centostazioni S.p.A.	Rome	8,333	7,757	37,140	59.99%	22,280	3,050	(19,230)
Fercredit S.p.A.	Rome	32,500	10,390	95,844	100.00%	95,844	31,413	(64,431)
Ferservizi S.p.A.	Rome	8,170	19,443	27,473	100.00%	27,473	8,378	(19,095)
Mercitalia Logistics S.p.A.	Rome	143,096	19,571	135,470	100.00%	135,470	110,436	(25,034)
FS Sistemi Urbani S.r.l.	Rome	532,783	176	550,107	100.00%	550,107	534,094	(16,013)
Grandi Stazioni Rail S.p.A.	Rome	4,304	240	34,723	100.00%	34,723	3,145	(31,578)
Grandi Stazioni Immobiliare S.p.A.	Rome	4,000	8,841	39,675	60.00%	23,805	616	(23,189)
Mercitalia Rail S.r.l. (formerly FS Telco S.r.l)	Rome	20	(620)	(595)	100.00%	(595)	20	615
Netinera Deutschland GmbH (formerly FS2Move GmbH)	Berlin	1,025	3,304	254,344	51.00%	129,715	144,355	14,640
Italcertifer S.p.A.	Florence	480	944	4,452	55.66%	2,478	737	(1,741)
Italferr S.p.A.	Rome	14,186	8,117	51,468	100.00%	51,468	8,047	(43,421)
RFI S.p.A.	Rome	31,525,280	180,769	33,114,377	100.00%	33,114,377	32,414,368	(700,009)
Sita S.p.A. in liquidation (*)	Florence	200	(8,353)	(16,860)	55.00%	(9,273)		9,273
Trenitalia S.p.A.	Rome	1,654,464	116,820	2,328,137	100.00%	2,328,136	1,654,464	(673,672)
TAV S.r.l.	Rome	50	(14)	36	100.00%	36	50	14
Ferrovie del Sud Est e Servizi Automobilistici - FSE S.r.l. (*)	Rome	10,013		(219,156)	100.00%	(219,156)		219,156
Total						**36,373,465**	**34,998,547**	**(1,374,918)**
Investments in associates								
Ferrovie Nord Milano S.p.A.	Milan	230,000	17,574	332,739	14.74%	49,046	23,061	(25,985)
Italiacamp S.r.l.	Rome	10	161	271	20.00%	54	23	(31)
Total						**49,100**	**23,084**	**(26,016)**
Investments in jointly controlled entities								
T.E.L.T. Sas (**)	Le Bourget du Lac	1,000		987,231	50.00%	493,616	95,120	(398,496)
Total						**493,616**	**95,120**	**(398,496)**
TOTAL						**36,916,181**	**35,116,751**	**(1,799,430)**

(*) 2015 financial statements figures
(**) The difference is due to the different treatment of the grants related to assets disbursed by the government, through RFI, starting from 2007, which the company, pursuant to French GAAP, recognises in equity rather than as a direct decrease in the carrying amount of the assets.

No impairment loss is recognised on the difference between the carrying amount of the investment in Netinera Deutschland GmbH and the related portion of equity, considering the investee's expected performance and the results of the impairment test, which was also performed for the purposes of the consolidated financial statements.

FSE's business plan (approved by FS S.p.A.'s directors on 14 December 2016) and the fairness opinion on the measurement method applied and the carrying amount of the FSE investment prepared by a major consultancy company show the grounds for assuming that FSE will return to a healthy position and the company will fully recoup the investments to be made and make a profit thereon. These profits are already confirmed by FSE's profit for 2016.

No impairment losses were recognised on the investments in TAV S.r.l. and Mercitalia Rail S.p.A. as they were inactive at the reporting date.
The company prudently fully impaired the investment in Sita S.p.A. in liquidation at 31 December 2015 and provided for the possible adverse outcome of pending disputes in the provision for risks and charges.

The following table summarises the main statement of financial position and income statement captions of associates and jointly controlled entities.

thousands of Euros

Investments in associates and jointly controlled entities 31.12.2016	% of investment	Current assets	Non-current assets	Assets held for sale	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Revenue	Costs	Profit (loss)
Investments in associates											
FNM S.p.A.	14.74%	187,230	396,181	1,677	585,088	171,930	80,419	252,349	73,180	55,606	17,574
Italiacamp S.r.l (*)	20.00%	831	110		941	653	17	670	1,510	1,349	161
Investments in jointly controlled entities											
TELT Sas (formerly LTF Sas)	50.00%	29,909	992,035		1,021,944	34,372	341	34,713	159,570	159,570	

(*) Its financial statements are drawn up under Italian GAAP.

thousands of Euros

Investments in associates and jointly controlled entities 31.12.2015	% of investment	Current assets	Non-current assets	Assets held for sale	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Revenue	Costs	Profit (loss)
Investments in associates											
FNM S.p.A.	14.74%	215,638	346,974	3,782	566,394	159,119	85,931	245,050	69,829	54,654	15,175
Italiacamp S.r.l (*)	20.00%	546	100		646	522	14	536	1,401	1,312	89
Investments in jointly controlled entities											
TELT Sas (formerly LTF Sas)	50.00%	73,934	855,678		929,612	101,596	271	101,867	89,424	89,424	

(*) Its financial statements are drawn up under Italian GAAP.

10. Non-current and current financial assets (including derivatives)

The following table gives a breakdown of financial assets at the 2016 and 2015 year ends:

thousands of Euros

	Carrying amount								
	31.12.2016			31.12.2015			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Non-current loans and borrowings	5,675,409	298,955	5,974,364	4,953,262	812,012	5,765,274	722,147	(513,057)	209,090
Injections for future capital increase									
Current loan assets		1,849,902	1,849,902		642,130	642,130		1,207,772	1,207,772
Other loan assets	436	445,354	445,790	1,759	1,246,868	1,248,627	(1,323)	(801,514)	(802,837)
Total	**5,675,845**	**2,594,211**	**8,270,056**	**4,955,021**	**2,701,010**	**7,656,031**	**720,824**	**(106,799)**	**614,025**

Financial assets increased by €614,025 thousand overall in 2016.

Non-current loans and borrowings at 31 December 2016 mainly relate to loans granted to the subsidiaries RFI S.p.A. and Trenitalia S.p.A. totalling €5,973,296 thousand, of which €2,057,953 thousand related to the Euro Medium Term Notes programme. The €209,090 thousand increase is mainly due to the granting of intragroup loans to Trenitalia S.p.A. as follows:

- variable rate ten-year bonds of €300,000 thousand issued by the company as part of the Euro Medium Term Notes Programme and subscribed by the EIB on 23 December 2015 and paid for on 12 January 2016. The company used the proceeds obtained to provide Trenitalia S.p.A. with an intragroup loan to purchase new rolling stock for regional transport in Lazio, Tuscany, Veneto, Piedmont and Liguria;
- variable coupon six-year bonds of €350,000 thousand placed by the company on the Irish Stock Exchange as part of the Euro Medium Term notes Programme via a private placement on 18 July 2016. It used the proceeds to provide Trenitalia S.p.A. with another intragroup loan to purchase rolling stock for regional transport and medium and long haul passenger transport;
- fixed coupon 15-year bonds of €50,000 thousand issued by the company as part of the Euro Medium Term Notes Programme via a private placement on 25 July 2016. The proceeds from the transaction managed by BNP Paribas as the sole manager were used to provide Trenitalia S.p.A. with an intragroup loan to purchase rolling stock for regional transport and medium to long haul transport;
- two four-year loan agreements of €150,000 thousand each signed by the company with Cassa Depositi e Prestiti and Intesa Sanpaolo S.p.A.. Also in this case, the proceeds of this transaction will be used to purchase rolling stock for medium and long haul and regional transport through the agreement of two intragroup loans of the same amount between FS S.p.A. and Trenitalia S.p.A..

This funding is offset by repayment of loans by RFI S.p.A. and Trenitalia S.p.A. during the year (€794,336 thousand) against higher receivables for loan repayments (€4,703 thousand).

Current loan assets relate to loans granted to subsidiaries. The €1,207,772 thousand increase is mainly due to the greater loans granted to Trenitalia S.p.A. and RFI S.p.A..

The decrease in other loan assets is due to lower funds in intragroup joint current accounts with Trenitalia S.p.A..

11. Other non-current and current assets

thousands of Euros

	31.12.2016			31.12.2015			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Other receivables from group companies		46,269	46,269		63,303	63,303		(17,034)	(17,034)
VAT receivables	937,212	327,614	1,264,826	741,518	470,745	1,212,263	195,694	(143,131)	52,563
MEF and MIT		611,292	611,292		531,003	531,003		80,289	80,289
Other government authorities		58	58		52	52		6	6
Sundry receivables and prepayments and accrued income	1,291	3,139	4,430	1,251	2,977	4,228	40	162	202
Total	938,503	988,372	1,926,875	742,769	1,068,080	1,810,849	195,734	(79,708)	116,026
Allowance for impairment	(1,073)		(1,073)	(1,073)		(1,073)			
Total net of the allowance for impairment	937,430	988,372	1,925,802	741,696	1,068,080	1,809,776	195,734	(79,708)	116,026

The reduction in “Other receivables from group companies” is chiefly a result of the decrease in non-trade receivables, mostly due from Mercitalia Logistics S.p.A. following settlement of the 2015 receivables (€2,618 thousand), the decrease in group VAT receivables (€4,705 thousand) and the decrease in receivables for tax consolidation (€9,335 thousand).

The €52,563 thousand increase in “VAT receivables” is mostly attributable to the difference between reimbursements of €589,779 thousand received from the tax authorities and the recognition of the 2016 VAT receivable of €642,342 thousand). The reimbursements related to the following years:

- 2012: €242,308 thousand (principal), reimbursed on 25 January 2016;
- 2013: €190,671 thousand (principal) plus €5,284 thousand (interest), reimbursed on 23 June 2016;
- intra-annual VAT for the first quarter of 2015: €30,721 thousand (principal) and €648 thousand (interest), reimbursed on 15 July 2016;
- intra-annual VAT for the second quarter of 2015: €44,084 thousand (principal) and €849 thousand (interest), reimbursed on 12 August and 19 September 2016;
- intra-annual VAT for the third quarter of 2015: €73,854 thousand (principal) and €1,360 thousand (interest), reimbursed on 18 November 2016.

The higher receivables from the MEF and the MIT relate to the 2016 portion of the grant as per section 7532 for the Turin - Lyon line, amounting to €120,540 thousand, net of the transfers of €40,250 thousand to TELT Sas to build the Turin - Lyon railway line, pursuant to section 7122.

Receivables broken down by geographical segment are as follows:

thousands of Euros

	31.12.2016	31.12.2015	Changes
Italy	1,926,599	1,810,716	115,883
Eurozone countries	108	84	24
United Kingdom	87	48	39
Other non-EU European countries		1	(1)
United States	81		81
Total	**1,926,875**	**1,810,849**	**116,026**

12. Inventories

thousands of Euros

	31.12.2016	31.12.2015	Changes
Buildings and land held for trading	669,522	741,830	(72,308)
Allowance for inventory write-down	(180,381)	(252,083)	71,702
Carrying amount	**489,141**	**489,747**	**(606)**
Total inventories	**489,141**	**489,747**	**(606)**
Reclassifications			
Cost	(60,454)	(32)	(60,422)
Allowance for inventory write-down	68,428	233	68,195
Grants	(6,974)		(6,974)
Total reclassifications	**1,000**	**201**	**799**

Inventories comprise buildings held for sale. The €606 thousand net decrease on the previous year end is mostly due to the acquisition of the Trento - Scalo Mori complex by the subsidiary FS Logistica S.p.A. (€1,030 thousand), the extraordinary maintenance carried out on buildings (€3,460 thousand), offset by disposals of the year (€9,371 thousand), net of utilisation of the related allowance for inventory write-down (€3,275 thousand). As already disclosed in note 6 "Investment property", the company reclassified €1,000 thousand related to buildings covered by sales plans from that caption to inventories.

During the year, the company recalculated the cost components of the properties recognised under inventories to more correctly allocate their costs and accumulated depreciation without changing the properties' carrying amounts.

13. Non-current and current trade receivables

thousands of Euros

	31.12.2016			31.12.2015			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Ordinary customers	6,245	76,923	83,168	6,099	41,127	47,226	146	35,796	35,942
Government authorities and other public authorities		8,749	8,749		8,038	8,038		711	711
Other receivables from group companies		67,337	67,337		105,319	105,319		(37,982)	(37,982)
Total	6,245	153,009	159,254	6,099	154,484	160,583	146	(1,475)	(1,329)
Allowance for impairment	(147)	(27,362)	(27,509)	(147)	(25,029)	(25,176)		(2,333)	(2,333)
Total net of the allowance for impairment	6,098	125,647	131,745	5,952	129,455	135,407	146	(3,808)	(3,662)

Trade receivables from ordinary customers and group companies are substantially unchanged from the previous year end. The different composition of receivables from ordinary customers reflects GS Retail S.p.A.'s exit from the group (see note 9 "Equity investments").

The €2,333 thousand increase in the allowance for impairment is mostly due to the higher number of non-performing and past due exposures recognised during the year, which was partly due to the credit committee's work to settle legal and out-of-court negotiations that had been pending for some time.

The maximum exposure to credit risk, broken down by geographical area, is as follows:

thousands of Euros

	31.12.2016	31.12.2015	Changes
Italy	158,266	157,564	702
Eurozone countries	988	1,739	(751)
Other countries		1,280	(1,280)
Total	**159,254**	**160,583**	**(1,329)**

14. Cash and cash equivalents

They can be analysed as follows:

thousands of Euros

	31.12.2016	31.12.2015	Changes
Bank and postal accounts	911,502	210,969	700,533
Cash and cash on hand	19	23	(4)
Cash pooling accounts	72,973	46,683	26,290
Total	**984,494**	**257,675**	**726,819**

This caption's increase of €726,819 thousand is mostly attributable to the larger bank and postal account balances, principally reflecting the sale of GS Retail S.p.A. to Alba Bidco S.p.A..

15. Tax assets

Tax assets of €86,431 million at 31 December 2016 rose by €8,137 million on the previous year end's net balance of tax assets and liabilities (€78,294 million). This increase is chiefly due to the greater receivables that accrued during the year for withholdings on foreign taxable profits and the larger IRAP payments on account made net of the tax expense for the year.

16. Equity

Changes in the main equity captions in 2016 and 2015 are shown in the statement of changes in equity.

Share capital

At 31 December 2016, the company's share capital fully subscribed and paid up by the sole shareholder, the MEF, was made up of 36,340,432,802 ordinary shares, with a par value of €1 each, for a total of €36,340,432,802.

Legal reserve

This reserve amounted to €6,869 thousand at the reporting date, after allocation of the 2015 profit.

Reserve pursuant to Decree law no. 192/2014 (the so-called "Milleproroghe", converted into Law no. 11 of 27 February 2015)

Following the resolution to distribute the 2015 profit, the reserve pursuant to Decree law no. 192/2014 was cancelled during the year. It had been set up after payment of two advances of €100,000 thousand in 2015. On 19 October 2016, dividends of €30,511 thousand were distributed to the MEF.

Actuarial reserve

The actuarial reserve includes the effects of actuarial gains and losses on post-employment benefits and the Free Travel Card. An actuarial gain of €251 thousand, net of the tax effect, was recognised in 2016.

Profit for the year

2016 ended with a profit of €638,773 thousand.

The origin, availability and distributability of equity captions are shown below.

Origin	Balance at 31.12.2016 (a+b)	Unavailable portion (a)	Possibility of use	Available portion (b)
Share capital	36,340,433	36,340,433		
Income-related reserve:				
Legal reserve	6,869	6,869	B	
Actuarial reserve	251		A,B	251
Total	**36,347,553**	**36,347,302**		**251**

Key:
A: capital increase
B: coverage of losses

17. Non-current and current loans and borrowings

Details on the amounts and terms and conditions of the company's loans measured at amortised cost are as follows:

thousands of Euros

	Carrying amount		
Non-current loans and borrowings, net of the current portion	**31.12.2016**	**31.12.2015**	**Changes**
Bonds	4,033,619	3,354,422	679,197
Bank loans and borrowings	845,890	784,043	61,847
Loans and borrowings from other financial backers	796,018	814,893	(18,875)
Total	**5,675,527**	**4,953,358**	**722,169**

thousands of Euros

	Carrying amount		
Current loans and borrowings and current portion of non-current loans and borrowings	**31.12.2016**	**31.12.2015**	**Changes**
Bonds (current portion)	38,348	563,311	(524,963)
Bank loans and borrowings (current portion)	1,889,395	690,738	1,198,657
Loans and borrowings from other financial backers (current portion)	168,889	162,276	6,613
Loans and borrowings from group companies (current portion)	247	11	236
Total	**2,096,879**	**1,416,336**	**680,543**
Total loans and borrowings	**7,772,406**	**6,369,694**	**1,402,712**

The caption increased by €1,402,712 thousand on the previous year end, mainly due to the rise in current borrowings (€1,195,000 thousand), the signing of two loan agreements and the placement of bonds for a total of €1,000,000 thousand (described in note 10 "Non-current and current financial assets (including derivatives)"), offset by the repayments of the loan granted by Cassa Depositi e Prestiti (€162,276 thousand), European Investment Bank (€84,208 thousand) and the Eurofima bond (€547,853 thousand).

The terms and conditions of all non-current loans and borrowings, including the current portion, are summarised in the table below:

thousands of Euros

Creditor	Currency	Nominal interest rate	Year of maturity	31.12.2016 Nominal amount	31.12.2016 Carrying amount	31.12.2015 Nominal amount	31.12.2015 Carrying amount
EUROFIMA	€	6M Euribor + Spread	2018	400,000	400,006	400,000	400,000
EUROFIMA	€	6M Euribor + Spread	2018	149,400	149,403	149,400	149,400
EUROFIMA	€	6M Euribor - Spread	2019	160,000	160,015	160,000	160,000
EUROFIMA	€	6M Euribor - Spread	2019	183,000	183,015	183,000	183,001
EUROFIMA	€	6M Euribor - Spread	2016			194,000	194,008
EUROFIMA	€	6M Euribor - Spread	2016			32,300	32,301
EUROFIMA	€	6M Euribor - Spread	2018	62,700	62,702	62,700	62,701
EUROFIMA	€	6M Euribor - Spread	2020	62,700	62,701	62,700	62,700
EUROFIMA	€	6M Euribor - Spread	2016			310,000	310,000
EUROFIMA	€	6M Euribor - Spread	2026	190,000	190,033	190,000	190,000
EUROFIMA	€	6M Euribor - Spread	2026	100,000	100,017	100,000	100,000
EUROFIMA	€	6M Euribor - Spread	2027	128,700	128,741	128,700	128,700
EUROFIMA	€	6M Euribor - Spread	2026	116,000	116,019	116,000	116,000
EUROFIMA	€	6M Euribor - Spread	2022	120,000	120,054	120,000	120,000
EUROFIMA	€	6M Euribor - Spread	2024	122,200	122,221	122,200	122,200
EUROFIMA	€	6M Euribor - Spread	2027	65,700	65,719	65,700	65,700
EUROFIMA	€	6M Euribor - Spread	2020	47,400	47,401	47,400	47,400
EUROFIMA	CHF	fixed rate 2.57%	2020	41,903	42,188	41,532	41,814
EUROFIMA	CHF	fixed rate 2.501%	2016			11,537	11,748
EUROFIMA	CHF	fixed rate 2.795%	2017	21,883	22,338	21,689	22,140
EUROFIMA	€	6M Euribor + Spread	2025	42,500	42,529	42,500	42,579
EMTN PROGR. INST. 1	€	fixed rate 4.00%	2020	745,047	758,444	743,775	757,136
EMTN PROGR. INST. 2	€	fixed rate 3.50%	2021	597,568	598,661	597,126	598,216
EMTN PROGR. INST. 3	€	6M Euribor + Spread	2025	300,000	300,016		
EMTN PROGR. INST. 4	€	6M Euribor + Spread	2022	349,025	349,854		
EMTN PROGR. INST. 5	€	fixed rate 1.65%	2031	49,775	50,137		
				4,055,501	4,072,214	3,902,259	3,917,744
EIB	€	fixed rate 4.685%	2021	484,042	485,051	568,250	569,433
CASSA DD.PP.	€	fixed rate 4.026%	2021	814,893	814,893	977,169	977,169
TLTRO I (RTI)	€	6M Euribor + Spread	2019	300,000	300,017	300,000	300,152
TLTRO II 1^ Instalment (CDP)	€	6M Euribor + Spread	2020	150,000	150,014		
TLTRO II 2^ Instalment (ISP)	€	6M Euribor + Spread	2020	150,000	150,000		
Total loans and borrowings (*)				**5,954,436**	**5,972,189**	**5,747,678**	**5,764,498**

(*) The carrying amount of loans and borrowings does not include current borrowings at 31 December 2016 (€1,800,217 thousand) and 31 December 2015 (€605,196 thousand).

The table below analyses the net financial position, shown in the reclassified statement of financial position, as presented in the 2016 Directors' report compared with 31 December 2015:

thousands of Euros

Net financial position	31.12.2016	31.12.2015	Change
Current net financial position	**(1,206,777)**	**(1,084,085)**	**(122,692)**
Cash pooling accounts	(72,973)	(46,683)	(26,290)
Loans and borrowings from other financial backers	168,889	162,276	6,613
Bank loans and borrowings	1,888,277	689,631	1,198,646
Bonds	37,281	563,184	(525,903)
Intragroup current account	(170,230)	(788,460)	618,230
Loan assets with group companies	(2,146,499)	(1,453,041)	(693,458)
Bank and postal accounts	(911,502)	(210,969)	(700,533)
Other	(20)	(23)	3
Net non-current financial position (debt)	**55**	**(331)**	**386**
Loans and borrowings from other financial backers	796,018	814,893	(18,875)
Bank loans and borrowings	845,454	782,512	62,942
Bonds	4,033,619	3,354,422	679,197
Loan assets with group companies	(5,675,036)	(4,951,929)	(723,107)
Other		(229)	229
Total	**(1,206,722)**	**(1,084,416)**	**(122,306)**

18. Post-employment benefits and other employee benefits

thousands of Euros

	31.12.2016	31.12.2015
Present value of post-employment benefit obligations	10,975	11,689
Present value of Free Travel Card obligations	185	189
Total present value of obligations	**11,160**	**11,878**

Changes in the present value of liabilities for defined benefit obligations for post-employment benefits and the Free Travel Card (excluding other employee benefits) are shown in the table below.

thousands of Euros

	2016	2015
Defined benefit obligations at 1 January	11,878	13,906
Service costs	3	3
Interest cost (*)	122	149
Actuarial (gains) losses recognised in equity (**)	146	(492)
Advances, utilisations and other changes	(989)	(1,688)
Total defined benefit obligations	**11,160**	**11,878**

(*) through profit or loss

(**) net of the tax effects

The decrease in the provision for post-employment benefits and the Free Travel Card (€718 thousand) mainly refers to:

- the benefits paid to the personnel who left the company during the year (€1,204 thousand) and transfers of employees to and from other group companies (€215 thousand);
- the difference between the expected accrued amount at the end of the observation period and the expected present value of the benefits payable in the future as recalculated at the end of the period and of the updated valuation assumptions, that represents the actuarial gains/(losses). This calculation generated an actuarial loss of €146 thousand during the year, compared to the actuarial gain of €492 thousand in 2015.

Actuarial assumptions

The main assumptions for the actuarial estimate process are described below.

	2016	**2015**
Discount rate (post-employment benefits)	0.86%	1.39%
Discount rate (Free Travel Card)	1.05%	2.03%
Annual increase rate of post-employment benefits (year x+1)	2.85%	2.63%
Annual increase rate of post-employment benefits (year x+2)	2.78%	2.85%
Annual increase rate of post-employment benefits (year x+3)	2.70%	2.78%
Annual increase rate of post-employment benefits (year x+4)	3.00%	2.70%
Inflation rate of post-employment benefits (year+1)	1.80%	1.50%
Inflation rate of post-employment benefits (year+2)	1.70%	1.80%
Inflation rate of post-employment benefits (year+3)	1.60%	1.70%
Inflation rate of post-employment benefits (year+4)	2.00%	1.60%
Inflation rate of Free Travel Cards (year+1)	1.80%	1.50%
Inflation rate of Free Travel Cards (year+2)	1.70%	1.80%
Inflation rate of Free Travel Cards (year+3)	1.60%	1.70%
Inflation rate of Free Travel Cards (year+4)	2.00%	1.60%
Expected turnover rate for employees	3.00%	3.00%
Expected rate of advances	2.00%	2.00%
Death probability	RG48 mortality rate published by the General Accounting Office	
Disability	INPS tables broken down by gender and age	
Retirement age	100% upon meeting the Compulsory general insurance requirements	

The following table shows the results of the sensitivity analysis performed to assess the effects that would have been recorded in terms of changes in the present value of liabilities for defined benefit obligations, following reasonably possible changes in actuarial assumptions.

The table shows the average duration of the defined benefit obligations and the disbursements provided by the plan.

	Post-employment benefits	Free Travel Card
Inflation rate +0.25%	11,089	199
Inflation rate -0.25%	10,863	172
Discount rate +0.25%	10,796	180
Discount rate -0.25%	11,159	190
Turnover rate +1%	10,919	
Turnover rate +1%	11,037	
Plan duration	7	12
Payment - first year	1,792	12
Payment - second year	1,190	12
Payment - third year	500	12
Payment - fourth year	1,017	12
Payment - fifth year	817	12

19. Provisions for risks and charges

The opening and the closing balances of, and changes in, the provisions for risks and charges for 2016 are given below.

thousands of Euros

	31.12.2015	Accruals	Utilisations	Other changes	Release of excess provisions	31.12.2016
Provision for taxation	283					283
Labour and civil litigation	5,272	2,739	(945)			7,066
Other minor risks	141,290	31,600	(9,007)	56	(140)	163,799
Total	**146,845**	**34,339**	**(9,952)**	**56**	**(140)**	**171,148**

The provision for labour and civil litigation was accrued to cover probable expenses due to the third-party litigation related to sales contracts (price reductions, compensation for damage incurred during sales negotiations), non-compliance with agreements or disputes about leases, claims for checks on property, pre-emption, etc. rights, as well as disputes with personnel. €945 thousand of the provision was used in 2016, mainly due to the disputes with personnel and in relation to real estate, while €2,739 thousand was accrued after the company's prudent update of its risk valuation.

The provision for other minor risks mainly covers estimated expenses to be incurred for personnel and contractual costs borne by the former Ferrovie Real Estate S.p.A. connected to specific sales, called "high income and high building package", reclamation costs for certain sites, contractual risks and tax-related items.

The accruals for the year (€31,600 thousand) refer to the estimated costs related to the guarantees included in the contract providing for the sale of GS Retail S.p.A. to Alba Bidco S.p.A. (€26,600 thousand) and the change management costs (€5,000 thousand), while utilisations related to the costs incurred for the contractual obligations pertaining to the former Ferrovie Real Estate S.p.A. (€4,803 thousand) and the costs of management involved in the change management project (€4,204 thousand).

20. Non-current and current financial liabilities (including derivatives)

thousands of Euros

	Carrying amount								
	31.12.2016			31.12.2015			Change		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Financial liabilities									
Other financial liabilities	373	275,049	275,422	1,332	458,264	459,596	(959)	(183,215)	(184,174)
Total	373	275,049	275,422	1,332	458,264	459,596	(959)	(183,215)	(184,174)

The decrease in other financial liabilities is mainly due to the smaller liability for the intragroup current accounts due to RFI S.p.A. (€101,213 thousand), Fercredit S.p.A. (€68,776 thousand), GS Rail S.p.A. (€16,546 thousand), Mercitalia Logistics S.p.A. (€13,364 thousand) and Ferservizi S.p.A. (€8,515 thousand), offset by the increase in the same liability due to Italferr S.p.A. (€22,343 thousand) and Centostazioni S.p.A. (€4,804 thousand).

21. Other non-current and current liabilities

thousands of Euros

	31.12.2016			31.12.2015			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Advances for grants		611,292	611,292		531,003	531,003		80,289	80,289
Social security charges payable		4,454	4,454		4,621	4,621		(167)	(167)
Other liabilities with group companies	1,011,411	373,124	1,384,535	830,349	775,325	1,605,674	181,062	(402,201)	(221,139)
Tax consolidation liabilities		21,481	21,481		3,781	3,781		17,700	17,700
Other liabilities and accrued expenses and deferred income	2,254	59,812	62,066	127,837	62,569	190,406	(125,583)	(2,757)	(128,340)
Total	1,013,665	1,070,163	2,083,828	958,186	1,377,299	2,335,485	55,479	(307,136)	(251,657)

Advances for grants are entirely related to the resources allocated to the construction of the Turin - Lyon railway line. The increase on the previous year end mirrors the increase in the receivables due from the MEF and MIT (see note 11).

The decrease in “Other liabilities with group companies” (€221,139 thousand) is principally due to the larger group VAT liabilities (€41,434 thousand) - mostly arising on the difference between the transfer of net VAT receivables by the companies participating in the VAT consolidation scheme during the year (€739,293 thousand, including accrued interest) and amounts credited to RFI S.p.A. and Trenitalia S.p.A. (principal of €689,679 thousand and interest of €8,179 thousand) following VAT reimbursements received during the year. The decrease in this caption is also due to the payment for FS Italiane group’s electrical assets sold to Terna S.p.A. by RFI S.p.A. in May 2016 (€272,125 thousand).

The decrease in other liabilities and accrued expenses and deferred income (€128,340 thousand) is mainly due to the elimination of the liability to the bilateral fund for income assistance (€124,420 thousand) following the winding up of the relevant Fund and the transfer of its assets to INPS (Italy’s social security institution), which requested its winding up.

22. Current trade payables

They can be analysed as follows:

thousands of Euros

	31.12.2016	31.12.2015	Changes
Suppliers	35,289	34,355	934
Payments on account	7,239	8,666	(1,427)
Group companies	37,073	46,014	(8,941)
Total	**79,601**	**89,035**	**(9,434)**

Trade payables mainly consist of amounts due to suppliers (€35,289 thousand) and subsidiaries, specifically RFI S.p.A. (€6,803 thousand), Ferservizi S.p.A. (€17,125 thousand), GS Rail S.p.A. (€8,233 thousand), Fercredit S.p.A. (€2,578 thousand), Trenitalia S.p.A. (€876 thousand) and FS Sistemi Urbani S.r.l. (€533 thousand).

Liabilities with related parties are described in note 40 “Related party transactions”.

Payments on account amount to €7,239 thousand and mainly refer to amounts received for expropriations not yet completed.

The fair value measurement of trade payables had no significant effect considering the short period of time between the moment the payable arises and its due date.

23. Revenue from sales and services

The table and comments below give a breakdown of revenue from sales and services.

thousands of Euros

	2016	2015	Changes
Revenue from property management	72,789	73,325	(536)
Fee income from the use of trademarks	26,112	25,969	143
Services	36,637	36,135	502
Capitalisation of work on property held for trading	3,356	2,550	806
Other services	1,823	1,607	216
Total	**140,717**	**139,586**	**1,131**

Revenue from sales and services decreased by €1,131 thousand on 2015, mainly due to the combined effect of the following:

- slight reduction in revenue from property management, which includes leases, revenue from the commercial use of company-owned stations and from the sale of buildings and land held for trading; this decrease was mainly due to market trends and was offset in part by the increase in revenue from the commercial use of the four large company-owned stations;
- greater revenue from recharges to group companies (€502 thousand) for internal communications services designed to promote the new 2017-2026 business plan;
- the increase in extraordinary maintenance capitalised on buildings held for trading (€806 thousand).

Buildings and land held for trading were sold during the year for a total of approximately €10,065 thousand, substantially in line with the previous year, generating a gain of about €4,147 thousand, recognised under “Revenue from property management”.

24. Other income

This caption can be analysed as follows:

thousands of Euros

	2016	2015	Changes
Surety fee income	**3,338**	**2,756**	**582**
Repayments			
Managers' fees as corporate officers at FS Italiane group companies	614	1,034	(420)
Facilities	7,447		7,447
Other repayments	644	864	(220)
Total repayments	**8,705**	**1,898**	**6,807**
Other sundry income	**3,932**	**2,722**	**1,210**
Total	**15,975**	**7,376**	**8,599**

The €8,599 thousand increase is mainly due to recharging GS Retail S.p.A. for station-related costs (maintenance, cleaning, etc.) as per the new agreement signed on 4 July 2016. It is also a result of the higher surety fees due from group companies on the larger sureties given on their behalf during the year.

25. Personnel expense

thousands of Euros

	2016	2015	Changes
Wages and salaries	31,917	32,246	(329)
Social security charges	8,750	9,036	(286)
Other expense for employees	5,897	(1,915)	7,812
Post-employment benefits	2,117	2,089	28
Accruals and releases	729	(574)	1,303
Employees	**49,410**	**40,882**	**8,528**
Wages and salaries	611	431	180
Social security charges	102	116	(14)
Consultants and freelancers	**713**	**547**	**166**
Temporary workers, seconded employees and trainees	987	1,349	(362)
Other costs	2,777	800	1,977
Other costs	**3,764**	**2,149**	**1,615**
Total	**53,887**	**43,578**	**10,309**

Personnel expense, which totals €53,887 thousand, increased by €10,309 thousand on the previous year.

The increase is due to:

- a rise in costs for leaving incentives paid to permanent employees (€7,668 thousand);
- an increase in costs for consultants and freelancers (€166 thousand);

- an increase in other costs (€1,615 thousand), mostly due to higher funded training costs (€1,988 thousand), offset by smaller costs for seconded personnel (€267 thousand) as the original companies bore the costs of their employees on secondment.

The table below gives a breakdown of the company's average number of employees by category:

	2016	2015	Changes
Personnel			
Managers	81	81	
Junior managers	220	207	13
Other	179	179	
Total	**480**	**467**	**13**

26. Raw materials, consumables, supplies and goods

They can be analysed as follows:

thousands of Euros

	2016	2015	Changes
Raw materials and consumables	429	443	(14)
Lighting and driving force	92	116	(24)
Change in buildings and land held for trading	6,096	14,574	(8,478)
Total	**6,617**	**15,133**	**(8,516)**

The decrease in this caption is mainly due to the smaller write-downs of the year (€8,371 thousand).

27. Services

This caption can be analysed as follows:

thousands of Euros	2016	2015	Changes
Maintenance, cleaning and other contracted services	**10,202**	**9,623**	**579**
Contracted services and work	617	603	14
Cleaning and other contracted services	298	323	(25)
Maintenance and repair of intangible assets and property, plant and equipment	9,287	8,697	590
Property services and utilities	**23,362**	**22,715**	**647**
Administrative and IT services	**7,693**	**7,157**	**536**
External communication and advertising expense	**4,230**	**4,173**	**57**
Other	**25,102**	**8,093**	**17,009**
Professional services	2,898	2,003	895
Insurance	1,612	1,547	65
Consultancies	4,367	2,798	1,569
Facility management	11,491	4,624	6,867
Travel and accommodation	607	596	11
Other administrative services	328	701	(373)
Other services	3,799	5,153	(1,354)
Accruals/releases		(9,329)	9,329
Total	**70,589**	**51,761**	**18,828**

For some of the other services listed above, there is a balancing entry for the costs borne by Ferrovie dello Stato Italiane S.p.A. under other income for the recharges to group companies, limited to the portions related thereto.

The overall increase in services is mainly due to the increase in both ordinary and extraordinary maintenance volumes to ensure the efficiency of property, the higher costs incurred with Ferservizi S.p.A. for real estate management, more IT services, the greater professional services and consultancies, the higher facility management costs incurred for GS Rail S.p.A. and recharged to GS Retail S.p.A., offset by the release of the provisions for litigation and real estate disputes in the previous year.

28. Use of third-party assets

This caption can be analysed as follows:

thousands of Euros

	2016	2015	Changes
Lease payments and condominium expenses	3,405	3,542	(137)
Leases and indemnities for rolling stock and other	37	15	22
Total	**3,442**	**3,557**	**(115)**

The slight decrease is mainly due to the less building space leased during the year.

29. Other operating costs

This caption can be analysed as follows:

thousands of Euros

	2016	2015	Changes
Membership fees and contributions	8,924	7,750	1,174
Non-deductible VAT (pro rata)	4,204	7,351	(3,147)
Taxes and duties	14,641	14,519	122
Other sundry expense	2,483	1,756	727
Other costs, accruals/releases	2,654		2,654
Total	**32,906**	**31,376**	**1,530**

The €1,530 thousand increase in other operating costs is mainly due to the combination of larger contributions to Fondazione FS Italiane (€1,389 thousand), the smaller non-deductible VAT matured during the year (€3,147 thousand) and the larger accruals to the provision for labour and civil litigation (€2,654 thousand).

30. Internal work capitalised

Internal work capitalised, amounting to €176 thousand (2015: €259 thousand), refers to personnel expense attributable to the production and development of software recognised under intangible assets.

31. Amortisation and depreciation

This caption can be analysed as follows:

thousands of Euros

	2016	2015	Changes
Amortisation	10,795	14,215	(3,420)
Depreciation	9,199	9,457	(258)
Total	**19,994**	**23,672**	**(3,678)**

The €3,678 thousand decrease in this caption is chiefly a result of the recovery (€755 thousand) of amortisation and depreciation accrued in previous years after the recognition of grants related to assets of €5,061 thousand received as part of the 2007-2013 National Operating Programme (PON) - Network and Mobility, as well as ordinary amortisation and depreciation trends.

32. Impairment losses (reversals of impairment losses)

This caption can be analysed as follows:

thousands of Euros

	2016	2015	Changes
Impairment losses on property, plant and equipment and investment property	114	13,051	(12,937)
Impairment losses and reversals of impairment losses on receivables	941	250	691
Total	**1,055**	**13,301**	**(12,246)**

The caption decreased by €12,246 thousand on 2015, mainly as a result of lower depreciation of investment property (€12,937 thousand) and the larger accruals to the allowance for impairment made to reflect the estimated collections (€691 thousand).

33. Financial income

This caption can be analysed as follows:

thousands of Euros

	2016	2015	Changes
Gains on equity investments	130,901	85,693	45,208
Total gains on equity investments	**130,901**	**85,693**	**45,208**
Financial income from non-current loans and receivables and securities	126,184	135,265	(9,081)
Other financial income	409,424	114,899	294,525
Revaluations of financial assets	41,590		41,590
Exchange rate gains	185	28	157
Total other financial income	**577,383**	**250,192**	**327,191**
Total	**708,284**	**335,885**	**372,399**

Financial income rose by €372,399 thousand on 2015 due to:

- the €45,208 thousand increase in dividends distributed by subsidiaries and associates, principally Trenitalia S.p.A. (€23,000 thousand), Italferr S.p.A. (€6,388 thousand), Ferservizi S.p.A. (€5,669 thousannd), Netinera Deutschland GmbH (€3,570 thousand) and GS Rail S.p.A. (€3,850 thousand);
- the €9,081 thousand decrease in interest income accrued on the non-current loans given to the subsidiaries RFI S.p.A., Trenitalia S.p.A. and Fercredit S.p.A.. This variation was almost entirely attributable to the reduction in interest due from RFI S.p.A. (€10,056 thousand) on the EIB and Cassa Depositi e Prestiti loans as the outstanding principal has decreased and the reference interest rate is very low (6M Euribor), which meant that the rates applied to the loans decreased;
- the €294,525 thousand increase in other financial income, mainly generated by the larger gains on disposals (€365,845 thousand), related to the sale of GS Retail S.p.A. to Alba Bidco S.p.A. (€383,279 thousand) (see note 9 “Equity investments”), offset by the reduction in the caption compared to the previous year following the positive adjustment to the carrying amount of the Eurofima SA investment (€75,496 thousand) in that year;
- the €41,590 thousand revaluation of the investment in Trenitalia S.p.A..

34. Financial expense

This caption can be analysed as follows:

thousands of Euros

	2016	2015	Changes
Impairment losses on financial assets	327	11,432	(11,105)
Total losses on equity investments	**327**	**11,432**	**(11,105)**
Interest on financial liabilities	141,724	147,340	(5,616)
Financial expense for employee benefits	152	178	(26)
Exchange rate loss	177	14	163
Total other financial expense	**142,053**	**147,532**	**(5,479)**
Total	**142,380**	**158,964**	**(16,584)**

Financial expense decreased by €16,584 thousand on the previous year, mainly due to:

- smaller impairment losses on equity investments (decrease of €11,105 thousand);
- the overall decrease in expense on loans from Cassa Depositi e Prestiti, the EIB and Eurofima (€12,394 thousand) and smaller interest on current loans and borrowings (€1,251 thousand), offset by greater interest accrued on the bonds issued as part of the Euro Medium Term Notes Programme (€3,126 thousand) and the new issues placed during the year, the increase in interest on the VAT receivable to be reimbursed (€775 thousand), greater expense due to Trenitalia S.p.A. for the Eurofima financing (€1,319 thousand) and greater interest and fees due to non-utilisation of the backup facility (€1,632 thousand).

35. Current and deferred taxes

Income taxes can be analysed as follows:

thousands of Euros

	2016	2015	Changes
IRAP	160	4,650	(4,490)
IRES	17,599	26,593	(8,994)
Income from the tax consolidation scheme	(113,123)	(11,597)	(101,526)
Deferred taxes	(5,594)	(16,561)	10,967
Adjustments to prior year income taxes	(3,534)	(1,651)	(1,883)
Accruals/releases		(19)	19
Total income taxes	**(104,492)**	**1,415**	**(105,907)**

Income taxes decreased by €105,907 thousand overall on 2015, mainly due to the combined effect of the following factors:

- decrease in current taxes, including IRAP of €4,490 thousand due to the higher amount of personnel expense deducted as part of the tax wedge, and IRES of €8,994 thousand due to the larger tax deductions made compared to the previous year;

- recognition of the tax income from the tax consolidation scheme (€113,123 million), recognised on the tax losses transferred to the group over the years and used during the year, as their subsequent remuneration is not deemed probable;
- the €10,967 thousand increase in deferred tax assets and liabilities (see note 8 "Deferred tax assets and deferred tax liabilities").

Reconciliation of the actual tax rate

	2016		2015	
	Euros	**%**	**Euros**	**%**
Profit for the year	638,773		137,380	
Total income taxes	(104,492)		1,415	
Pre-tax profit	534,280		138,795	
IRES theoretical tax (national tax rate)		**27.5%**		**27.5%**
Lower taxes:				
Dividends from investees	(124,536)		(81,408)	
Utilisation of provisions	(10,437)		(11,676)	
Other decreases	(412,763)		(92,305)	
Higher taxes:				
Accruals	29,334		69,968	
Impairment losses on equity investments	27		11,132	
Prior year expense	1,150		447	
Exchange rate losses	163		3	
Amortisation and depreciation	4,150		4,833	
Variation in inventories			(2,989)	
Non-deductible taxes	11,805		10,059	
Other increases	30,643		49,843	
Total IRES taxable profit	63,996		96,702	
Total current taxes (IRES)	**17,599**	**3.3%**	**26,593**	**19.2%**
IRAP	**160**	**5.57%**	**4,650**	**5.57%**
Difference on prior year estimated taxes	**(3,534)**		**(1,670)**	
Total deferred taxes	**(5,595)**		**(16,561)**	
Income from the tax consolidation scheme	**(113,122)**		**(11,597)**	
TOTAL INCOME TAXES	**(104,492)**		**1,415**	

36. Contingent assets and contingent liabilities

At the reporting date, there were no contingent assets or liabilities.

37. Other information

At the date of preparation of these financial statements, the share capital of Eurofima SA, with registered office in Basel, and in which the company holds a 13.50% investment, was not entirely called up. Consequently, based on the following observations, this represents a financial commitment by the company:

- the callable shares were last approved in 1997;
- the Swiss legislation allows callable shares to never be called up.

The callable share capital that Ferrovie dello Stato Italiane S.p.A. holds amounts to CHF280,800,000 (€261,477 thousand at the exchange rate ruling on 31 December 2016). Its payment would increase the carrying amount of the equity investment by the same amount.

38. Audit fees

Pursuant to article 37.16 of Legislative Decree no. 39/2010 and letter 16-bis of article 2427 of the Italian Civil Code, the total fees due to the independent auditors and their network companies amount to €732 thousand and include the fees paid for services other than the legally-required audit (€431 thousand).

39. Directors' and statutory auditors' fees

thousands of Euros

	2016	2015	Changes
Directors	1,203	1,267	(64)
Statutory auditors	100	100	
Total	**1,303**	**1,367**	**(64)**

Directors' fees include the amounts envisaged for the positions of Chairwoman and Chief Executive Officer, as well as any amounts envisaged for the remaining board members. In addition to the above fees, the external member of the supervisory body received €20 thousand. The fees to the representatives of the MEF (directors and statutory auditors) are transferred to such Ministry when the related parties are employees thereof.

40. Related parties

Transactions with key managers

thousands of Euros

	2016	2015
Short-term benefits	4,392	4,958
Post-employment benefits	293	310
Termination benefits	618	
Total	**5,303**	**5,268**

The benefits relate to the sundry remuneration paid to parties indicated.

In addition to short-term benefits of €4,392 thousand paid out in 2016, a variable portion is to be paid in 2017, for an amount not exceeding €700 thousand, once checks have been made on whether objectives have been reached.

Key managers did not receive any long-term benefits.

Benefits of €618 thousand were paid in addition to post-employment benefits.

During the year, the key managers did not carry out any transactions, directly or through close family members, with the group, group companies or other related parties.

Related party transactions

The main transactions between Ferrovie dello Stato Italiane S.p.A. and its related parties, which were all carried out on an arm's length basis, are described below.

	RECEIVABLES	PAYABLES
Subsidiaries		
RFI S.p.A.	Area services Finance Tax and financial statements Corporate business Legal/labour office Management administration Industrial relations Organisation development Public and media relations Company security Institutional business Strategies Legal Organisation and processes Information systems Communication services Sales of property held for trading Company officers Seconded personnel Insurance reimbursements Recharge of IT services Recharge of condominium expenses Technical assistance in training projects Utilisation of trademark Lease and sub-lease of offices and workshops Recharge of the Bilateral fund for income assistance Contributions to AGCM charges incurred	Technical party - property maintenance Recharge of IT services Seconded personnel Health services Training Leases
Ferservizi S.p.A.	Area services Finance Tax and financial statements Corporate business Legal/labour office Management administration Company security Industrial relations Organisation development Public and media relations Institutional business Strategies Legal Organisation and processes Information systems Communication services Seconded personnel Insurance reimbursements Recharge of IT services Utilisation of trademark Lease and sub-lease of offices and workshops Recharge of condominium expenses Recharge of the Bilateral fund for income assistance Technical assistance in training projects Contributions to AGCM charges incurred	Property management Recharge of condominium expenses for asset protection IT services Seconded personnel Railway hotels Ticket purchase fees Asset enhancement fees Technical administration management services Personnel management Accounting and treasury Facilities and building management Administrative services Training Asset allocation services Station area management Assistance to person in charge Property litigation management Maintenance, conservation and protection fees Translation services Catering services
Fercredit S.p.A.	Area services Finance Tax and financial statements Corporate business Legal/labour office Public and media relations Company security Organisation development Strategies Legal Company officers Insurance reimbursements Recharge of IT services Recharge of condominium expenses Lease and sub-lease of offices Utilisation of trademark Contributions to AGCM charges incurred	
Grandi Stazioni Rail S.p.A.	Area services Finance Tax and financial statements Corporate business Legal/labour office Management administration Public and media relations Organisation development Strategies Information systems Communication services	Facilities management Property requisition compensation instalments Condominium expenses

	Company officers Seconded personnel Repurchase instalment Insurance reimbursements Advertising Contributions to AGCM charges incurred	
Centostazioni S.p.A.	Area services Finance Tax and financial statements Corporate business Management administration Communication and media relations Organisation development Audit Strategies Information systems Communication services Company officers Seconded personnel Insurance reimbursements Recharge of IT services Contributions to AGCM charges incurred	 Seconded personnel Catering services
FS Sistemi Urbani S.r.l.	Area services Finance Tax and financial statements Corporate business Legal/labour office Management administration Industrial relations Public and media relations Organisation development Audit Institutional business Strategies Legal Company security Organisation and processes Information systems Communication services Company officers Insurance reimbursements Lease and sub-lease of offices Utilisation of trademark Recharge of condominium expenses Recharge of the Bilateral fund for income assistance Recharge of IT services	 Asset enhancement fees Office rental Training funding
Serfer S.r.l.	Area services Insurance reimbursements Contributions to AGCM charges incurred	
TX Logistik AG	Area services Company officers Insurance reimbursements	
Trenitalia S.p.A.	Area services Finance Tax and financial statements Corporate business Legal/labour office Management administration Industrial relations Organisation development Public and media relations Company security Institutional business Strategies Legal Organisation and processes Information systems Communication services Seconded personnel Insurance reimbursements Recharge of IT services Utilisation of trademark Lease and sub-lease of offices and workshops Land rental Recharge of condominium expenses Recharge of the Bilateral fund for income assistance Technical assistance in training projects Contributions to AGCM charges incurred	 Seconded personnel Passenger transport costs Training funding Advertising and marketing

Italferr S.p.A.	Area services Finance Tax and financial statements Corporate business Legal/labour office Management administration Industrial relations Organisation development Public and media relations Audit Institutional business Strategies Legal Organisation and processes Information systems Communication services Company officers Seconded personnel Insurance reimbursements Recharge of IT services Utilisation of trademark Recharge of the Bilateral fund for income assistance Technical assistance in training projects Contributions to AGCM charges incurred	Technical administration management services Training funding
Mercitalia Logistics S.p.A.	Area services Finance Tax and financial statements Corporate business Industrial relations Legal/labour office Management administration Public and media relations Organisation development Audit Institutional business Strategies Legal Organisation and processes Information systems Company officers Insurance reimbursements Recharge of IT services Office leases Utilisation of trademark Recharge of condominium expenses	Purchase of buildings and land held for trading Transport and shipping Seconded personnel Catering services Training funding
Busitalia - Sita Nord S.r.l.	Area services Finance Tax and financial statements Corporate business Legal/labour office Management administration Public and media relations Organisation development Audit Institutional business Strategies Legal Organisation and processes Information systems Communication services Company officers Seconded personnel Insurance reimbursements Recharge of IT services Office leases Recharge of condominium expenses Contributions to AGCM charges incurred	Transport and shipping
Italcertifer S.p.A.	Area services Management administration Industrial relations Organisation development Legal Seconded personnel Insurance reimbursements Recharge of bilateral management fund service costs	
Cemat S.p.A.	Tax and financial statements Corporate business Audit Public and media relations Organisation development Information systems Communication services Company officers Insurance reimbursements Contributions to AGCM charges incurred	

Metropark S.p.A.	Finance	
	Tax and financial statements	
	Corporate business	
	Legal/labour office	
	Public and media relations	
	Organisation development	
	Strategies	
	Company security	
	Legal	
	Information systems	
	Communication services	
	Insurance reimbursements	
	Lease and sub-lease of offices	
	Recharge of condominium expenses	
	Recharge of IT services	
Netinera Deutschland GmbH	Insurance reimbursements	
	Recharge of IT services	
Ataf Gestioni S.r.l.	Contributions to AGCM charges incurred	
Trenitalia Logistic France SaS	Corporate business	
Trenord S.r.l.	Company officers	
	Insurance reimbursements	
	Lease and sub-lease of offices and workshops	
	Recharge of condominium expenses	
Terminali Italia S.r.l.	Insurance reimbursements	
	Office leases	
	Recharge of condominium expenses	
Thello Sas	Insurance reimbursements	
Busitalia Rail Service S.r.l.	Insurance reimbursements	Transport and shipping
		Advertising and marketing
Busitalia Veneto S.p.A.	Management administration	
Bluferries S.r.l.	Insurance reimbursements	
TELT Sas (formerly LTF Sas)	Seconded personnel	
Grandi Stazioni Immobiliare S.p.A.	Company officers	
City Boat	Company officers	
Sita S.p.A. in liquidation	Legal	
Mercitalia Rail S.r.l. (formerly FS Telco S.r.l)	Seconded personnel	
Mercitalia Transport & Service		Transport and shipping
	RECEIVABLES	**PAYABLES**
Associates of subsidiaries		
Li-NEA S.p.A.	Company officers	
Terminal Tremestieri S.r.l.	Company officers	
Other related parties (*)		
CDDPP group	Pedestrian crossings	Loans and borrowings
ENEL group	Land easement instalments	Electrical energy supply
ENI group	Land easement instalments	Gas supply
Invitalia group	Pedestrian crossings	
POSTE group	Operating buildings lease instalments	Postal charges
	Land lease instalments	
Eurofer	Insurance reimbursements	Grants
Other pension funds		Insurance policies
Previndai		Grants

(*) Companies with the same parent, i.e. MEF.

OTHER RELATED PARTIES

TAX CONSOLIDATION SCHEME	VAT UNDER THE VAT CONSOLIDATION SCHEME	INTRAGROUP BANK AND POST OFFICE CURRENT ACCOUNTS	LOANS GRANTED	DEPOSITS GRANTED AND LOANS RECEIVED	ISSUE OF SURETY GUARANTEES TO	SUPPLEMENTARY PENSION FUNDS
Subsidiaries						
RFI S.p.A.	RFI S.p.A.	RFI S.p.A.	RFI S.p.A.		RFI S.p.A.	
Fercredit S.p.A.	Fercredit S.p.A.	Fercredit S.p.A.	Fercredit S.p.A.			
Ferservizi S.p.A.	Ferservizi S.p.A.	Ferservizi S.p.A.			Ferservizi S.p.A.	
Trenitalia S.p.A.	Trenitalia S.p.A.	Trenitalia S.p.A.	Trenitalia S.p.A.		Trenitalia S.p.A.	
Italferr S.p.A.	Italferr S.p.A.	Italferr S.p.A.			Italferr S.p.A.	
Grandi Stazioni Rail S.p.A.	GS Rail S.p.A.	GS Rail S.p.A.			GS Rail S.p.A.	
Centostazioni S.p.A.	Centostazioni S.p.A.	Centostazioni S.p.A.			Centostazioni S.p.A.	
Bluferries S.r.l.	Bluferries S.r.l.	Bluferries S.r.l.				
Metropark S.p.A.	Metropark S.p.A.	Metropark S.p.A.				
Mercitalia Logistics S.p.A.	Mercitalia Log. S.p.A.	Mercitalia Log. S.p.A.	Mercitalia Log. S.p.A.		Mercitalia Logistics S.p.A.	
FS Sistemi Urbani S.r.l.	FS Sistemi Urbani S.r.l.	FS Sistemi Urbani S.r.l.			FS Sistemi Urbani S.r.l.	
Mercitalia Rail S.r.l.	Mercitalia Rail S.r.l.					
Italcertifer S.p.A.		Italcertifer S.p.A.	Italcertifer S.p.A.		Italcertifer S.p.A.	
Cemat S.p.A.	Cemat S.p.A.				Cemat S.p.A.	
Ferport Genova S.r.l. in liquidation	Ferport Genova S.r.l. in liquidation					
Busitalia Rail Service S.r.l.	Busitalia Rail Serv S.r.l.					
Busitalia Veneto S.p.A.						
Serfer S.r.l.	Serfer S.r.l.	Serfer S.r.l.	Serfer S.r.l.		Serfer S.r.l.	
Terminali Italia S.r.l.	Terminali Italia S.r.l.	Terminali Italia S.r.l.	Terminali Italia S.r.l.			
Tunnel Ferroviario del Brennero S.p.A.					Tunnel Ferroviario del Brennero S.p.A.	
Busitalia Sita Nord S.r.l.	Busitalia Sita N. S.r.l.	Busitalia Sita Nord S.r.l.	Busitalia Sita N. S.r.l.		Busitalia Sita Nord S.r.l.	
Nord Est Terminal S.p.A. in liquidation						
					TX Logistik AG	
					Netinera Deutschland GmbH	
Sita S.p.A. in liquidation					Sita S.p.A. in liquidation	
SGT S.p.A.						
	Mercitalia Transport & Services					
					Cisalpino AG	
					Thello Sas	
Other related parties				Cassa DD.PP.		
		Poste Italiane				
						Eurofer
						Previndai

The tables below summarise statement of financial position and income statement amounts at 31 December 2016 for related party transactions.

Trade and other transactions

thousands of Euros

Name	31.12.2016 Receivables	Payables	Guarantees and commitments	2016 Costs	Revenue
Subsidiaries					
Ataf Gestioni S.r.l.					2
Busitalia Rail Service S.r.l.	259	3,593		5	
Busitalia Veneto S.p.A.	572			(1)	2
Bluferries S.r.l.	926			(2)	
Busitalia - Sita Nord S.r.l.	6,825	481		(299)	975
Cemat S.p.A.	415	319		(6)	104
Centostazioni S.p.A.	5,177	1,260		(158)	342
Cisalpino AG	83				
Fercredit S.p.A.	218	3,328		(12)	403
Ferport Genova S.r.l. in liquidation		28			
Ferservizi S.p.A.	7,495	22,318	1	29,899	6,032
FS Sistemi Urbani S.r.l.	1,312	811		666	877
Grandi Stazioni Rail S.p.A.	5,683	9,274	8	8,991	18,124
Italcertifer S.p.A.	1,852			(7)	31
Italferr S.p.A.	17,873	3,388		(129)	1,808
Metropark S.p.A.	958			(3)	456
Netinera Deutschland GmbH	551		35	(165)	89
Nord Est Terminal S.p.A. in liquidation		220			
Rete Ferroviaria Italiana S.p.A.	23,972	1,068,643	1,585	(3,435)	38,576
TELT Sas (formerly LTF Sas)	609		7	(1,323)	13
Serfer S.r.l.	2,929	819		(5)	2
Sita S.p.A. in liquidation	89	144			5
Terminali Italia S.r.l.	1,655			(4)	27
Thello Sas	2		1	(3)	1
Trenitalia Logistic France Sas	6				3
Trenitalia S.p.A.	22,585	326,044	249	(6,195)	43,430
Trenord S.r.l.	1,052	18		(3)	208
Tunnel Ferroviario del Brennero S.p.A.		46			
Mercitalia Transport & Services S.r.l.	529	9		16	
TX Logistik AG	222			(8)	1
Mercitalia Logistics S.p.A.	9,646	2,434	7	1,050	494
Mercitalia Rail S.r.l. (formerly FS Telco S.r.l)	49	36		(41)	
Mercitalia Terminal S.p.A.	47				
Grandi Stazioni Immobiliare S.p.A.	16				16
City Boat	1				1
Trenitalia UK Ltd			135		
Total	**113,608**	**1,443,213**	**1,893**	**28,828**	**112,022**
Associates of subsidiaries					
BBT SE	14				1
LI-NEA S.p.A.	5				10
Terminal Tremestieri S.r.l.	9				9
Logistica SA	4			2	
Quadrante Europa Terminal Gate S.p.A.	4				4
Total	**36**			**2**	**24**
TOTAL	**113,644**	**1,443,213**	**1,893**	**28,830**	**112,046**
Other related parties					
ANAS group	1				
CDDPP group	197				40
ENEL group	73	13		212	17
ENI group	36	165		296	1
Finmeccanica group	52			(102)	
INVITALIA group	1	4			
POSTE group	509	6		300	12
RAI group	1				
Eurofer	17	88		5	26
Other pension funds		5		1,281	
Previndai		458		440	
Total	**887**	**739**		**2,432**	**96**

Financial transactions

thousands of Euros

Name	31.12.2016 Receivables and current accounts	Payables	Guarantees and commitments	2016 Expense	Income
Subsidiaries					
Trenord S.r.l.					(1)
Bluferries S.r.l.		2,808			
Busitalia - Sita Nord S.r.l.		169	6		534
Centostazioni S.p.A.		4,870	1	1	5,488
Cisalpino AG			14		83
Mercitalia Rail S.r.l. (formerly FS Telco S.r.l)	201				1
Fercredit S.p.A.		2,052		1	10,000
Ferservizi S.p.A.		77,877		9	23,988
FS Sistemi Urbani S.r.l.		26,101	1	3	504
Grandi Stazioni Rail S.p.A.	36,061	870		2	12,426
Grandi Stazioni Immobiliare S.p.A.		3			
Italcertifer S.p.A.	110	235			6
Italferr S.p.A.		22,343	31	20	10,250
Metropark S.p.A.		2,805			
Netinera Deutschland GmbH			215		4,430
Rete Ferroviaria Italiana S.p.A.	563,675	128,675	311	7,162	125,078
Mercitalia Terminal S.p.A.					1
Serfer S.r.l.	4,376				84
Terminali Italia S.r.l.		4			9
Trenitalia S.p.A.	1,978,762	1,462	755	4,898	117,076
TX Logistik AG			15		94
Mercitalia Logistics S.p.A.	1	4,986	2	4	4
Mercitalia Transport & Services S.r.l.		408			
FSE Trasporto Ferro	8,839		2		
TOTAL	**2,592,025**	**275,668**	**1,353**	**12,100**	**310,055**
Associates					
Ferrovie Nord Milano S.p.A.					898
Total					**898**
TOTAL	**2,592,025**	**275,668**	**1,353**	**12,100**	**310,953**
Other related parties					
CDDPP group		964,907		37,738	
POSTE group	2,087				
ENI group				2	
TOTAL	**2,087**	**964,907**		**37,740**	

41. Guarantees

The table below details the guarantees issued by the company on behalf of subsidiaries, third parties or other subsidiaries, broken down by financial and non-financial.

thousands of Euros

Issued on behalf of	Financial	Non-financial
Rete Ferroviaria Italiana S.p.A.	311,450	1,584,767
Trenitalia S.p.A.	755,039	249,486
Netinera Deutschland GmbH	215,457	35,000
Busitalia - Sita Nord S.r.l.	6,056	
Centostazioni S.p.A.	1,260	30
Grandi Stazioni Rail S.p.A.		7,694
FS Sistemi Urbani S.r.l.	900	39
Tunnel Ferroviario del Brennero S.p.A.		28
Italferr S.p.A.	30,789	353
Ferservizi S.p.A.		1,169
Mercitalia Logistics S.p.A.	1,730	7,456
Sita S.p.A. in liquidation		234
TX Logistik AG	15,050	50
Italcertifer S.p.A.	38	
Serfer S.r.l.	8	10
Cemat S.p.A.		24
Thello Sas	102	1,266
Telt Sas		6,925
Mercitalia Transport & Services S.r.l.	164	
Ferrovie del Sud Est e Servizi Automobilistici - FSE S.r.l.	1,774	
Trenitalia UK Ltd		135,294
Cisalpino AG	13,674	
Total	**1,353,491**	**2,029,825**

The financial guarantees are mainly comprised of guarantees and counter-guarantees issued to banks for loans and guarantees granted by the same banks to third parties on behalf of subsidiaries.

The non-financial guarantees are comprised of bid bonds, performance bonds, commercial guarantees and commitments in favour of the tax authorities.

The parent company guarantees amount to €2,721,767 thousand.

The main non-financial parent company guarantees were issued to the tax authorities (€1,676,764 thousand), to guarantee reimbursements of tax credits to the subsidiaries RFI S.p.A., Trenitalia S.p.A., Mercitalia Logistica S.p.A., Ferservizi S.p.A., GS Retail S.p.A., Italferr S.p.A., FS Sistemi Urbani S.r.l., Sita S.p.A. in liquidation, Centostazioni S.p.A., Cemat S.p.A. and Tunnel Ferroviario del Brennero S.p.A.. There was also a counter-guarantee of €13,674 thousand given to Deutsche Bank for the latter's issue of a bank guarantee to the tax authorities on behalf of Cisalpino AG, a company 50% held by Trenitalia S.p.A. (the parent company guarantee only covers Trenitalia S.p.A.'s portion). The non-financial parent company guarantees include one to GSE guaranteeing the service contract for energy supply signed with RFI S.p.A. (€150,000 thousand) and the guarantees issued in 2014 to Terna for the contracts signed by RFI S.p.A. for the electrical energy dispatching service for withdrawal points which power rail traction and for other uses (guarantees of €22,400 thousand and €1,800 thousand, respectively).

Financial guarantees issued to banks for loans granted are as follows:

- from the EIB to the subsidiary RFI S.p.A. (guarantee of €250,000 thousand);

- from EIB to the subsidiary Trenitalia S.p.A. (total bank counter-guarantee of €215,906 thousand and a parent company guarantee issued in 2014 to replace three bank guarantees no longer considered adequate by the EIB as per the contract, for €76,188 thousand);
- from BNP Paribas Fortis and Unicredit AG to TX Logistik AG, a subsidiary of Trenitalia S.p.A. (total amount of two parent company guarantees of €15,050 thousand);
- from BNP Paribas to the subsidiary Centostazioni S.p.ad. (parent company guarantee of €1,260 thousand).

Parent company guarantees were also issued for the foreign group companies Netinera Deutschland GmbH (€250,457 thousand) and Trenitalia UK Ltd (GBP115,000 thousand).
Furthermore, a strong comfort letter (€420,000 thousand) was issued for the 2004 loan from OPI (now Intesa San Paolo) granted to Trenitalia S.p.A..

Guarantees were issued for foreign projects (counter-guaranteed by the company's banks and issued in the foreign countries via a local bank) totalling €15,827 thousand. Such guarantees were mainly issued on behalf of Italferr S.p.A. (€15,789 thousand) and, for the remainder, on behalf of Italcertifer S.p.A. (€38 thousand). Such guarantees were comprised of bid bonds of €2,774 thousand, performance bonds of €8,227 thousand and advance payment bonds of €4,827 thousand and were issued to assist group companies in participating in bids and concluding contracts abroad.

42. Events after the reporting date

LOANS AND BORROWINGS AND GUARANTEES RELATED TO THE ACQUISITION OF NXET IN THE UK

On 7 December 2016, for the purposes of Trenitalia UK's acquisition of NXET Trains Limited, FS Italiane S.p.A. issued a guarantee of a maximum of GBP115 million to guarantee Trenitalia UK with the seller National Express Trains Limited, in relation to Trenitalia UK's commitments from the signing of the Sale and Purchase Agreement (SPA) until the acquisition is completed. At the closing date of 10 February 2017, FS Italiane S.p.A. also gave the following financing and guarantees, in turn counter-guaranteed by Trenitalia S.p.A.:

- intragroup loan of GBP60 million (roughly €70.6 million) provided directly by FS Italiane S.p.A. to Trenitalia UK to finance part of the acquisition, together with a guarantee given by Trenitalia S.p.A. on FS S.p.A.'s behalf;
- in order to comply with the financial requirements imposed by the Department for Transport in the Funding Deed signed by FS S.p.A., the Department and NXET, FS S.p.A. also provided the operating company NXET with a subordinated credit facility of GBP140 million (of which GBP35 million made available on the closing) and bank guarantees (with hold harmless letters from FS S.p.A.) and direct guarantees of approximately GBP82 million, which will also be counter-guaranteed by Trenitalia S.p.A..

The intragroup lending transactions in pounds sterling have been hedged against currency risk by cross currency swaps and FX swaps.

MERCITALIA HUB

The deed for the demerger of the Cargo Division from Trenitalia S.p.A. to Mercitalia Rail S.r.l. became effective on 1 January 2017 and the demerged company's and the beneficiary's share and quota capital respectively decreased and increased by €236,682 thousand as a result. The demerged division includes the investments held by Trenitalia S.p.A. in companies active in the cargo transport and/or logistics sector.

On 13 December 2016, the shareholders of FS Logistica S.p.A., SGT S.p.A. and FS JIT S.p.A. resolved to change their names to Mercitalia Logistics S.p.A., Mercitalia Terminal S.p.A. and Mercitalia Transport & Services S.r.l., respectively as part of the Mercitalia hub project and effective from 1 January 2017.

On 10 January 2017, the shareholders of Mercitalia Logistics S.p.A. approved a capital increase of €236,702 thousand in an extraordinary meeting, entirely subscribed and paid up by the sole shareholder Ferrovie dello Stato Italiane S.p.A. through its contribution of its investment in Mercitalia Rail S.r.l.. As a result of this non-recurring transaction, Mercitalia Logistics S.p.A.'s share capital amounts to €379,797,524.00, consisting of 759,595,048 ordinary shares with a nominal amount of €0.5.

CENTOSTAZIONI

On 30 January 2017 and after receipt of authorisation from the Antitrust Authority, the procedure for reacquisition of 40% of Centostazioni S.p.A. from Archimede 1 S.p.A. (Save group) by the company was concluded. Pursuant to article 3.1 of the purchase and sale agreement signed on 15 November 2016, the company paid €65,600 thousand as the consideration and regained full control over Centostazioni S.p.A., giving it sole management of the stations which, under unified management by FS Italiane group, will become intermodal hubs, as provided for in FS Italiane group's 2017-2026 business plan. They will provide useful related and new services, including temporary offices for start-up incubators.

Proposed allocation of the profit for the year of Ferrovie dello Stato Italiane S.p.A.

The company's financial statements as at and for the year ended 31 December 2016 show a profit of €638,773,062.97. Considering the fact that the legal reserve has not yet reached the minimum provided for by article 2430 of the Italian Civil Code, we propose allocating the profit for the year as follows:

- 5%, equal to €31,938,653.15 to the legal reserve;
- the remaining €50,000,000.00 to the extraordinary reserve, to be subsequently utilised in whole or in part as an available reserve for any non-recurring transactions;
- €300,000,012.02 as a dividend, to be paid as €0.008255268 to each of the 36,340,432,802 shares with a unit par value of €1;
- the remaining €256,834,397.80 to retained earnings.

Rome, 21 April 2017

The board of directors

The Chairwoman
(signed on the original)
The CEO
(signed on the original)

Certification of the Chief Executive Officer and the Manager in charge of the company's accounting documents preparation of the separate financial statements of Ferrovie dello Stato Italiane SpA at 31 December 2016 pursuant to article 154-bis, paragraph 5, of Legislative Decree no. 58/1998

1. The undersigned Renato Mazzoncini and Roberto Mannozzi, as respectively Chief Executive Officer and Manager in charge of the company's accounting documents preparation of Ferrovie dello Stato Italiane S.p.A., also pursuant to article 154-bis, paragraphs 3 and 4 of Legislative decree no. 58 of 24 February 1998, certify:
   - the adequacy with regard to the characteristics of Ferrovie dello Stato Italiane SpA and
   - the effective application

   of the administrative and accounting procedures in preparing the separate financial statements at 31 December 2016.

2. In this regard, we report that:
   a. the valuation of the adequacy and effective application of the administrative and accounting procedures used to prepare the separate financial statements of Ferrovie dello Stato Italiane SpA was based on internal control model, consistent with the *"Internal Controls – Integrated Framework"* issued by the *"Committee of Sponsoring Organizations of the Treadway Commission"* which represents an internationally-accepted framework for the internal control system;

   b. this assessment did not identify any significant issues.

3. In addition, we certify that:

   3.1. the separate financial statements of Ferrovie dello Stato Italiane SpA:

   a. have been prepared in accordance with International Financial Reporting Standards endorsed by the European Community pursuant to regulation (CE) 1606/2002 of European Parliament and Council of 19 July 2002;

   b. correspond to the entries in the books and accounting records of the company;

   c. give a true and fair view of the financial position and results of operations of Ferrovie dello Stato Italiane SpA.

   3.2. the directors' report provides a reliable analysis of the financial position, performance and results of operations of Ferrovie dello Stato Italiane SpA, together with a description of the main risks and uncertainties to which it is exposed.

21 April 2017

Renato Mazzoncini
Chief Executive Officer

Roberto Mannozzi
Manager in charge of the company's accounting documents preparation

KPMG S.p.A.
Revisione e organizzazione contabile
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(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to articles 14 and 16 of Legislative decree no. 39 of 27 January 2010

To the sole shareholder of
Ferrovie dello Stato Italiane S.p.A.

Report on the separate financial statements

We have audited the accompanying separate financial statements of Ferrovie dello Stato Italiane S.p.A. (the "company"), which comprise the statement of financial position as at 31 December 2016, the income statement, the statements of comprehensive income, cash flows and changes in equity for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the separate financial statements

The company's directors are responsible for the preparation of separate financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union.

Independent auditors' responsibility

Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing (ISA Italia) promulgated pursuant to article 11 of Legislative decree no. 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of separate financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the separate financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the separate financial statements give a true and fair view of the company's financial position as at 31 December 2016 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union.

Report on other legal and regulatory requirements

Opinion on the consistency of the directors' report and certain information presented in the report on corporate governance and ownership structure with the separate financial statements

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion, as required by the law, on the consistency of the directors' report and the information presented in the report on corporate governance and ownership structure provided for by article 123-bis.4 of Legislative decree no. 58/98, to the extent of the information required by article 123-bis.2.b of Legislative decree no. 58/98, which are the responsibility of the company's directors, with the separate financial statements. In our opinion, the directors' report and the information presented in the report on corporate governance and ownership structure referred to above are consistent with the separate financial statements of Ferrovie dello Stato Italiane S.p.A. as at and for the year ended 31 December 2016.

Rome, 15 May 2017

KPMG S.p.A.

(signed on the original)

Stefano Bandini
Director of Audit

(Translation from the Italian original which remains the definitive version)

REPORT OF THE BOARD OF STATUTORY AUDITORS ON THE 2016 ANNUAL REPORT SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS OF FERROVIE DELLO STATO ITALIANE S.p.A. (SINGLE-MEMBER COMPANY) AT 31 DECEMBER 2016 PURSUANT TO ARTICLE 2429.2 OF THE ITALIAN CIVIL CODE

To the sole shareholder of Ferrovie dello Stato Italiane S.p.A.

SEPARATE FINANCIAL STATEMENTS AT 31 DECEMBER 2016

Dear Shareholder,

At the meeting of 4 July 2016, the shareholder appointed, for a period ending with the approval of the 2018 financial statements, in accordance with the Ministry of the Economy and Finance's directive of 24 June 2013 and regulations on maintaining a balance of genders, the standing statutory auditors Carmine Di Nuzzo (Chairman), Francesco Notari and Susanna Masi and the alternate statutory auditors Cinzia Simeone and Paolo Castaldi.

On 13 July 2016, Francesco Notari announced that he could not accept the office and, accordingly, the alternate statutory auditor Paolo Castaldi took the position pursuant to the law. During the meeting of 29 July 2016, Ferrovie dello Stato Italiane S.p.A.'s ("FS") shareholder appointed Roberto Ascoli as standing statutory auditor, confirming Paolo Castaldi as alternate statutory auditor.

Along with the company's other corporate officers, the statutory auditors systematically monitor that the corporate governance principles are correctly applied and they also oversee compliance with the law, the by-laws and the principles of correct administration, particularly with respect to the adequacy of the organisational, administrative and accounting system adopted by FS and that it is effectively working.

When FS was attributed the public interest entity status, pursuant to article 19 of Legislative decree no. 39/2010, the parent's board of statutory auditors also became the "Internal Control and Audit Committee", with responsibility for monitoring financial reporting, the efficiency of the internal controls, internal audit and risk management systems, the legally-required audit and the independence of the auditors engaged for the legally-required audit, particularly with respect to the type of any non-audit services they provide to the audited company.

The draft separate financial statements of FS, which have been submitted for your approval, were approved by the board of directors in its meeting of 21 April 2017.

During the year, we carried out the supervisory duties required by the law, considering the code of conduct recommended by the Italian Accounting Profession.

With respect to the activities we performed, the following should be noted:

1. we acquired sufficient information on the general performance and outlook and on the company's most significant transactions in terms of size or characteristics;
2. the transactions carried out complied with the law and the by-laws and were not potentially in contrast with the shareholder's resolutions or such to jeopardise the integrity of the company's assets;
3. we have no specific comments to make on the adequacy of the company's organisational system, or on the adequacy of the administrative and accounting system or its reliability in fairly representing operations;
4. neither during the year nor after the reporting date did we identify any atypical and/or unusual transactions with third and/or related parties. The ordinary transactions carried out on an arm's length basis with group companies and related parties, which are described in the documents accompanying the separate financial statements, reflect and are in line with the company's interests;
5. the independent auditors, KPMG S.p.A., issued their report on FS's separate financial statements at 31 December 2016, as per articles 14 and 16 of Legislative decree no. 39 of 27 January 2010, expressing an unqualified opinion on their compliance with the IFRS endorsed by the European Union and on the fact that the financial statements give a true and fair view of the company's financial position, financial performance and cash flows. In the same report, the independent auditors state that the directors' report and the information on corporate governance and ownership structure are consistent with the separate financial statements of FS at 31 December 2016.

   The independent auditors also issued an unmodified audit report on the consolidated financial statements of Ferrovie dello Stato Italiane group at 31 December 2016.

With respect to the supervisory activities concerning the independence of the auditors entrusted with the legally-required audit, the board of statutory auditors, also in its role of Internal control and audit committee, note that, in the communication provided pursuant to article 17.9.a) of Legislative decree no. 39 of 27 January 2010, KPMG S.p.A. confirmed its independence.

Based on the documentation and the information received, we have nothing to report about KPMG S.p.A.'s independence;

6. during the year and after the reporting date, we did not receive any complaints pursuant to article 2408 of the Italian Civil Code;

7. we did not have to intervene due to failure of the board of directors as per article 2406 of the Italian Civil Code;

8. no reports as per article 2409.7 of the Italian Civil Code were made;

9. during the year, we met 14 times. The minutes of these meetings are included in the relevant book. In addition, we attended:

(i) three shareholder's meetings;

(ii) 17 board of directors' meetings.

Such meetings were held in compliance with relevant legislation, regulations and by-laws. During the board of directors' meetings, the obligations to periodically report to the board of directors and the board of statutory auditors as per article 2381 of the Italian Civil Code were met;

10. we gained an understanding and monitored the adequacy of the company's internal controls and, in our role of Internal control and audit committee, we monitored the efficiency of internal controls and internal auditing.

We conducted our supervisory activities also through: (i) the information obtained during the periodic meetings with the Central Internal Audit Department; (ii) the examination of the company documents and the results of the work performed by the independent auditors; (iii) the information provided by the Supervisory Body set up pursuant to Legislative decree no. 231/2001; (iv) our active participation in the board of directors' and other committees' meetings.

At an organisational level, we acknowledged the following changes occurred during the year: a) a new Director of the Central Internal Audit Department was appointed and the Internal

Audit Department was reorganised; b) the Risk management structure, set up in December 2015 and reporting directly to the CEO, was reinforced; c) work continued on implementing an integrated enterprise risk management model; d) a new Chief Risk Officer was appointed; e) the Central International Markets Department was set up; and f) the Central Innovation and Information Systems Department was set up;

11. also in our role of Internal control and audit committee, we checked the financial reporting process and received evidence of the activities carried out by the manager in charge of financial reporting. The independent auditors issued their report on fundamental issues and significant weaknesses as per article 19.3 of Legislative decree no. 39/2010, accompanied by an annex thereto. No significant weaknesses were reported. We have nothing to report in this respect;

12. we also gained an understanding and monitored, to the extent of our duties, the adequacy of the company's organisational structure and how it operates by obtaining information from the heads of the competent company departments and through meetings and information sharing with the independent auditors. With respect to the organisational model adopted pursuant to Legislative decree no. 231/2001, we were duly informed about the checks carried out during the year and have nothing to report in this respect. The company's Supervisory Body changed in 2016;

13. we assessed and monitored the adequacy of the company's administrative/accounting system and its reliability in fairly presenting operations through (i) the information and documents obtained during the meetings with the manager in charge of financial reporting and the examination of the joint statements made by latter and the CEO on 21 April 2017; (ii) the information obtained from the competent department heads and (iii) the examination of the company documents and the results of the work carried out by the independent auditors.

Based on our supervisory activities, to the extent of our duties, we believe that company's administrative/accounting system is adequate and reliable in fairly presenting operations;

14. during the year, we regularly met the independent auditors to exchange significant data and information and fulfil our supervisory duties with respect to the legally-required audit of the separate and consolidated financial statements.

Based on the information received from them, no facts, circumstances or irregularities were noted which should be disclosed in this report;

15. the main transactions carried out by FS in 2016 include:

- *Grandi Stazioni operation*,
- *2017-2026 business plan*;

16. based on our supervisory and monitoring activities, we have nothing to report.

We examined the draft separate financial statements at 31 December 2016 and note the following:

a. after checking that the separate financial statements were consistent with the facts and information known to us, we have nothing to report in this respect;

b. as our duties do not include analytical checks of the content of the financial statements, we checked their basis of presentation and that their preparation generally complied with the law and the IFRS. We have nothing to report in this respect;

c. after checking the directors' report's compliance with the law governing its preparation and its consistency with the information obtained as part of our supervisory activities, we have nothing to report in this respect;

d. to the extent of our duties, during the preparation of the separate financial statements, the directors did not apply any of the waivers permitted by article 2423.4 of the Italian Civil Code.

2016 ended with a profit of €638,773,062.97.

For additional information, reference should be made to the notes to the separate financial statements.

* * *

Finally, having considered the separate financial statements at 31 December 2016, the information provided by the directors and the findings of the independent auditors, to the extent of our duties, we are in favour of your approval of the draft financial statements of Ferrovie dello Stato Italiane S.p.A. at 31 December 2016, as submitted by the board of directors to the shareholder and on the proposed allocation of the profit for the year.

* * *

CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2016

Dear Shareholder,

The consolidated financial statements of Ferrovie dello Stato Italiane group ("FS group") at 31 December 2016, which have been submitted to you, comprise the required consolidated schedules

and the notes thereto. They have been prepared in accordance with the IFRS (which include the International Accounting Standards (IAS)), endorsed by the European Union, and are accompanied by a directors' report and the statement of the CEO and the manager in charge of financial reporting thereon, as well as a schedule describing the group's consolidation scope and equity investments.
They also include the reconciliation at 31 December 2016 and 31 December 2015 between profit for the year and equity in FS's separate financial statements and the related consolidated figures.
The consolidated financial statements show a profit for the year of €772 million, compared to €464 million in 2015.
In the directors' report, which the independent auditors KPMG S.p.A. checked for consistency with the consolidated financial statements, the directors have described the group's and the parent's overall financial position and financial performance and provided detailed information about the specific operations of consolidated companies and the outlook.
We performed our supervisory activities in compliance with the code of conduct for boards of statutory auditors issued by the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili). In accordance with such code of conduct, we referred to the legislation that regulates the preparation of consolidated financial statements.
We checked that:

- the methods applied in identifying the consolidation scope were correct and that consolidation policies adopted for subsidiaries were in accordance with IFRS;
- legislation governing the preparation of consolidated financial statements and directors' reports was complied with;
- the organisation of the parent was adequate for the flow of information in consolidation procedures;
- consolidation policies related to the elimination of intragroup income, expense, receivables and payables were complied with;
- the group's directors' report was consistent with the data and figures presented in the consolidated financial statements in order to provide extensive disclosure on the group's financial performance and the risks it is subject to, in addition to significant events after the reporting date which did not have any effects on the 2016 consolidated financial statements.

We evaluated the consolidation scope, examined the consolidation policies and checked the adequacy of accounting policies applied.

The documentation examined and information received did not show any non-compliance with legislation governing the preparation of consolidated financial statements.

In our opinion, the consolidated financial statements as a whole correctly present the group's financial position and financial performance as at and for the year ended 31 December 2016.

The independent auditors issued their report as per articles 14 and 16 of Legislative decree no. 39/2010, stating that the consolidated financial statements at 31 December 2016 comply with the IFRS and give a true and fair view of FS group's financial position, financial performance and cash flows as at and for the year ended 31 December 2016.

Rome, 17 May 2017

THE BOARD OF STATUTORY AUDITORS

Carmine di Nuzzo Chairman

Susanna Masi Standing statutory auditor

Roberto Ascoli Standing statutory auditor