



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

FS ITALIANE GROUP AND FERROVIE DELLO STATO ITALIANE S.P.A. 2017 ANNUAL REPORT HIGHLIGHTS

CONTENTS

FS ITALIANE GROUP AND FERROVIE DELLO STATO ITALIANE S.p.A.

2017 ANNUAL REPORT HIGHLIGHTS

Group highlights	3
The group's financial position and performance	4
Investments	13
Segment reporting	14
Ferrovie dello Stato Italiane S.p.A.'s financial position and performance	25
Consolidated financial statements	29
Financial statements of Ferrovie dello Stato Italiane S.p.A.	35
Reporting by operating segment	41

Group highlights

▷ Gross operating profit/Revenue

2017	2016
24.9%	25.7%

▷ Operating profit/Revenue

2017	2016
7.7%	10.0%

▷ Personnel Expense/ Revenue

2017	2016
(44.9%)	(44.3%)

▷ Employees

2017	2016
74,436	70,180

millions of Euros

Main results and financial data	2017	2016	Change	%
Revenue	9,299	8,928	371	4.2
Operating costs	(6,986)	(6,635)	(351)	(5.3)
Gross operating profit	2,313	2,293	20	0.9
Operating profit	718	892	(174)	(19.5)
Profit for the year ¹	552	772	(220)	(28.5)
	31.12.2017	31.12.2016	Change	%
Net invested capital (NIC)	45,954	45,257	697	1.5
Equity (E)	38,681	38,497	184	0.5
Net financial position (NFP)	7,273	6,760	513	7.6
NFD/E	0.19	0.18		
Investments of the year	5,407	5,950	(543)	(9.1)
Total cash flows generated/(used) in the year	(503)	1,032	(1,535)	(148.7)

¹ In 2017, the group posted growth of €724 million in revenue and a substantial **profit for the year**, which at €552 million. The profit for 2016, amounting to €772 million, is significantly affected by the aforementioned sale of Grandi Stazioni Retail S.p.A. assets, 2017 as well as - to a lesser extent - the completion of the transaction with the Prime Minister's Office on the issue of the Campania waste emergency. The normalized net result for 2016, adjusted for the aforementioned extraordinary events, was expected to amount to €385 million. Similarly, eliminating from the 2017 net yield the extraordinary effects related to the non-operating assets related to electricity traction (Law 167/2017), amounting to €128 million, the normalized result would amount to €424 million (+ 10.1% 2017 on 2016), represents the best result of the management of the FS Italiane Group over the last three years.

The group's financial position and performance

Introduction

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 the FS Italiane group. The reclassified financial statements comprise performance indicators, which management deems useful in monitoring the group's performance and in presenting the financial results of the business.

Furthermore, to provide a better understanding of the group's performance in the year and changes with respect to the previous year, the main extraordinary transactions completed in 2017 with a material impact on the reported figures are described below. These transactions, which fit into FS Italiane group's traditional business and do not constitute new business segments for the group – also considering the materiality of the transaction amounts – did not require the preparation of pro forma data in the reclassified schedules although the effects of the transactions arose solely in 2017. In particular:

- since 28 November 2016 (date of transfer of the shares and acquisition of control), Ferrovie del Sud Est e Servizi Automobilistici S.r.l. (FSE) has been included in the consolidation scope; therefore, this company is consolidated in the income statement for the entire 12 months of the reporting period, while it was not consolidated in the first 11 months of 2016;
- on 10 February 2017, Trenitalia c2c Ltd (formerly NXET Ltd) joined FS Italiane group, affecting results for most of 2017;
- in 2017, the Busitalia group companies Busitalia Campania S.p.A. (since 1 January 2017) and Busitalia Simet S.p.A. (since 7 April 2017) became fully operational; since 31 August 2017, Busitalia-Sita Nord S.r.l. group acquired complete ownership of QBuzz BV and, accordingly, the consolidated income statement reflects the effects of this acquisition for the fourth quarter of 2017;
- on 14 September 2017 (the official closing of the transaction) TrainOSE SA joined FS Italiane group (100% owned by Ferrovie dello Stato Italiane S.p.A.), affecting the consolidated financial statements for slightly over three months in 2017.

Furthermore, non-core assets consisting of commercial spaces were transferred on 20 July 2016 through the sale of the equity investment in Grandi Stazioni Retail S.p.A.. Unlike in 2017, the entire first half of 2016 included the positive effects of these assets on the income statement and their sale generated a substantial gain in the second half of 2016. □

The effect of these transactions on the group's key income statement figures is shown below:

millions of Euros

	2017	Change compared to 2016	of which: effects of equity transactions
REVENUE	9,299	371	472
OPERATING COSTS	(6,986)	(351)	(446)
GROSS OPERATING PROFIT	2,313	20	26
OPERATING PROFIT	718	(174)	(3)
PROFIT (LOSS) FOR THE YEAR	552	(220)	3

Consolidated income statement

millions of Euros

	2017	2016	Change	%
REVENUE	9,299	8,928	371	4.2
Revenue from sales and services	8,632	7,908	724	9.2
Other income	667	1,020	(353)	(34.6)
OPERATING COSTS	(6,986)	(6,635)	(351)	(5.3)
GROSS OPERATING PROFIT	2,313	2,293	20	0.9
Amortisation, depreciation, provisions and impairment losses	(1,595)	(1,401)	(194)	(13.8)
OPERATING PROFIT	718	892	(174)	(19.5)
Net financial expense	(100)	(94)	(6)	(6.4)
PRE-TAX PROFIT	618	798	(180)	(22.6)
Income taxes	(64)	(26)	(38)	(146.2)
PROFIT FROM CONTINUING OPERATIONS	554	772	(218)	(28.2)
Loss from assets held for sale, net of taxes	(2)		(2)	
PROFIT FOR THE YEAR	552	772	(220)	(28.5)
PROFIT FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF THE PARENT	542	758	(216)	(28.5)
PROFIT FOR THE YEAR ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	10	14	(4)	(28.6)

The results for 2017 fully highlight decisions that the group has taken to effectively implement the strategies outlined in the business plan through 2026, which was approved in the year. Indeed, the 2017 growth in turnover due to extraordinary transactions worth €472 million demonstrates how FS Italiane group began to see the benefits of its planned transformation from a national transport company to a European mobility player with a systemic vision in which all modes of transport are integrated. The group will transform itself - and has already partially done so - through a radical internationalisation process, combined with modal and infrastructural integration. This is all supported by new regulations that recognise the mobility system's central role and its connection as vital factors in a country's economic wellbeing.

The government has recently taken steps in this direction, with Law no. 167 of 20 November 2017, which introduced sweeping changes to the previous regulatory framework for the Special Rate Regime (SRR) for the procurement of electrical energy used for traction, no longer basing the calculation of consumption on the type of transport service but instead on the type of infrastructure used to provide the transport service. Considering only the adjustments for 2015-2016, the results for 2017 benefited from a €143 million reduction in energy costs as a result of these changes. This reduction led to a €128 million increase in gross operating profit, net of recharges to third-party railway companies. This new rate system, along with the new local rail/road public transport service standards negotiated with the individual Italian regions, has boosted competition, enabling FS Italiane group to operate under conditions that make it possible to provide highly comfortable and punctual mobility services to the overall satisfaction of customers.

Partly due to the developments described above, in 2017, the group posted growth of €724 million in revenue and a substantial **profit for the year**, which at €552 million. The profit for 2016, amounting to €772 million, is significantly affected by the aforementioned sale of Grandi Stazioni Retail S.p.A. assets, 2017 as well as - to a lesser extent - the

completion of the transaction with the Prime Minister's Office on the issue of the Campania waste emergency. The normalized net result for 2016, adjusted for the aforementioned extraordinary events, was expected to amount to €385 million. Similarly, eliminating from the 2017 net yield the extraordinary effects related to the non-operating assets related to electrical energy used for traction (Law 167/2017), amounting to €128 million, the normalized result would amount to €424 million (+10.1% 2017 on 2016), represents the best result of the management of the FS Italiane Group over the last three years.

Revenue increased by €371 million as a result of the rise in revenue from transport services (+€682 million) and the growth in revenue from infrastructure services (+€43 million), offset mainly by the decrease of €353 million in other income.

The main factor driving the increase in revenue from transport services (+€682 million) is undoubtedly the long haul passenger transport service, both that offered on the market (+€111 million) and the universal service (+€100 million). Another factor is the Freccia service's excellent results (+€107.9 million), as it benefited from a generic recovery in demand for mobility services and the commercial measures taken to limit price competition in the HS segment. The universal service benefited from the revised prices following the renewal of the 2017-2026 service contract with the government. The new prices will guarantee the contract's balance of costs and revenues and will support the group's long-term investment plan, ensuring better service quality, comfort and punctuality thanks to the upgrading of rolling stock. The short haul railway passenger transport service also performed well (+€89 million) both in Italy, where Trenitalia S.p.A. posted growth in revenue (+€65 million), and internationally, with the contribution of Netinera Deutschland group (+€24 million).

This growth in revenue from transport services was also driven by the extraordinary transactions that entailed the consolidation of FSE S.r.l., a regional transport company in Puglia (+€41 million), Trenitalia c2c Ltd, a passenger transport company operating on the UK's medium haul market (+€177 million) and, in the second half of 2017, TrainOSE SA, which provides transport service connecting Athens and Thessaloniki on the Greek peninsula (+€35 million).

Revenue from road transport services also rose significantly in the year, by €156 million, almost entirely due to the aforementioned expansion of the consolidation scope. In particular, FSE S.r.l. (+€44 million), Busitalia Campania S.p.A. (+€33 million), Busitalia Simet S.p.A. (+€10 million) and the Dutch company, QBuzz BV (+€68 million) contributed to this growth.

On the other hand, revenue from cargo transport and logistics services decreased by approximately €20 million.

Revenue from infrastructure services rose (+€43 million) mainly as a result of the increase in the impact of FSE S.r.l.'s service contracts (+€51 million) and the growth in toll revenue (+€14 million) as more train-km were offered in the year. However, the €15 million drop in revenue from the sale of electrical energy used for traction is a result of the application of the new rates introduced by Law no. 167/2017 on 2015 and 2016.

Other income decreased (-€353 million) mainly due to the transfer of non-core assets consisting of commercial spaces through the sale of the equity investment in Grandi Stazioni Retail S.p.A. in the second half of 2016, generating a gain of €365 million for the group and leading to a decrease in revenue from property leases (-€28 million), partially offset by the performance of other sundry income (+€40 million) due to non-recurring items, particularly the sale of idle material no longer used in operations. □□

Operating costs rose by €351 million (+5.3%) to €6,986 million (2016: €6,635 million). They may be analysed as follows:

- the €227 million increase in net personnel expense is mostly due to the expansion of the consolidation scope (+€178 million) and the effects of the full application of the national labour agreement for the railway mobility sector, signed at the end of 2016;
- other costs, net rose by €124 million, mainly as the combined effect of the following changes:
 - i) the decrease in raw materials, consumables, supplies and goods (-€94 million) was significantly affected by the drop in energy costs almost entirely due to the price effect of the new rate regime pursuant to Law no. 167/2017, which generated a total cost reduction of €241 million (including the 2015/2016 adjustment of -€143 million). These savings in energy costs were partially offset by the greater consumption of materials (+€60 million) due to investments, higher costs for traction fuel (+€34 million) mostly due to the consolidation of road transport companies, higher selling costs for property and land held for trading (+€16 million) and greater impairment losses (+€2 million);
 - ii) the increase in services (+€242 million) following the rise in transport services (+€76 million) and higher costs for maintenance, cleaning and other contracted services (+€100 million), IT services (+€34 million) and sundry services (+€27 million);
 - iii) the growth in the use of third-party assets (+€46 million), particularly in connection with the "Rolling stock hires and indemnities" of the newly consolidated companies, such as Trenitalia c2c Ltd and TrainOSE SA;
 - iv) greater capitalisations (+€79 million), basically due to the increase in investments in infrastructure, specifically to upgrade technology and safety, as well as greater value-increasing maintenance of rolling stock.

Gross operating profit increased by €20 million or 0.9% to €2,313 million as a result of the variations in revenue and operating costs described above.

Operating profit amounts to €718 million, a €174 million decrease (-19.5%) on the previous year. Specifically, the increase in gross operating profit was offset by the greater amortisation/depreciation, impairment losses and provisions (+€72 million, €82 million, €40 million respectively). Amortisation and depreciation are largely related to new investments in rolling stock, while impairment losses mainly refer to rolling stock to be scrapped and the normal annual adjustment alignment of receivables and provisions of €65 million (€25 million in 2016) cover the expenses related to the bilateral fund for income assistance.

Net financial expense of €100 million worsened by €6 million compared to 2016. Financial income and the share of profits from equity-accounted investees are substantially in line with 2016, while financial expense shows an increase in exchange rate losses (+€13 million) and a decrease in borrowing costs and employee benefits.

Income taxes amount to €64 million, an increase of €38 million mainly reflecting changes in deferred taxes.

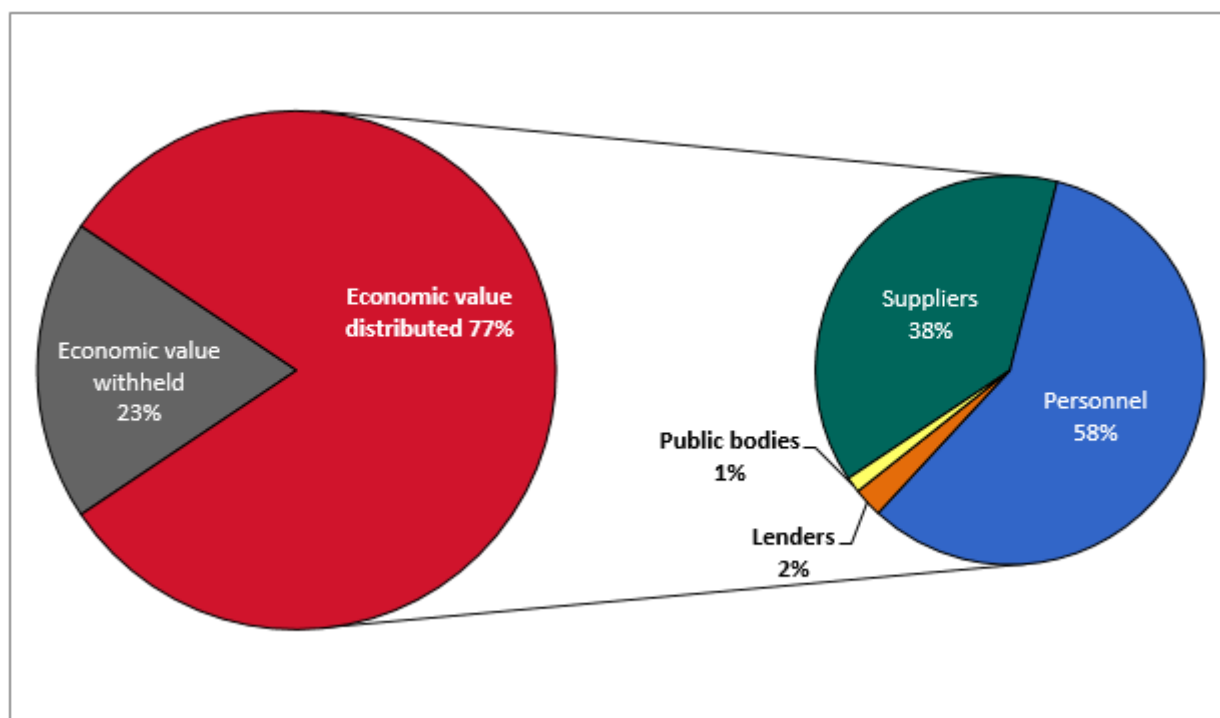
The **loss from assets held for sale** amounts to €2 million and reflects internal trends in Netinera Deutschland GmbH's investees.

In addition to the above observations and pursuant to Legislative decree no. 254/2016, the following table shows the directly generated economic value and that distributed by FS Italiane 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.

millions of Euros

Table of economic value generated and distributed	2017		2016	
Directly generated economic value	9,375	100%	9,004	100%
Revenue from sales and services	8,632		7,908	
Other sundry income	743		1,096	
Distributed economic value	7,208	77%	6,837	76%
Operating costs for materials and services	2,760		2,623	
Personnel expense	4,178		3,951	
Payments to financial backers	176		170	
Payments to public bodies	94		93	
Economic value withheld	2,167	23%	2,167	24%
Amortisation, depreciation, provisions and impairment losses	1,595		1,401	
Other sundry costs and taxes	20		(6)	
Profit for the year	552		772	



The value not distributed by the group (approximately €2.2 billion in 2017 and 2016) 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 FS Italiane 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		
	31.12.2017	31.12.2016	Change
ASSETS			
Net operating working capital	402	404	(2)
Other assets, net	1,173	591	582
Working capital	1,575	995	580
Net non-current assets	47,279	47,330	(51)
Other provisions	(2,902)	(3,068)	166
Net assets held for sale	2		2
NET INVESTED CAPITAL	45,954	45,257	697
COVERAGE			
Net current financial (position) debt	(65)	353	(418)
Net non-current financial debt	7,338	6,407	931
Net financial debt	7,273	6,760	513
Equity	38,681	38,497	184
COVERAGE	45,954	45,257	697

Net invested capital of €45,954 million rose by €697 million in the year due to the increase in **working capital** (+€580 million), **net assets held for sale** (+€2 million) and the decrease in **other provisions** (+€166 million) partially offset by the decrease in **net non-current assets** (-€51 million).

Net operating working capital amounts to €402 million, substantially in line with the previous year and is the combined effect of changes mainly in connection with:

- greater receivables arising from the service contracts with the regions (+€67 million) and the service contracts with the Ministry of the Economy and Finance (also "MEF") (+€219 million). The increase in the latter is substantially due to the increase in Trenitalia S.p.A.'s receivable as a result of the trend in payments while the new medium and long haul railway service contract for 2017-2026 was being formalised, which was not complete until the end of November 2017. Trenitalia S.p.A. received payment for the invoiced amount in early 2018;
- lower trade payables (-€130 million) mainly driven by the revision of the special rate regime for the railway system's electrical energy costs in accordance with Law no. 167/2017, which has retroactive effect from 2015 (-€28 million), the completion of certain contracts abroad, particularly with the Saudi Public Investment Fund and Omani Railways (-€12 million), the decrease in factoring (-€31 million) and the slight decrease in receivables from other public administrations (-€20 million);
- greater inventories (+€49 million) mainly due to the increase in raw materials, consumables and supplies (+€133 million) following the increase in the purchase of material for infrastructure and the rise in production by the Officine Nazionali Armamento e Apparecchiature Elettriche (national armaments and electrical device workshops) in Pontassieve, Bologna and Bari. The increase in inventories is also due to the reclassification (-€78 million) of certain assets as owner-occupied as they became necessary for railway operations;

- greater trade payables (-€236 million) mainly due to the increase, net of the effects of the split payment regulations, in amounts due to suppliers as a result of the greater investments made in the last few months of 2017 and the change in the consolidation scope, following the group's acquisition of TrainOSE SA, QBuss BV and Trenitalia c2c Ltd.

Other assets, net increased by €582 million, mainly as a result of the combination of the following factors:

- greater net receivables from the MEF, the Ministry of Infrastructures and Transport (also "MIT") and other government bodies/administrations (+€729 million), due to the accruals-based recognition of new grants, net of collections and the change in advances allocated to the projects that are already in progress;
- greater receivables from Cassa Conguaglio Settore Energetico for grants pursuant to Law no. 167/2017 (+€289 million);
- greater receivables due to the change in the consolidation scope following the consolidation of the new companies described earlier (+€72 million);
- the decrease in net VAT assets (-€569 million), due to VAT reimbursements for 2014, 2015 and 2016;
- lower payables to social security institutions (+€42 million).

Net non-current assets decreased by €51 million mainly as a result of greater investments in the year (€5,407 million), offset by the grants related to assets recognised on an accruals basis (€4,300 million) and amortisation and depreciation of the year (€1,378 million). The decrease was offset by the increase in the consolidation scope to include the aforementioned acquisitions during the year, increasing non-current assets by €190 million and equity investments by €42 million. The latter refer to the acquisition of Metro5 S.p.A., Tunnel Ferroviario del Brennero S.p.A (TFB)'s subscription of Brennero Basis Tunnel SE BBT's share capital and the share of profits/losses of investees.

Other provisions decreased by €166 million as a consequence of the decrease in the provisions for risks and taxation (-€14 million), and the decrease in post-employment benefits (-€152 million).

Net financial debt of €7,273 million worsened by €513 million on 31 December 2016, mainly due to the following:

- the decrease in the financial receivable from the MEF (+€492 million) following the combined effect of the net reduction due to the collection of the year and the disbursement of the grants related to the 2006 and the 2007 Finance Act;
- the net decrease in loans and borrowings from other financial backers (-€320 million) mainly due to the repayments of the loans and borrowings 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 and borrowings with Cassa Depositi e Prestiti is ensured by the government grants to be received for the 2007-2021 period;
- the decrease in other financial liabilities (-€92 million), related to the factoring business;
- the increase in bonds (+€1,680 million) due to the issue of two new tranches (€1,100 million) of the bonds and the group's first green bond (€600 million) as part of the Euro Medium Term Notes Programme;
- the decrease in bank loans and borrowings (-€1,708 million) mainly due to the decrease in current funding and the repayment of loans taken on to purchase new rolling stock;
- the decrease in cash and cash equivalents (+€503 million) following the equity investments made during the year for TrainOSE, Centostazioni S.p.A., Metro5 S.p.A. and Nugo S.p.A. (+€176 million) and the dividends related to 2016 paid to the MEF totalling €300 million.

Equity rose from €38,497 million to €38,681 million, by €184 million mainly as a result of the following:

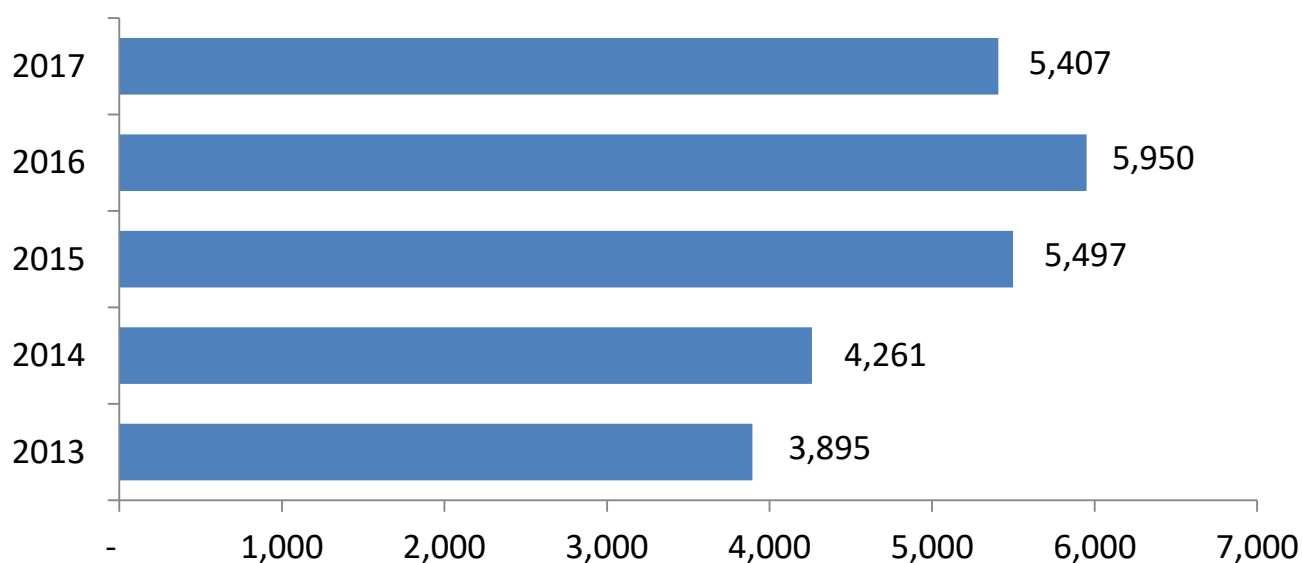
- the increase in the profit for the year (+€552 million);
- the decrease due to the above-mentioned changes in the consolidation scope (-€72 million);
- the dividends paid in 2017 amounting to €310 million (€300 million of which was paid to the MEF and €10 million to non-controlling interests);
- the increase in the fair value reserve for derivatives and the actuarial reserve (total of +€45 million);
- the increase in equity attributable to non-controlling interests following Tunnel Ferrovia del Brennero S.p.A.'s subscription of BBT SE's share capital, with a net effect of €4 million on equity attributable to the owners of the parent;
- the decrease in liabilities for derivatives (-€34 million).

Investments

Multiple factors drove the surge in investments in Italy (+5% on 2016 – Source: Prometeia, December 2017 forecast), including the favourable financial conditions, improvements in expected demand, restored confidence and the further reduction of unused production capacity.

FS Italiane group contributed to this trend by investing significantly, in line with its investment plan, leading to an average technical investments/depreciation ratio that has remained at more than 1 from 2012 to date.

FS Italiane group's total expenditure for investments in 2017 came to €5,407 million (€1,107 million of which self-financed and €4,300 million through government grants).

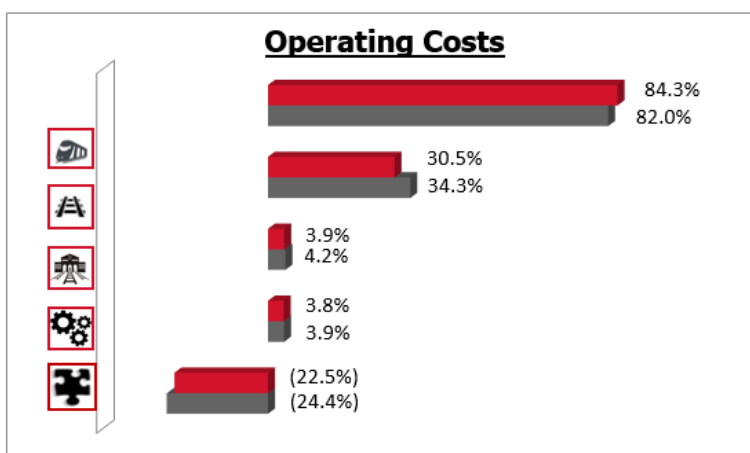
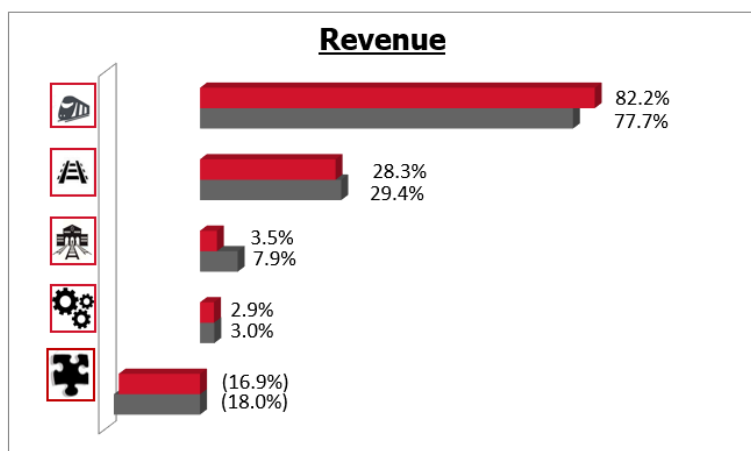


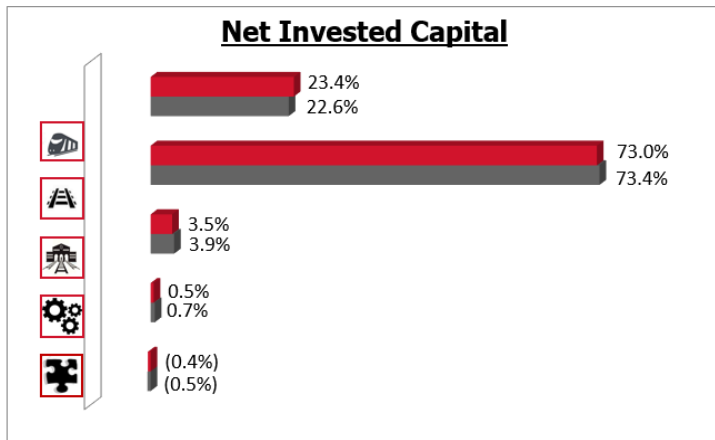
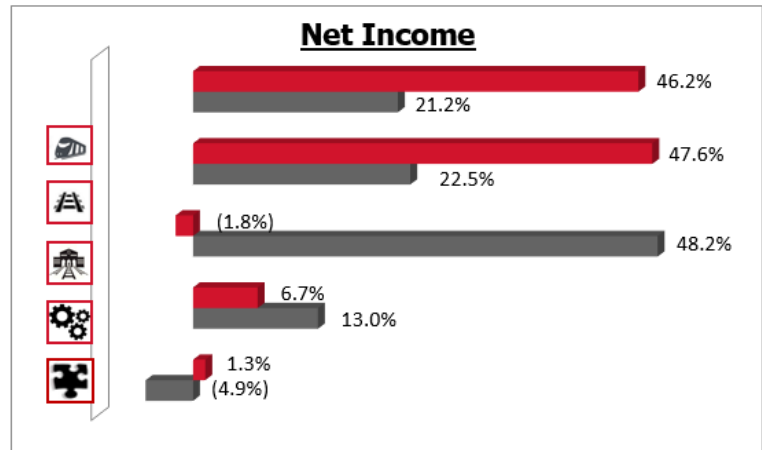
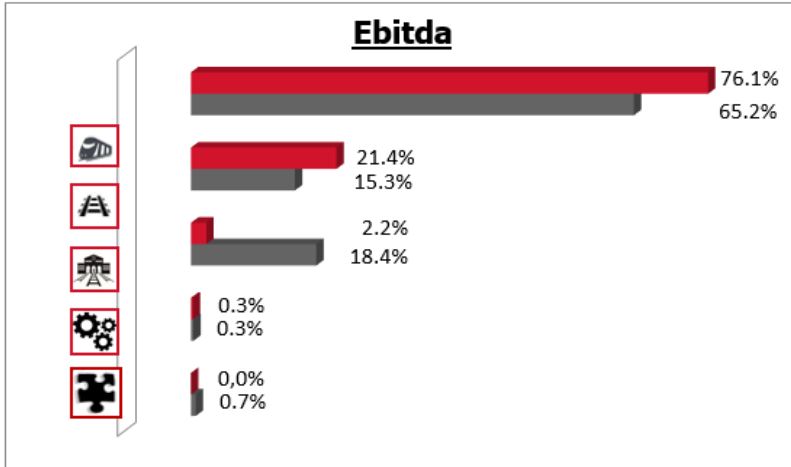
This being said, FS Italiane group's technical investments amounted to €5.6 billion, only marginally down on 2016 (-7%) due to the slight and expected slowdown in the progressive purchase of railway vehicles for long haul passenger transport (*Frecciarossa* 1000 trains) and regional passenger transport (*Jazz* trains) in 2017.

Approximately 79% of investments refers to the Infrastructure operating segment, with RFI S.p.A. investing €4,409 million, including €4,191 million for the traditional network and €218 million for the HS/HC network between Turin, Milan and Naples. Roughly 20% of investments refers to the Transport operating segment for projects devoted to the transport of passengers by road and rail, both in Italy and abroad, and to the transport of cargo. Specifically, Trenitalia S.p.A. invested €940 million (including ordinary maintenance), Polo Mercitalia €69 million, Netinera Deutschland GmbH €30 million and the Busitalia group companies, which operate in road transport in Italy and abroad, €18 million. The Real estate segment accounts for approximately 1% of the group's investments and they were mainly made by Grandi Stazioni Rail S.p.A. and Centostazioni S.p.A. to relaunch and redevelop the main railway stations.

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 2017 and 2016 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 Service
-  Other Service
-  Adjustments and eliminations

■ 2017 ■ 2016

Each segment's performance is described further on:

Transport

	millions of Euros			
	2017	2016	Change	%
Revenue from sales and services	7,327	6,619	708	10.7
Other income	321	318	3	0.9
Revenue	7,648	6,937	711	10.2
Operating costs	(5,888)	(5,440)	(448)	(8.2)
Gross operating profit	1,760	1,497	263	17.6
Operating profit	412	280	132	47.1
Segment profit (attributable to the owners of the parent and non-controlling interests)	255	164	91	55.5
	31.12.2017	31.12.2016	Change	
NET INVESTED CAPITAL	10,767	10,218	549	

The Transport segment shows a profit for the year of €255 million, driven by the sound performance of the passenger transport service.

	millions of Euros			
	2017	2016	Change	%
Revenue from sales and services	7,327	6,619	708	10.7
Revenue from transport services	7,096	6,405	691	10.8
Market revenue	4,478	4,044	434	10.7
Revenue from public service contracts	2,618	2,361	257	10.9
Other service revenue	231	214	17	7.9
Other income	321	318	3	0.9
Revenue	7,648	6,937	711	10.2

Transport segment **revenue** of €7,648 million increased significantly (+€711 million) compared to 2016, nearly entirely due to the rise in transport services (€691 million) within the group's business and through the expansion of the consolidation scope at the end of 2016 and the beginning of 2017. Specifically:

- the excellent performance of domestic long haul services drove growth in this segment by €215 million, in addition to the €62 million rise in short haul services.

In particular, the long haul services provided on the market (+€106 million) benefited from the growth in the *Freccia* service, while the universal service (+€109 million) benefited from the positive effects of the new service contract. Moreover, the introduction of the new regional ticket and the steps to prevent evasion boosted the results of short haul services;

- higher revenue of €408 million was generated by the above-mentioned acquisitions;
- the increase in the German Netinera group's revenue (+€20 million) was mostly as a result of the adjustment to the consideration of existing contracts for inflation and greater service volumes (Metronom and Vlexx).

The Transport segment's **gross operating profit** came to €1,760 million, up €263 million on 2016. The positive performance of the long haul passenger transport business and the Mercitalia hub companies drove the improvement in the operating profit margin, while the new group companies included in the consolidation scope also helped boost gross operating profit, contributing €25 million. The improvement in the operating profit margin was due to the prior year items, referring to 2015-2016, generated by the application of the new rate regime pursuant to Law no. 167 of 2017, which has adjusted the rate regime for electrical energy used for traction (+€78 million). These prior year items refer to Trenitalia S.p.A..

Operating profit amounts to €412 million, showing a significant increase of €132 million on the previous year. The improvement in gross operating profit was only partially reduced by the forecast increase in amortisation and depreciation and greater impairment losses and accruals to the bilateral fund for income assistance.

Net financial expense of €92 million worsened by €9 million on 2016, partly due to the non-recurring income of 2016 as a result of the settlement of the Campania region emergency dispute.

Loans and borrowings - Transport segment

Private bond placement – EMTN series 6. Trenitalia S.p.A. loan

On 22 June 2017, with settlement on 28 June, FS S.p.A. placed bonds for €1 billion as part of the EMTN Programme. The bonds have a fixed coupon of 1.5% and are redeemable on 27 June 2025. The issue was placed by a bank syndicate comprising Barclays, BNP Paribas, Credit Agricole CIB, Deutsche Bank, Goldman Sachs International, JP Morgan and UniCredit as the joint bookrunners. This placement, for which Fitch and S&P confirmed their most recent ratings (BBB and BBB-, respectively), is part of the total €2.1 billion bond issue approved by FS S.p.A.'s board of directors on 21 April 2017 to meet 2017 cash requirements. The proceeds will be used to finance the purchase of rolling stock for Trenitalia S.p.A.'s regional and medium to long haul transport services and RFI S.p.A.'s HS/HC infrastructure, with the agreement of intragroup loans between the parent, FS Italiane S.p.A., and the two companies mentioned above. Specifically, on 22 June 2017, FS Italiane S.p.A. and Trenitalia S.p.A. signed an agreement for an intragroup loan of €700 million, which has substantially the same characteristics and contractual conditions as the bond issue in terms of restrictions and the parties' commitments.

Green bond placement - EMTN series 7

On 30 November 2017, with settlement on 7 December, FS Italiane S.p.A. placed its first green bond, amounting to €600 million, also as part of the EMTN Programme. The bond has a fixed coupon of 0.875% and is redeemable on 7 December 2023.

The placement is part of the Green Bond Framework set up by FS Italiane S.p.A. to finance projects with positive impacts in terms of environmental sustainability. Specifically, the proceeds from the initial placement are earmarked to replace rolling stock for public transport as detailed below:

- new electric multiple unit (EMU) trains for regional passenger transport (i.e., Pop and Rock) trains;
- new high-speed "ETR 1000" trains for high-speed passenger transport.

Both these projects ensure improvements in energy efficiency, a reduction in greenhouse gas emissions and a shift in modal transport to increase the use of trains in local public and long haul transport services, as well as other improvements in air quality and passenger comfort.

FS Italiane S.p.A. will use the proceeds of the placement to grant Trenitalia S.p.A. an intragroup loan with substantially the same characteristics and contractual conditions as the bond issue in terms of restrictions and the parties' commitments.

Crédit Agricole CIB and HSBC have acted as Joint Structuring Green Advisors, while Banca IMI, Barclays, Crédit Agricole CIB, Deutsche Bank, Goldman Sachs International, HSBC, J.P. Morgan and SG CIB have acted as Joint Lead Managers and Joint Bookrunners for the placement.

This placement, which received confirmation of the BBB ratings from Fitch and S&P's, is part of the €2.1 billion bond issue resolved upon by the parent's board of directors on 21 April 2017 to meet the group's 2017 requirements.

EIB bond placement - EMTN series 8

On 19 December 2017, the European Investment Bank fully subscribed the bond issued by FS Italiane S.p.A. as part of the EMTN Programme. It amounts to €100 million, bears interest at a floating rate and has an eight-year term. The bond will finance the aforementioned purchase of the regional Pop and Rock trains, as provided in the new service contract signed by Trenitalia S.p.A. and the Emilia Romagna region. As with the previous placements, FS Italiane S.p.A. granted Trenitalia S.p.A. an intragroup loan in connection with this placement and with substantially the same characteristics and contractual conditions as the bond issue in terms of restrictions and the parties' commitments.

The rating agencies issued the same ratings as those previously assigned to FS Italiane S.p.A. and the EMTN Programme (S&P: BBB; Fitch: BBB with stable outlook).

TX Logistik AG loan

On 20 December 2017, FS S.p.A. granted its subsidiary, TX Logistik AG, an intragroup loan to finance the purchase of 40 new electric trains. The maximum amount of the loan is €135.8 million and it will be disbursed in several instalments. The loan was approved as part of the resolution of the FS Italiane S.p.A.'s board of directors on 26 October 2017 for the granting of two intragroup loans to the subsidiaries Mercitalia Rail S.r.l. and TX Logistik AG. It fits into the investment plan to update the cargo fleet and make the fleet of rolling stock more modern and reliable, reducing its impact on costs and increasing the percentage of rolling stock owned by the companies.

Infrastructure

	millions of Euros			
	2017	2016	Change	%
Revenue from sales and services	2,277	2,325	(48)	(2.1)
Other income	350	302	48	15.9
Revenue	2,627	2,627		
Operating costs	(2,132)	(2,276)	144	6.3
Gross operating profit	495	351	144	41.0
Operating profit	295	208	87	41.8
Segment profit (attributable to the owners of the parent and non-controlling interests)	263	174	89	51.1
	31.12.2017	31.12.2016	Change	
NET INVESTED CAPITAL	33,537	33,219	358	

The Infrastructure segment shows a profit for the year of €263 million, up €89 million on 2016.

	millions of Euros			
	2017	2016	Change	%
Revenue from sales and services	2,277	2,325	(48)	(2.1)
Revenue from infrastructure services	2,211	2,257	(46)	(2.0)
Other service revenue	66	68	(2)	(2.9)
Other income	350	302	48	15.9
Revenue	2,627	2,627		

Revenue amounts to €2,627 million, in line with 2016. The net change of zero is the result of captions that offset one another. The main captions are:

- the revenue contributed by FSE S.r.l. (€51 million) following its inclusion in the consolidation scope for the entire year;
- the decrease in revenue from RFI S.p.A.'s infrastructure services, amounting to €95 million, almost entirely related to the effects on the income statement of the application of the aforementioned Law no. 167/2017 to the electrical rate regime (€93 million, €78 million of which for Trenitalia S.p.A.);
- higher other revenue and income of €48 million, mainly related to the growth in income from RFI S.p.A.'s sale of retired materials thanks to new contracts for the sale of iron/copper signed between February and March 2017.

The Infrastructure segment's **gross operating profit** came to €495 million in 2017, up €144 million on 2016. The improvement reflects the €50 million net effect (on revenue and cost) of prior year income generated by the application of the aforementioned Law no. 167 of 2017.

The segment's operating profit amounts to €295 million (+€87 million on 2016) and reflects:

- amortisation and depreciation of €108 million, up €15 million on the previous year;
- impairment losses and reversals of impairment losses of €52 million, up €28 million on 2016;
- accruals of €40 million to RFI S.p.A.'s bilateral fund, up €15 million on 2016.

Net financial expense of €35 million, in line with the previous year.

Loans and borrowings - Infrastructure segment

Private bond placement – EMTN series 6. RFI S.p.A. loan

Using the proceeds from the EMTN Programme – series 6 previously described in the notes to the Transport segment, on 22 June 2017, FS Italiane S.p.A. granted RFI S.p.A. an intragroup loan of €300 million. This loan also has substantially the same characteristics and contractual conditions as the bond issue in terms of restrictions and the parties' commitments.

Real Estate Services

	millions of Euros			
	2017	2016	Change	%
Revenue from sales and services	10	7	3	42.9
Other income	317	695	(378)	(54.4)
Revenue	327	702	(375)	(53.4)
Operating costs	(275)	(279)	4	1.4
Gross operating profit	52	423	(371)	(87.7)
Operating profit	22	392	(370)	(94.4)
Segment profit (loss) (attributable to the owners of the parent and non-controlling interests)	(10)	372	(382)	(102.7)

	31.12.2017	31.12.2016	Change
NET INVESTED CAPITAL	1,622	1,744	(122)

	millions of Euros			
	2017	2016	Change	%
Revenue from sales and services	10	7	3	42.9
Other service revenue	10	7	3	42.9
Other income	317	695	(378)	(54.4)
Revenue	327	702	(375)	(53.4)

The Real Estate Services segment shows a **loss for the year** of €10 million, down €382 million on 2016. The decrease is mainly due to – in addition to the impact of deferred taxation generated by the demerger of FS Italiane S.p.A. to RFI S.p.A. – the lack of gains in 2017 which instead characterised 2016 (€365 million), generated by FS Italiane S.p.A.'s aforementioned sale of assets related to GS Retail S.p.A. to third parties and the lack of profits from the business that was transferred (€6 million), which were included in the first six months of 2016 and not in 2017.

Net invested capital also decreased by approximately 122 million, 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

	millions of Euros			
	2017	2016	Change	%
Revenue from sales and services	(1)	(1)		
Other income	273	267	6	2.2
Revenue	272	266	6	2.3
Operating costs	(266)	(258)	(8)	(3.1)
Gross operating profit	6	8	(2)	(25.0)
Operating loss	(12)	(3)	(9)	>(200)
Segment profit (attributable to the owners of the parent and non-controlling interests)	37	100	(63)	(63.0)

	31.12.2017	31.12.2016	Change
NET INVESTED CAPITAL	231	311	(80)

In 2017, the Other Services segment's **profit for the year** amounts to €37 million, down €63 million on the previous year, mainly due to Ferrovie dello Stato Italiane S.p.A.'s greater corporate costs (€10 million), and the higher impact of financial and tax expense.

	millions of Euros			
	2017	2016	Change	%
Revenue from sales and services	(1)	(1)		
Other income	273	267	6	2.2
Revenue	272	266	6	2.3

Revenue of €272 million increased by €6 million, almost entirely related to Ferservizi S.p.A., as the net effect of higher revenue from fees and other real estate services (following the larger number of services requested by customers) and the smaller revenue from administrative services, mostly caused by the review of the unit prices of services provided to group companies.

Gross operating profit amounts to €6 million in 2017 (-€2 million on 2016 due to the higher corporate costs of Ferrovie dello Stato Italiane S.p.A.).

The segment's **operating loss** amounts to €12 million (-€9 million on 2016) and reflects the greater amortisation and depreciation (-€1 million) due to the corporate costs of Ferrovie dello Stato Italiane S.p.A and the greater impairment losses and provisions of Ferservizi S.p.A..

Net financial income significantly worsened in 2017, falling from net financial income of €104 million in 2016 to €49 million in 2017, mainly due to the negative impact of the parent's 2016 revaluation of its equity investment in Trenitalia S.p.A. by €42 million.

Income taxes show a net positive balance of €20 million, down €16 million on 2016 (€36 million). This caption reflects the positive effects of the domestic tax consolidation scheme managed by the parent as part of its typical activities.

Loans and borrowings – Other Services segment

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

On 10 February 2017, Trenitalia UK completed its acquisition of NXET Trains Limited (also "NXET"). As guarantor of Trenitalia UK to the UK Department for Transport, the parent provided the following loans and borrowings and guarantees, in turn counter-guaranteed by Trenitalia S.p.A.:

- intragroup loan of GBP60 million (roughly €70.6 million) which the parent provided directly to Trenitalia UK Ltd 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 Italiane 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 Italiane S.p.A.) and direct guarantees of approximately GBP82 million, which were also counter-guaranteed by Trenitalia S.p.A..

The intragroup lending transactions in pounds sterling are hedged against currency risk by cross currency swaps and FX swaps.

Fitch rating

On 5 May 2017, Fitch downgraded Ferrovie dello Stato Italiane S.p.A.'s long-term issuer default rating from 'BBB+' to 'BBB', while upgrading its outlook from negative to stable. This was the direct consequence of its downgrading of the Italian Republic's rating on 21 April 2017, based on the rating methodology that Fitch applies to railway companies. The downgrade also affected the rating of FS Italiane S.p.A.'s EMTN bond placements and the notes issued as part of the same programme. On 2 November 2017, during the annual review, the agency confirmed Ferrovie dello Stato Italiane S.p.A.'s credit rating as 'BBB'.

Update of the 2017 EMTN Programme Base Prospectus

On 13 June 2017, the Central Bank of Ireland approved the update of the base prospectus for FS Italiane S.p.A.'s EMTN Programme, which was listed on the Dublin stock exchange in July 2013. The revision mainly affected the "Description of the Issuer", "Terms and Conditions", "Use of Proceeds" and "Taxation" sections in order to update the prospectus with the 2016 financial statements figures, the 2017-2026 business plan and regulatory developments and corporate events with a material impact on FS Italiane group's business. At the same time, a new Programme Manual and a new Dealer Agreement were signed.

S&P's rating

On 30 October 2017, the rating agency, Standard and Poor's, upgraded Ferrovie dello Stato Italiane S.p.A.'s corporate credit rating one notch to 'BBB' and confirmed its outlook as stable. This was the direct consequence of its upgrading of the Italian Republic's rating on 27 October 2017, based on the rating methodology that Fitch applies to railway companies. The upgrade also affected the rating of FS Italiane S.p.A.'s EMTN bond placements and the notes issued as part of the same programme.

Ferrovie dello Stato Italiane S.p.A.'s financial position and performance

Income statement

	millions of Euros			
	2017	2016	Change	%
Revenue	182	157	25	15.9
- Revenue from sales and services	154	137	17	12.4
- Other revenue	28	19	9	47.4
Operating costs	(201)	(167)	(34)	(20.4)
GROSS OPERATING LOSS	(19)	(10)	(9)	(90.0)
Amortisation and depreciation	(21)	(20)	(1)	5.0
Reversals of impairment losses	(4)	(1)	(3)	>(200)
Provisions				NA
OPERATING LOSS	(44)	(31)	(13)	(41.9)
Net financial income	166	566	(400)	(70.7)
PRE-TAX PROFIT	122	535	(413)	(77.2)
Income taxes	109	104	5	4.8
PROFIT FOR THE YEAR	231	639	(408)	(63.8)

The **profit** for 2017 amounts to €231 million, down €408 million on the previous year mainly due to the decreases in net financial income (-€400 million) and gross operating loss (-€9 million).

The reduction in **gross operating profit** is mainly due to the increase in operating costs (+€34 million), which outweighed the growth in revenue (+€25 million) for reasons described in more detail below.

The increase in **revenue** is mainly due to "property management" (leases, commercial use of stations, Grandi Stazioni facilities). The increase in **operating costs**, on the other hand, is due to the increase in "raw materials, consumables, supplies and goods" following the sale of properties in the year and "services" (real estate services and utilities, administrative and IT services, external communications and advertising, consultancies and professional services and facility management).

The reduction in **operating profit** is due to that described above, the impairment losses recognised on investment property and the impairment of receivables.

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

- the lack of gains on sales of assets in 2017, unlike the previous year, when the sale of Grandi Stazioni Retail S.p.A. to Alba Bidco S.p.A. had a significant impact (-€383 million);
- the lack of "revaluations of financial assets" compared to the previous year, when the equity investment in Trenitalia S.p.A was revalued (-€42 million);

- the increase in dividends distributed by group companies (+19 million) mainly due to the greater dividends distributed by Rete Ferroviaria Italiana S.p.A. (+€70 million) compared to the lower dividends distributed by Trenitalia S.p.A. (-€34 million), Grandi Stazioni Rail S.p.A. (-€12 million) and Ferservizi S.p.A. (-€5 million).
- Interest accrued by Metro 5 S.p.A. (+€1.1 million) on receivables sold during Astaldi's acquisition of 36.7% the shareholder capital of Metro 5 S.p.A., the net increase in financial income on Eurofima loans (€1.7 million), income on the Backup Facility (€0.8 million) and on income from bonds related to the Euro Medium Term Notes programme (€0.9 million).

Income taxes show an improvement in the net income balance of €5 million on the previous year mainly as a consequence of the recognition of the greater income from the tax consolidation scheme (+€26 million) recognised on the tax losses transferred to the group in previous years and used during the year, as it is improbable that they may be used subsequently. The improvement is also due to the lower IRES (corporate income tax) and IRAP (regional productivity tax) (-€18 million), higher deferred taxes (+€32 million) and adjustments to the income taxes in the previous year (€7 million).

Reclassified statement of financial position

millions of Euros

	31.12.2017	31.12.2016	Change
ASSETS			
Net operating working capital	444	543	(99)
Other assets, net	151	136	15
Working capital	595	679	(84)
Non-current assets	553	580	(27)
Equity investments	35,273	35,131	142
Net non-current assets	35,826	35,711	115
Post-employment benefits	(9)	(11)	2
Other provisions	(485)	(599)	114
Post-employment benefits and other provisions	(494)	(610)	116
NET INVESTED CAPITAL	35,927	35,780	147
COVERAGE			
Net current financial debt	(837)	(1,207)	370
Net non-current financial debt	(104)		(104)
Net financial debt	(941)	(1,207)	266
Equity	36,868	36,987	(119)
COVERAGE	35,927	35,780	147

Net invested capital of €35,927 million rose by €147 million in the year due to the combined effect of the decrease in working capital (-€84 million), and the increases in post-employment benefits and other provisions (+€116 million) and in net non-current assets (+€115 million).

Net operating working capital of €444 million decreased by €99 million in the year, mainly due to the net reduction in trade receivables and payables (-€17 million) and the decrease in land and buildings held for trading (-€81 million) following the partial demerger of Ferrovie dello Stato Italiane S.p.A. to Rete Ferroviaria Italiana S.p.A..

Other assets, net increased by €15 million due to the net increase of in VAT assets and liabilities (+€196 million), the net reduction in other current receivables and payables (-€144 million) and the decrease in deferred tax assets and liabilities recognised for IRES and IRAP (-€30 million).

Net non-current assets amount to €35,826 million, up €115 million on 2016, mainly due to the decrease in investment property (-€27 million), caused by the partial demerger of Ferrovie dello Stato Italiane S.p.A. to Rete Ferroviaria Italiana S.p.A., the increase in equity investments (+€142 million) following the acquisition of 100% of TrainOSE SA from Hellenic Republic Asset Development Fund SA (€45 million), the incorporation of Nugo S.p.A. (€1 million), to acquisition of

Centostazioni S.p.A.'s residual share capital from Archimede1 S.p.A. (€65.6 million) and the acquisition of Metro 5 S.p.A. from Astaldi S.p.A. (€30 million).

The decrease in **post-employment benefits and other provisions** (-€116 million) mainly reflects the utilisation of the tax provision for tax consolidation (€94 million) to remunerate the group companies for the tax losses they transferred in previous years and which were 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.) and the decrease in the provisions for risks (-€17 million) mainly due to the restatement of the sale price for Grandi Stazioni Retail S.p.A., the charges incurred to meet contractual obligations relating to the former Ferrovie Real Estate S.p.A. and utilisations to pay management personnel involved in the change management process.

Net financial position decreased by €266 million, reflecting the reduction in net liquidity from €1,207 million at 31 December 2016 to €941 million at 31 December 2017. This decrease is mainly due to the use of cash and cash equivalents for the payment of dividends to the MEF (€300 million) and the acquisition of new investments (€142 million), as described in the paragraph on "Net non-current assets", offset by the collection of dividends from subsidiaries during the year (€148 million).

Equity shows a €119 million decrease, mainly due to the profit for the year (€231 million), net of the dividends paid to the MEF (€300 million) on 19 October 2016 and the derecognition of the extraordinary reserve after the demerger with Rete Ferroviaria Italiana S.p.A. (€50 million).



Consolidated financial statements

Statement of financial position

millions of Euros

	31.12.2017	31.12.2016
Assets		
Property, plant and equipment	44,449	44,590
Investment property	1,398	1,565
Intangible assets	988	766
Deferred tax assets	158	183
Equity-accounted investments	373	331
Non-current financial assets (including derivatives)	1,863	2,326
Non-current trade receivables	9	8
Other non-current assets	1,307	1,995
Total non-current assets	50,545	51,764
Construction contracts	57	53
Inventories	2,102	2,053
Current trade receivables	2,491	2,337
Current financial assets (including derivatives)	637	630
Cash and cash equivalents	1,834	2,337
Tax assets	113	121
Other current assets	5,231	3,392
Total current assets	12,465	10,923
Assets held for sale and disposal groups	3	
Total assets	63,013	62,687
Total equity and liabilities		
Share capital	36,340	36,340
Reserves	42	10
Valuation reserves	(467)	(512)
Retained earnings	1,923	1,559
Profit for the year	542	758
Equity attributable to the owners of the parent	38,380	38,155
Profit attributable to non-controlling interests	10	14
Share capital and reserves attributable to non-controlling interests	240	243
Total equity attributable to non-controlling interests	250	257
Equity	38,630	38,412
Liabilities		
Non-current loans and borrowings	9,125	8,652
Post-employment benefits and other employee benefits	1,633	1,785
Provisions for risks and charges	944	968
Deferred tax liabilities	275	271
Non-current financial liabilities (including derivatives)	44	83
Non-current trade payables	96	15
Other non-current liabilities	160	142
Total non-current liabilities	12,277	11,916
Current loans and borrowings and current portion of non-current loans and borrowings	2,389	3,210
Current portion of provisions for risks and charges	50	44
Current trade payables	4,252	4,097
Tax liabilities	18	4
Non-current financial liabilities (including derivatives)	33	119
Other current liabilities	5,363	4,885
Total current liabilities	12,105	12,359
Total liabilities	24,383	24,275
Total equity and liabilities	63,013	62,687

Income statement

millions of Euros

	2017	2016
Revenue		
Revenue from sales and services	8,632	7,908
Other income	667	1,020
Total revenue	9,299	8,928
Operating costs		
Personnel expense	(4,178)	(3,951)
Raw materials, consumables, supplies and goods	(1,136)	(1,230)
Services	(2,663)	(2,421)
Use of third-party assets	(229)	(183)
Other operating costs	(208)	(199)
Internal work capitalised	1,428	1,349
Total operating costs	(6,986)	(6,635)
Amortisation and depreciation	(1,378)	(1,306)
Net reversals of impairment losses	(152)	(70)
Accruals	(65)	(25)
Operating profit	718	892
Financial income and expense		
Financial income	62	62
Financial expense	(176)	(170)
Net financial expense	(114)	(108)
Share of profits of equity-accounted investees	14	14
Pre-tax profit	618	798
Income taxes	(64)	(26)
Loss from assets held for sale, net of taxes	(2)	
Profit for the year (attributable to the owners of the parent and non-controlling interests)	552	772
<i>Profit for the year attributable to the owners of the parent</i>	542	758
<i>Profit for the year attributable to non-controlling interests</i>	10	14

Statement of comprehensive income

millions of Euros

	2017	2016
Profit for the year (attributable to the owners of the parent and non-controlling interests)	552	772
Other comprehensive income		
Items that will not be reclassified to profit or loss, net of the tax effect:		
Actuarial losses	(12)	(29)
attributable to the owners of the parent	(12)	(29)
attributable to non-controlling interests		
Items reclassified to profit or loss	19	21
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	38	28
attributable to the owners of the parent	38	26
attributable to non-controlling interests		2
Net exchange rate losses		(1)
Total other comprehensive income, net of the tax effect	45	19
Comprehensive income (attributable to the owners of the parent and non-controlling interests)	597	791
<i>Comprehensive income attributable to:</i>		
Owners of the parent	587	775
Non-controlling interests	10	16

Statement of changes in equity

millions of Euros

Equity														
	Reserves									Losses carried forward	Profit for the year	Equity attributable to the owners of the parent	Equity attributable to non-controlling interests	Total equity
	Share capital	Legal reserve	Extraordinary reserve	Other reserves	Translation reserve	Hedging reserve	Actuarial reserve	Fair value reserve	Total reserves					
Balance at 1 January 2016	36,340			(100)	4	(212)	(321)		(629)	1,388	448	37,547	289	37,836
Capital increase													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)
Recognised profits/(losses)					(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
Capital increase													4	4
Dividend distribution											(300)	(300)	(10)	(310)
Allocation of profit for the previous year		32		50					82	376	(458)			
Change in consolidation scope										(62)		(62)	(10)	(72)
Other changes				(50)					(50)	50			(1)	(1)
Recognised gains/(losses)							57	(12)	45		542	587	10	597
of which:														
Profit for the year											542	542	10	552
Gains/(losses) recognised directly in equity							57	(12)	45			45		45
Balance at 31 December 2017	36,340	39			3	(105)	(362)		(425)	1,923	542	38,380	250	38,630

Statement of cash flows

millions of Euros

	2017	2016
Profit for the year	552	772
Amortisation and depreciation	1,378	1,306
Share of losses of equity-accounted investees	(14)	(14)
Accruals to provisions and impairment losses	263	116
Losses on sales	(74)	(36)
Change in inventories	(105)	(54)
Change in trade receivables	(149)	631
Change in trade payables	225	(175)
Change in current and deferred taxes	42	(4)
Change in other liabilities	377	(1,826)
Change in other assets	(1,082)	896
Utilisation of the provisions for risks and charges	(203)	(121)
Payment of employee benefits	(145)	(95)
Net cash flows generated by operating activities	1,069	1,395
Increases in property, plant and equipment	(5,306)	(5,599)
Investment property	(6)	(12)
Decreases in intangible assets	(196)	(135)
Increases in equity investments	(131)	(154)
Investments, before grants	(5,639)	(5,899)
Grants for property, plant and equipment	4,300	4,280
Grants for investment property		
Grants for intangible assets		6
Grants for equity investments	95	128
Grants	4,395	4,414
Decreases in property, plant and equipment	131	291
Decreases in investment property	17	11
Decreases in intangible assets		2
Decreases in equity investments and profit-sharing arrangements	10	4
Decreases	159	308
Net cash flows used in investing activities	(1,085)	(1,177)
Disbursement and repayment of non-current loans	667	(596)
Disbursement and repayment of current loans	(1,091)	1,098
Change in financial assets	456	445
Change in financial liabilities	(72)	(107)
Dividends	(300)	(46)
Changes in equity	(146)	20
Net cash flows generated by (used in) financing activities	(486)	815
Total cash flows	(503)	1,032
Opening cash and cash equivalents	2,337	1,305
Closing cash and cash equivalents	1,834	2,337

Financial statements of Ferrovie dello Stato Italiane S.p.A.

Statement of financial position

Euros

	31.12.2017	31.12.2016
Assets		
Property, plant and equipment	46,282,439	45,912,015
Investment property	470,311,514	496,581,439
Intangible assets	35,856,757	36,567,865
Deferred tax assets	180,180,053	209,764,905
Equity investments	35,273,538,100	35.131.499.060
Non-current financial assets (including derivatives)	6,593,786,366	5,675,844,687
Non-current trade receivables	5,310,908	6,097,873
Other non-current assets	169,304,672	937,430,282
Total non-current assets	42,774,570,809	42,539,698,126
Inventories	408,021,446	489,140,792
Current trade receivables	141,488,206	125,646,941
Current financial assets (including derivatives)	2,363,461,243	2,594,210,723
Cash and cash equivalents	412,805,816	984,494,166
Tax assets	82,933,518	86,430,873
Other current assets	1,253,256,788	988,372,683
Total current assets	4,661,967,017	5,268,296,178
Total assets	47,436,537,826	47,807,994,304
Share capital	36,340,432,802	36,340,432,802
Reserves	38,807,634	6,868,981
Valuation reserves	256,442	251,083
Retained Earnings	256,834,398	
Profit for the year	230,910,168	638,773,063
Total equity	36,867,241,444	36,986,325,929
Liabilities		
Non-current loans and borrowings	6,490,148,566	5,675,526,623
Post-employment benefits and other employee benefits	9,123,252	11,160,014
Provisions for risks and charges	153,999,878	171,147,753
Deferred tax liabilities	331,073,192	428,103,401
Non-current financial liabilities (including derivatives)		372,822
Other non-current liabilities	257,085,846	1,013,665,270
Total non-current liabilities	7,241,430,734	7,299,975,883
Current loans and borrowings and current portion of non-current loans and borrowings	1,609,669,422	2,096,878,874
Current trade payables	112,642,012	79,601,131
Current financial liabilities (including derivatives)	329,421,663	275,049,399
Other current liabilities	1,276,132,551	1,070,163,088
Total current liabilities	3,327,865,648	3,521,692,492
Total liabilities	10,569,296,382	10,821,668,375
Total equity and liabilities	47,436,537,826	47,807,994,304

Income statement

	2017	2016
Revenue from sales and services	154,038,407	137,363,176
Other income	28,104,744	19,328,292
Total revenue	182,143,151	156,691,468
Personnel expense	(53,031,014)	(53,887,166)
Raw materials, consumables, supplies and goods	(24,848,271)	(6,616,521)
Services	(90,347,086)	(70,589,474)
Use of third-party assets	(3,558,144)	(3,442,392)
Other operating costs	(28,789,883)	(32,906,271)
Internal work capitalised	68,851	175,917
Total operating costs	(200,505,547)	(167,265,907)
Amortisation and depreciation	(21,376,666)	(19,994,276)
Reversals of impairment losses	(4,889,162)	(1,055,258)
Operating loss	(44,628,224)	(31,623,973)
Gains on equity investments	149,574,755	130,901,228
Other financial income	174,663,247	577,383,046
Losses on equity investments	(175,112)	(326,791)
Other financial expense	(157,959,122)	(142,052,956)
Net financial income	166,103,768	565,904,527
Pre-tax profit	121,475,544	534,280,554
Income taxes	109,434,624	104,492,509
Profit from continuing operations	230,910,168	638,773,063
Profit for the year	230,910,168	638,773,063

Statement of comprehensive income

	2017	Euros 2016
Profit for the year	230,910,168	638,773,063
Items that will not be reclassified to profit or loss:		
Actuarial gains (losses)	15,407	(145,969)
Tax effect on actuarial gains (losses)	(10,048)	39,636
Other comprehensive income (expense), net of the tax effect	5,359	(106,333)
Total comprehensive income	230,915,527	638,666,730

Statement of changes in equity

Euros

Equity									
	Share capital	Reserves			Valuation reserves	Total reserves	Retained earnings (losses carried forward)	Profit for the year	Total equity
		Other reserves							
		Legal reserve	Extraordinary reserve	Other reserves					
Balance at 1 January 2016	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									
Recognised gains/(losses) of which:									
Profit for the year								638,773,063	638,773,063
Gains/(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
Share capital decrease									
Dividend distribution								(300,000,012)	(300,000,012)
Allocation of profit for the previous year		31,938,653	50,000,000			81,938,653	256,834,398	(338,773,051)	
Other changes			(50,000,000)			(50,000,000)			(50,000,000)
Recognised gains/(losses) of which:									
Profit for the year								230,910,168	230,910,168
Losses recognised directly in equity					5,359	5,359			5,359
Balance at 31 December 2017	36,340,432,802	38,807,634			256,442	39,064,076	256,834,398	230,910,168	36,867,241,444

STATEMENT OF CASH FLOWS

Euros

	2017	2016
Profit for the year	230,910,168	638,773,063
Income taxes	(109,434,624)	(104,492,509)
Net financial expense	(16,828,273)	(10,605,622)
Amortisation and depreciation	21,376,666	19,994,276
Accruals to provisions and impairment losses	423,408	34,339,454
Impairment losses	2,696,083	(41,563,130)
Provisions for employee benefits	103,121	124,411
Accruals to provisions and impairment losses	3,222,612	(7,099,265)
Losses on sales		(383,279,451)
Change in inventories	20,331,535	1,605,534
Change in trade receivables	(15,054,299)	3,662,081
Change in trade payables	33,040,881	(9,433,996)
Change in other assets	505,058,090	4,512,792
Change in other liabilities	(526,948,092)	(372,140,795)
Utilisation of the provisions for risks and charges	(11,696,740)	(10,091,732)
Payment of employee benefits	(2,124,477)	(988,758)
Financial income collected/financial expense paid	16,828,273	10,605,622
Change in tax assets/liabilities	45,476,576	33,677,074
Net cash flows generated by operating activities	194,158,296	(185,301,686)
Increases in property, plant and equipment	(1,876,376)	(361,277)
Investment property	(4,635,099)	(10,138,952)
Increases in intangible assets	(11,520,981)	(12,746,353)
Increases in equity investments	(173,970,327)	(82,277,087)
Investments, before grants	(192,002,783)	(105,523,669)
Grants for property, plant and equipment		38,741
Grants for intangible assets		5,022,361
Grants for equity investments	31,931,175	40,250,296
Grants	31,931,175	45,311,398
Decreases in property, plant and equipment	5,240	19
Decreases in investment property		114,540
Decreases in intangible assets		1,096,882
Decreases in equity investments		397,119,360
Decreases	5,240	398,330,801
Net cash flows generated by investing activities	(160,066,368)	338,118,530
Disbursement and repayment of non-current loans	1,423,169,011	207,689,888
Disbursement and repayment of current loans	(1,095,756,520)	1,195,021,353
Change in financial assets	(701,204,093)	(1,415,548,898)
Change in financial liabilities	(932,165)	(879,715)
Dividends	(300,000,012)	(30,510,634)
Changes in equity		
Net cash flows used in financing activities	(674,723,779)	(44,228,006)
Total cash flows generated in the year	(640,631,851)	108,588,838
Opening cash and cash equivalents	1,154,724,118	1,046,135,280
Closing cash and cash equivalents	514,092,267	1,154,724,118
of which intragroup	101,286,450	170,229,952

Reporting by operating segment

The financial highlights of the group's operating segments for 2017 and 2016 are show below:

	millions of Euros					
2017	Transport	Infrastructure	Real Estate Services	Other Services	Adjustments and inter-segment eliminations	Ferrovie dello Stato Italiane group
Revenue from third parties	7,358	1,490	147	21	(3)	9,013
Inter-segment revenue	290	1,137	180	251	(1,572)	286
Revenue	7,648	2,627	327	272	(1,575)	9,299
Personnel expense	(2,478)	(1,559)	(27)	(139)	25	(4,178)
Other costs, net	(3,410)	(573)	(248)	(127)	1,549	(2,809)
Operating costs	(5,888)	(2,132)	(275)	(266)	1,574	(6,987)
Gross operating profit (loss)	1,760	495	52	6	(1)	2,312
Amortisation and depreciation	(1,234)	(108)	(22)	(14)		(1,378)
Impairment losses and accruals	(114)	(92)	(8)	(4)	1	(217)
Operating profit (loss)	412	295	22	(12)		717
Net financial income (expense)	(92)	(35)	(1)	29		(99)
Income taxes	(63)	3	(31)	20	7	(64)
Loss from assets held for sale, net of taxes	(2)					(2)
Segment profit (attributable to the owners of the parent and non-controlling interests)	255	263	(10)	37	7	552

	millions of Euros					
31.12.2017	Transport	Infrastructure	Real Estate Services	Other Services	Adjustments and inter-segment eliminations	Ferrovie dello Stato Italiane group
Net invested capital	10,767	33,537	1,622	231	(203)	45,954

millions of Euros

2016	Transport	Infrastructure	Real Estate Services	Other Services	Adjustments and inter-segment 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 (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 inter-segment eliminations	Ferrovie dello Stato Italiane group
Net invested capital	10,218	33,219	1,744	311	(235)	45,257

The manager in charge of financial reporting, Roberto Mannozi, represents, pursuant to article 154-bis.2 of the Consolidated income tax act, that the accounting figures set out in this document are consistent with the documents, books and accounting records.