



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

# **2019 ANNUAL REPORT**

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# Chairman's letter

Dear Shareholder,

The health emergency we currently face has shattered the status quo and lends particular significance to the customary submission of the draft annual report to our shareholder.

In the midst of a macroeconomic and social context of unprecedented critical difficulties and uncertainty in the short, medium and long term and at national, European and global level, we are aware of the crucial role we play for the country and for countless people, including our 83,764 valued employees (thousands of whom are committed every day to ensuring the continuity of essential services around the country), the tens of thousands of workers for businesses fuelled by our operations and the millions of Italians compelled to stay home for the sake of the common good and who need a road and railway system that continues to guarantee the continuity of logistics and freight transport services and that enables essential workers to travel easily and safely.

In these uncertain times, not only do the exceptional results and solid financial position presented in our 2019 annual report make us proud of the work we have done, but they are a precious reminder of our group's vitality and strength as it rises to face the challenges of a previously unimaginable scenario, the consequences of which, as we have described in specific sections of the directors' report and notes to the financial statements to which reference should be made, cannot currently be foreseen.

We will briefly explore four key themes below:

- the group's performance, investments and financial position;
- operations in the main business segments;
- governance;
- sustainability.

## **Performance, investments and financial position**

In 2019, the FS Italiane group generated revenue of €12.4 billion (+3% on 2018) with an extremely positive gross operating profit (€2.6 billion, +5.4%) and operating profit (€0.8 billion, +16.1%). The profit for the year rose by 4.5% on 2018 to €584 million.

The number of employees grew in proportion to the growth in business volumes (+820 people, +1%), generating an extraordinarily high rate of turnover (19.5%), with 9,068 hires (+19% compared to 2018), creating a much younger workforce (the percentage of employees under 30 rose to nearly 20% of the total, compared to 13% in 2018 and 9% in 2017) and a more balanced geographical distribution.

In line with the growth targets set in the 2019-2023 business plan presented in the first half of the year and thanks to the crucial support of the government and our institutional stakeholders, capital expenditure totalled €8.1 billion (+8% on 2018), confirming our place as Italy's largest investor and contributing to over 110,000 induced jobs (estimated based on ISTAT, the Italian Statistics Institute, parameters, net of group employees).

Furthermore 59% of investments were in railway infrastructure (of this share, 98% was for the traditional network and 2% for the HS network) and 16% in road infrastructure, 24% in transport (22% for passenger transport and 2% for freight),

while the remainder related to other services (investment property, urban renewal and ICT technologies and services, in particular).

Demonstrating the group's financial soundness, the ratio of net financial debt (€7.7 billion at the end of 2019) to equity attributable to the owners of the parent (€42.3 billion) is 0.18, showing a slight improvement on 2018 (+0.02), mainly due to the increase in investments.

In choosing our sources of financing, considering the favourable ratings of the bonds in our Euro Medium Term Notes programme, in the interests of our investors, we decided to increase the percentage of bonds in our sources of financing from 41% to 49%, mainly through additional green bond placements, which are associated with investment projects with significant, certified environmental sustainability. Furthermore, by pursuing a prudent interest risk hedging policy, 64% of debt now accrues interest at a fixed rate (+34% on 2018).

### **Operations in the main business segments**

All operating segments performed well in 2019 and in line with the strategies in the business plan, not only in terms of revenue, profit for the year and investments, but also in terms of delivered and perceived service quality indicators and social and environmental sustainability.

In 2019, the railway infrastructure saw growth in traffic in the market services and an increase in the variety and quantity of services provided to the railway companies that use the network, with significant advances in extraordinary maintenance and the strengthening of the national infrastructure (technological upgrades and new projects), driven by the successful conclusion of the procedure for the new 2017-2021 Government Programme Contract - Investments. New developments include the ISO 55001 certification of RFI's asset management system and the decision to have certain categories of sub-contractors implement management systems, starting with railway infrastructure work sites.

Work to improve stations, which includes progress on the smart station and easy station projects, has contributed to the increase in all perceived quality indicators, with passengers reporting an overall satisfaction rate of 97.1% (+0.5%).

In road infrastructure, the performance of maintenance and additional scheduled works benefited from the introduction of simplified legislation in Italy. A few key contractors are grappling with financial difficulties, which led to some substantial delays, resulting in the need to stop work, revise contracts and assign the work to new contractors. Looking ahead, we expect the increase in tenders published and awarded in 2019, along with vigorous organisational action, to translate into a rapid acceleration of investments throughout the country starting in 2020.

In the passenger transport segment, all real punctuality and perceived quality indicators for railway services improved, confirming the validity of the actions in the business plan. Overall satisfaction with long-haul services and with regional services rose to 93% and 86.5%, respectively (+0.5% and +2% on 2018). Road transport indicators also improved overall and targeted measures were taken to invert the negative trends in certain indicators.

The main developments affected regional services and European initiatives.

In Italy, new service contracts were signed in 2019 for the Tuscany, Campania, Marche and Calabria regions and contracts were won for railway services in the Turin metropolitan area and in Emilia Romagna. As per the service contracts signed in the past with other regions, these new contracts provide for substantial investments in rolling stock. In this respect, 49 new trains were rolled out for regional services in the year (compared to 11 in 2018). These are the first results of the acceleration

of the investment plans that we kicked off in 2018 and that will lead to the progressive upgrade of 80% of the regional fleet within five years, as outlined in the business plan.

The FS Italiane group expanded its presence in Europe by acquiring the contract for Intercity services between London and Edinburgh/Glasgow (for 2019-2031) and has laid a solid foundation for future growth with the awarding of HS services on several major railway lines in Spain (with operations slated to start in January 2022) and the progress made for the launch of new HS connections in France by the end of 2020.

Despite the country's weak economy - industrial production is down by 1.3% on 2018 - in the freight transport and logistics segment, the Mercitalia group has continued to turn its business around by restructuring investments and sharpening its focus on customer needs. While in 2018 - the first year in which customer satisfaction was measured - customers scored 11 out of 15 quality indicators as insufficient, all indicators improved in 2019 and were rated as sufficient, with an overall customer satisfaction rating of 7.2/10, compared to 5.9/10 in the previous year.

## **Governance**

The board of directors, with the support of its committees, has constantly pushed for the improvement of the internal control and risk management system, including through monitoring the progress of projects and ongoing dialogue with units, committees and bodies that, in various ways and with different focuses, contribute to good governance within the FS Italiane group.

The main developments in the year include, first, the approval of a strict procedure for the management of whistleblower reports, including anonymous reports, which fully protects whistleblowers and help identify and counteract any conduct that is illegal and/or in violation of the code of ethics or internal group regulations (specifically, the provisions of the 231 Model and the ABC system). Second, developments also include admission to the co-operative compliance scheme with the tax authorities, enabling the group to collaborate constantly with them through transparent, preventive discussion, which will help minimise tax risk. In addition, the new cyber security operation centre was set up, a specialised hub to prevent, detect and fight cyberattacks (there were 10,139 attacks in 2019, +60% on 2018).

Two major reorganisation transactions affected the group's corporate structure in 2019. Centralising technological and digital know-how, FSTechnology was set up and began operations. This company is responsible for driving and supporting the group companies' digital innovation by creating synergies, economies of scale and scope and by effectively and efficiently coordinating investments of €6 billion in technology over the five years of the business plan. We also set up FS International, which will progressively absorb the group's international companies, units and development activities, steering and coordinating them.

## Sustainability

Confirming our commitment to the achievement of the sustainable development goals in the United Nations 2030 Agenda, in 2019 we officially established the FS Italiane group's sustainability policy and set our first long-term goals (2030-2050) in three key areas: safety, sustainable mobility and carbon emissions. These are the three pillars on which we will focus our efforts and base daily operations and actions plans for tomorrow.

When we approved the annual report, we also approved the 2019 sustainability report, in which we demonstrate, with a wide selection of data and information, how sustainability - in all three of its dimensions: economic, environmental and social - is embodied in the group's operations. The report, to which reference should be made, illustrates the contribution of all group companies and is the result of the inestimable work of the relevant departments to coordinate and summarise sustainability initiatives.

In the field of social sustainability, we are particularly proud of the non-profit social, cultural and environmental projects that can be carried out in the 144,200 square metres of space that we have made available, at no charge, to associations and other charitable bodies at 403 stations throughout Italy. These projects include the social network of help centres (18 active centres in 2019, 61% of which are in central and southern Italy), which provides help in a total of over 400,000 cases per year, and welcome centres for people in serious difficulty (three in Rome and two in a Milan).

Our sense of social responsibility can also be seen in the way we care for our workers, for example, by increasing the days of training that we provide to our employees (over 680,000 days at our main companies only, +19% on 2018) and the nearly 16,000 days of training for our suppliers' personnel (to ensure the most consistent standards of skills and safety possible), as well as the many different initiatives undertaken to reduce accidents (-19% in 2019). We are particularly proud of having been named, for the sixth year in a row, the Best Employer of Choice by recent Italian university graduates, as well as the campaigns we have launched to improve our ability to draw out internal talent (e.g., the *Corporate Entrepreneurship "Innovate"* programme) and our improved gender diversity figures, with a larger percentage of women in the group's general population (17.5%, +0.9%) and in management positions (19.8%, +1.7%).

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As the information and data in the annual report, which we submit to the shareholder, indicate, the FS Italiane group is well-equipped to face the seriousness of the current health emergency. While we can only begin to understand its breadth and consequences, we are bolstered by our strong performance and financial soundness.

What we have done thus far, for example by caring for our people (e.g., additional insurance coverage and having almost all office employees work from home) and our customers (extensive refunds, seating assignments that best respect the recommended distance between passengers and the updates on our sites and apps to help users access and print the government forms to self-certify their reasons for leaving home) reflects how we see our role as a business serving the country. We are working in close contact with the government, our shareholder, the MEF, and our supervisor, the MIT, and all relevant institutions, and we are open to collaboration with all other actors in the production sector and prepared to do everything in our power to reconcile our social role with our bottom line. Our contribution thus far has entailed, on one hand, helping to efficiently and safely prevent and contain the spread of COVID-19, including the production of high-quality masks at an RFI plant, limiting the impacts of the pandemic as much as possible, and, on the other, immediately imagining and planning the projects and investments needed to get the country back on its feet once the acute phase of the health emergency has passed.

As the country's largest integrated mobility operator, we have directed all our employees and resources towards achieving these two goals in the short, medium and long term.

The Chairman

Gianluigi Vittorio Castelli

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

### **Board of directors**

**In office since 30 July 2018<sup>1</sup>**

Chairman	Gianluigi Vittorio Castelli
CEO and general director	Gianfranco Battisti
Directors	Andrea Mentasti
	Francesca Moraci
	Flavio Nogara
	Cristina Pronello
	Vanda Ternau

### **Board of statutory auditors**

**In office since 4 July 2016**

**In office since 3 July 2019<sup>2</sup>**

Chairman	Carmine di Nuzzo	Alessandra dal Verme
Standing statutory auditors	Susanna Masi	Susanna Masi
	Roberto Ascoli	Gianpaolo Davide Rossetti
Alternate statutory auditors	Paolo Castaldi	Letteria Dinaro
	Cinzia Simeone	Salvatore Lentini

## **JUDGE APPOINTED TO OVERSEE THE FINANCIAL MANAGEMENT OF FERROVIE DELLO STATO ITALIANE S.p.A.<sup>3</sup>**

Angelo Canale

## **MANAGER IN CHARGE OF FINANCIAL REPORTING**

Roberto Mannozi

## **INDEPENDENT AUDITORS**

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

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<sup>1</sup> Gianfranco Battisti was appointed CEO on 31 July 2018.

<sup>2</sup> Following the shareholder's resolution on the same date.

<sup>3</sup> Starting from 1 January 2020, as resolved in the meeting of 17-18 December 2019, Section President Giovanni Coppola was appointed as judge in charge of overseeing the company's financial management pursuant to article 12 of Law no. 259/1958. Therefore, President Giovanni Coppola replaces President Angelo Canale.



## Group highlights

### Ferrovie dello Stato Italiane group's annual report

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This annual report includes the consolidated and separate financial statements of Ferrovie dello Stato Italiane S.p.A. and the directors' report, which meets the provisions of the Italian Civil Code and complies with the regulations of Legislative decree no. 254 of 30 December 2016 applicable to non-financial information.

#### *Disclaimer*

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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 fully relied upon. Actual results may differ, even significantly, from the data in these statements following myriad factors, including, but not limited to, the volatility and deterioration 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/road network, the use of plants and supplies and many other risks and uncertainties, most of which originate outside the group.

## Key and glossary

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### **Non-GAAP performance indicators**

Below is a description of the criteria used to determine the non-GAAP performance indicators used in this report, which differ from the criteria applied to the IFRS financial statements. Management finds these indicators useful in monitoring the group's performance and believes they reflect the financial performance 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 (impairment gains) and provisions.

**Net operating working capital:** this is the algebraic sum of inventories, contract assets, current and non-current trade receivables and current and non-current trade payables.

**Other assets, net:** these reflect the sum of assets 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 and disposal groups.

**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 financial assets.

**Equity (E):** this is a financial statements indicator calculated as the algebraic sum of share capital, reserves, retained earnings (losses carried forward), current and non-current derivative liabilities and the profit (loss) for the year.

**Capital expenditure:** this indicator reflects the trend in group investments of the year and includes the group's investment programmes/projects (including investments via leases or special purpose vehicles) to support business development. These programmes/projects consist of investments in property, plant and equipment, concessions and other intangible assets, excluding financial investments (i.e., those relating to equity investment transactions). Specifically, the indicator is calculated as the algebraic sum of investments of the year/in progress in: i) property, plant and equipment, ii) intangible assets; iii) investment property; iv) change in concession work; v) trading property, net of asset acquisitions between group companies.

**Gross operating profit margin:** this profitability indicator is calculated as the ratio of gross operating profit to 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. The latter is determined as the average of opening equity (including 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. It is calculated as the algebraic sum of 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, 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 this report in relation to the group's operations:

**Computerised interlocking system:** electronic management system for control and signalling and station safety.

**ARIS:** All-relay interlocking system. This centralised system 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.

**RFI Government Programme Contract (RFI GPC):** this is a long-term contract between the Ministry of Infrastructure and Transport ("MIT") and Rete Ferroviaria Italiana S.p.A. ("RFI S.p.A.") defining investment projects and other terms and conditions, such as network maintenance, to encourage the development of the railway system.

**Anas Government Programme Contract (Anas GPC):** this is a long-term contract between the Ministry of Infrastructure and Transport ("MIT") and Anas S.p.A. defining investment projects and other terms and conditions, mainly maintenance, to encourage the development of the road network.

**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.

**European Train Control System (ETCS):** 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).

**Global System for Mobile Communication (GSM-R):** 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.

**Daily mobility ratio (DMI):** this is the ratio of the total number of journeys taken in a day by the inhabitants of a given city to its total number of inhabitants.

**Load factor (pkm/seat-km):** this indicator measures the saturation of the commercial offer.

**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 systems 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.

**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:** train speed control system. This 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.

**Terminal:** this is the intermodal transport infrastructure for the transfer of large load units between carriers, with or without warehouses of modest size.

**Tonne-km (tonne/km):** this is the product of tonnes transported multiplied by kilometres travelled. It is, therefore, the sum of the kilometres effectively travelled by the tonnes transported over a given period of time. It is the commercial performance indicator for freight 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.

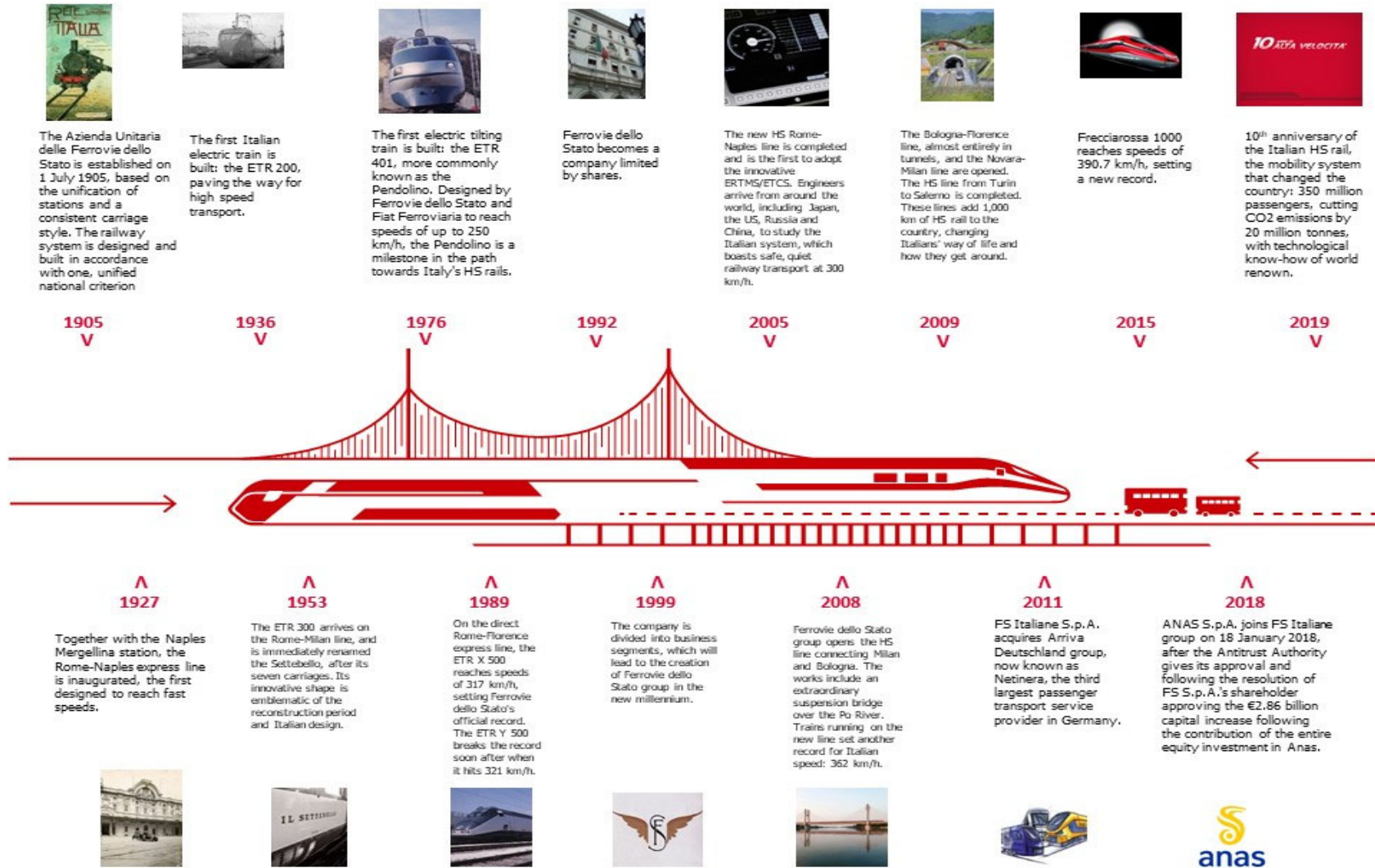
**Intermodal transport:** this is transport using two or more modes of transport (road, rail, sea or river) with the transfer of load units from one mode to another without breaking up the load, i.e., using a roadway vehicle or intermodal transport unit (containers, swap bodies and semitrailers).

**LPT:** local public transport.

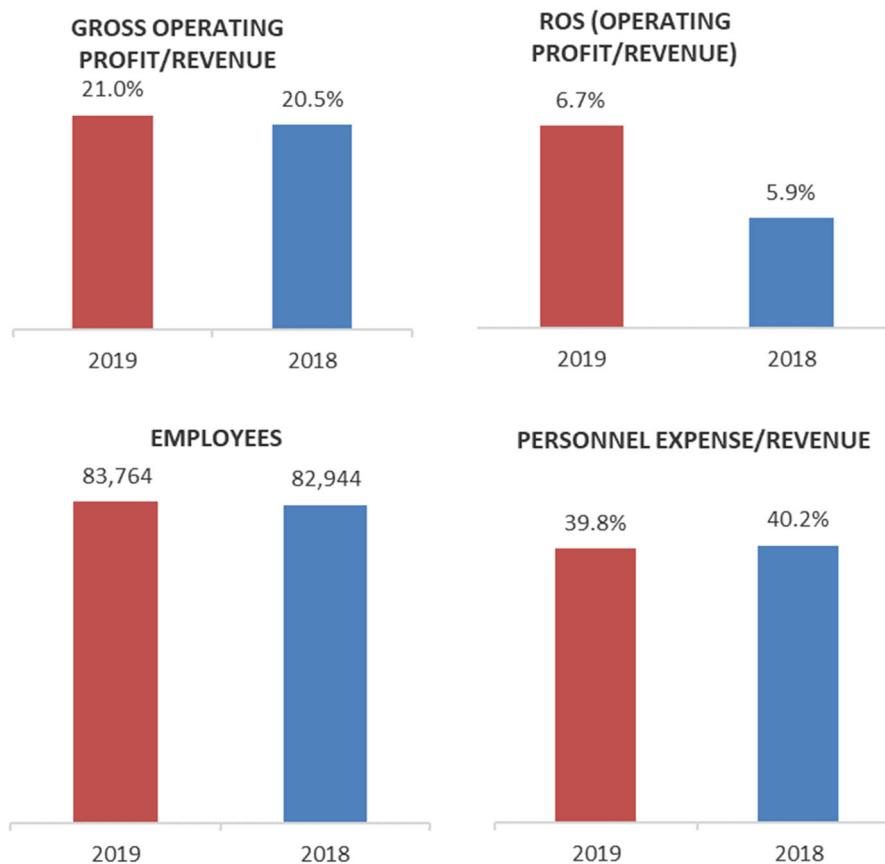
**Train-km (tkm):** this is the number of train events per kilometre travelled. It is, therefore, the sum of kilometres travelled by all trains over a given period of time. It is the performance indicator for the railway network operator's production.

**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



## Group highlights



millions of Euros

<b>Financial highlights</b>	<b>2019</b>	<b>2018</b>	<b>Change</b>	<b>%</b>
Revenue	12,435	12,072	363	3.0
Operating costs	(9,826)	(9,596)	(230)	(2.4)
Gross operating profit	2,609	2,476	133	5.4
Operating profit	829	714	115	16.1
Profit for the year	584	559	25	4.5
	<b>31.12.2019</b>	<b>31.12.2018</b>	<b>Change</b>	<b>%</b>
Net invested capital (NIC)	49,977	48,418	1,559	3.2
Equity (E)	42,318	41,763	555	1.3
Net financial debt (NFD)	7,659	6,655	1,004	15.1
NFD/E	0.18	0.16		
Investments of the year	6,943	5,871	1,072	18.3
Total cash flows	(262)	(38)	(224)	>200



## **Directors' report**



# Directors' report and consolidated non-financial statement pursuant to Legislative decree no. 254 of 30 December 2016

## Directors' report - Ferrovie dello Stato Italiane group

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The directors' report of the Ferrovie dello Stato Italiane group (the "FS Italiane group") complies with the provisions of article 2428 of the Italian Civil Code, supplemented with specifically applicable legislation, where required. As further detailed in the following, this report also complies with the provisions of Legislative decree no. 254 of 30 December 2016 applicable to non-financial information and includes the information required by such decree.

## Consolidated non-financial statement pursuant to Legislative decree no. 254 of 30 December 2016 - Methodology for reporting non-financial information

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The FS Italiane group must comply with Legislative decree no. 254 (the "Decree"), which implemented Directive 2014/95/EU, amending Directive 2013/34/EU with respect to the disclosure of non-financial information by certain large companies and groups.

In compliance with the provisions of the Decree, as in the previous year, the group has included the consolidated non-financial statement ("NFS") in the directors' report, also considering that the information contained therein is pre-financial.

In accordance with the group's longstanding methodological choices in relation to the reporting of non-financial information, the NFS has been prepared in compliance with the "GRI Sustainability Reporting Standards" issued by the Global Reporting Initiative (GRI) in 2016 (the "Standards"), using the core reporting option. The group has always applied these Standards in the preparation of the Sustainability Report which are also applied by the majority of large Italian and international groups in reporting their non-financial information.

To ensure comparability, quantitative information relates (where available) to the 2017-2019 three-year period. Any differences with respect to the previous NFS are due to the fine-tuning of the reporting methods and are specifically indicated.

The reporting scope was defined according to the group materiality by assessing the (real or potential) impacts with respect to the topics covered by the Decree and considering, inter alia, the nature of the business and the size of the group companies ("Level 1" scope). Qualitative information for non-financial reporting (in compliance with the Standards) which entailed the extension of the Level 1 scope to all other consolidated companies, was also considered. The relevant information was selected considering the various aspects covered by the Decree, the group's activities and the consequent impacts. In addition, the group considered the results of the materiality analysis and the "Guidelines on non-financial reporting" of July 2017 and the "Guidelines on non-financial reporting: supplement on reporting climate-related information" of June 2019, published by the European Commission, as well as the Regulation implementing Legislative decree no. 254/2016, issued by Consob (the Italian commission for listed companies and the stock exchange) on 18 January 2018.

The aim of the materiality analysis is to identify the material social, environmental and economic topics, i.e., those that may have a significant impact on the stakeholders' decision-making process and that play a decisive part in defining the group's strategy. To this end, the group performed an analysis on external stakeholders (peers and other competitors in the group's operating segment, the traditional media, voluntary and binding regulations) using IT tools based on artificial intelligence, and on internal stakeholders using an online survey submitted to roughly 380 top managers (board of directors and group internal committees) and company managers positions. The response rate was high, i.e. about 64%.

The ten most material topics are set out below:



### Circular economy

Responsible use of resources, based on the **analysis of life cycles** and with a **circular approach** that maximises the use of renewable materials and minimises waste. Prevention of **soil** and **water pollution**.

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### Energy, climate change and air quality

Development of strategies to **reduce emissions**, promotion of the **efficient use** of energy resources and **renewables**.

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### Ethics and integrity

Prevention of any form of **corruption** and **misconduct**, ensuring a corporate culture based on **integrity** and **transparency**.

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### Responsible chain

Integration of **sustainability principles** in the supply chain, thus helping to improve the **social** and **environmental performance** of suppliers.

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### Innovation and digitalisation

Research into **innovative ideas** and **new digital technologies** in order to continuously improve services, thus contributing to **social progress** and meeting **customers' needs** in terms of higher safety and lower impact on the environment.

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### Sustainable mobility

Promotion of intermodal, alternative and collective **transport** for people and goods, for increasingly efficient, cleaner mobility with a lower impact on the territory.

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### Privacy and IT security

Protection of the company's and its stakeholders' **information**: commitment to **protect** customer data, **IT** and **cyber security**.

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### Service quality

Commitment to guaranteeing **quality services** in order to ensure increasing levels of **customer satisfaction**, including through **attention** to their expectations and needs.

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### The safety of people


Commitment to the highest level of **safety for our passengers and the community**, including through the consolidation of a **risk management** and **prevention** culture.

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### The value of employees

Commitment to the highest level of **health, safety and well-being** for our people. Promotion of **merit-based**, **talent attraction/retention** policies and **dialogue** with unions.

The above aspects and related implementing policies <sup>4</sup>are covered by this report pursuant to the Decree and the Standards. To make the information included in the NFS as useful as possible, a table bridging the information required by the Decree and applicable to the group and the sections of this report is given below. Moreover, for ease of reading, the chapters or sections that include the information of the NFS are marked with a specific symbol (  ).

## Bridging table pursuant to Legislative decree no. 254/2016

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<sup>4</sup> Where the group has not yet adopted policies related to the aspects referred to in Legislative decree no. 254/2016, because it does not yet deem them necessary, the group reserves the right to adopt them in the medium to long-term. In this regard, in this report, the term policy refers to formalised and approved documentation, whereas the terms practices or procedures are used for those that have not yet been formalised.

Aspects covered by the Legislative decree	Material topic	Annual report		Sustainability report	GRI - Core
		Reference	Reference	Reference	
Art. 3.1.a Business model and governance		Chairman's letter Business model Report on corporate governance and the ownership structure Commitment to sustainable development: Approach, commitment and practices		GRI Content Index Commitment to present and future generations - Stakeholder engagement Internal controls - Management systems	102-1 – 102-7 102-11 102-13 102-14 102-16 102-18
Art. 3.1.b Policies		Directors' report and non-financial information – Consolidated non-financial statement pursuant to Legislative decree no. 254 of 30 December 2016 - Methodology for reporting non-financial information Commitment to sustainable development: Approach, commitment and policies Environmental sustainability The travel experience Sustainable supply chain Human capital Commitment to the community Consolidation scope and the group's equity investments		Commitment to present and future generations GRI Content Index	102-9 102-10 102-12 103-2 103-3 102-40 – 102-56
Art. 3.1.c Risk management model	Ethics and integrity	Report on corporate governance and the ownership structure - internal control and risk management system Risk factors			102-15 201-2
Art. 3.2.a/c Energy and water resources	Circular economy Energy, climate change and water quality	Environmental sustainability		Commitment to present and future generations - Environmental sustainability Performance indicators	103-2 103-3 302-1 303-1 303-2 303-3
Art. 3.2.b/c Greenhouse gas emissions	Circular economy Energy, climate change and water quality	Environmental sustainability		Commitment to present and future generations - Environmental sustainability Performance indicators	103-2 103-3 305-1 305-2
Art. 3.2.d/c Personnel management	The value of employees	Commitment to sustainable development - Human capital Report on corporate governance and the ownership structure		Performance indicators GRI Content Index	102-8 103-2 103-3 401-1 402-1 403-1 – 403-7 403-9 404-3 405-1 406-1
Art. 3.2.e Human rights	Ethics and integrity	Report on corporate governance and the ownership structure Risk factors		GRI Content Index	103-2 103-3 412-3

Aspects covered by the Legislative decree	Annual report		Sustainability report	GRI - Core
	Material topic	Reference	Reference	
Art. 3.2.f Transparency and the fight against corruption	Ethics and integrity	Report on corporate governance and the ownership structure Relevant scenario and focus on the FS Italiane group – the regulatory activities of the Italian transport regulator (ART) Risk factors		103-2 103-3 205-2 415-1 419-1
Art. 3.1.c Supply chain	Responsible chain	Commitment to sustainable development - Sustainable supply chain	GRI Content Index	103-2 103-3 204-1 308-1 308-2 407-1 408-1 409-1 414-1
Art. 3.2.d/c Community	Sustainable mobility	Commitment to sustainable development - Commitment to the community	GRI Content Index	103-2 103-3 413-1 413-2
Art. 3.3 Methodology and principles		Directors' report and non-financial information – Consolidated non-financial statement pursuant to Legislative decree no. 254 of 30 December 2016 - Methodology for reporting non-financial information		102-46 102-47 102-48 102-49 102-54 102-56
Art. 10.1.a Diversity policies	The value of employees	Report on corporate governance and the ownership structure - Commitment to sustainable development - Human capital	GRI Content Index	103-2 103-3 405-1

The table bridging the topics identified during the materiality analysis but not explicitly covered by the Decree is set out below.

Other material topics	Annual report		Sustainability report	GRI - Core
	Material topic	Reference	Reference	
Service quality	Service quality	Commitment to sustainable development - The travel experience		103-2 103-3
The safety of people	The safety of people	Travel safety		103-2 103-3 416-1
Effluents and waste and other environmental impacts	Circular economy	Commitment to sustainable development - Environmental sustainability	Performance indicators GRI Content Index	103-2 103-3 301-1 303-4 303-5 306-2 307-1
Non-competitive behaviours	Ethics and integrity	Context and focus on the FS Italiane group - Transport Authority ("ART") regulations, Other information		206-1
Passengers' privacy	Privacy and IT security	Report on corporate governance and the ownership structure - Internal control and risk management system	GRI Content Index	418-1

In accordance with the "Core" option provided for under the Standards, the GRI Content index is attached to the group's sustainability report. The references in the above table are to paragraphs of this report and in some cases to the 2019 sustainability report for follow-up, as shown in the above bridging table. Moreover, in order to comply with the Decree and the Standards, references are also made to the "Performance indicators" annex to the sustainability report.

Pursuant to article 5 of the Consob regulation adopted with Resolution no. 20267/2018, the FS Italiane group has engaged its independent auditors, KPMG S.p.A., responsible for performing the statutory audit, to perform a limited assurance engagement on its NFS. The report issued by KPMG S.p.A. is attached to this document.



## Business model

The aim of the FS Italiane group's business model is to enhance its various forms of capital (financial, physical, human and interpersonal, intellectual and organisational, natural), organising activities and processes to create value for all stakeholders in the medium and long-term.<sup>5</sup>

Like in other public utilities sectors, the group's activities are subject to specific regulation by independent national and international authorities, in order to safeguard the correct operation of the market and customer rights.

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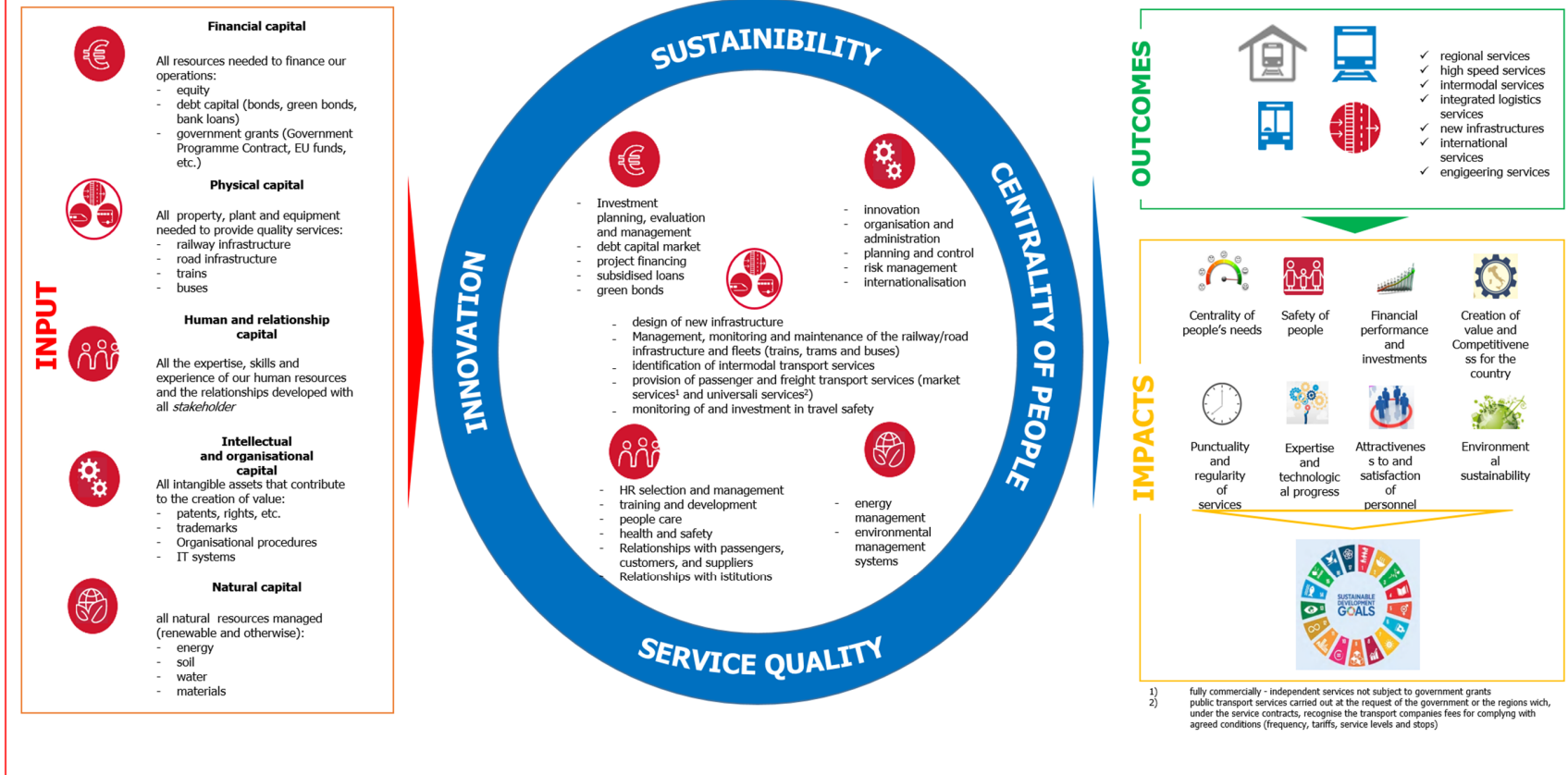
<sup>5</sup> In accordance with the IIRC - International Integrated Reporting Council framework.

# BUSINESS MODEL

## Our vision

Be a business that is part of the economic community and will create an offer of integrated and sustainable mobility and logistics services, using transport infrastructures in synergy with other operators and creating value in Italy and abroad

## THE WAY WE WORK





# Report on corporate governance and the ownership structure

## Introduction

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This section of the directors' report provides a description of the key corporate governance policies defined by Ferrovie dello Stato Italiane S.p.A. ("FS Italiane S.p.A."), the parent company, and applied in the Ferrovie dello Stato Italiane group. Furthermore, this section meets the specific disclosure requirements of article 123-bis of Legislative decree no. 58/1998 - Consolidated Law on Finance (Report on corporate governance and the ownership structure) with respect to the information required by paragraph 2.b<sup>6</sup>. 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 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

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The FS Italiane group's structure is based on its transformation into a company limited by shares, a process that began in 2000 and which has led to the current multi-company group with a parent, FS Italiane S.p.A., whose business purpose - as most recently amended with resolution of the shareholder's meeting of 5 June 2019 - is to:

- construct and manage infrastructure networks for domestic rail, road and motorway transport;
- carry out freight and passenger transport activities, also by plane and both domestic and international, 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 stated by the by-laws, business activities are mainly, but not exclusively, carried out through subsidiaries and associates. Hence, 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 separate subsidiaries are to oversee transport activities and the construction and operation of the railway transport network.

In this context, the parent FS Italiane S.p.A., which is wholly owned by the state through the Ministry of the Economy and Finance (also referred to as the "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 in the specific context of real estate management, while its investees retain their independent legal responsibilities. In addition, FS Italiane S.p.A. steers and coordinates the group operating companies' business policies and strategies. It also steers and coordinates these companies' transversal processes functionally through its central divisions for the definition of group strategies and sharing of decisions. The corporate governance structure of FS Italiane 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

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<sup>6</sup> FS Italiane 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 the regulatory obligations in place in Italy and the country where the bonds are placed. However, FS Italiane 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 points 1 and 2 of said article, except for that required by letter b of point 2, i.e., information on the main characteristics of its risk management system and internal controls over financial reporting.

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 statutory audit. Pursuant to article 12 of Law no. 259/1958, the Court of Auditors' Magistrate appointed to oversee FS Italiane S.p.A.'s financial management attends the meetings of the board of directors and the board of statutory auditors, integrating the corporate governance system.

According to the by-laws, the board of directors: (i) appoints the CEO; (ii) can delegate powers to the chairman, 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 Appointments and Remuneration Committee and the Audit, Risk Control and Governance Committee); (iv) appoints the Manager in charge of the Company's accounting documents preparation as per Law no. 262/2005. Furthermore, the board of directors appoints a managing director (the CEO was assigned with the role of the managing director).

At 31 December 2019, FS Italiane S.p.A.'s share capital amounted to €39,204,173,802.00 and was fully paid up.

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

## SHAREHOLDERS' MEETING

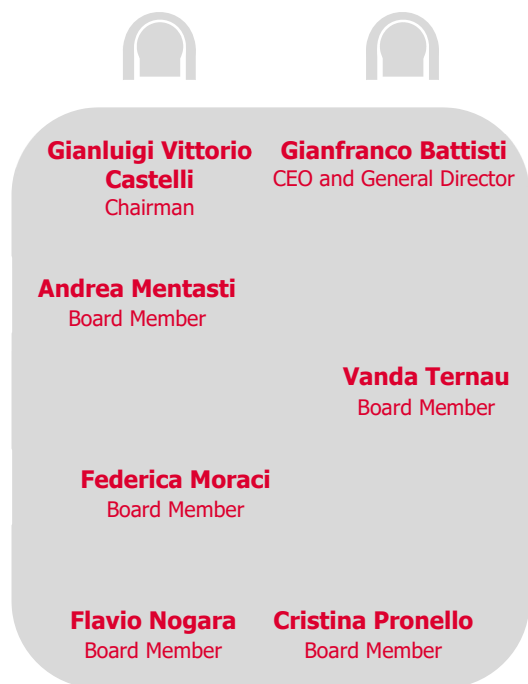
### INDEPENDENT AUDITORS

**KPMG SpA**

### BOARD OF STATUTORY AUDITORS <sup>(I)</sup>



### BOARD OF DIRECTORS



### SUPERVISORY BODY PURSUANT TO LAW NO. 231

**Carlo Piergallini**  
Chairman

**Gianfranco Cariola <sup>(III)</sup>**  
**Gustavo Olivieri**

**Marcello Terragrossa**  
BoD Secretary

### COURT OF AUDITORS' MAGISTRATE APPOINTED TO OVERSEE FINANCIAL MANAGEMENT

**Angelo Canale <sup>(III)</sup>**

**Cristiana Rondoni**  
Delegate

### APPOINTMENTS AND REMUNERATION COMMITTEE

**Francesca Moraci**  
Chairwoman

**Flavio Nogara**  
**Vanda Ternau**

### CENTRAL MANAGERS <sup>(IV)</sup>

**Francesco Parlato**  
Institutional and Regulatory Affairs

**Elisabetta Scosceria**  
General Counsel, Corporate Business and Compliance

**Roberto Mannozi**  
Administration, Budget and Tax Department

**Franco Fiumara**  
Corporate Protection

**Angelo Bonerba**  
Central Public Communications Department <sup>(V)</sup>

**Riccardo Pozzi**  
Human Resources and Organization

**Stefano Pierini**  
Central Finance, Investor Relations, Insurance and Assets Department <sup>(VI)</sup>

**Fabrizio Favara**  
Central Strategies, Planning, Innovation and Sustainability Department <sup>(VII)</sup>

**Filippo Scotti D'Albertis**  
FS International

**Giovanni Conti**  
Chief Risk Officer

### INTERNAL AUDIT, RISK CONTROL AND GOVERNANCE COMMITTEE

**Vanda Ternau**  
Chairwoman

**Flavio Nogara**  
**Cristina Pronello**

### INTERNAL AUDIT DEPARTMENT

**Gianfranco Cariola <sup>(III)</sup>**

### MANAGER IN CHARGE OF THE COMPANY'S ACCOUNTING DOCUMENTS PREPARATION

**Roberto Mannozi**

- (I) Composition of the board of statutory auditors established by resolution of the shareholder dated 3 July 2019. Reference should be made to the relevant section of this report for information on the composition prior to this date.
- (II) Gianfranco Cariola left the group on 30 November 2019. With organisational measure no. 92/P of 28 February 2020, Sergio Romiti was appointed director of the Central internal audit department, effective 1 March 2020.
- (III) Starting from 1 January 2020, as resolved in the meeting of 17-18 December 2019, Section President Giovanni Coppola was appointed as Magistrate in charge of overseeing the company's financial management pursuant to article 12 of Law no. 259/195. Therefore, President Giovanni Coppola replaces President Angelo Canale.
- (IV) With organisational measure no. 67/AD of 1 August 2019, the Central IT department was eliminated. This was due to the FS Italiane S.p.A. project, approved by the shareholder during the extraordinary meeting of 28 May 2019, to partially transfer the Central IT business unit to FSTechnology.
- (V) With organisational measure no. 75/AD of 30 October 2019, the Public Relations department, with the underlying organisational structure, was transferred directly under the Central Media director, effective 1 November 2019. The Central media department changed its name to Central public communications department.
- (VI) With organisational measure no. 70/AD of 6 September 2019, the Central finance, investor relations and assets department changed its name to Central finance, investor relations, insurance and assets department.
- (VII) With organisational measure no. 58/AD of 19 April 2019, the Central strategies, planning and sustainability department changed its name to Central strategies, planning, innovation and sustainability department.

## The shareholder's meeting

FS Italiane S.p.A.'s sole shareholder is the Ministry of the Economy and Finance. Five shareholder's meetings were held in 2019, including four ordinary and one extraordinary meetings.

## FS Italiane S.p.A.'s board of directors

### Composition and appointment

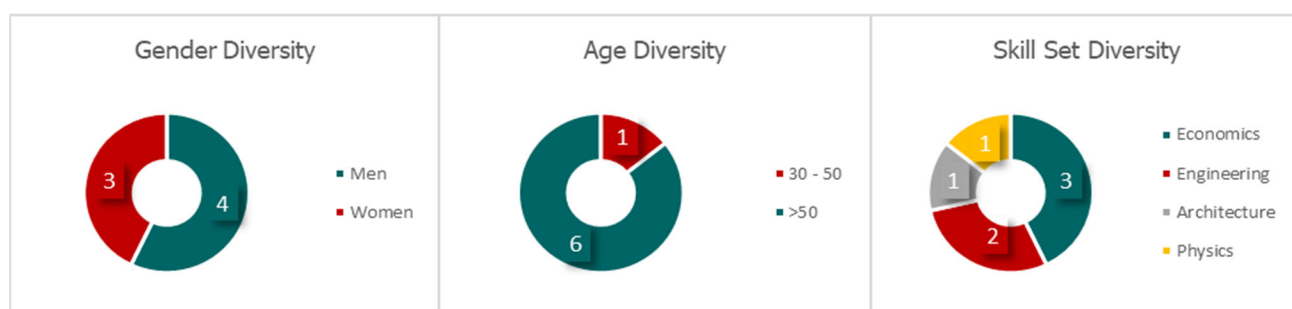
Pursuant to article 10 of the by-laws, the board of directors (the "BoD") is made up of three to nine members appointed by the shareholder.

In order to accept directorship of FS Italiane S.p.A., candidates must meet the specific professionalism and integrity criteria set out in the by-laws (article 10.6) and the MEF's requirements. Furthermore, the 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 (not considering their offices held in subsidiaries or associates); 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. The by-laws also provide that the composition of the BoD must ensure a balanced proportion of men and women, in accordance with the applicable regulations and the terms provided for thereby.

With its resolution of 30 July 2018, the shareholder appointed as members of the BoD for three years 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 2020, Gianluigi Vittorio Castelli (chairman), Gianfranco Battisti, Andrea Mentasti, Francesca Moraci, Flavio Nogara, Cristina Pronello and Vanda Ternau.

The board of directors, at the meetings of 31 July 2018 and 2 August 2018, respectively, appointed Gianfranco Battisti CEO and general director.

In the meeting of 25 September 2018, the board, following a resolution of the shareholders, assigned the chairman the specific powers described below. The diversity of board members in 2018, in accordance with article 10 of Legislative decree no. 254/2016 is illustrated below.



Five members of FS Italiane S.p.A.'s BoD are non-executive and independent, in accordance with the board's assessment – based on the representations and information provided by the same members – despite the absence of any formal obligation, and in accordance with the Corporate governance code for listed companies approved by Borsa Italiana.

### Duties and roles

As appointed by the shareholder, FS Italiane S.p.A.'s management body operates in the form of the BoD.

The BoD is responsible for managing the company and carrying out all operations necessary to achieve the business object. Under the by-laws, FS Italiane S.p.A.'s BoD 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 Italiane 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 Italiane S.p.A.'s BoD also approves bond issues.

Pursuant to the by-laws, the BoD delegates its duties, to the extent permitted by article 2381 of the Italian Civil Code, to one of its members (the CEO). Following the shareholder's resolution, the BoD can delegate operating duties to the chairman on the aspects that may be delegated pursuant to the law, indicated by the shareholder, and determine their actual content. The chairman calls the meetings of FS Italiane S.p.A.'s BoD and presides over them. The BoD normally meets once a month and, in any case, whenever the chairman or CEO believes 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 25 times in 2019.

During the meeting held on 31 July 2018, FS Italiane S.p.A.'s BoD decided to maintain the same specific powers as for the previous term of office, with all remaining powers assigned to the CEO, with the exception of those assigned to the chairman.

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, on 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;
- 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 chairman 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.

In the meeting of 25 September 2018, the BoD gave the chairman, pursuant to 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.

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

### Committees

FS Italiane 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 Governance Committee and the Appointments and Remuneration Committee. The establishment of the latter was most recently confirmed by the BoD's resolution of 31 July 2018. The committees' composition, functioning and duties are governed by specific regulations approved by the BoD.

#### Internal Audit, Risk Control and Governance Committee

As defined in the aforementioned BoD resolution of 31 July 2018, the members of this committee are: Vanda Ternau (chairwoman), Flavio Nogara and Cristina Pronello. 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 internal controls and the 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.

#### Appointments and Remuneration Committee

This committee's members are Francesca Moraci (chairwoman), Flavio Nogara and Vanda Ternau. They are all non-executive and independent directors. This committee is responsible for supporting, by presenting proposals and advising, the BoD with respect to, inter alia, the criteria and procedures for the appointment of key management personnel and members of FS Italiane S.p.A.'s boards of directors and boards of statutory auditors of FS Italiane S.p.A.'s direct subsidiaries, the co-opting of FS Italiane S.p.A.'s directors, remuneration guidelines and policies, incentives and the remuneration of FS Italiane S.p.A.'s CEO and chairman (should the chairman receive executive powers).

#### Directors' fees

Based on the proposal of the Appointments and Remuneration Committee and 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 chairman and CEO will receive (including fees due for their position as director), taking into account any guidance from the shareholder.

The approved fees for FS Italiane S.p.A.'s chairman and the CEO for any duties they have on the BoDs of the FS Italiane group companies are directly paid out by FS Italiane S.p.A..

The by-laws prohibit the payment of amounts to the directors and statutory auditors for their participation in meetings and limit 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 2018/2020 three-year term of office, at FS Italiane S.p.A.: (i) the shareholder established the fees for the directors and BoD chairman in the meeting held 30 July 2018; during the same meeting, the shareholder also informed the BoD of the total maximum fee (including meeting fees) that could be paid to the chairman pursuant to article 2389.3 of the Italian Civil Code in the event that he is assigned powers; (ii) at its meeting on 31 July 2018, the BoD determined the fee for Mr. Battisti's position as CEO (pursuant to article 2389.3 of the Italian Civil Code, including his fee as director); (iii) in the meeting of 2 August 2018, the BoD resolved on Mr. Battisti's fee as general director; (iv) in the meeting of 25 September 2018, following the resolutions of the shareholder, the BoD assigned powers for those matters authorised by the shareholder and resolved on the total fees of the chairman, Mr. Castelli. Both of Mr. Battisti's fees, as CEO and general director, 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 Appointments and Remuneration Committee.

The members of the board's committees receive additional fees equal to 30% of the fees determined by the shareholder for directors, in accordance with the by-laws.

The following table, including the footnotes, details the overall remuneration of the FS Italiane group's chairman, CEO and general director<sup>7</sup>:

CHAIRMAN <sup>8</sup>	Annual fees as chairman
Fixed component: fees for the position	50,000
Variable component	-

<sup>7</sup> The remuneration for the FS Italiane group's current chairman, CEO and general director were determined in line with those resolved for such positions in the previous term of office.

<sup>8</sup> Pursuant to article 2389 of the Italian Civil Code, the chairman's total gross annual fees, including the amounts set out in the above table, come to €238,000.00 in addition to a monthly amount of up to €5,000.00 for the lease of a furnished apartment for non permanent use.

## CEO AND GENERAL DIRECTOR<sup>9</sup>

### Annual fees as CEO

Fixed component: fees for the position	65,000
Variable component	25,000

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

In accordance with the MEF Directives and in compliance with current legislation on the gender quotas and based on management decisions, FS Italiane 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, creating a balance of diversity on such boards.

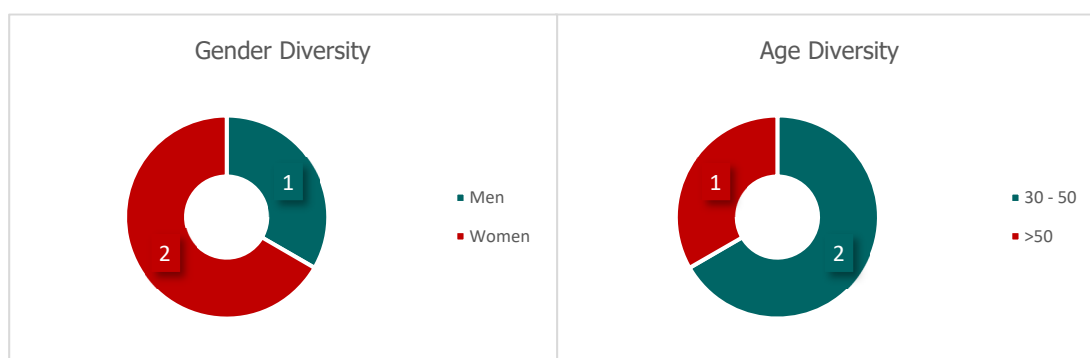
In addition, in accordance with MEF Directive of 16 March 2017 establishing the procedures for the renewal of corporate bodies for subsidiaries indirectly controlled by the MEF, before appointing the members of its bodies, Ferrovie dello Stato Italiane S.p.A. informs the MEF of the outcome of its preliminary assessment of the quality and aptitude of the potential candidates, including a check that they met the eligibility requirements, so that the Treasury Department could verify that the appointment criteria and procedures were complied with.

#### Board of statutory auditors

In accordance with the by-laws, the shareholder appoints a board of statutory auditors comprised of three standing statutory auditors. The shareholder is also required to appoint two alternate statutory auditors.

The term of office of the board of statutory auditors comprised of statutory auditors Carmine di Nuzzo (chairman), Susanna Masi and Roberto Ascoli, and alternate statutory auditors Cinzia Simeone and Paolo Castaldi, expired with the shareholder's meeting of 30 April 2019, called to approve the 2018 financial statements. At the meeting of 3 July 2019, the shareholder appointed the standing statutory auditors Alessandra dal Verme (chairwoman), Susanna Masi and Gianpaolo Davide Rossetti and the alternate statutory auditors Letteria Dinaro and Salvatore Lentini. The term of office is three years 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 2021.

The diversity of the members of the board of statutory auditors in the three-year period, in accordance with article 10 of Legislative decree no. 254/2016, is illustrated below.



<sup>9</sup> The total gross annual fees paid to the CEO and general director come to €770,000.00, including, for the CEO position, the amounts set out in the above table (fixed and variable component, the latter being due if annual objective and specific targets defined by FS Italiane S.p.A.'s BoD, upon the proposal of the Appointments and Remuneration Committee, are reached) and, for the general director position, a fixed component of €580,000.00 and a variable component of €100,000 (the latter is due if 100% of the annual objective and specific targets defined by FS Italiane S.p.A.'s BoD, upon the proposal of the Appointments and Remuneration Committee, are reached).



As for their qualifications, one standing statutory auditor is an employee of the MEF and the other two boast solid professional experience. Both alternate statutory auditors are MEF employees. All standing statutory auditors and one alternate statutory auditor have university degrees in economics and business and are registered as certified auditors. One alternate statutory auditor has a university degree in law and is registered as certified auditor.

The board of statutory auditors oversees compliance with the law, the by-laws and the principles of sound administration, particularly with respect to the adequacy of the organisational, administrative and accounting system adopted by FS Italiane S.p.A. and that it is effectively working.

When FS Italiane S.p.A. 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 supervising financial reporting, the efficiency of internal controls, internal audit and the risk management system, the statutory 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 2019, FS Italiane S.p.A.'s board of statutory auditors met 17 times and the statutory auditors participated in two shareholder's meetings and 25 BoD meetings.

## The Internal controls and risk management system

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The internal controls and risk management system (ICRMS) consists of the series of tools, organisational structures, rules and regulations within a company to ensure sound and proper business management in line with the BoD's business targets by identifying, measuring, managing and monitoring the main risks and structuring adequate information flows to guarantee the circulation of information. An effective ICRMS encourages knowledgeable decisions and helps safeguard company assets, the efficiency and effectiveness of business processes, the reliability of financial reporting and compliance with laws and regulations, the by-laws and internal regulations. Even if the ICRMS is adequate and effective overall, it can only provide "reasonable assurance" that the company's targets will be met. This is because the purpose of the ICRMS is to mitigate risks by managing them, not eliminating all the risks in each management and control process. FS Italiane S.p.A. uses the internationally recognised CoSO framework to implement, analyse and assess the ICRMS.

The ICRMS provides for three levels of control:

- level 1 controls: to ensure the correct performance of operations and an adequate response to the related risks. These activities include periodically checking the effectiveness and efficiency of the design and effectiveness of controls to: i) ensure that they are tailored to their objectives, ii) check that they are updated to any changes in operations, iii) identify and promote any improvement actions. Management, working at all levels of the organisational structure, is responsible for defining and conducting these controls, and they are considered part of ordinary operations.
- level 2 controls: to monitor the main risks with the aim of ensuring the effectiveness and efficiency of the related risk management and to monitor the adequacy and effectiveness of controls (for main risks). Level 2 controls also support level 1 in the definition and implementation of adequate management systems for the main risks and related controls. Management and other specific functions, like Risk management, Compliance and the Manager in charge of the Company's accounting documents preparation conduct level 2 controls.
- level 3 controls: to provide independent and objective assurance on the adequacy and effectiveness of the level 1 and 2 controls and, in general on the overall ICRMS. Independent, non-operating units, such as the Internal audit department, perform level 3 controls.

The roles and responsibilities of the main parties involved in the ICRMS are described below.

### Internal audit

The organisational and functional structure for the group's Internal audit department, completed in 2017, includes:

- an Internal audit department at the parent FS Italiane S.p.A. and its top level and consolidated subsidiaries. These subsidiaries evaluate - based on their specific characteristics and respective risk profiles and considering the recommendations of FS Italiane S.p.A.'s Central internal audit department - the structure of their subsidiaries' Internal audit departments, in terms of efficiency, without prejudice to the objective of effectively overseeing their own ICRMS;
- coordination by the FS Italiane S.p.A.'s Central internal audit department of the group's Internal audit departments through the: i) definition and updating of audit guidelines and methodologies; ii) management of the Internal audit professional family as group process owner.

The Internal audit departments report hierarchically to the BoD's chairman and functionally to the CEO and also to the Audit committee, if established, as required by each company.

Internal auditing at group level is independent and objective, provides assurance and serves an advisory purpose, to improve the company's efficiency and effectiveness. It also helps the company 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.

Hence, the Internal audit department is responsible for:

- verifying the ICRMS' effectiveness and adequacy on an ongoing basis and with respect to specific needs, and providing assessments and recommendations to promote efficiency and effectiveness;
- providing management with specialised support on the ICRMS to encourage the efficiency, effectiveness and integration of controls in business process and to promote constant improvements in governance and risk management.

All functions, units, processes and/or sub-processes and IT systems are subject to internal audits depending on risks and related objectives of:

- efficiency and effectiveness of business processes;
- reliability of financial reporting;
- compliance with laws, regulations, the by-laws and applicable regulations;
- safeguarding group assets.

The Internal audit departments provide the related companies' Supervisory bodies with operational support in the performance of the supervisory activities.

### Risk management

Management and the structures specialised in risk monitoring play a crucial role in risk management since they are responsible for monitoring level 1 controls. However, over time, the FS Italiane group has organised various level 2 controls to support management in the definition and implementation of adequate management and monitoring systems for the main risks and controls (e.g., risk management, the Manager in charge of the Company's accounting documents preparation, anti-bribery & corruption, compliance and data protection). In this context, the group's chief risk officer (CRO) coordinates management of the group's overall risk governance process, as well as those areas falling under its responsibility (risk management and data protection officer).

In this respect, the Risk management department, established with organisational measure no. 5/AD of 6 April 2018, designs, implements and governs the integrated enterprise risk management model. Furthermore, with reference to the integrated monitoring process of the overall group risks, the Risk management department combine strategies, policies, processes and operating mechanisms for the identification, assumption, management, mitigation, monitoring and reporting of the main risks faced by the group, defining the parent's risk management profile and coordinating the group's various risk management controls.

The FS Italiane group's risk management framework was formalised in 2019. It established the existing and potential areas, responsibilities, methodologies and tools for the effective management of the process to identify, assess, measure, manage and monitor the group risks which supports the risk-based decision-making process. Adopting a single group-wide framework enables:

- the establishment of the scope of application of the risk management process, identifying the areas for action and the decision-making processes embodying such process;
- the identification of tools and group-wide consistent and coherent risk assessment and management models, establishing responsibilities and their application in the parent and the group companies, based on the type of activities and the area in which these activities are carried out;

- methods to interpret, analyse and present the findings of the shared risk management activities;
- the dissemination of a more risk management-oriented corporate culture;
- the growth of the professional family via the dissemination of a common language and pathways for the development of the expertise and professionalism of the resources involved in the risk management process.

### Compliance

The Compliance department, established with organisational measure no. 133/AD of 2 May 2016, monitors regulations and national and international best practices with which the companies' and group's internal rules must comply. The Compliance department provides the concerned units with the support needed to define the actions to be taken to comply with new legislative and regulatory provisions, as well as their implications for the organisation, strategies and the business. It also ensures that company and group guidelines, provisions and procedures are consistent with legislation by preparing proposals to update them in accordance with legal guidelines. Furthermore, the Compliance department, in coordination with other relevant structures, provides specialised support to implement and manage internal control models and compliance plans regarding the anti-bribery and corruption management system and the antitrust compliance program. Together with the Team 231, the Compliance department cooperates to update FS Italiane S.p.A.'s 231 model in relation to the changes in the applicable legislation, organisation and processes; supports business decision-making processes by analysing the business and trade compliance of trade development initiatives abroad (business partners, consultants and commercial promoters), M&As, sponsorships and other strategic initiatives. The "FS Italiane group compliance model" was defined and issued with group measure no. 280/AD of 6 November 2019, and it includes a description of the organisational aspects and processes regulating it.

### The Manager in charge of the Company's accounting documents preparation of FS Italiane S.p.A.

In 2007, as per the request of the shareholder MEF, FS Italiane S.p.A. created the position of "Manager in charge of the Company's accounting documents preparation". The position became legally mandatory in 2013, pursuant to article 154-*bis* of the Consolidated Law on Finance, when the parent subsequently issued bonds listed on the Irish Stock Exchange (EMTN programme), resulting in FS Italiane S.p.A.'s status as a public interest entity pursuant to article 16 of Legislative decree no. 39/2010 as an "Issuer of listed financial instruments".

FS Italiane S.p.A.'s current Manager in charge of the Company's accounting documents preparation, most recently appointed by the BoD on 27 March 2018 upon the CEO's proposal and with the approval of the board of statutory auditors, is Roberto Mannozi, head of the parent's Administration, budget and tax department. He will remain in office until the approval of the financial statements as at and for the year ending 31 December 2020.

The Article 16 of FS Italiane S.p.A.'s by-laws and the regulation for the Manager in charge of the Company's accounting documents preparation establish professional requirements for the Manager in charge of the Company's accounting documents preparation and the methods for its appointment and revocation of office. The BoD shall appoint the Manager in charge of the Company's accounting documents preparation for a period not less than the term of the BoD's office and not exceeding six years, with the prior mandatory non-binding approval of the board of statutory auditors. The manager may be re-appointed.

The by-laws also establish that the Manager in charge of the Company's accounting documents preparation must meet the integrity requirements for directors and is selected based on criteria of professionalism and expertise among managers with experience in administration at companies, consulting or professional firms that is adequate to the length and complexity of the engagement and, however, of at least three years.<sup>10</sup>

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<sup>10</sup> The years of experience were later extended to six in the relevant regulation.

The BoD approved the regulation of the Manager in charge of the Company's accounting documents preparation on 28 July 2015 to give the manager the appropriate means and powers, commensurate with the nature and complexity of their duties and the size of the company and the group, and to put the manager in a position to be able to carry out the assigned duties, which include interacting with the parent's other bodies and departments.

Considering the FS Italiane group's organisational and operational complexity and in order to reinforce and more effectively implement legislation, FS Italiane S.p.A.'s BoD decided to encourage the appointment of Managers in charge of the Company's accounting documents preparation by its main subsidiaries immediately. Currently, the following companies have appointed Managers in charge of the Company's accounting documents preparation: RFI S.p.A., Trenitalia S.p.A., Mercitalia Logistics S.p.A., Mercitalia Rail S.r.l., Busitalia-Sita Nord S.r.l., Ferservizi S.p.A. and Fercredit S.p.A.. Anas S.p.A. and its subsidiaries, Anas International Enterprise S.p.A. (AIE), Quadrilatero Marche Umbria S.p.A., Società Italiana Traforo Autostradale del Frejus S.p.A. (SITAF), have also appointed managers in charge of financial reporting.

*Main characteristics of the risk management system and internal controls over financial reporting pursuant to article 123-bis.2.b of the Consolidated Law on Finance (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).

FS Italiane S.p.A.'s Manager in charge of the Company's accounting documents preparation defines and updates the internal control model over financial reporting (the "262 Model") for the group. The "262 Model" is based on the applicable international standards (CoSO Report "Internal Control – Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission) and is in line with the provisions of article 154-*bis* of the Consolidated Law on Finance..

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 Italiane 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 BoD for approval - and to the subsidiaries' boards of directors for their approval of the sections relating to them (if they have a Manager in charge of the Company's accounting documents preparation) - issues guidelines for the preparation of administrative/accounting procedures and for monitoring that such procedures are adequate and effectively operational and issues certifications on internal controls over financial reporting. The companies' Managers in charge of accounting documents preparation implement and maintain the internal controls over financial reporting, 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.

The following aspects of the Model have been updated in recent years to be more closely aligned with the best practices of listed companies and progressively implemented throughout the group:

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

As set out in group measure no. 250/AD of 26 March 2018, i.e., the FS Italiane group's financial reporting control model, the new financial reporting control process consists of the following stages: identification of the companies/processes within the 262-scope; process mapping; risk and control assessments; issuance/revision of administrative procedures; self-

certification of the adequacy and effectiveness of controls by control owners/process owners (i.e., self-assessment process); independent tests; assessment of weaknesses and management of action plans; issuance of certifications.

The purpose of the scope definition stage is to identify - with a risk-based approach - relevant 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 combined financial statements captions - revenue, assets, net financial position/(debt), equity, gross operating profit and pre-tax profit (loss);
- considering qualitative factors based on risk profiles.

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 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 mapped process, using a qualitative and quantitative methodology based on impact and probability parameters. The controls over such risks are identified and assessed for adequacy, with the identification of any needs to integrate or improve the design of the controls (at the reporting date, a total of roughly 4,800 corporate procedures controls had been mapped). In this stage the key and super key 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 effective. 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. They govern the information, data and administrative/accounting records logically and chronologically describe the activities that must be carried out to produce or record them, the internal controls and how they are conducted.

The administrative/accounting procedures may be group-wide, and if this is the case, they are issued by FS Italiane S.p.A.'s Manager in charge of the Company's accounting documents preparation for the parent, and by the Managers in charge of the Company's accounting documents preparation or administration managers of the companies within the 262 scope, and they are validated by the relevant process owners. 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, with the final issue of the quality assurance check by the parent's Manager in charge of the Company's accounting documents preparation.

At the reporting date, the FS Italiane group had issued around 350 corporate and group 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 website.

In the self-assessment stage, the individual control owners/process owners self-certify that the administrative/accounting procedure controls have been adequately designed and are effectively operational in the period considered by filling out 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, certifying the procedure as a whole or the part of the procedure that concerns them.

Hence, 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 self-assessment process also contributes to continuously update the system of administrative/accounting procedures on the basis of the evidence reported by the process owners.

During the independent testing stage, the design and effective application of these controls are checked, on the basis of audit standards and methodologies, coordinated by the staff of the parent's Manager in charge of the Company's accounting documents preparation. They 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 results; 4) analysis and evaluation of any critical issues. 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 financial reporting, internal audit resources and Ferservizi S.p.A. resources (with which the parent has signed a specific service contract) carry out testing activities. Furthermore, the outcome of tests on 262 controls that the independent auditors perform as part of the broader audit process is also considered.

The action plan stage consists of identifying the necessary actions to resolve the weaknesses that arise - both in terms of planning and effectiveness - in all other stages of the 262 process (in particular, in the independent testing and self-assessment stages), defining the people responsible for implementing them and the time needed to do so. The action plans are defined by the staff of the managers in charge of financial reporting/administration managers, together with the relevant process owners. Their implementation is continuously monitored.

Once this process is completed, the parent's Manager in charge of the Company's accounting documents preparation prepares a report on the activities performed in the period, sends the report to the BoD when the draft financial statements are approved and issues, jointly with the CEO, statements on the separate and consolidated financial statements pursuant to article 154-*bis* of the Consolidated Law on Finance. The content of the report is based on the formats defined by Consob. Similarly, the subsidiaries' Managers in charge of 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 financial reporting) 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 effectiveness of the group's and the company's internal controls over financial reporting, 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 the outsourcers of administrative and IT services and all other services that affect financial reporting.

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

The FS Italiane group's controls over financial reporting are also extended through communication and training activities, with refresher courses on developments in internal controls over financial reporting.

As for relationships between the Manager in charge of the Company's accounting documents preparation and the company bodies (CEO and BoD) and the control officers and bodies (the board of statutory auditors, including in its role as the Internal control and audit committee, the Internal audit, risk control and governance committee, the Supervisory body, 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 defines the inter-relationships and reporting flows. This is with the aim of sharing the planned activities, the outcome of such activities and action plans to create

synergies and optimise the control process. Specific information flows, which include mapping the 262 controls relevant to the anti-corruption model (FS Italiane S.p.A.'s Anti-bribery and corruption management system), have also been introduced in relation to the establishment of the Anti-bribery and corruption unit.

Furthermore, starting in 2019, the first administrative/accounting, tax and tax subsidy procedures were prepared in accordance with the 262 methodology and following the introduction of the tax control framework (TCF) (see the following paragraph) and the consequent activities for the integration of 262/TCF models

Finally, to integrate the above-mentioned Law no. 262/2005 compliance model and, more in general, to strengthen internal controls and risk management, 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 defined and duly 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 general controls 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 certifications to the Managers in charge of the Company's accounting documents preparation /administration managers on the effectiveness financial reporting systems. In 2019, in consideration of the changes in the organisational structure with the transfer of the ICT business unit of the main group companies to FSTechnology (FS, RFI, Trenitalia, Ferservizi, Italferr), FSTechnology issued IT certifications for those companies.

#### Tax Control Framework

Ferrovie dello Stato Italiane S.p.A., along with its most important subsidiaries, Trenitalia and RFI, joined the tax co-operative compliance programme, introduced by Legislative decree no. 128 of 5 August 2015, named "Provisions on legal certainty in relationships between the tax authorities and taxpayers". This optional scheme is intended to promote a new, stronger method of communication and cooperation between the tax authorities and taxpayers, clarifying the law and simplifying relationships with the tax authorities. Joining it, the group is required to adopt an effective system to recognise, measure, manage and control tax risk, i.e., the risk of operating in violation of tax regulations or in conflict with the principles or purposes of the legislation.

The board of directors of Ferrovie dello Stato Italiane S.p.A., with its resolution of 16 April 2019, approved the key documents of the tax control framework:

- the "Ferrovie dello Stato Italiane S.p.A. and the FS Italiane group tax strategy", whose purpose is to conscientiously manage the group's exposure to a risk level that is, and must be, the lowest risk level reasonably possible, when determining the correct amount of taxes due;
- the "Ferrovie dello Stato Italiane S.p.A. and the FS Italiane group internal control model on the recognition, measurement, management and control of tax risk". Such model is integrated in the internal control model over financial reporting (262 Model), and identifies the safeguards and controls to adopt in the recognition, measurement, management and control of the tax risk inherent the business processes, defining how to manage the control process within the scope of the tax control framework.

#### Planning and management control system



In line with the strategic guidelines and objectives that the board of directors has defined:

- in order to generate economic, environmental and social value for all stakeholders, the Central strategies, planning, innovation and sustainability department (CSPISD) identifies the group's strategies and the related planning, monitoring and strategic control process, as well as the related investment planning and control process and the optimisation and development of the group's business portfolio. Specifically, the CSPISD compiles the business plan for the parent and the FS Italiane group by coordinating and supporting the development and consolidation of proposals/plans submitted by the individual structures/group companies, for subsequent verification and validation by the CEO, who monitors their implementation;
- the Administration, budget and tax department (ABTD) is in charge of the group's planning and management control system through the operational implementation of strategies (budgeting process), the calculation and the analysis of actual results; specifically, the CAFTCD ensures the preparation of the parent's and the FS Italiane group's budget, defining the guidelines for the annual budget and management control process for the group and supporting the subsidiaries in the preparation of their budgets, and monitors their implementation;

Management control activities cover nearly all aspects of FS Italiane 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.

Management and operational control activities - which are based on analysing differences between actual and budgeted figures at the end of each month - allow to check, with specific focus at the end of each quarter, whether the actions taken by the structures/companies are consistent with plans. Furthermore through management and operational control activities it is possible identify any discrepancy, define the appropriate corrective action and evaluate the performance of those responsible as part of the management by objectives model.

### Independent auditors

The engagement for the statutory 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 Italiane S.p.A. took on the <sup>11</sup>*status* of a public interest entity following the 2013 issue of the listed bonds, the term of the engagement for the statutory audit is nine years (2014-2022).

To preserve the independent auditors' independence, group measure 246/AD of 19 February 2018, in accordance with EU regulation no. 537/14 and Legislative decree no. 135/2016 on auditing, formalised a specific procedure defining the principles and operating methods for the assignment of engagements to independent auditors or entities in their network. Under this procedure, in particular, the board of statutory auditors expresses a binding prior opinion on whether the respective group company should assign additional engagements – therefore other than the main audit engagement – to the auditors or entities in the same network.

### The Court of Auditors' Magistrate appointed to oversee the financial management of FS Italiane S.p.A.

The Court of Auditors' Magistrate appointed to oversee the financial management of FS Italiane S.p.A., pursuant to article 12 of Law no. 259/1958 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 oversee the financial management of the parent (as Court of Auditors' Magistrate). During the hearing of 22-23 November 2016, the Court of Auditors appointed the director Cristiana Rondoni as the alternate Magistrate for overseeing the financial management of the parent<sup>12</sup>.

## Additional information on corporate governance

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### The code of conduct

The FS Italiane group's code of conduct, updated with resolution of the board of directors of 28 February 2018, is a "charter of fundamental rights and responsibilities" whereby the FS Italiane group establishes and clarifies its ethical and social responsibilities and commitments to all internal and external stakeholders. The FS Italiane group's code of conduct, which the group companies are required to adopt via a resolution of the respective boards of directors, applies to company officers, managers, employees and everyone who, directly or indirectly, permanently or temporarily, transacts and interacts with group companies. The code of conduct sets out the group's fundamental values (*such as integrity and honesty, responsibility and awareness, passion, courage and self-criticism, etc.*) and establishes standards of conduct for each *stakeholder* category. Specifically, the code of conduct contains a section on conflicts of interest, which requires the avoidance of situations in which personal interests, external activities, financial interests or relationships conflict with the group's interest and abstaining from taking decisions or carrying out activities that are in conflict with the group's interests or incompatible with one's duties. Potential conflicts of interest shall also be immediately reported to the relevant manager or to the parent's Ethics Committee (see "Other committees") to determine whether such conflict exists and for guidance in relation thereto. The code of conduct is widely published on the FS Italiane group's intranet and internet sites and compliance with its provisions is a fundamental part of employees' contractual obligations. Contracts agreed by group companies also require third parties to comply with its principles.

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<sup>11</sup> Except for the ANAS group

<sup>12</sup> Starting from 1 January 2020, as resolved in the meeting of 17-18 December 2019, Section President Giovanni Coppola was appointed as Magistrate in charge of overseeing the company's financial management pursuant to article 12 of Law no. 259/195. Therefore, President Giovanni Coppola replaces President Angelo Canale.

### Processing of corporate information

The processing of corporate information within the FS Italiane group complies with the provisions of Regulation (EU) no. 569/2014 on market abuse.

Activities related to the processing of corporate information, started in 2016 with the adoption by FS Italiane S.p.A.'s board of directors of the "Regulation for the internal management and disclosure of insider information and the processing of confidential information" (the insider dealing regulation) on 27 May 2016 and subsequently amended in the meeting of 13 September 2017, continued in 2019. This regulation is currently implemented with group measure no. 261/AD of 21 January 2019 signed by the CEO and the general director<sup>13</sup>.

The aim of the insider dealing regulation is to prevent the disclosure of insider and/or confidential data and information concerning the group at an unexpected or premature time to avoid the risk of the group being held liable for conduct by internal or related parties that could constitute the crimes covered by current legislation. Hence, the regulation defines the principles, mandatory conduct, roles and responsibilities for the processing and management of the group's insider and confidential information. Parties like directors, statutory auditors and employees of FS Italiane S.p.A. and its subsidiaries, advisors and anyone with regular or occasional access to insider/confidential information for professional or work-related reasons must comply with the conduct obligations in the regulation. FS Italiane S.p.A. has also implemented with the group measure no. 261/AD of 21 January 2019 a "Procedure for the internal management of the log of people with access to insider information", which establishes the operating methods for the compilation of the insider dealing log, pursuant to the insider dealing regulation and in compliance of the obligations under the market abuse regulation mentioned above.

Furthermore, as part of the fight against market abuse, FS Italiane S.p.A.'s board of directors approved the "Code of conduct for the identification of insiders and the notification of transactions involving FS financial instruments undertaken by them (the "Internal dealing code"). Specifically, this code sets out the principles, mandatory conduct, roles and responsibilities of the Insiders for the purposes thereof (i.e., the members of the board of directors, the standing statutory auditors and those in charge of FS' Central Management, as well as all other parties that were identified previously by FS Italiane S.p.A.'s CEO and general director, have regular access to insider information directly or indirectly relating to FS, and have the power to make management decisions that affect the company's future direction and outlook). The same obligations also apply to persons closely associated with the parties referred to above.

The Internal Dealing code was implemented with group measure no. 264/AD of 19 March 2019, signed by the CEO and general director<sup>14</sup>.

### Organisational, management and control model pursuant to Legislative decree no. 231/2001 and the supervisory bodies

Group measure no. 209/P of 9 June 2016, which replaced the previous measures introduced since 2002, requires the FS Italiane group companies to adopt organisational, management and control models to prevent unlawful acts covered by Legislative decree no. 231/2001 and establishes a supervisory body responsible for monitoring models functionality and compliance and proposing updates to them. According to the measure, supervisory bodies are normally set up as boards<sup>15</sup> 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 Italiane 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 Italiane S.p.A.'s Central internal audit department. FS Italiane S.p.A., with company order no. 536/AD of 28 February 2018, set up a steering

<sup>13</sup> Replacing group measure no. 239/AD of 9 October 2017.

<sup>14</sup> Replacing group measure no. 254/AD of 17 May 2018.

<sup>15</sup> 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.

committee (the "231 Steering committee") whose task is to guide the activities and evaluate the proposals of 231 Team, set up in 2017 to provide permanent specialised technical support to the parent to update the 231 model of FS Italiane S.p.A. and ensure regular reporting to the CEO, the general director, the supervisory body and other control bodies.

#### *The company's anti-corruption and anti-bribery policies and the whistleblowing process*

The FS Italiane group acts with integrity, ethics and zero tolerance for corruption when conducting business. It has upheld these principles for years with the adoption of a group-wide code of conduct, the 231 model (which FS Italiane S.p.A. adopted in 2003) and specific guidelines for the prevention of corruption between private parties in the FS Italiane group (group measure no. 172). Furthermore in 2017 FS Italiane group signed off the United Nations Global Compact, the tenth principle of which is to "work against corruption in all its forms".

To confirm this commitment, in 2017, the parent FS Italiane S.p.A. voluntarily adopted a unified anti-corruption self-regulation framework which is structured on the 231 model (for acts of corruption – including between private parties – undue soliciting to give or promise benefits and misconduct) and on the anti-bribery and corruption (ABC) management system. The unified anti-corruption self-regulation framework implements the anti-corruption policy guidelines, which also constitute an integral part of the framework and which contain the directive criteria for the creation of an effective anti-corruption system within FS Italiane S.p.A..

The ABC system refers to corruption in a broad sense, which includes not only directly and indirectly giving and receiving bribes in relationships with members of the public administration and with other private parties, but also misconduct. The ABC system provides a set of specific prevention tools for the following processes, considered to be, according to regulations and best practices, the most exposed to corruption risks: "Procurement and contracts", "Assignment of advisory engagements", "Business development initiatives on international markets", "Membership fees, sponsorships, co-marketing, donations and gifts" and "Human resources".

The ABC system includes, among its main priorities, ongoing training and communication. In addition to the specific classroom sessions taught in 2018, the first e-learning course on the ABC system was rolled out in 2019, along with specific training on FS Italiane S.p.A.'s individual processes and further initiatives on the management and coordination of group companies.

The ABC system is a dynamic process that progressively extends to additional risk processes and prevention tools considering, among other things, developments in regulations and best practices, information flows with the various process players, internal controls and monitoring and risk assessment.

With respect to governance, the ABC system identifies the players, roles and responsibilities for its own implementation, development, updating, monitoring and control, along with the related information flows and coordination.

The Anti-bribery & corruption unit is one of the main players involved. Among other things, it monitors the ABC system for the purposes of continuous improvement, supports the process owners in the identification of risks and the definition of risk prevention tools, and monitors the implementation of and compliance with the measures of the ABC system.

Under the code of conduct updated in February 2018, reports can be made in good faith about potentially illegal or irregular events and conduct in violation of the code of conduct to the Ethics Committee of the company to which the whistleblower belongs, through the following channels: email, ordinary post, or other means of communication made available by the company. The confidentiality of the identity of the whistleblower(s) is ensured, as well as the reputation of the people reported on. Moreover, the group applies a zero tolerance policy for retaliation.

In June 2019, FS Italiane S.p.A.'s board of directors approved the procedure for the management of reports to implement Law no. 179/2017 (whistleblowing law). This procedure governs the receipt, analysis and processing of reports, regardless

of the sender, concerning conduct deemed to be illegal or in violation of the law, the organisational, management and control model pursuant to Legislative decree no. 231/2001, the ABC system or the FS Italiane group's code of conduct. In this regard, the IT system to support the whistleblowing procedure is currently being developed.

The information in this paragraph also meets the requirements of article 3.2.f) of Legislative decree no. 254/2016.

#### Antitrust compliance plan

As transport markets in Italy and abroad have progressively opened up to competition, the FS Italiane group companies have faced an increasingly forceful application of anti-trust regulations. Compliance with these regulations is a fundamental principle of the group's code of conduct.

The FS Italiane group is committed to analysing and raising employees' awareness of antitrust issues and intends to encourage a culture of preventing antitrust risks and, more in general, competition risks, by developing an Antitrust compliance plan that reflects changes occurred in the relevant sectors in terms of competition, and the antitrust authorities' guidelines and best practices. These were summarised in the AGCM (Italian antitrust authority) guidelines for antitrust compliance formalised with resolution no. 27356 of 25 September 2018. The group's Antitrust compliance plan comprises a set of rules, standards of conduct and activities that are binding for all group companies, which must implement them with their own structures and adopt their own organisational communications in this regard. In the scope of the plan, a new edition of the antitrust compliance handbook was prepared. It describes the limits set by national and European antitrust regulations and it outlines the rules of conduct that each group employee must observe in order to ensure full compliance. The handbook is completed with an antitrust code of conduct, consisting of an operating manual that simply and clearly lists the main rules of conduct for significant antitrust initiatives, during investigations by an antitrust authority and in the management of competitive procedures as contracting party.

#### Related parties

FS Italiane 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 corporate procedures that were subsequently issued in the parent's footsteps, also clarify that all transactions with FS Italiane S.p.A.'s and its subsidiaries' related parties must be carried out in accordance with substantial and procedural correctness criteria. Furthermore, the contracts for all such transactions 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 establish 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 directly or indirectly carried out transactions with the company for which they work and/or its subsidiaries, and whether such transactions were performed on an arm's length basis.

#### Other committees

In terms of its internal organisational profile, FS Italiane 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*, set up with group measure no. 50/AD of 30 January 2006 and updated in its composition with group notice no. 28/AD of 15 July 2019, carries out advisory activities and sets guidelines within the framework of the principles and rules of the FS Italiane group's code of conduct. It is responsible for clarifying, through advisory opinions, the interpretation and application of the code of conduct, examining the information that it receives, via defined communication channels, and promoting the most appropriate checks that are consistent with companies provisions. It ensures the utmost confidentiality of whistleblowers, using adequate information and documentation management criteria and methods to protect their identity and reputation, unless otherwise required under legal obligations. It supports the relevant company structures in defining personnel communication and/or training initiatives on the code of conduct or its updates. It examines any need to modify/supplement the group's code of conduct upon proposal of the group companies' Ethics committees. It coordinates and maintains information flows with the company's Supervisory body, appointed pursuant to Legislative decree no. 231/2001 for the aspects of mutual interest. It regularly informs the board of directors of its company on the activities carried out with special attention to the management of whistleblower reports received.

The *Group's investment committee* was set up with group measure no. 89/AD of 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 supervision of the investment/divestment process. The committee advises the CEO, offer guidance on investments and divestments and direct the FS Italiane group's planning process. It provides 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, innovation and sustainability department on the basis of the group companies' proposals. In addition, it monitors the development of the group's plan and proposes any corrective action to be taken in its implementation. FS Italiane S.p.A.'s committee approves the list of corporate investment/divestment programmes/projects 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 and updated in its composition with group measure no. 238/AD of 9 October 2017, 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 the 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 Italiane 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.

The 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 the 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 *Foreign initiative committee* was set up with group measure no. 206/AD of 5 May 2016 and amended with group measure no. 224/AD of 20 April 2017. It is responsible for validating development initiatives/projects abroad, identified upon proposal/recommendation of the companies and/or through the scouting activities of the relevant structures, which are of interest to the group, and defining the methods of participation in initiatives/projects of interest to the group

(including the resources on the project teams). It is also responsible for validating the alliance strategy for participation in the projects of interest to the group, with respect to tenders and any partnerships to protect local market share and monitoring the progress of large group projects, based on regular updates and evaluating whether any corrective action is necessary.

The *Credit committee*, set up with group measure no. 210/AD of 23 June 2016 and updated in its composition with group notice no. 13/AD of 5 October 2018, is responsible for monitoring the performance of group credit, highlighting any critical areas and promoting the necessary corrective action. It is also responsible for 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 and updated in its composition and duties with group notice no. 25/AD of 22 March 2019, 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 to create value for all stakeholders. The committee acts as an advisory board for the CEO and general director, in his capacity as president of the Sustainability committee, for the integration of social and environmental aspects within group strategies and the identification of the group's strategic ambition, corporate values and sustainability principles. The committee also sets out the group vision and related commitments for each level of sustainability for the final approval by the board of directors and identifies the methods to communicate with stakeholders and engage them, as well as the methods to share results and actions to undertake. Furthermore, the committee supports the board evaluating the effects of strategic investment decisions in social and environmental terms and the related risks that may impact group performance, together with the relevant departments, and ensuring alignment and synergies with other committees promoting sustainability. Another task assigned to the committee is the analysis and evaluation of the group materiality matrix and the gap analysis to submit to the CEO and general director for the final approval of the board of directors. The committee also prepares the group sustainability policy to submit to the CEO and the general director for the final approval of the board of directors and defines the proposal of group sustainability goals and targets in the medium/long term to submit to the CEO and the general director for the final approval of the board of directors. It analyses and evaluates any strategic initiatives supporting the companies; evaluates the group's sustainability performance and contents of the sustainability report and provides instructions and policies to plan improvement steps.

The *Fourth railway package implementation committee* was set up with group measure no. 244/AD of 24 January 2018, and is responsible for conducting a detailed assessment of the new legislation and its effects on the FS Italiane group activities, monitoring the development of the implementation of directives in other EU member states and coordinating the preparation of the FS Italiane group's positions with respect to the adoption of legislative texts implemented in Italy.

The *231 steering committee*, set up, as mentioned above, with group notice no. 536/AD of 28 February 2018, is responsible for steering the work of the 231 team, assessing its proposals and to guarantee a periodic flow of information to the CEO and general director, the Supervisory body and other control bodies.

The *Protection against violence committee* was set up with group notice no. 538/AD of 10 May 2018 with the task of ensuring legal assistance for employees who decide to take legal action having been victims of violence - including violence of a verbal and/or indirect nature via any type of communication channels - by parties outside the FS Italiane group, either known or unknown, when carrying out their work and/or in any case in relation thereto (i.e., stepping in to protect the FS Italiane group's assets or employees, or people in railway or other group premises in general).

The *Green Bond Working committee* was set up with group notice no. 2/DCRUO of 27 March 2018 and updated in its composition with group notice no. 24/DCRUO of 15 March 2019. It is responsible for implementing, maintaining and updating, if necessary, the Green Bond Framework, particularly in regard to the activities identified and evaluated of the Eligible Green Project, also through discussion with the counterparties involved in the greenness analysis of projects and in the implementation of reporting and management procedures for proceeds and emissions.

The *Villa Patrizi complex committee* was set up with group notice no. 33/DCRUO-DCFIRAP of 10 September 2019. It is responsible for promoting discussion between owners, property managers and the tenant companies for a more efficient and effective management of intricate real estate matters, particularly in terms of rooms logistics, ways to implement the measures provided for by the regulation, management of the maintenance and the issues emerging with the constant technological updating of the complex and the companies' organisational changes; promoting supervisory committees on specific matters of interest to the companies involved.

#### Human rights policies

FS Italiane S.p.A. promotes the protection of human rights among its employees, customers, citizens, suppliers and business partners, thus helping to create a responsible chain in accordance with the United Nations Universal Declaration of Human Rights and the International Labour Organization's primary conventions.

Among the key principles of the sustainability policy (issued in 2019) underpinning the FS Italiane group's actions, respect for human rights and the commitment to creating a responsible chain stand out. This commitment was reinforced in the code of conduct (which guides the group in its relationships with all stakeholders). Furthermore, the group promotes open and inclusive workplaces, it is against any discriminatory or harmful behaviour, prevents any form of illegal labour and supports personnel wellbeing policies.

In 2017, the group joined the United Nations Global Compact, undertaking to comply with the 10 human rights, labour, environmental and anti-corruption principles and integrate them in its business. These principles integrate and reinforce the group principles previously established in the group's sustainability policy, code of conduct, the 231 model and the anti-corruption policy and anti-bribery and corruption management system guidelines. In particular, by signing the Global Compact, the group has formally undertaken to:

- uphold and comply with international human rights provisions;
- ensure that it is not complicit in human rights abuses.

The group maintains its commitment to prevent human rights violations of any kind through:

- the use of standard and specific contractual human rights clauses in agreements signed with suppliers (including the requirement that suppliers sign the group's code of conduct), and including a<sup>16 17</sup> scoring criterion that rewards suppliers for their sustainability;
- the pursuit of better methods for supply chain management thanks to the participation in the *Railsponsible works*, an initiative that brings together major railway companies;
- rights protection for passengers with disabilities and reduced mobility. The group offers an assistance service at 301 stations for passengers with physical, sensory or motor disabilities that temporarily or permanently affect their mobility, ensuring their right to travel with ease. A key feature of this service is the "Sale Blu" network, available at 14 main Italian stations;
- rights protection for disadvantaged people who seek shelter at railway stations. A solidarity project has been operating for years in collaboration with local authorities and NGOs, entailing the free loan of spaces inside or near stations to associations and bodies engaged in combating social marginalisation and urgent needs<sup>18</sup>.

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<sup>16</sup> The FS Italiane group applies "social clauses" in the awarding of contracts and works and service concessions entailing substantial manual labour. These social clauses establish obligations to comply with certain social and labour protection standards in order to promote employment stability.

<sup>17</sup> RFI S.p.A. has had a scoring criterion in tenders since the second half of 2017, which includes respect for human rights (prevention of child and forced labour, anti-discrimination and support for the fundamental rights of man); this inspired the "Supply Chain Sustainable Management" project to improve the sustainability of the FS Italiane group's suppliers.

<sup>18</sup> Reference should be made to the Commitment to sustainable development - Commitment to the community paragraph for further information.



# The group's financial position and performance

## Introduction

For the purposes of describing its financial position and performance, the group prepared reclassified financial statements, as set out on the following pages, 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. Reference should be made to the "Key and glossary" section for a description of the methods used to calculate these indicators.

Furthermore, to provide a better understanding of the comments on the group's performance in 2019 and changes compared to the previous year, it should be noted that IFRS 16 Leases became applicable on 1 January 2019 and significantly changed the accounting treatment of finance leases by introducing a single accounting model, as detailed further on. In line with market practices and those of its main peers, the FS Italiane group elected to adopt the modified retrospective approach upon initial application of the new standard. Accordingly, it was not required to restate the comparative 2018 figures, which continue to be recognised in accordance with the previously applicable standards and interpretations. The gross operating profit and operating profit reflect the different presentation of leases in the two years, which had a positive effect of €130 million on operating costs, while increasing amortisation and depreciation by €118 million and financial expense by €20 million for a total net negative effect of €8 million on the profit for the year.

The table below provides the pro forma figures for 2019 without applying IFRS 16 in order to show the changes in performance on a like-for-like basis:

	millions of Euros					
	2019	Initial application of IFRS 16	Pro forma 2019*	2018	Change	%
REVENUE	12,435		12,435	12,072	363	3.0
OPERATING COSTS	(9,826)	(130)	(9,956)	(9,596)	(360)	(3.8)
<b>GROSS OPERATING PROFIT</b>	<b>2,609</b>	<b>(130)</b>	<b>2,479</b>	<b>2,476</b>	<b>3</b>	<b>0.1</b>
Amortisation, depreciation, provisions and impairment losses	(1,780)	118	(1,662)	(1,762)	100	5.7
<b>OPERATING PROFIT</b>	<b>829</b>	<b>(12)</b>	<b>817</b>	<b>714</b>	<b>103</b>	<b>14.4</b>
Net financial expense	(176)	20	(156)	(97)	(59)	(60.8)
<b>PRE-TAX PROFIT</b>	<b>653</b>	<b>8</b>	<b>661</b>	<b>617</b>	<b>44</b>	<b>7.1</b>
Income taxes	(60)		(60)	(58)	(2)	3.4
Loss from assets held for sale, net of taxes	(9)		(9)		(9)	100.0
<b>PROFIT FOR THE YEAR</b>	<b>584</b>	<b>8</b>	<b>592</b>	<b>559</b>	<b>33</b>	<b>5.9</b>

\*Net of the effects of IFRS 16.

The comparison of figures on a like-for-like basis confirms the strong performance of the group's core business, which can be seen in both the growth in revenue and the improvement in its main performance indicators: gross operating profit and operating profit.

The group's figures and performance indicators demonstrate again this year that its business remains sound, and this is the result of management's strategic decisions to bolster its core business and expand into other operating and geographical segments. The different macroeconomic and social scenario has also helped, with greater recognition of the importance of the mobility system and its direct effect on the country's overall wellbeing and development.

## Reclassified income statement

In line with the presentation in the consolidated financial statements, the following reclassified income statement shows the effects of initial application of IFRS 16 in 2019 while, as mentioned earlier, the comparative figures for the previous year have not been restated as allowed by the modified retrospective approach adopted by the group.

	millions of Euros			
	<b>2019</b>	<b>2018</b>	<b>Change</b>	<b>%</b>
<b>REVENUE</b>	<b>12,435</b>	<b>12,072</b>	<b>363</b>	<b>3.0</b>
Revenue from sales and services	11,957	11,560	397	3.4
Other income	478	512	(34)	(6.6)
<b>OPERATING COSTS</b>	<b>(9,826)</b>	<b>(9,596)</b>	<b>(230)</b>	<b>(2.4)</b>
<b>GROSS OPERATING PROFIT</b>	<b>2,609</b>	<b>2,476</b>	<b>133</b>	<b>5.4</b>
Amortisation, depreciation, provisions and impairment losses	(1,780)	(1,762)	(18)	(1.0)
<b>OPERATING PROFIT</b>	<b>829</b>	<b>714</b>	<b>115</b>	<b>16.1</b>
Net financial expense	(176)	(97)	(79)	(81.4)
<b>PRE-TAX PROFIT</b>	<b>653</b>	<b>617</b>	<b>36</b>	<b>5.8</b>
Income taxes	(60)	(58)	(2)	(3.4)
<b>PROFIT FROM CONTINUING OPERATIONS</b>	<b>593</b>	<b>559</b>	<b>34</b>	<b>6.1</b>
Loss from assets held for sale, net of taxes	(9)		(9)	(100.0)
<b>PROFIT FOR THE YEAR</b>	<b>584</b>	<b>559</b>	<b>25</b>	<b>4.5</b>
PROFIT FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF THE PARENT	573	540	33	6.1
PROFIT FOR THE YEAR ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	11	19	(8)	(42.1)

The **profit for 2019** amounts to €584 million, compared to €559 million for the previous year, showing a percentage increase of 4.5%.

The €133 million increase (+5.4%) in the **gross operating profit** demonstrates that, as mentioned earlier, the group's business remains sound. The gross operating profit would, in any case show year-on-year growth of €3 million net of the effects of initial application of IFRS 16.

**Revenue** rose by €363 million (+3.0%) due to growth in revenue from transport services of €230 million, revenue from infrastructure services of €133 million and other revenue from contracts with customers of €18 million. The growth in the latter was entirely offset by the decrease in other revenue and income in 2019, which also totalled €18 million.

Specifically, increases were seen in all the specific components of **revenue from transport services** (+€230 million):

- revenue from the long-haul railway passenger transport service increased by €85 million – almost all of which was due to the market service – mainly due to the policies implemented by the group's main transport company to strengthen its offer (train-km are up 2.2%). While revenue from long-haul universal services benefited from the positive effects of the progressive product upgrades (+€12 million), it decreased as a result of the reduction in the universal service contract fees due to the application of the restructuring and postponement of investments, as established in the same contract (-€14 million);

- revenue from the regional railway passenger transport service increased by €65 million, mainly due to transport services in Italy, up by €69 million, partly offset by the decrease in traffic operated abroad. In Italy, Trenitalia S.p.A. successfully negotiated the signing of service contracts with the regions in 2019 (the company signed direct 15-year concession agreements in 2019 with the Campania, Marche, Tuscany and Calabria regions and it was awarded the regional railway service for the Turin metropolitan hub for 2019-2028 in a public tender procedure). In addition, this revenue benefited from the positive effects of the increase in passenger-km (+1.8%), improved train punctuality, the higher customer satisfaction rate with the overall travel experience, with a progressive improvement in customer satisfaction;
- revenue from railway freight transport increased by €17 million, mainly following the inclusion of ROM Rail Transport S.r.l. in the consolidation scope (+€14 million);
- the €62 million growth in revenue from road passenger transport services was driven by Busitalia group's excellent performance in terms of turnover, mostly achieved abroad. Specifically, the Dutch company Qbuzz BV contributed a €66 million increase in turnover thanks to the acquisition of new concessions and user catchment basins (contributing approximately €50 million, including €47 million for the local public transport service in the newly served Zuid-Holland province launched on 9 December 2018). However, this segment was affected by the elimination of Busitalia Simet S.p.A. from the consolidation scope on 7 March 2019 (-€12 million);
- revenue from the navigation segment increased by €1 million.

**Revenue from infrastructure services** increased by €133 million on the previous year, predominantly due to Anas S.p.A. (+€118 million) as a result of the work being carried out on the road network under concession and RFI S.p.A., which increased its fee revenue by €13 million thanks to a rise in traffic volumes (train-km) and changes to the rate system regulated by the transport regulatory authority (ART).

**Other revenue from contracts with customers** (+€18 million) mainly includes the increase in revenue from the sale of land and buildings held for trading in connection with the divestment plan (+€6 million), actual revenue on the Riyadh metro contract (+€32 million), offset by greater accruals to cover contractual risks with the regions (-€10 million), in addition to lower revenue from rolling stock maintenance (-€13 million).

**Other revenue and income** decreased by €18 million. In the previous year, this caption included the non-recurring income from the derecognition of unsecured liabilities of €63 million in the deed of arrangement of Ferrovie del Sud Est e Servizi Automobilistici ("FSE") S.r.l.. Partially offsetting this difference, in 2019, the sale of Centostazioni Retail S.p.A. generated a gain of €28 million and revenue from grants increased by €11 million.

**Operating costs** came to €9,826 million for the year, up €230 million (+€2.4%) on 2018, due to:

- the increase in net personnel expense (+€92 million; +1.9%), mainly due to the growth in the average number of employees to meet the effect of turnover generated in the year;
- the increase in other costs, net (+€138 million; +2.9%), in which, essentially, higher service costs (+€370 million) were offset by lower costs for raw materials, consumables, supplies and goods (-€108 million) and the decrease in use of third-party assets (-€117 million, of which: -€130 million due to the initial application of IFRS 16).

The **gross operating profit** increased by €133 million, or 5.4%, to €2,609 million as a result of the variations in revenue and operating costs described above.

The **operating profit** amounts to €829 million (31 December 2018: €714 million), reflecting an increase of €115 million.

However, amortisation and depreciation of €1,712 million (+9%) increased in the year due to the initial application of IFRS 16 (+€118 million), without which they would have been in line with 2018. This impact was offset by impairment losses and provisions, which both improved. Impairment losses decreased by €65 million on 2018, due to the decrease in those on property, plant and machinery, while provisions showed a positive net balance of €22 million (31 December 2018: -€36 million), mainly due to the releases by group companies on the Bilateral fund for income assistance.

**Net financial expense** of €176 million worsened by €79 million (-81.4%) on the previous year, mainly due to higher financial expense (€65 million, of which: €20 million due to the initial application of IFRS 16 and €34 million mainly due to the discounting of the amount receivable from Strada dei Parchi following the amendment postponing the repayment of the 2017 and 2018 instalments to 2030), lower profits from equity-accounted investees (€10 million) and greater provisions for interest on disputes with road works suppliers (€11 million).

**Income taxes** amount to €60 million, up by €2 million, essentially due to the trend in current taxes (+€20 million), deferred taxes (-€29 million) and adjustments related to prior years (+€11 million).

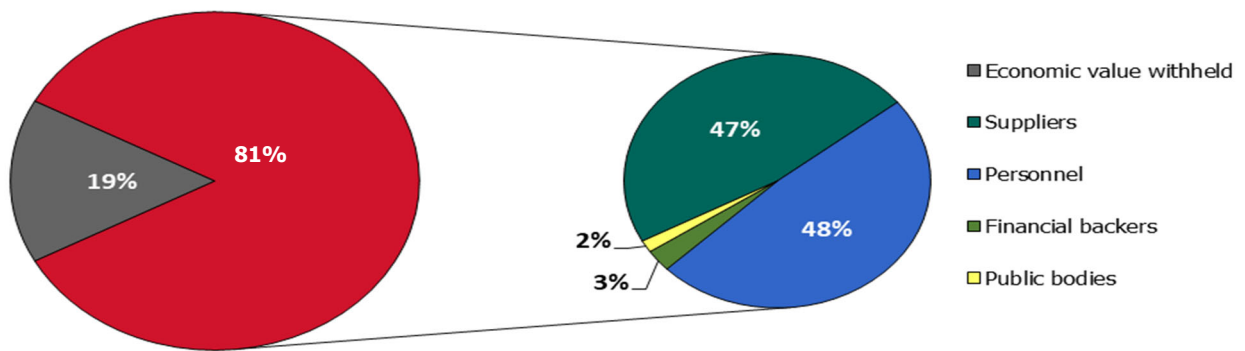
The **loss from assets held for sale** of €9 million refers to the loss for the year of Netinera Werke GmbH, which will be sold in 2020 for strategic reasons in connection with the group's objective of leaving less profitable business segments.

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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 the 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

<b>Directly generated and distributed economic value</b>	<b>2019</b>		<b>2018</b>		<b>2017</b>	
<b>Directly generated economic value</b>	<b>12,536</b>	<b>100%</b>	<b>12,196</b>	<b>100%</b>	<b>9,369</b>	<b>100%</b>
Revenue from sales and services	11,957		11,560		8,993	
Other sundry income	579		636		376	
<b>Distributed economic value</b>	<b>10,202</b>	<b>81%</b>	<b>9,877</b>	<b>81%</b>	<b>7,202</b>	<b>77%</b>
Operating costs for materials and services	4,813		4,679		2,754	
Personnel expense	4,945		4,853		4,178	
Payments to financial backers	286		221		176	
Payments to public bodies	158		124		94	
<b>Economic value withheld</b>	<b>2,334</b>	<b>19%</b>	<b>2,319</b>	<b>19%</b>	<b>2,167</b>	<b>23%</b>
Amortisation, depreciation, provisions and impairment losses	1,780		1,762		1,595	
Other sundry costs and taxes	(30)		(2)		20	
<b>Profit for the year</b>	<b>584</b>		<b>559</b>		<b>552</b>	



The value not distributed by the group (approximately €2.3 billion in 2019, in line with 2018, while it came to €2.2 billion in 2017) consisted substantially of self-financed investments and accruals to reserves, to be reinvested and thereby ensure the continuity and sustainability of the business in the medium and long term, thereby indirectly benefiting the 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

	31.12.2019	31.12.2018	Change
<b>ASSETS</b>			
Net operating working capital	(262)	(324)	62
Other assets, net	2,928	2,378	550
<b>Working capital</b>	<b>2,666</b>	<b>2,054</b>	<b>612</b>
Net non-current assets	51,132	50,986	146
Other provisions	(4,303)	(4,622)	319
Net assets held for sale and disposal groups	482		482
<b>NET INVESTED CAPITAL</b>	<b>49,977</b>	<b>48,418</b>	<b>1,559</b>
<b>COVERAGE</b>			
Net current financial debt	677	(555)	1,232
Net non-current financial debt	6,982	7,210	(228)
<b>Net financial debt (position)</b>	<b>7,659</b>	<b>6,655</b>	<b>1,004</b>
<b>Equity</b>	<b>42,318</b>	<b>41,763</b>	<b>555</b>
<b>COVERAGE</b>	<b>49,977</b>	<b>48,418</b>	<b>1,559</b>

The group's **net invested capital** of €49,977 million increased by €1,559 million in the year due to the increases in **working capital** (+€612 million), **net non-current assets** (+€146 million) and **net assets held for sale and disposal groups** (+€482 million) and the decrease in **other provisions** (+€319 million).

**Net operating working capital** amounts to -€262 million, up by €62 million on the previous year and is the combined effect of the following trends:

- greater receivables arising from the service contracts with the regions (+€101 million) and from the service contract with the Ministry of Economy and Finance (MEF) (+€38 million), substantially due to the increase in Trenitalia S.p.A.'s receivable as a result of the trend in payments of fees;
- the €206 million increase in trade receivables mainly due to: an increase in receivables for passenger transport by rail (+€74 million), the increase in receivables following the start of commercial activities related to the foreign contract for the Riyadh metro (+€38 million); the increase in advances to suppliers (+€183 million) mainly for electricity and works; and the reclassification of €99 million (SITAF group) to net assets held for sale and disposal groups as detailed below;
- greater inventories and contract assets for contract work in progress (+€96 million), mainly due to:
  - production output at the national workshops of Bari, Pontassieve and Bologna for the production of frogs, switches and other railway infrastructure equipment (+€123 million);
  - sales in the year, net of impairment losses to align the carrying amount of assets held for sale to their market value (-€26 million);
  - the €6 million increase in contract assets for contract work in progress, essentially due to works already completed on regional roads for contract work in progress for which incurred costs, plus recorded profits (and less recorded losses), exceed progress billing;
- the €377 million increase in trade payables, mainly in relation to:

- investments in the year to purchase new rolling stock, with an impact of €244 million;
- greater trade payables due to IT/tech providers (€101 thousand), which is the result of the trend in payments considering the start-up of the newco FSTechnology S.p.A.'s business;
- greater accruals for road network works (€108 million);
- lower trade payables (with a positive impact of €55 million on net operating working capital) due, in particular, to payments in the year mainly for investments in the railway network; and
- the €21 million reduction in Ferrovie Sud Est e Servizi Automobilistici S.r.l.'s trade payables, particularly following the payment of privileged creditors and the first tranche (65.45%) of unsecured creditors included in trade payables under the deed of arrangement plan.

**Other assets, net** amount to €2,928 million, showing an increase of €550 million, which is substantially the combined effect of:

- greater net assets from the MEF, the MIT and other government authorities (+€762 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;
- the €163 million decrease in net VAT assets, due to the split payment scheme, the payment of VAT for 2011 to 2017 and the decrease in deferred tax assets (-€8 million);
- the net increase of €41 million in other liabilities, net, essentially due to the adjustment of the provision to cover disputes relating to projects financed by grants and the rise in other amounts due to personnel and for the adjustment of the fund for income and employment assistance.

**Net non-current assets** of €51,132 million increased by €146 million, substantially due to:

- the €6,943 million increase in the year, offset by the recognition of grants related to assets on an accruals basis (€4,116 million), amortisation and depreciation of the year (€1,712 million) and sales and impairment losses (€88 million);
- the change in the consolidation scope is due to the acquisitions of the year and non-recurring transactions, with a €21 million impact on non-current assets, in addition to the €21 million increase in equity investments, mainly because of the investees' profits for the year;
- total reclassifications of -€1,513 million, almost entirely due to the recognition of SITAF group under assets held for sale and disposal groups;
- greater assets (+€586 million) due to the recognition of right-of-use assets as required by IFRS 16 Leases at 1 January 2019 (the increase in the year due to the application of IFRS 16 to leases totals €350 million and is described in the notes to the foregoing captions).

**Other provisions** decreased by €319 million, almost entirely due to the utilisation of post-employment benefits (TFR) and other employee benefits for payments to outgoing employees in the year and advances paid, as well as to the decrease in the tax provision and other provisions for risks.

**Net assets held for sale and disposal groups** total €482 million and include those of SITAF group, which was reclassified following the Council of State's rulings no. 7392/2019 and no. 7393/2019 of 28 October 2019, in which the share transfer

agreement between the Turin municipal authorities, the Turin provincial authorities and Anas S.p.A. was declared null and void. The notes provide more details about this matter.

**Net financial debt** of €7,659 million increased by €1,004 million on 31 December 2018, mainly due to the net effect of the following:

- the decrease in the cash pooling balance (with an impact of €219 million), which comprises the payments made by the MEF in relation to the Programme Contract for railway infrastructure;
- the decrease in the financial asset from MEF (€592 million) due to collections of the year;
- the €232 million decrease in bank loans and borrowings, mainly due to the net effect of current loans and borrowings and the repayment of loans for the purchase of rolling stock for medium and long-haul transport and regional transport, in addition to the decrease in the same current loans and borrowings for the payment of privileged creditors in the Ferrovie del Sud Est e Servizi Automobilistici S.r.l.'s deed of arrangement;
- the €999 million increase in bonds, substantially related to the subscription of new bonds as part of the Euro Medium Term Notes Programme, with a total nominal amount of €1,130 million, to meet the group's financial requirements, the new private bond placement with Eurofima SA, with a nominal amount of €200,000 thousand, a variable rate and a 15-year maturity, offset by the repayment of the Eurofima SA bond with a nominal amount of €343,000 thousand;
- the €865 million decrease in loans and borrowings from other financial backers, substantially due to the reclassification of pre-existing lease liabilities of €402 million upon initial application of IFRS 16, mostly reflected in the increase in other current and non-current financial liabilities and in the repayment of loans with Cassa Depositi e Prestiti for railway infrastructure (the traditional and high-speed networks), which was financed by 15-year grants repaid in 2019. Furthermore, financial liabilities of €255 million relating to SITAF group were reclassified to net assets held for sale and disposal groups;
- the €202 million increase in contract advances due to the portion of grants already collected by Anas S.p.A. for work not yet completed;
- the increase in financial assets for service concession arrangements (with an impact of -€108 million on financial debt), which was the net effect of the increase in assets due in connection with production output on the infrastructure operated under concession arrangements and mainly referring to roads, and the decrease due to collections of refunds in the year from the Ministries or authorities;
- the €204 million increase in other financial assets and liabilities, mainly due to the change in lease liabilities, i.e. the lease liabilities recognised for new leases accounted for in accordance with IFRS 16 (€641 million) and for finance leases previously accounted for under IAS 17 and reclassified to this caption, as explained above. In addition, €799 million relating to SITAF group was reclassified from this caption to net assets held for sale and disposal groups in the year.

**Equity** rose from €41,763 million to €42,318 million, up by €555 million mainly as a result of the following:

- the increase in the profit for the year to €584 million;
- the net increase of €9 million in the actuarial and cash flow hedging reserves;
- the net decrease of €38 million in the balance of derivative assets and liabilities.



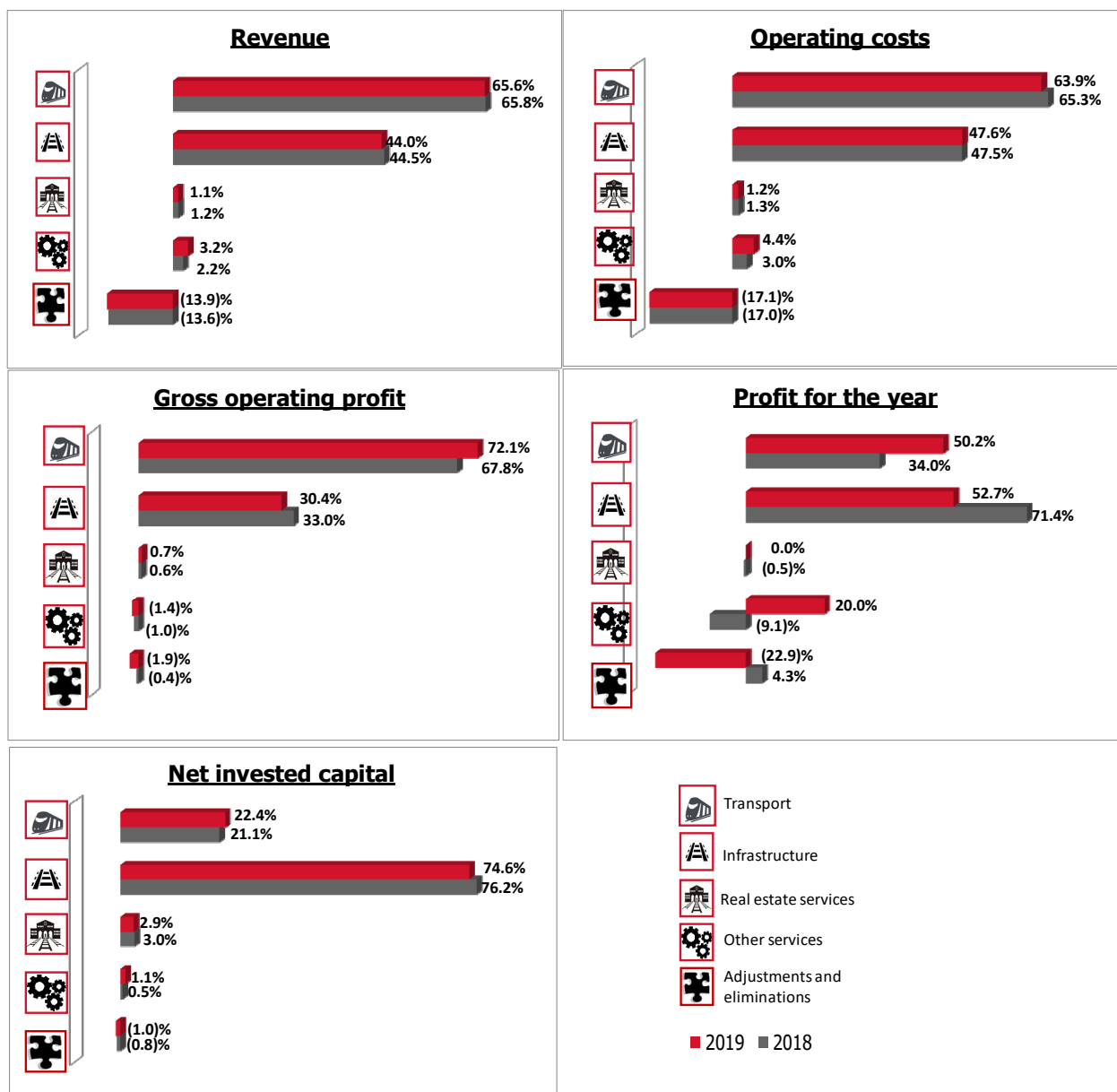
## Reconciliation at 31 December 2019 and 31 December 2018

Reconciliation as at 31 December 2019 and 31 December 2018 and for the years then ended between profit for the year and equity in the separate financial statements of Ferrovie dello Stato Italiane S.p.A. and the consolidated financial statements

	millions of Euros			
	Year ended 31 December 2019		Year ended 31 December 2018	
	Equity	Profit for the year	Equity	Profit for the year
Ferrovie dello Stato Italiane S.p.A.	39,859	227	39,633	62
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	2,856	598	1,995	344
- elimination of impairment losses on equity investments	237	116	467	381
- reversal of dividends	(4)	(156)	(4)	(154)
<b>Total</b>	<b>3,089</b>	<b>558</b>	<b>2,458</b>	<b>571</b>
Other consolidation adjustments:				
- equity accounting of investments in unconsolidated subsidiaries and associates	79	18	67	31
- reversal of intragroup profits	(600)	(66)	(533)	(41)
- reversal of taxes arising on tax consolidation	(52)	(85)	33	(92)
- other	(105)	(79)	33	9
<b>Total</b>	<b>(678)</b>	<b>(212)</b>	<b>(400)</b>	<b>(93)</b>
- Valuation reserves	(428)		(437)	
- Translation reserve				
<b>EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT</b>	<b>41,842</b>	<b>573</b>	<b>41,254</b>	<b>540</b>
- Equity attributable to non-controlling interests (excluding profit for the year)	437		424	
- Profit attributable to non-controlling interests	11	11	19	19
<b>EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS</b>	<b>448</b>	<b>11</b>	<b>443</b>	<b>19</b>
<b>TOTAL CONSOLIDATED EQUITY</b>	<b>42,290</b>	<b>584</b>	<b>41,697</b>	<b>559</b>

## Segment reporting

The FS Italiane group's performance is analysed below with reference to each of the four operating segments that make up its business (Transport, Infrastructure, Real Estate Services and Other Services). The charts below summarise the 2019 and 2018 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

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

More specifically, rail operations mainly fall under Trenitalia S.p.A., which provides services for passenger transport in Italy and abroad, managing both regional and national routes, including the pre-eminent high speed service. This segment also includes the German group, Netinera Deutschland, which carries out transport activities by rail and road on the local and urban transport market in Germany through approximately 40 investees, TrainOSE SA, which operates in Greece, connecting Athens and Thessaloniki, Trenitalia c2c Ltd, a UK passenger transport company, and Ferrovie del Sud Est e Servizi Automobilistici S.r.l. ("FSE"), which holds the concession for road and rail services in Puglia, Italy.

The group companies that principally operate in freight transport are those in the Mercitalia group, with domestic and international operations, including TX Logistik group (mainly active in Germany, Austria, Switzerland and Denmark).

The Transport segment also includes road urban and medium/long-haul passenger transport, offered by the group consisting of Busitalia-Sita Nord S.r.l. and its investees. The above-mentioned FSE S.r.l. also provides these services.

	millions of Euros			
	<b>2019</b>	<b>2018</b>	<b>Change</b>	<b>%</b>
Revenue from sales and services	7,937	7,683	254	3.3
Other income	223	259	(36)	(13.9)
<b>Revenue</b>	<b>8,160</b>	<b>7,942</b>	<b>218</b>	<b>2.7</b>
<b>Operating costs</b>	<b>(6,278)</b>	<b>(6,263)</b>	<b>(15)</b>	<b>(0.2)</b>
<b>Gross operating profit</b>	<b>1,882</b>	<b>1,679</b>	<b>203</b>	<b>12.1</b>
<b>Operating profit</b>	<b>467</b>	<b>336</b>	<b>131</b>	<b>39.0</b>
<b>Segment profit (attributable to the owners of the parent and non-controlling interests)</b>	<b>293</b>	<b>190</b>	<b>103</b>	<b>54.2</b>
	<b>31.12.2019</b>	<b>31.12.2018</b>	<b>Change</b>	
<b>Net invested capital</b>	<b>11,196</b>	<b>10,213</b>	<b>983</b>	

The Transport segment shows a **profit for the year** of €293 million, a substantial increase of €103 million on the previous year.

Segment **revenue** totals €8,160 million, up considerably by €218 million on 2018, substantially due to revenue from transport services, up by roughly €231 million and only partly offset by the fact that 2018 included the portions of revenue attributable to the Transport segment from the derecognition of secured liabilities of FSE S.r.l. totalling €38 million (decree of the ordinary court of Bari dated 9 April 2018, which set the date for the court approval of the deed of arrangement for 6 June 2018).

In particular, the €218 million increase in revenue, net of the aforementioned non-recurring item for 2018, highlighted the positive performance of the following Transport businesses:

- long-haul passenger transport by rail (+€86 million), due to the strategy in the market service segment that increasingly focuses on satisfying customers' needs by strengthening the offer, better pricing and revenue management and driving sales channels, all of which is supported by a communications campaign and a plan to develop related services;
- short-haul regional passenger transport by rail (+€70 million), as the economic terms of the new contracts signed with the regions went into force (Lazio, Liguria, Puglia and Friuli Venezia Giulia), in addition to the spike in additional services after the Morandi bridge collapsed and, on the other hand, following the increase in passenger-km (mostly in the Piedmont, Liguria, Friuli, Emilia Romagna, Lazio, Calabria, Puglia and Sicily regions) as a result of actions taken to focus more on customers' needs, with the roll-out of regional customer care (assistance and safety) and to curb recurrent fare evasion in a continuation of the actions commenced in late 2018. The development of initiatives for the use of regional trains for tourism also drove the growth in revenue;
- short-haul passenger transport by road (+€69 million), mainly due to the fact that results for 2019 reflect the full effect of the new concessions awarded in 2018 in the Netherlands, as the subsidiary Qbuzz BV began operating the regional LPT service between Geldermalsen and Dordrecht (the Merwedelingelijn line), referred to as the DMG concession, in 2018. In addition, the concession for the Groningen and Drenthe area was renewed in 2019 (the contractual term for these areas is eight and 10 years, respectively), where Qbuzz BV operates the greenest bus fleet in Europe, thanks to the large percentage of electric buses;
- freight and logistics (+€18 million), mainly due to the acquisition of the subsidiary ROM Rail Transport in 2019 (higher transport volumes) and the roll-out of the Fast business unit's services in October 2018, handled by Mercitalia Logistics S.p.A. to transport freight on the HC/HS lines with new electric locomotives, which, thanks to regenerative braking systems and the innovative eco-mode ensure significantly lower energy consumption than the current standards.

The **gross operating profit** for the Transport segment is €1,882 million, up by €203 million on 2018. Of this increase, €130 million is due to the growth in this segment's profit margins (particularly the long-haul railway passenger transport service sold on the market and the short-haul regional service) and €111 million is due to the effect of applying IFRS 16 as from 1 January 2019, partly offset by the fact that, as mentioned earlier, 2018 included the income on the derecognition of FSE S.r.l.'s unsecured liabilities, totalling €38 million.

The **operating profit** amounts to €467 million, up by €131 million on the previous year. This improvement is the effect of the increase in amortisation and depreciation due to initial application of IFRS 16 in 2019 (€142 million), partly offset by lower impairment losses and accruals in 2019 compared to 2018.

**Net financial expense** of €108 million increased by €17 million on 2018, mainly due to the increase resulting from the initial application of IFRS 16.

**Income taxes** show a negative balance of €57 million in 2019, a slight worsening of €2 million on the previous year.

#### **Loans and borrowings - Transport segment**

##### **Intragroup loan - TrainOSE SA**

On 27 March 2019, the parent gave its subsidiary TrainOSE SA an intragroup loan to finance its acquisition of 100% of ROSCO SA and cover the initial outlays to purchase machinery and comply with occupational safety standards. The maximum amount of the loan is €25 million and its repayment date is 29 December 2028.

#### **Intragroup loan - Firenze City Sightseeing S.r.l.**

On 8 April 2019, the parent gave Firenze City Sightseeing S.r.l. an intragroup loan of €255 thousand, repayable on 28 December 2023, to purchase a bus and related on-board equipment. Busitalia Sita-Nord S.r.l. is guarantor for the loan.

#### **Renegotiation of the conditions applied to the borrowings of Metro 5 S.p.A.**

On 29 April 2019, assisted by the parent, Metro 5 S.p.A. completed its renegotiation of the terms applied to roughly €500 million of its borrowings to be repaid in 2035, making a saving of over 40% compared to the previously negotiated amount. The debt renegotiation procedure was commenced in the first half of 2018 when the parent became a shareholder with a 36.7% stake in the investee. The benefits of the renegotiation have been shared between Metro 5 S.p.A. and the Milan municipality. As a result, the municipality saw a decrease in the concession availability charge of over €1 million a year with an overall saving of about €40 million up until the concession's expiry in 2041. Nine major Italian and international banks (BNP Paribas, IMI, Monte dei Paschi di Siena, Société Générale and Unicredit, which acted as the working MLA, along with BBVA, Credit Agricole, Natixis and UBI) had granted nearly 70% of the financing. Cassa Depositi e Prestiti is another lender and the rest of the debt consists of bonds subscribed by institutional investors.

#### **Intragroup loan - Mercitalia Logistics S.p.A.**

On 5 June and 31 July 2019, the parent gave Mercitalia Logistics S.p.A. two non-current intragroup loans to cover the capital requirements of the subsidiary TX Logistik AG. The maximum amounts of the loans are €56 million and €83 million, respectively, and they are repayable on 30 June 2024. The transactions are part of the project approved by the directors of both the parent and Mercitalia Logistics S.p.A. to extend the repayment dates of the loans taken out by the Mercitalia group companies to rebalance the relationship between the source and application of funds, including matching the lives of the assets with the term of the loan.

#### **Intragroup loan - Busitalia-Sita Nord S.r.l.**

On 30 July 2019, Ferrovie dello Stato Italiane S.p.A. restructured the intragroup loan granted to its subsidiary Busitalia - Sita Nord S.r.l. for the acquisition of the Dutch public transport company Qbuzz BV in August 2017, extending its term to rebalance the relationship between the source and application of funds, including matching the lives of the assets with the term of the loan. The amount of the loan is €36.9 million and it is repayable on 28 December 2026.

#### **Intragroup loan - Mercitalia Rail S.r.l.**

On 31 July 2019, Ferrovie dello Stato Italiane S.p.A. gave Mercitalia Rail S.r.l. a non-current intragroup loan to cover its net invested capital. The amount of the loan is €107 million and it is repayable on 30 June 2024. The transaction is part of the project approved by the directors of both the parent and Mercitalia Rail S.r.l. to extend the repayment dates of the loans taken out by the Mercitalia group companies to rebalance the relationship between the source and application of funds, including matching the lives of the assets with the term of the loans.

### **Loans and borrowings and the related guarantees for the West Coast franchise in the UK**

On 13 August 2019, First Trenitalia West Coast Rail (a joint venture between FirstGroup, with 70%, and Trenitalia UK Ltd, with 30%) was awarded the West Coast Partnership railway service franchise. To meet the financial requirements established by the Department for Transport (DfT), Ferrovie dello Stato Italiane S.p.A. (as Trenitalia UK Ltd's guarantor and on a pro-quota basis with FirstGroup) gave the JV a loan totalling GBP30 million. Ferrovie dello Stato Italiane S.p.A.'s share of the loan amounts to GBP9 million and was disbursed in December 2019. The parent has also had bank guarantees issued, which it counter-guaranteed for roughly GBP24 million.

### **Intragroup loan - Qbuzz BV**

On 15 October 2019, Ferrovie dello Stato Italiane S.p.A. granted Qbuzz BV (an indirect subsidiary of Busitalia - Sita Nord S.r.l.) two non-current intragroup loans for a total of €85 million repayable on 28 December 2027, to finance investments in buses and trains under the DMG concession awarded in February 2018 and commenced in December 2018. The loans are guaranteed by the company's direct parent Busitalia - Sita Nord S.r.l..

## Infrastructure

The group's Infrastructure segment companies are Rete Ferroviaria Italiana S.p.A., whose mission is to serve as the national railway infrastructure operator, and Anas S.p.A., which, through its subsidiaries, operates Italy's national-interest road and motorway networks. As network operator, RFI maintains, uses and develops the network and 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. To a lesser extent, given its smaller size, Italferr S.p.A., the group's engineering company, also contributes to the results of this segment. The other group companies active in the Infrastructure segment on an exclusive or incidental basis are: FSE S.r.l., Brenner Basis Tunnel SE, Tunnel Ferroviario del Brennero S.p.A. (TFB), Tunnel Euralpin Lyon Turin SaS (TELT), Grandi Stazioni Rail S.p.A. and Metropark S.p.A..

	millions of Euros			
	<b>2019</b>	<b>2018</b>	<b>Change</b>	<b>%</b>
Revenue from sales and services	5,139	5,017	122	2.4
Other income	329	357	(28)	(7.8)
<b>Revenue</b>	<b>5,468</b>	<b>5,374</b>	<b>94</b>	<b>1.7</b>
<b>Operating costs</b>	<b>(4,675)</b>	<b>(4,557)</b>	<b>(118)</b>	<b>(2.6)</b>
<b>Gross operating profit</b>	<b>793</b>	<b>817</b>	<b>(24)</b>	<b>(2.9)</b>
<b>Operating profit</b>	<b>455</b>	<b>455</b>		
<b>Segment profit (attributable to the owners of the parent and non-controlling interests)</b>	<b>308</b>	<b>399</b>	<b>(91)</b>	<b>(22.8)</b>
	<b>31.12.2019</b>	<b>31.12.2018</b>	<b>Change</b>	
<b>Net invested capital</b>	<b>37,292</b>	<b>36,884</b>	<b>408</b>	

The Infrastructure segment showed a **profit for the year** of €308 million, an increase of €91 million on the previous year.

**Revenue** amounts to €5,468 million, up by €94 million on 2018, mainly due to a combination of the following factors:

- the €50 million increase in Anas S.p.A. revenue from the road infrastructure service contract;
- the €23 million increase in RFI S.p.A. revenue, mostly consisting of higher revenue from the Government Programme Contract - services, the gain on the sale of Centostazioni Retail S.p.A. and higher toll revenue (due to the change in train-km traffic volumes and the impact of changes in the rate system approved with ART resolution no. 43/2019);
- the reduction due to the fact that 2018 included the portions of revenue attributable to the infrastructure segment from the derecognition of secured liabilities of FSE S.r.l. (€25 million) and Centostazioni S.p.A. (€15 million), which merged into RFI with the demerger deed dated 11 June 2018.

The **gross operating profit** of the infrastructure segment amounts to €793 million in 2019, down by €24 million on 2018, substantially due to the non-recurring items of the previous year (release of prior-year over-accruals by Anas S.p.A. and prior

year income on the derecognition of the secured liabilities of FSE S.r.l.) partly offset by the €18 million increase on the initial application of IFRS 16.

The **operating profit** of the infrastructure segment is €455 million, in line with 2018, as the decrease in the gross operating profit was cancelled mainly by the positive net balance of RFI S.p.A.'s accruals/releases for the two years (€38 million), partly offset by the increase in amortisation and depreciation resulting from the initial application of IFRS 16 (€18 million).

**Net financial expense** of €107 million worsened by €76 million on 2018, substantially due to the economic impact on Anas S.p.A.'s receivable from the concession operator Strada dei Parchi S.p.A. due to the amendment under article 9-*tricies semel* of Law decree no. 123/2019, which extended the instalments due in 2017 and 2018 to 2030.

**Income taxes** of the infrastructure segment show a negative net balance of €40 million in 2019 and worsened by €15 million on 2018, substantially due to the non-recurring items of 2019 (mainly RFI S.p.A.'s tax dispute of €14 million).



## Real Estate Services

The Real Estate Services segment mainly consists of FS Sistemi Urbani S.r.l. which handles management, sales and development services for real estate assets that are not used in the group's operations.

The parent also contributes to this segment, exclusively with respect to its real estate management operations, which include providing the group companies with strategic guidelines on real estate and asset allocation (e.g., mergers, demergers, contributions to SPVs, etc.) and handling the sale of properties and land held for trading in real estate holdings.

	millions of Euros			
	<b>2019</b>	<b>2018</b>	<b>Change</b>	<b>%</b>
Revenue from sales and services	138	140	(2)	(1.4)
Other income				
<b>Revenue</b>	<b>138</b>	<b>140</b>	<b>(2)</b>	<b>(1.4)</b>
<b>Operating costs</b>	<b>(119)</b>	<b>(125)</b>	<b>6</b>	<b>4.8</b>
<b>Gross operating profit</b>	<b>19</b>	<b>15</b>	<b>4</b>	<b>26.7</b>
<b>Operating profit (loss)</b>	<b>6</b>	<b>(6)</b>	<b>12</b>	<b>(200.0)</b>
<b>Segment profit (loss) (attributable to the owners of the parent and non-controlling interests)</b>		<b>(3)</b>	<b>3</b>	<b>(100.0)</b>
	<b>31.12.2019</b>	<b>31.12.2018</b>	<b>Change</b>	
<b>Net invested capital</b>	<b>1,425</b>	<b>1,458</b>	<b>(33)</b>	

The **profit for the year** of Real Estate Services shows a break even, an improvement of €3 million on the loss for 2018. This improvement is mainly due to greater net gains generated by FS Sistemi Urbani S.r.l.'s sales in the year.

## Other Services

Ferrovie dello Stato Italiane S.p.A. operates in the Other Services segment in its role as the group's holding company and for all the activities not included in the real estate services described above. It steers and coordinates the business policies and strategies of the group's operating companies. 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 mainly develops the credit factoring and lease business on the captive market and develops the consumer credit business for the group's employees; Italcertifier S.p.A., which carries out certification, assessment and testing activities on transport and infrastructure systems; and, since 2019, FSTechnology S.p.A., the group's ICT service provider.

	millions of Euros			
	2019	2018	Change	%
Revenue from sales and services	367	244	123	50.4
Other income	29	17	12	70.6
<b>Revenue</b>	<b>396</b>	<b>261</b>	<b>135</b>	<b>51.7</b>
<b>Operating costs</b>	<b>(432)</b>	<b>(285)</b>	<b>(147)</b>	<b>(51.6)</b>
<b>Gross operating loss</b>	<b>(36)</b>	<b>(24)</b>	<b>(12)</b>	<b>&gt;200</b>
<b>Operating loss</b>	<b>(65)</b>	<b>(62)</b>	<b>(3)</b>	<b>&gt;200</b>
<b>Segment profit (loss) (attributable to the owners of the parent and non-controlling interests)</b>	<b>117</b>	<b>(51)</b>	<b>168</b>	<b>&gt;200</b>
	<b>31.12.2019</b>	<b>31.12.2018</b>	<b>Change</b>	
<b>Net invested capital</b>	<b>548</b>	<b>231</b>	<b>317</b>	

In 2019, Other services show a **profit for the year** of €117 million, up by €168 million on the previous year.

**Revenue** of €396 million is up by €135 million, with a contribution of €120 million from FSTechnology S.p.A., which began operating in August 2019 and €32 million from FS Corporate due to the start of operations on the Riyadh metro contract and the gain on the sale of Centostazioni Retail S.p.A., partly offset by the reduction of roughly €17 million in Ferservizi S.p.A. revenue, substantially due to the revision of contractual fees from customers.

The **gross operating loss** of €36 million worsened by €12 million on the previous year mainly in connection with the higher costs of FSTechnology S.p.A..

The **operating loss** of €65 million is substantially in line with 2018.

**Net financial income** of €37 million shows an improvement of €138 million on 2018, substantially due to the impairment losses of €128 million recognised in 2018 on equity investments in the Mercitalia group operating companies (Mercitalia Rail S.r.l. and TX Logistic AG, both of which are Mercitalia Logistics investees).

**Income taxes** of the Other services segment show a positive balance of €145 million, up by €33 million on the previous year. 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**

#### **Resolution authorising new bonds and loans**

On 16 April 2019, the parent's board of directors resolved to issue new bonds for a maximum amount of €1.75 billion as part of the EMTN programme listed on the Irish Stock Exchange reserved to institutional investors. The proceeds from the placement and new green bonds will be used to purchase regional and medium to long-haul trains, freight transport locomotives and to complete the HS/HC railway infrastructure.

#### **Update of the Green Bond Framework**

On 1 July 2019, the parent published its revised Green Bond Framework. The new regional Rock and Pop trains now form part of the Eligible Green Projects like the high speed ETR1000 trains, the electric locomotives and last generation wagons which have undergone technological upgrades for freight transport. The Second Party Opinion, released by the accredited agency Sustainalytics, confirmed the FS Framework is credible and sound and aligned with the Green Bond Principles 2018.

#### **Green bond placement - EMTN series 10**

On 9 July 2019, the parent placed its second green bond issue of €700 million as part of the EMTN Programme. The bonds have a fixed coupon of 1.125% and a seven-year maturity. The issue is part of the Green Bond Placement. FS Italiane is the first corporate issuer to finance freight rolling stocks through green bonds and the first Italian issuer to obtain the Climate Bonds Initiative (CBI) certification. CBI is an international non-profit organisation that promotes sustainable financing to combat climate change at a global level. Banca IMI, BNP Paribas, CITI, Crédit Agricole CIB and Unicredit acted as joint lead managers and joint bookrunners for the placement, which is part of the above-mentioned programme of €1.75 billion authorised by the parent's board of directors on 16 April 2019 to cover the group's 2019 investments. The proceeds from the bond issue were distributed as two intragroup loans to Trenitalia S.p.A. (roughly 80%) and Mercitalia Rail S.p.A., in line with the resolutions taken by the directors and approved by the parent's green bond working committee.

#### **Green bond placement - EMTN series 11**

On 1 August 2019, in a private placement, Ferrovie dello Stato Italiane S.p.A. placed a bond with a fixed coupon of 1.035%, for €100 million and with a 10-year maturity, as part of the EMTN programme listed on the Irish Stock Exchange. UniCredit Bank AG handled the issue as Sole Bookrunner. The income from the bond, following the conversion of the fixed rate to a variable rate through an interest rate swap, was subject to an intragroup loan to RFI S.p.A. to finance the completion of the high-speed network.

#### **Intragroup loan to FSTechnology S.p.A.**

On 6 December 2019, Ferrovie dello Stato Italiane S.p.A. granted the subsidiary FSTechnology S.p.A. an intragroup loan of €100 million maturing on 26 December 2026 to finance the investments in software, hardware, network and professional services envisaged in the business plan.

### **Private bond placement with Eurofima**

On 19 December 2019, Ferrovie dello Stato Italiane S.p.A. finalised another private bond placement with Eurofima, the supranational institution that finances the rolling stock of European railway companies. Variable-rate, 15-year FS S.p.A. bonds of €200 million were subscribed. The income from the bond is subject to an intragroup loan to Trenitalia S.p.A. to finance regional transport.

### **Updated EMTN programme and bond issues – EMTN series 12 and 13**

On 23 December 2019, in a private placement, FS Italiane S.p.A. placed two bonds (series 12 and series 13) as part of the EMTN Programme (€7 billion) listed on the Irish Stock Exchange and updated in London on 17 December 2019. Series 12, totalling €140 million and with a 10-year maturity, was issued at par, with a variable rate indexed to the 6M Euribor plus a spread of 90 bps. Series 13, totalling €190 million and with a 4.5-year maturity, was issued at par with a variable rate indexed to the 6M Euribor plus a spread of 52 bps. UniCredit Bank (series 12) and BNP Paribas (series 13) were the Sole Bookrunners. The income on the bond is subject to two separate intragroup loans to RFI S.p.A. (€140 million) and Mercitalia Rail S.r.l. and Mercitalia Logistics S.p.A. (€190 million), respectively, for investments in the high-speed network and in the freight segment.

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

## Reclassified income statement

	millions of Euros			
	2019	2018	Change	%
<b>Revenue</b>	<b>188</b>	<b>180</b>	<b>8</b>	<b>4</b>
- Revenue from sales and services	174	165	9	5
- Other revenue	14	15	(1)	(7)
<b>Operating costs</b>	<b>(264)</b>	<b>(237)</b>	<b>(27)</b>	<b>(11)</b>
<b>GROSS OPERATING LOSS</b>	<b>(76)</b>	<b>(57)</b>	<b>(19)</b>	<b>(33)</b>
Amortisation and depreciation	(25)	(24)	(1)	(4)
Net impairment gains	(1)	(16)	15	94
<b>OPERATING LOSS</b>	<b>(102)</b>	<b>(97)</b>	<b>(5)</b>	<b>(5)</b>
Net financial income	176	31	145	468
<b>PRE-TAX PROFIT (LOSS)</b>	<b>74</b>	<b>(66)</b>	<b>140</b>	<b>212</b>
Income taxes	153	128	25	20
<b>PROFIT FOR THE YEAR</b>	<b>227</b>	<b>62</b>	<b>165</b>	<b>266</b>

The **profit for the year** amounts to €227 million, up by €165 million on the previous year, mainly due to financial income (+€145 million) and income taxes (+€25 million), partly offset by the performance of the gross operating loss (-€19 million).

The decrease in the **gross operating loss** is the net effect of the €8 million increase in revenue and the €27 million increase in operating costs as a result of the following.

The growth in **revenue** was mainly driven by property management (leases, commercial use of stations, Grandi Stazioni facilities and sales of land and buildings held for trading), down by roughly €6 million and offset by the increase in revenue from contracts with customers. In particular, the latter revenue increased as the combined effect of lower fees to use patents, sales of land and buildings held for trading and services provided by the parent, as well as the increase in revenue from foreign contracts, totalling roughly €14 million. The increase in **operating costs** is mainly due to the higher costs for services, particularly administrative and IT services (+€17 million), consultancies (+3 million) and services for foreign contracts (+€21 million), offset by the smaller change in land and buildings held for trading (-€14 million).

In addition to that described above, the decrease in the **operating loss** was mitigated by the smaller impairment losses on investment property and other intangible assets and lower losses recognised on receivables (also considering the effects of the initial application of IFRS 9), while amortisation and depreciation of the year increased by roughly €1 million.

**Net financial income** increased mainly due to:

- the €11 million increase in financial income, mainly due to the gain on the sale of Centostazioni Retail S.p.A;
- the €134 million decrease in financial expense, mainly due to lower impairment losses on equity investments in Group companies (-€128 million on 2018), offset by greater impairment losses in accordance with IFRS 9 (+€1 million).

**Income taxes** improved by a total of €25 million on the previous year mainly as a consequence of the higher income from the tax consolidation scheme (+€34 million) recognised on the greater IRES taxes transferred by the group companies in previous years and used in the year, as it is improbable that they may be used subsequently, lower adjustments to prior year income taxes (+€3 million), the reduction in current IRES (+€1 million) and the negative trend in deferred taxes (-€13 million).

## Reclassified statement of financial position

	millions of Euros		
	31.12.2019	31.12.2018	Change
<b>ASSETS</b>			
Net operating working capital	377	389	(12)
Other assets, net	219	77	142
<b>Working capital</b>	<b>596</b>	<b>466</b>	<b>130</b>
Non-current assets	536	549	(13)
Equity investments	38,099	38,072	27
<b>Net non-current assets</b>	<b>38,635</b>	<b>38,621</b>	<b>14</b>
Post-employment benefits	(8)	(9)	1
Other provisions	(310)	(419)	109
<b>Post-employment benefits and other provisions</b>	<b>(318)</b>	<b>(428)</b>	<b>110</b>
<b>Net assets held for sale and disposal groups</b>	<b>0</b>	<b>22</b>	<b>(22)</b>
<b>NET INVESTED CAPITAL</b>	<b>38,913</b>	<b>38,681</b>	<b>232</b>
<b>COVERAGE</b>			
Net current financial debt	(476)	(728)	252
Net non-current financial debt	(472)	(220)	(252)
<b>Net financial debt</b>	<b>(948)</b>	<b>(948)</b>	<b>0</b>
<b>Equity</b>	<b>39,861</b>	<b>39,629</b>	<b>232</b>
<b>COVERAGE</b>	<b>38,913</b>	<b>38,681</b>	<b>232</b>

**Net invested capital** amounts to €38,913 million, up by €232 million on the previous year, which was the combined effect of the increases in **working capital** (€130 million), **other provisions** (€110 million) and **net non-current assets** (€14 million) and the decrease in **net assets held for sale and disposal groups** (-€22 million).

**Net operating working capital** of €377 million, down by €12 million, mainly due to the decrease in land and buildings held for trading primarily as a result of impairment losses in the year.

**Other assets, net** rose by €142 million, mainly due to the net increase in VAT assets and liabilities.

**Net non-current assets** amount to €38,635 million, up by €14 million on 2018, due to the net increase in equity investments following the acquisitions of FSTechnology S.p.A. (€27 million) and FS International (€1 million), offset by the €13 million decrease in intangible assets due to the contribution of IT assets to the subsidiary FSTechnology S.p.A..

The €110 million decrease in **other provisions** is mainly the effect of the €100 million decrease in deferred tax liabilities and the €9 million reduction in provision for risks and charges, the latter essentially due to accruals of €8 million for utilisations and releases of €17 million.

There were no changes in the **net financial debt**, which remained at €948 million at 31 December 2019. The changes in current and non-current debt refer to a decrease of €252 million in current financial debt due to the increase in loans with group companies, partly offset by greater bonds (current portions), bank loans and borrowings and loans and borrowings from other financial backers. The €252 million increase in non-current financial debt is due to greater bonds (non-current portions), offset by the decrease in loans and borrowings from other financial backers, bank loans and borrowings and loans with group companies.

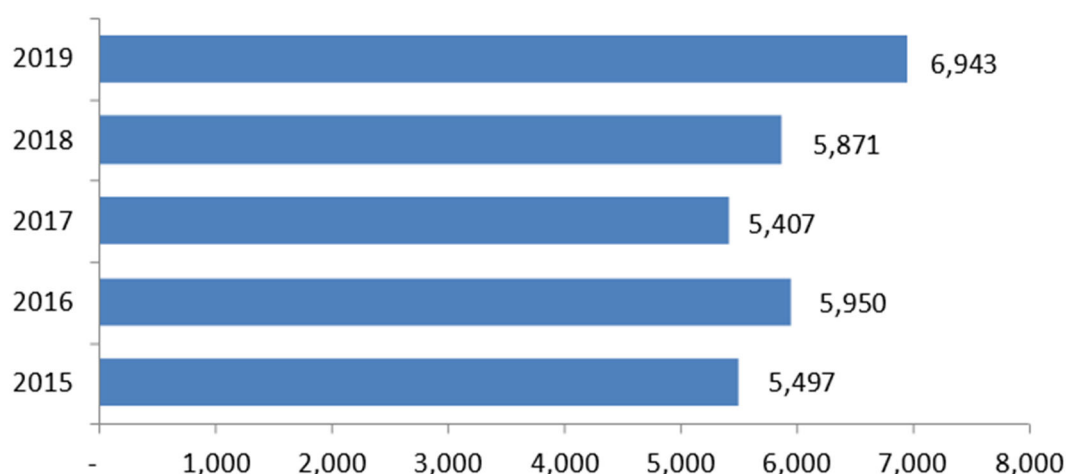
**Equity** increased by €232 million, mainly due to the profit for the year (€227 million).

## Investments

In 2019, Italian expenditure in operating assets (net of construction) grew at rates far below those of recent years (+1.6% compared to +3.4% in 2018), with weak economic performance in which slight expansion in the first two quarters preceded a downturn in the third quarter, followed by a feeble recovery in the fourth. The transport vehicle sector grew in 2019 at a rate similar to that of 2018 (+6% compared to +5.5% in 2018), with the same weak trend in overall expenditure in operating assets (expansion in the first two quarters, then a downturn in the third quarter). On the other hand, investments in construction showed growing expansion, with growth rates up slightly on 2018 (+3.3% compared to +2.5% in 2018), in both the residential and non-residential segments.

In a stagnant Italian economy, the FS Italiane group managed to buck the trend, continuing the strong development of expenditure and maintaining an average capital expenditure/depreciation ratio greater than 1 from 2012 to date, securing the replacement of assets which become obsolete from one year to the next. Moreover, its expenditure rose further in 2019, confirming the group's place among Italy's largest investors, as it supports the development and renewal of the transport, infrastructure and logistics sector.

Total expenditure for investments by the FS Italiane group in 2019 amounts to €6,943 million, €2,827 million of which was self-financed and €4,116 million through government grants, up 18.2% on the same figure at 31 December 2018.



The group's capital expenditure entailed developing and managing volumes of roughly €8.1 billion in 2019, 96% of which in Italy (+8% on the €7.5 billion at 2018 year-end).<sup>19</sup>

Approximately 75% of capital expenditure refers to the Infrastructure operating segment, with RFI S.p.A. investing €4,679 million, including €4,584 million for the traditional/HC network and €95 million for the HS/HC network between Turin, Milan and Naples, and Anas group investing €1,308 million. Roughly 24% 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 freight. Specifically, Trenitalia S.p.A. invested €1,451 million (including ordinary maintenance), the Mercitalia group approximately €174 million, the Busitalia group €192 million, Ferrovie del Sud Est e Servizi Automobilistici S.r.l. €10 million and the remaining companies operating abroad €64 million (Netinera, C2C, Thellò and TrainOSE). The Real estate and Other services segment accounts for the remainder of the group's investments and they were mainly made by FS Sistemi Urbani and Ferrovie dello Stato Italiane for the maintenance and upgrade of the respective property assets and ICT projects.

<sup>19</sup>In addition to the consolidated investments described above, capital expenditure (see definition in the key and glossary section) includes the investments made by Anas S.p.A. and FSE S.r.l., recognised in accordance with IFRIC 12 (approximately €1.3 billion), while the remainder is comprised of the investments of unconsolidated special-purpose vehicles (e.g., TELT, BBT, etc.)



## Investments in infrastructure

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In particular, €4,679 million was invested in RFI S.p.A.'s national railway network, broken down as follows:

- 47% for safety, technology and efficiency, including €247 million for cutting-edge technology;
- 53% for works to resolve traffic bottlenecks, traditional/HC network infrastructure development, the completion of the Turin-Milan-Naples HS line and large construction works.

In 2019, definitive designs consisted of:

- CCS room in Naples, within the computerised interlocking system project of Napoli Centrale station;
- works on yards for the Parma-Piacenza central computerised multi-station system;
- centralisation of plant and signalling cabins in Verona;
- laying of double tracks on the Chieti-Interporto Valpescara section of the Rome-Pescara connection and on the entire Pescara-Chieti section for the commencement of the approval procedure (service conference);
- laying of double tracks on the Ponte San Pietro-Bergamo-Montello and Mantova-Piadena sections;
- repairs on the Assisi and Ellera stations within stage 1 of the upgrade of the Foligno-Terontola line;
- electrification of the Catanzaro-Crotone-Sibari and the Lamezia-Catanzaro Lido sections of the Jonica line;
- lot 3 "Lercara-Caltanissetta Xirbi", lot 4 "Caltanissetta Xirbi-Enna-Dittaino" and the Catenanuova-Dittaino section of the new Palermo-Catania connection;
- recovery of the Caltagirone-Gela line;
- railway connections to Brindisi port and airport;
- new railway connection between the Bergamo station and Orio al Serio airport;
- realisation of the new operating control line in Cargnacco (computerised interlocking system, elimination of level crossings, superstructure and electrical traction), stage 2 of the Udine hub and stage 1 of the general zoning plan with reconfiguration of the computerised interlocking system;
- noise dampening barriers in Florence (area 5), completion of the direct line P.ta Susa-P.ta Nuova and the new stops Quaglia and Le Gru of the Turin metropolitan railway system;
- central computerised multi-station system on the Formia-Villa Literno line (yard works), a central computerised multi-station system on the Formia-Villa Literno line (works on the superstructure, electrical traction and general zoning plan and cabin works) within the technological upgrade of the Rome-Naples line (via Formia);
- val di Riga diversion, Varna and Naz-Sciaves stops and Bressanone general zoning plan and stage 1 works at the Turin Orbassano terminal.

Furthermore, the main infrastructure roll-outs were:

- stages 3 and 6 (final diversion) of Acri on the Metaponto-Sibari-Bivio Sant'Antonello section;
- roll-out of the second track within the Rocca Imperiale general zoning plan upgrade in the Jonica line;
- roll-out of the final configuration of the Follonica general zoning plan with the restoration in use of the third station track;
- stage 3 of the laying of double tracks between Pistoia and Montecatini;
- provisional roll-out of a section of the future even track between Lunghezza and Bagno di Tivoli within the project for the double tracks of the Lunghezza-Guidonia line;
- roll-out of the Padua station underpass for the quadrupling of the tracks on the Padua-Mestre line;
- roll-out of the double access tracks in the Genova Voltri Mare terminal.

Furthermore, the main technological roll-outs were as follows:

- roll-out of ARIS stage 1 of the Bari Centrale station general zoning plan upgrade;

- central computerised multi-station system on the Fara Sabina-Civita section for the technological upgrade project of the Rome hub;
- extension of the central computerised multi-station device on the Torino Lingotto-Trofarello-Carmagnola section for the technological upgrade of the Turin-Padua line.

In line with the strategic objectives of the 2019-2023 business plan, railway stations are at the centre of a mobility project which favours a public, shared and active method to enable the shift in modal transport and contributes to achieve medium-long term sustainability targets.

Therefore, two macro investment projects have been identified for closely integrated stations:

- the "Easy Station" project focusing on the quality of spaces and public information systems by making stations easier to use, more accessible, safer, more functional and cleaner, increasing their integration with other means of transport and improving information on arrivals and departures;
- the new "Smart Station" project focusing on the development of passenger terminals at major hubs in the new Italian development paradigm based on the smart city concept, developing a digital infrastructure inside stations via:
  - the "Wi-life station" service, a virtual station portal for travel and other information;
  - the "Turnstiles 2.0" project to validate e-tickets and to automatically control access to platforms, also for security purposes.

During 2019, two "Easy and Smart" feasibility studies were carried out. They related to the Treviso, Pescara and Frosinone stations, where the stations' spaces were redesigned in view of broader connectivity and catchment basins of customers, in order to identify spaces and new functions for travel and general experience. The feasibility study at the Benevento station was also rolled out.

Works were carried out on the road network operated by the Anas group worth a total of €1,308 million, of which around 44% was for new works, 53% was to maintain the efficiency of the existing road infrastructure, while the remainder mainly relates to other works on technological and IT equipment.

The main roll-outs in the road infrastructure were in the following provinces:

- Florence: SS 223, Upgrade to four lanes in the Grosseto-Siena section;
- Naples: SS 268 del Vesuvio, doubling from 2 to 4 lanes in some sections;
- Reggio Calabria: construction of the diversion in the Palizzi Marina residential area;
- Bari: SS 96-99, upgrade of the Altamura-Matera section and the final section from the end of the Toritto diversion to Modugno of the Bari-Matera road.

#### Extraordinary Commissioner

The main ordinances for the year related to the activity of the commissioner are summarised below:

- ordinance no. 42, approval of the definitive project for Lot 2 Hirpinia-Orsara for the purposes of calling the service conference;
- ordinance no. 43, approval of the executive project for the Dugenta underpass in the doubling project of the Cancellor-Frasso Telesino section;
- ordinance no. 44, approval of the definitive project of Lot 3 San Lorenzo Maggiore-Vitulano in the doubling project of the Frasso Telesino-Vitulano section, for a total cost of €321 million;
- ordinance no. 45, economic approval of the definitive project of Lot 2 Telese-San Lorenzo in the doubling project of the Frasso Telesino-Vitulano section after the positive outcome of the authorisation process of the 2017-2021

Government Programme Contract - Investments which provides financial coverage for the construction stage for a total cost of €379 million;

- ordinance no. 46, approval of the definitive project of the doubling of the Orsara-Bovino section for the purposes of calling the service conference;

## Investments in railway transport

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In 2019, as mentioned above, Trenitalia S.p.A., invested approximately €1,451 million in railway transport, with 56% of these investments directed towards the purchase of rolling stock, 6% to recondition material already used in operations, 13% to technologically update vehicles, for IT systems and to maintain and develop maintenance plants and the remaining 25% for routine maintenance.

The main investments are described below by business segment:

- Long-haul passenger transport services (€407 million). During the year, the first eight ETR700 trains (€71 million) were delivered, advances were paid for the purchase of 14 new ETR1000 trains (€45 million) and investments were finalised for the purchase of the ETR1000 already delivered (€70 million). Revamping activities involved works for the approval of the ETR1000 for entry into service in the HS Paris-Milan section (€6 million) and to improve on-board comfort and upgrade the fire prevention system (€10 million) on the ETR500 trains, with 13 trains fitted with an automatic fire detection and sprinkler system. Works on plants involved the identification of a new work plan which includes the upgrade and outfitting of the new Turin shunting maintenance system (approximately €29 million), the reorganisation and expansion of the Milano Martesana and Naples shunting maintenance systems (approximately €21 million) for the maintenance and housing of the ETR1000 and ETR500 trains and the increase in the maintenance capacity at Rome San Lorenzo (€0.5 million). Moreover, works continued to improve the energy efficiency of the Rome San Lorenzo, Naples and Milano Martesana green facilities (approximately €3 million). ICT activities mainly relate to sales systems, revenue management systems, the CRM platform (Customer Relationship Management) and the PICO (integrated commercial platform) system for approximately €13 million, as well as production systems for approximately €6 million (in particular, on-board systems for the ETR700 and ETR1000 fleets to improve internet connections and multimedia content).

Around €126 million was spent on routine maintenance of rolling stock in the year;

- Universal long-haul passenger transport service (€105 million). Works mainly consisted of converting 17 E402A locomotives into E401 (approximately €14 million) and the upgrade of 14 Intercity carriages (approximately €5 million) by reconditioning the technological systems and the interior layout. Works to upgrade on-board technological systems are underway with the installation of ERTMS on E401, E402, E403 and semi-automated locomotives to perform commercial service on the *Direttissima* (express) Florence-Rome line. Routine maintenance work continued for approximately €80 million;
- Regional passenger transport (€888 million). As part of the upgrade of the regional transport fleet, the first 25 Pop trains (€184 million), the first 23 Rock trains (€356 million) and the last of 12 Jazz trains (€6 million) were delivered and advances were paid for the purchase of bimodal trains. Works to finalise the purchase of Vivalto carriages is continuing (€38 million). 28 commuter trains (approximately €15 million) were put back into operation after receiving face lifts to increase comfort. Revamping and restyling activities continued for the Minuetto and Vivalto fleets to improve travel comfort and to fully comply with environmental and safety regulations (approximately €32 million). During the year, approximately €159 million was spent on routine maintenance of rolling stock.
- Investments in various business segments. IT investments continued, in particular in relation to security and compliance, technology and infrastructure, sales and systems supporting reporting processes and administration, mainly including:
  - a series of initiatives to create IT governance tools for the monitoring and governance of operational risks and data quality, the steering of strategies for applications (support in the decision-making process) and the improvement of process efficiency (approximately €11 million);
  - adjustment, change and development of management control systems to measure the effects of new projects and to facilitate management decisions (€4 million);
  - sales systems specifically for foreign markets (€7 million);

- development of IT systems supporting all Trenitalia S.p.A. processes (€3 million).

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

<b>NEW MATERIAL</b>	<b>no. of vehicles</b>	<b>RECONDITIONED MATERIAL</b>	<b>no. of vehicles</b>
<b>Locomotives</b>		<b>Locomotives</b>	<b>17</b>
Long-Haul Passenger Transport		Universal Long-Haul Passenger Transport	17
Regional		Regional	
<b>Carriages</b>		<b>Carriages</b>	<b>14</b>
Long-Haul Passenger Transport		Universal Passenger Transport	
		InterCity IC270 (Universal service)	14
<b>Trains</b>	<b>57</b>	<b>Trains</b>	<b>41</b>
Long-Haul Passenger Transport		Long-Haul Passenger Transport	
ETR 700	8	ETR 500	13
Regional		Regional	
Rock trains	23	Commuter trains	28
Pop trains	25		
Jazz trains	1		

## Investments in road transport

The main deliveries in the road transport segment were:

- 34 buses in Veneto;
- 104 buses in Campania (of which: 94 used);
- 38 buses in Umbria;
- 12 buses for ATAF services;
- 430 buses (of which: 141 purchased from the lease company) for Qbuzz services;
- In the market services, 35 buses in Umbria and one at the Rome Italferr S.p.A. headquarters, used for rental services, were delivered.

## Investments in freight transport and logistics

In the freight transport and logistics area (Mercitalia group), the significant fleet renewal plan continued. The main deliveries to date include:

- Mercitalia Rail S.r.l.: 40 SHIMMNS carriages and 40 TRAXX DC3 locomotives;
- Mercitalia Intermodal S.p.A.: 25 bimodal Tasca-T3000 carriages for the transport of mega semi-trailers, containers and swap bodies.

## Investment funding

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### **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 (RFI S.p.A.) and the MIT signed two separate contracts, detailed as follows:

- Government Programme Contract – Investments (GPC-I) to regulate the sustainable planning and funding of investments to develop railway infrastructure to improve service quality and ensure compliance with safety levels in line with technological developments, in accordance with new legislation and the national and EU strategic guidelines for financial planning;
- Government Programme Contract – Services (GPC-S) to regulate all funding of ordinary and extraordinary maintenance of the national railway network and safety, security and railway traffic activities.

### **Government Programme Contract – Investments (GPC-I)**

The new 2017-2021 GPC-I approved in March 2019 by the MIT/MEF, completed the approval process and was filed with the Court of Auditors on 9 May 2019.

On the same day, RFI S.p.A. sent the competent ministries a shared outline of the update of the contract for 2018 and 2019 in order to implement the allocations under the 2018 and 2019 Budget laws, which in the meantime had been consolidated in one authorisation process for a more rapid roll-out.

At the same time, upon the government's recommendation to support economic growth and employment rates and speed up the building of infrastructure, an accelerated investments plan was outlined and submitted to the Prime Minister and the Minister of Infrastructure and Transport on 26 March 2019. The plan identified a series of actions based on strategic objectives (local public transport, land and environment, technologies) for which approval times will be shortened thanks to the appointment of a Commissioner. This plan was the preparatory work for Law decree no. 32/2019 to unblock construction sites, converted into Law no. 55 of 14 June 2019. This regulation establishes that, in order to enable a rapid restart of the works at the Genoa railway hub and ensure the last mile connection between the Giovi third railway crossing (Terzo Valico dei Giovi) and old port of Genoa, the "Voltri-Brignole infrastructural upgrade", "HS/HC Milan-Genoa line: Terzo Valico dei Giovi" and "Genoa- Campasso upgrade" projects be combined into one project and be entirely funded by RFI S.p.A.'s Government Programme Contract resources. Furthermore, the law enables the inception of Lot 6 for the construction of "HS/HC Milan-Genoa line: Terzo Valico dei Giovi" using the resources already allocated to RFI S.p.A..

On 12 July 2019, RFI S.p.A. submitted to the competent ministries a new version of the 2018-2019 outline of the update of the 2017-2021 GPC-I, which implemented the observations made in the preliminary stage. With resolution no. 37 of 24 July 2019, the CIPE expressed its favourable opinion on such outline. On 29 December 2019, the outline was filed with the Court of Auditors. The approval process for the contract, subject to a prior check by the Court of Auditors of the legitimacy of the opinion expressed by the CIPE and publication in the Official Journal, provides for the competent parliamentary commissions to examine it in order to express their opinion before the contract is signed. Subsequently, the MIT/MEF interministerial decree to approve the contract will be issued and it will be filed with the Court of Auditors.

Law decree no. 124 (the "Tax decree") was issued on 26 October 2019, containing "Emergency tax and financial measures" (converted into Law no. 157 of 19 December 2019). It authorised expenditure of €460 million in 2019 to finance the 2017-2021 GPC-I. On 27 December 2019, Law no. 160 "National budget for 2020 and the long-term budget for the 2020-2022 three-year period" (the 2020 Budget law), with further provisions, was issued.

### **Government Programme Contract – Services (GPC-S)**

After the completion of the 2016-2021 Government Programme Contract - Services on 2 October 2017, the originally agreed resources were changed, and the new financial framework will be implemented in a specific rider to the contract.

### **Institutional Development Contracts (IDC)**

The Coordination committees pursuant to article 6 of the Institutional Development Contracts for the “Naples-Bari Lecce/Taranto”, “Messina-Catania-Palermo” and “Salerno-Reggio Calabria” railway lines met on 12 March 2019, during which the amendment to the financial framework of the IDCs was acknowledged and the Implementation and monitoring committee appointed to reformulate their updating.

In particular, as regards the “Naples-Bari Lecce/Taranto” IDC, in light of the various new monitoring post for the works, the new framework was prepared, and forms “Annex 1” to the Contract, in which the “Naples-Bari” macro infrastructure was divided into: Naples hub, Naples-Bari line, Bari hub, Bari-Lecce line, Bari-Taranto line and Foggia-Potenza line. The Implementation and monitoring committee met in January and December 2019 to evaluate the progress of project activities and work in progress.

### **Anas Government Programme Contract**

On 24 July 2019, the CIPE approved the 2018-2019 update of the 2016-2020 Government Programme Contract between the MIT and Anas S.p.A., which also includes a plan for the extraordinary maintenance of bridges, viaducts and tunnels and a plan for Cortina (2021 World Cup and 2026 Olympics).

The GPC update increases investments from €23.4 billion to a total €29.9 billion divided as follows: €15.9 billion (53%) for scheduled maintenance, upgrade and compliance with safety standards, €14 billion (47%) for new works and the completion of routes.

Roughly 52% of the total investments in the plan will be spent in Southern Italy and the islands (approximately €15.7 billion).

The CIPE’s resolution was published in the Official Journal on 25 January 2020. The subsequent steps for the completion of the approval procedure (opinion of the competent parliamentary commissions, issue of the MIT/MEF interministerial decree and filing with the Court of Auditors) will come next.

## Group projects/transfers of public funds relating to 2019

millions of Euros

	RFI	Ferrovie dello Stato	Trenitalia	Grandi Stazioni Rail	Ferrovie del Sud-Est	Mercitalia Logistics	Mercitalia Rail	Mercitalia Intermodal	Mercitalia Shunting & Terminal	Busitalia group	Total
<b>Grants related to income</b>											
Government Programme Contract	1,015.6				42.2		54.6				1,112.3
Other government grants	99.9					2.6	0.5	10.6	0.2		113.8
EU grants			0.1					0.1			0.3
From local public bodies								0.9		11.1	12.0
Sundry grants from others			5.1			0.3	0.2				5.6
<b>Grants related to assets</b>											
Governments grants	2,955.0	79.8		19.0	2.7						3,056.5
From local public bodies	334.9		41.2		39.5					5.5	421.1
From the EU	150.0										150.0
<b>Total</b>	<b>4,555.3</b>	<b>79.8</b>	<b>46.4</b>	<b>19</b>	<b>84.4</b>	<b>2.9</b>	<b>55.3</b>	<b>11.6</b>	<b>0.2</b>	<b>16.7</b>	<b>4,871.5</b>



# Research, development and innovation

## Development activities

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The group's development activities generated investments of €24.6 million, incurred entirely by RFI S.p.A., with 85% in traffic safety technologies, 13% in studies and testing on new components and systems, while the remaining 2% was directed at landmark and environment protection.

A summary of the main activities carried out in 2019 follows:

- development of an information system named RAMSES to forecast short and intense weather events, concentrated in limited areas of the infrastructure;
- design and construction of a prototype of platform ramps to make trains accessible for people with reduced mobility, whose purpose is to produce a standard for RFI S.p.A. and to establish a standard progressive solution that may be used in future supplies;
- development of a mobile diagnostic system to detect flaws and irregular shapes in railway tunnels by building a multifunction diagnostic train to survey the soundness of rails and defects in tunnels;
- monitoring systems on the structure of railway bridges and viaducts with the implementation of finite elements numerical models and calibrated and validated AI algorithms describing their static and dynamic performance.

Furthermore, the realisation of development projects of previous years continued, including:

- customisation of the National Alert System for the prediction of possible landslides due to intense weather events along the railway network (SANF-RFI) in partnership with the Research Institute for Geo-Hydrological Protection (IRPI) of the Italian National Research Council (CNR) in Perugia;
- activities to carry out tests and simulations of the static and dynamic performance of the brake shoes used and, in particular, the development of a numerical model and of a brake shoe prototype to develop an anti-derailment system that blocks the wheel only on stationary vehicles;
- monitoring activities of the railway bed at the Petacciato site with the application of fibre optic sensors to rails (application of the monitoring railway infrastructure using optical fibre-sensors research project of Pisa University);
- creation of a centre of excellence "Research and development technology demonstrators" where RFI S.p.A.'s expertise focuses on all technological fields relating to railway signalling and telecommunications;
- creation of a "Circuito San Donato" railway connector on which to test rolling stock before it is cleared for use and to test and measure infrastructure systems and equipment.

## Research

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During 2019, RFI S.p.A. confirmed the main activities commenced in the previous year by performing various research contracts in the fields of embedded systems, software engineering for railway applications, mechanical, diagnostics and electrical traction solutions and IT and electronics, involving 25 departments of Italy's premier universities and national research centres.

During the year, eight executive contracts in relation to new activities were signed. In addition, the 21 contracts signed in 2018 were completed.

Through these research activities, the safety innovation and modernisation needs of the infrastructure may be identified and transferred to technological partners and suppliers. Technological upgrade processes may be implemented with positive results in terms of acquisition of expertise by human resources and possible future patents for technological devices and systems and the related generation of value, as well as the growth in internal know-how, as already mentioned.

In the second half of 2019, following the research stemming from an executive contract with Siena University, the design patent and industrial invention of a box drone was filed with the Italian patent and trademark Office. This invention is for

a recovery, charging and data repository station, with control and command of a drone with commercial technological features used in missions to survey territories and infrastructures. Specifically, it would observe railway lines and all related active structures.

## Innovation

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2019 was an important year for the group's innovation.

The first edition of the Innovate project, a corporate entrepreneurship programme started in 2018, won the Premio dei Premi (award of awards) for innovation on 5 March 2019. The second edition in 2019 saw the launch of an innovation management platform which gathered more than 460 ideas. The best ideas were selected to take part in the bootcamp, where contributors could work on their projects and present their ideas to a prestigious panel of judges that chose the top five teams for an accelerator.

The open innovation activities, thanks to strategic partnerships with important universities, research institutes and entities involved in the field of innovation, the group companies, coordinated by the parent, developed various PoC (proof of concept) to identify, test and implement innovative solutions and new business models.

In this regard, with the start-up SyEnMaint, RFI S.p.A. tested the SyEnMaint platform for predictive maintenance, while Italferr S.p.A. invented and co-designed the Deos (Digital eyes on Site) system for the automation of monitoring of the progress of work sites, with Sirti as system integrator and the start-ups Difly, Studiomapp and Tolemaica.

The Sentinel project is also particularly interesting. It was developed by the start-up Guardian in collaboration with Trenitalia S.p.A. and uses AI technologies to provide customised, safe and quality services (ticket recognition and validation; luggage monitoring, tracking and anti-theft system; threat, attack, damage and theft detection).

# Context and focus on the FS Italiane group

## Macroeconomic context

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During the year, the global macroeconomic scenario showed signs of weakness for both developed countries, with more export-oriented economies, and emerging countries.

The global economy reflected weak growth due to the slowdown of manufacturing and investments, the continuing trade war between the US and China (which tapered at the end of the year), developments in connection with conflicts in various parts of the world and the crisis in the automotive industry, facing more stringent emissions standards in Europe and China. According to Prometeia, the growth in global trade volumes stopped at 0.3% and economic growth, i.e., GDP, only went rose 3.0%, the lowest rate recorded in the past ten years. Growth estimates for 2020 are 3.4%.

In the meantime, in the main developed economies, inflation remained weak, partly due to the fall in energy prices. In particular, the Brent oil price fell on the previous year and plateaued at under USD65 a barrel, due to weak international demand and the expansion of the US supply which offset the reduced production of other countries.

<b>International trade data</b>	<b>2019</b>	<b>2018</b>
<b>GDP (% change on previous year)</b>		
<b>World</b>	<b>3.0</b>	<b>3.7</b>
<b>Advanced countries</b>	<b>1.7</b>	<b>2.2</b>
US	2.3	2.9
Japan	0.9	0.8
Eurozone	1.2	1.9
<b>Emerging countries</b>	<b>3.8</b>	<b>4.6</b>
China	6.2	6.6
India	5.6	7.3
Latin America	0.7	0.9
<b>International trade</b>	<b>0.3</b>	<b>3.4</b>
<b>Oil (USD per barrel)</b>		
Brent	63.7	71.6

Source: Prometeia, December 2019

Of the developed economies, the United States, adopting protectionist policies in international trade, record a slight economic slowdown compared to 2018, with GDP growing by 2.3%. Following the drop in investments, as reflected in the difficulties in manufacturing and industry due to the trade war, the slight growth in GDP was due to consumption, boosted by low unemployment and salary increases.

The Japanese economy slowed down its growth after a promising start of the year. It recorded an overall growth in GDP of 0.9%. This was negatively affected by the uncertainty of the US trade policy and by tax restrictions, increased consumption taxes in October and a decrease in exports due to political tensions with South Korea.

In the emerging countries, the Chinese economy continued to slow, with GDP growth of 6.2% in 2019 (6.6% in 2018), which is the weakest performance of the past 27 years. It was due to many factors, in particular the growing trade and geopolitical tensions mentioned above, which also resulted in significant US tariffs on the import of some Chinese products and the slowdown of the global economy. On the other hand, China's domestic market recorded weaker consumption in 2019, with 3% inflation partially mitigated by some tax and financial measures.

<b>Eurozone economic data</b>	<b>2019</b>	<b>2018</b>
<b>GDP (% change on previous year)</b>		
Eurozone	1.2	1.9
Germany	0.5	1.5
France	1.3	1.7
Italy	0.2	0.7
Spain	2.0	2.4
<b>Inflation (% change on previous year)</b>		
Eurozone	1.2	1.8
Germany	1.4	1.9
France	1.3	2.1
Italy	0.6	1.1
Spain	0.7	1.7

Source: Prometeia, December 2019

The economic growth rate slowed in the Eurozone as well, with average GDP growth of 1.2% on the previous year. The complex situation abroad, with trade wars, growing geopolitical tensions and the outcome of Brexit, was offset by the favourable domestic contribution of household consumption, sustained by a solid labour market, which recorded the lowest unemployment rate of the past ten years: 7.5%. GDP grew in all major Eurozone countries, albeit with differences: the highest growth was seen in Spain (+2.0%) and France (+1.3%), thanks to domestic demand and investments, despite the negative impact of the foreign demand; and was lower in Italy (+0.2%) and Germany (+0.5%), where the contraction in manufacturing and exports was more significant. Eurozone inflation was relatively low throughout the year, stabilising at 1.2%.

	2019			
Italian economic data	Q1	Q2	Q3	Q4
<b>GDP (% change on previous quarter)</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	
Domestic demand	(0.5)	0.1	0.5	0.1
Spending by households and private not-for-profits		0.1	0.4	0.1
Public administration spending	0.4	0.1	0.1	0.1
Gross fixed investments	2.4	0.2	(0.2)	0.1
Construction	3.0	(1.3)	0.2	(0.3)
Other durable goods	(1.9)	1.4	(0.5)	0.4
<b>Imports of goods and services</b>	<b>(2.4)</b>	<b>1.1</b>	<b>1.3</b>	<b>0.6</b>
<b>Exports of goods and services</b>	<b>(0.4)</b>	<b>0.9</b>	<b>(0.1)</b>	<b>0.2</b>

Source: Prometeia, December 2019

In 2019, the Italian economy was substantially stagnant, a trend seen in the second half of 2018, confirming its growth gap with the main European countries. GDP grew by 0.2%, thanks to household spending (+0.4%) and, mostly, investments in operating assets (+2.2%), which benefited from tax incentives. The contribution of net foreign demand was slightly over nil (+0.2%) due to the increase in exports being higher than that in imports. The unemployment rate went down to 10.0%, improving from the 10.6% of the previous year. Consumer prices in Italy came to a halt at the end of 2018, but recorded a slight increase of 0.6% in 2019, mainly thanks to the sharp decline of energy prices for consumers.

The Italian macroeconomic scenario may suffer from possible adverse developments in trade wars and the more recent geopolitical tensions, which could exacerbate uncertainties in international trade.

## Market performance and focus on the FS Italiane group

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### Market performance

In this weak economic context, the transport segment developed unevenly in the passenger and freight sectors. In particular, freight traffic was most impacted by the economic slowdown due to the international trade tensions and the slowdown of the Chinese economy, resulting in a decrease of 1.1% for the year (source: Istat, November 2019) in domestic industrial production, which is closely related to freight traffic.

In the freight sector, the air segment shows the most evident contraction with a 4.5% decrease in volumes compared with the previous year (source: Assaeroporti, November 2019), which was also confirmed by Milan Malpensa airport, the number one hub for freight transport. Sea transport at the main Italian ports was also affected by the economic slowdown, and particularly by the significant decrease in trade. Only container traffic held strong, as showed by traffic figures for the Gioia Tauro port which moved around 2.5 million containers up to November 2019. After two weak years it has resumed its place as the number one domestic transshipment hub. Similarly, the port of Genoa showed 1% growth in container volumes in the first 11 months of the year, despite reduced road traffic volumes due to the collapse of the Morandi bridge. Road traffic was more dynamic, with an increase of 2.2% in heavy vehicles on motorways, including those managed by Aiscat and otherwise. Compared with 2018, lorries with a gross vehicle weight (GVW) of up to 3.5 tonnes rose slightly with an increase of 3.6% in registrations. Logistics was also up slightly in terms of turnover and, at year end, it should come to €84.5 billion (source: Milan Politecnico Contract Logistics Observatory), confirming that it is a dynamic sector thanks to the new Logistics 4.0 technologies, with the automation of transport and warehouse activities.

On the other hand, passenger transport grew. Monitored by Assaeroporti, Italian terminals saw approximately 180 million air passengers pass by in the first 11 months of the year (+1.4% on 2018), mainly due to the increase in international flights, within the EU in particular. Milan Malpensa recorded a significant increase in traffic, due in part to the temporary closure of the Milan Linate hub for modernisation works. Again in 2019, Rome Fiumicino remained the airport with the highest numbers of passengers. The trend in the cruise sector was also positive and, according to the most recent estimates in the Italian Cruise report, it will end the year with a total of 4,834 ships and 12.1 million passengers (+3.2% and +8.8% on the previous year, respectively). The Italian port system confirmed its first place in the Mediterranean in terms of the number of passengers, with approximately 40% of total traffic. Light vehicle car traffic in the motorway network subject to tolls remains stable. Based on the provisional data at the preparation date of this report, road traffic on motorways, including those managed by Aiscat and otherwise, came to roughly 50 billion vehicle-km. Weak signs of recovery were seen in the domestic car market, with approximately 2 million new registrations (+0.3%), despite the technological revolution of the sector, which is discouraging sales pending the new hybrid or electric vehicles that will be fully compliant with the new eco-sustainability policies of the EU.

### Focus on the management of domestic railway infrastructure

The FS Italiane group manages approximately 46 thousand km of infrastructure, railway and road networks evenly distributed throughout Italy, connecting the country by improving quality and safety standards.

In 2019, roughly nine thousand trains, operated by both the country's incumbent operator and third party railway companies, travelled across the Italian railway network, totalling 370 million train-km in the year. Similarly, Anas S.p.A.'s road network was used by approximately seven million passenger vehicles (light) and 500 thousand freight vehicles (heavy) per day, covering around 77 billion km per year.

At 31 December 2019, the domestic railway infrastructure operated by Rete Ferroviaria Italiana S.p.A., belonging to the FS Italiane group, based on Ministerial decree no. 138T of 31 October 2000, amounts to 16,779 km. Based on the classification used to calculate the railway network use fee, pursuant to Ministerial decree no. 43/T of 31 March 2000, the network is comprised as follows:

- fundamental lines with high traffic density, covering 6,468 km;
- complementary lines, which make up a dense network of regional connections and interconnections with the main lines, covering a total distance of 9,361 km;
- hub lines, which are located in major metropolitan areas for a total distance of 950 km.

Of these lines, double tracks account for 7,722 km (46% of the total), while 12,016 km (71.6%) is electrified.

The total track length is 24,500 km, including 1,467 km of HS/HC network lines.

All network lines are equipped with one or more train speed protection systems, which makes Rete Ferroviaria Italiana S.p.A.'s railway infrastructure 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.

#### **LENGTH OF THE RAILWAY NETWORK MANAGED BY RFI (KM)**

2019	2018
16,779	16,781

#### **TOTAL LENGTH OF THE TRACKS MANAGED BY RFI (KM)**

2019	2018
24,500	24,502

The "operating" railway companies authorised to carry out rail transport operations by the licence issued by the MIT in the manner provided for by Legislative decree no. 188 of 8 July 2003 and Ministerial decree no. 36 of 2 February 2011 and Legislative decree no. 112 of 15 July 2015, were grouped as follows:

- 19 for freight transport alone
- 11 for passenger transport alone
- 7 with a licence for both passenger and freight transport
- 3 for shunting services alone.

Total production approximated 370 million train-km, equal to an increase of around 2.4% over the previous year. The service volumes produced by newcomers (non-FS Italiane group railway companies) increased by 4.4%, with 3.5% growth in the passenger segment whose deregulation was finalised with the implementation of Directive (EU) 2016/2370 - and 8.0% growth in the freight segment. In addition to the network operated by RFI S.p.A., the FS Italiane group ensures the efficiency and production of 474 km of Ferrovie del Sud Est e Servizi Automobilistici S.r.l. (FSE S.r.l.) lines in Italy. In particular, the FSE S.r.l.-operated network, which is 32% electrified and almost entirely single track, crosses the provinces of Puglia, with eight lines: Bari-Taranto (113 km), Mungivacca-Putignano (44 km), Martina Franca-Lecce (103 km), Novoli-Garigliano (75 km), Casarano-Gallipoli (23 km), Lecce-Gallipoli (53 km), Zollino-Garigliano (47 km) and Maglie-Otranto (19 km), offering approximately 3.6 million train-km per year

Netinera Deutschland GmbH and its subsidiaries, the main foreign group controlled by Ferrovie dello Stato Italiane S.p.A., manages lines of roughly 300 km, with 60 passenger stations. 2019 production totalled roughly 38 million train-km.

As mentioned previously, in addition to the railway infrastructure, the FS Italiane group manages approximately 29,000 km of main roads and 1,300 km of motorways through its subsidiary Anas S.p.A..

In 2019, the index of road traffic on the main Anas network remained substantially the same as in the previous year, as observed by the centralised monitoring system, PANAMA (Anas' monitoring and analysis platform), while heavy vehicle traffic decreased slightly, by 1.7%.

### **Focus on the group's passenger and cargo traffic**

In the transport sector, during the year, the FS Italiane group once again confirmed its growth in business segments with quantitative and qualitative services that increasingly meet passengers' needs, strengthening its role as a mobility leader.

With the cooperation and commitment of its subsidiaries, in Italy and abroad, demand for the FS Italiane group's transport services expanded, despite the weak economic cycle and the decrease in trade.

Overall passenger and freight railway transport figures confirm the improvement in collective demand (+0.2% passenger-km on the previous year) and the increase in freight traffic volumes (+0.2% tonne-km on the previous year).

Passenger traffic volumes of the year were approximately 46 billion passenger-km, around 86% of which attributable to Trenitalia S.p.A., Italian leader in mobility services and among the main railway operators in Europe. FSE S.r.l. also contributed at domestic level. The remaining volumes, operated in Europe, were achieved thanks to the Netinera group (local and urban road and rail transport in Germany), TrainOSE S.A. (Greece), Trenitalia c2c Limited (passenger transport between London and Essex in the UK) and Thellò SAS. (day and night international connections to and from France).

Specifically, long-haul transport posted a 1.3% contraction in passenger volumes, due to a decrease in demand for the market service (-2.9%). On the contrary, universal services, which are provided as defined by the customer (public entities) - showed a 5.4% increase in volumes. In the services offered by Trenitalia S.p.A. on the market, the punctuality of Freccie trains was high, with more than 96% of trains arriving at their destination within the 0-15 minutes of the scheduled time and with overall travel experience satisfaction levels of 94%. Long-haul services production was approximately 95 million train-km (+0.9% on the previous year), of which: market services of 67 million and universal services of 28 million. The supply of market services, which include Trenitalia S.p.A.'s Freccie trains, accounts for more than 90% of the total and increased by approximately 2.4%.



### Long-haul transport - Universal service\*



### Long-haul transport- Market service\*



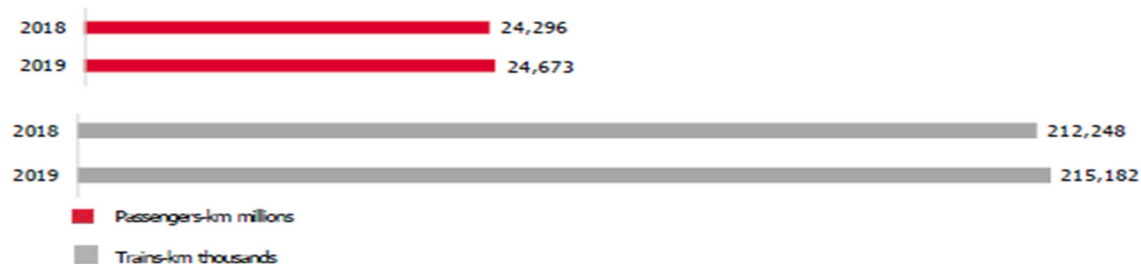
(\* ) Includes the group subsidiaries' traffic abroad.

Regional railway transport also showed an overall increase in traffic volumes, demonstrating the group's greater attention to the commuter service, as set out in the guidelines of the business plan. The demand of roughly 25 billion passenger-km was met in Italy and abroad, up by 1.6% on the previous year, while production increased by 1.4%.

Around 78% of regional traffic was produced by Trenitalia S.p.A., which developed a new offer model responding to commuters' specific needs, showing significant growth in traffic volumes (passenger-km +1.8%), carrying approximately 11 million more passengers than in the previous year. The new organisational model, which introduced the customer care service providing assistance, information and security for passengers on board the train and at stations, had a positive impact on the service quality perceived, with around 8.7 out of 10 passengers satisfied with the overall travel experience (+2% on the previous year). The punctuality of the service also increased with 98% of trains reaching their destinations within five minutes of the scheduled time.

(\* ) Includes the group subsidiaries' traffic abroad

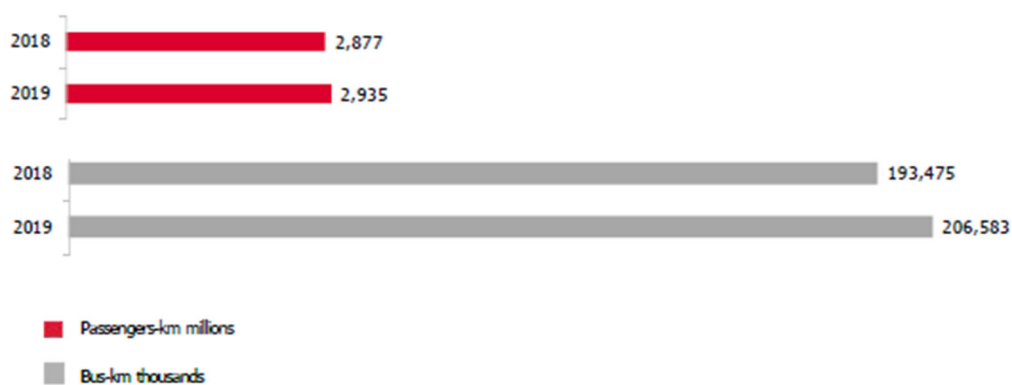
### Short-haul transport



The FS Italian group's efforts in urban local public transport to create an integrated model more closely aligned to customers' actual, differing needs, met the demand for approximately 2.9 billion passenger-km (+2%), offering around 207 million

bus-km. The scope of road LPT is mainly centred in the subsidiary Busitalia-Sita Nord S.r.l., which manages, directly and indirectly, urban and extra-urban transport in various Italian regions (Veneto, Campania, Tuscany and Umbria), representing the third operator in Italy, and LPT in the Netherlands through Qbuzz BV. During the year, Busitalia-Sita Nord S.r.l. left the long-haul market, focusing its resources on modal integration. Its general offer is also supplemented by the road services of FSE S.r.l. in Puglia, the Netinera group companies in Germany and road connections on certain lines managed by TrainOSE SA in Greece.

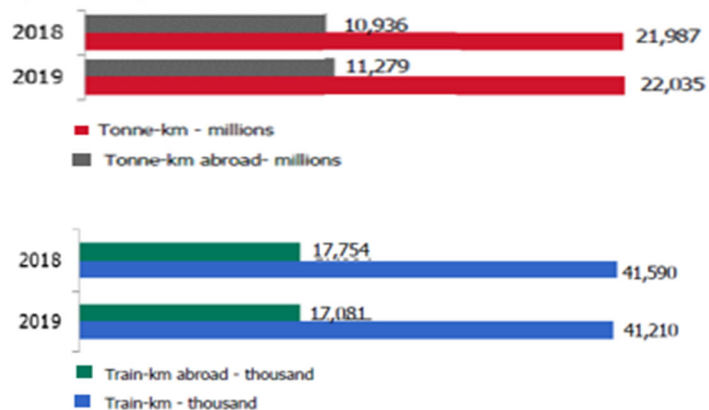
#### Road transport\*



(\*) Includes the group subsidiaries' traffic abroad

Freight transport volumes of the FS Italiane group companies, in Italy and abroad, were over 22 billion tonne-km (+0.2%) overall, while production in train-km decreased by 0.9%. International traffic recorded a significant increase (+3.1%), but domestic traffic suffered a slight decrease, confirming Italy's difficult economic context, with industrial production losing an average of 1.3% over the previous year.

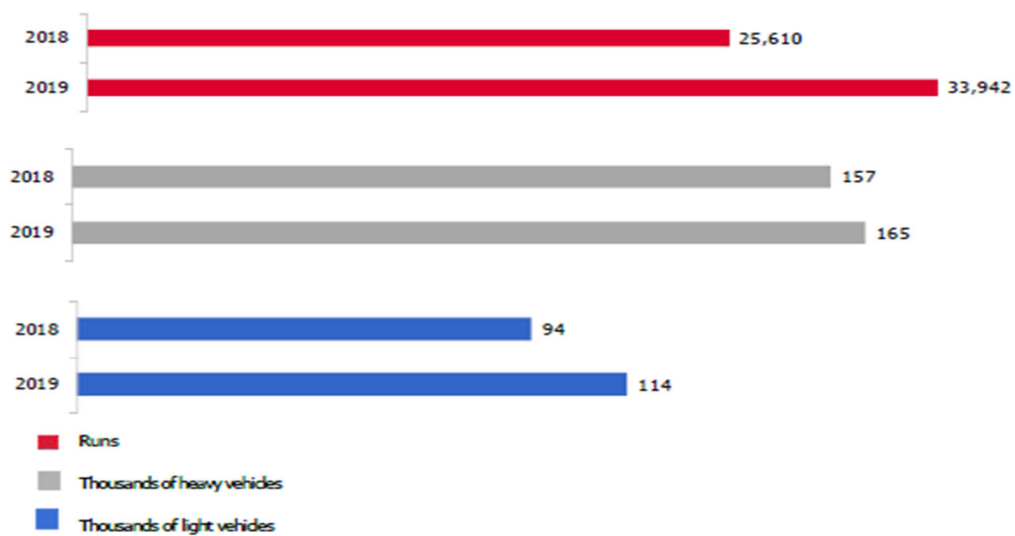
### Freight transport\*



(\*) Includes the group subsidiaries' traffic abroad

In addition to railway transport and LPT, to ensure the continuity of railway services throughout the entire country, the FS Italiane group also operates sea connections between the mainland and Sicily, which are currently operated using Rete Ferroviaria Italiana S.p.A.'s ships for long-haul trains and by Blufferies S.r.l.'s bidirectional ships for the transport of passengers, vehicles and goods. In May 2019, the subsidiary Blu Jet S.r.l. started its activities with new speed boats to offer more crossings of the Messina strait.

### Transport by sea



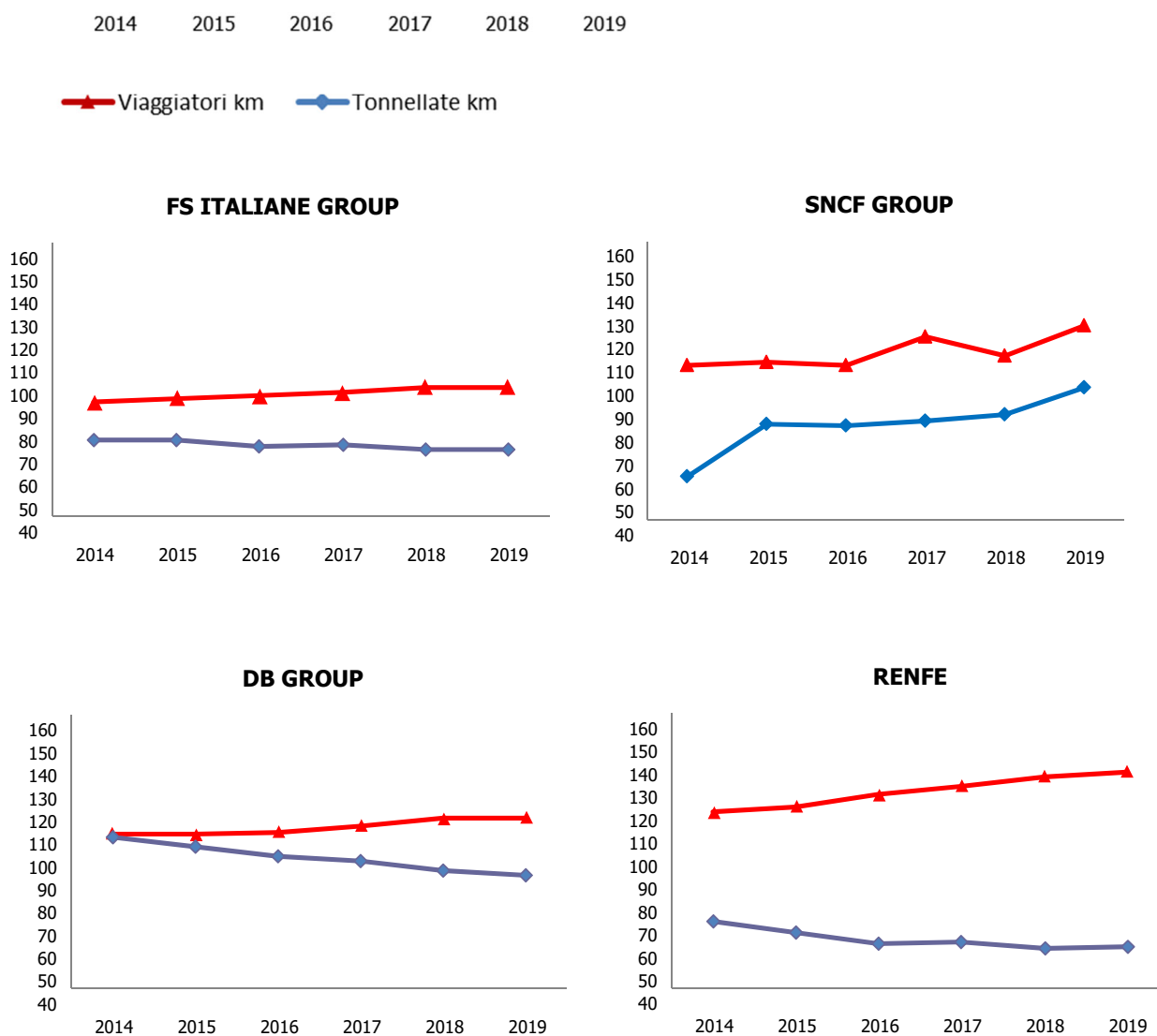
The group's overall coastal navigation offer, taking into account the new speed connections, considerably increased (+32.5%) on the previous year, attracting more transport demand, both in terms of heavy (+4.5%) and light vehicles (+21.3%).

## Traffic of main European railway companies

In an economic scenario characterised by slow growth, railway transport demand followed the same trend as that of general mobility demands, posting uneven results for passenger and freight mobility.

The European railway passenger segment increased significantly on the previous year, based on the provisional figures available at the preparation date of this report. In accordance with the most recent data of the UIC (*Union Internationale des Chemins de Fer*), the growth in traffic volumes was roughly 5.5% compared to the same period of the previous year and, at the same time, services offered, in train-km, increased by roughly 1.4%. One of the most important railway companies in Europe, the French SNCF Mobilites posted the most significant increase (+12%), followed by the Spanish Renfe (+1.5%), while the German DB AG remained stable compared to the previous year.

On the contrary, the railway freight segment underperformed the previous year. In fact, provisional figures of the UIC, available at the preparation date of this report, showed that railway traffic volumes in Europe fell by 2.8% on the same period of the previous year, even more than industrial production. Except for SNCF Mobilites, whose volumes grew by 13.6%, and Renfe, with a slight increase of 0.7%, all European railway companies recorded a fall in volumes. Remarkably, the Polish PKP volumes plummeted by 12.6%, while DB AG, decreased by approximately 1.7%.



## Developments in European legislation

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Developments in European legislation affecting the group are summarised below.

- **Implementing regulation (EU) no. 250/2019.** On 12 February 2019, the European Commission adopted Regulation no. 250 to implement Directive (EU) no. 797/2016 relating to the interoperability of the European Union's railway system. Specifically, this regulation establishes the following:
  - the template for the 'EC' declaration of conformity or suitability for use of interoperability constituents and list of their accompanying documents;
  - the details of the 'EC' verification procedures, including procedures for verification in accordance with relevant national rules and the documents that the applicant must submit in relation to those procedures;
  - the templates for the 'EC' declaration of verification, the Intermediate Statement of Verification, as well as the templates for the technical files integrating these declarations and the templates for the certificates of verification;
  - the template of declaration of conformity.

The Implementing regulation was published in the Official Journal of the European Union on 13 February 2019.

- **Delegated regulation (EU) no. 254/2019.** On 9 November 2018, the European Commission adopted Regulation no. 254 on the adaptation of Annex III to Regulation no. 1315/2013 of the European Parliament and of the Council. Specifically, Regulation no. 1315/2013 provides for the possibility to adapt the indicative maps of the trans-European transport network (TEN-T) which has been extended to specific neighbouring countries, based on high-level agreements on transport infrastructure networks between the Union and the neighbouring countries concerned. The adaptation of the indicative comprehensive network maps and, in particular, the identification of the indicative core network should allow the Union to better target its cooperation with the Eastern Partnership countries concerned. The Delegated regulation was published in the Official Journal of the European Union on 14 February 2019.
- **Regulation EU no. 503/2019.** On 29 March 2017, the United Kingdom submitted the notification of its intention to withdraw from the Union pursuant to Article 50 of the Treaty on the European Union ("TEU"). In the area of rail transport, the impact of the withdrawal of the United Kingdom from the Union on certificates and authorisations can be remedied by the operators concerned, through various measures. Those measures include operators establishing themselves in one of the remaining Member States and obtaining appropriate licences and certificates there. This Regulation lays down specific provisions, in view of the withdrawal of the United Kingdom of Great Britain and Northern Ireland ('the United Kingdom') from the European Union, for: i) certain safety certificates and safety authorisations issued under Directive (EC) no. 49/2004; ii) certain licences of train drivers issued under Directive (EC) no. 59/2007 and; iii) certain licences of railways undertakings issued under Directive (EU) no. 34/2012. The Regulation was published in the Official Journal of the European Union on 27 March 2019.
- **Implementing regulation (EU) no. 772/2019.** On 16 May 2019, the European Commission adopted Implementing regulation no. 772/2019 amending article 7 - on the collection, maintenance and exchange of accessibility data - of Regulation (EU) no. 1300/2014, which establishes the technical specifications for interoperability relating to accessibility of the Union's rail system for persons with disabilities and persons with reduced mobility. The Implementing regulation was published in the Official Journal of the European Union on 27 May 2019.

- **Implementing regulation (EU) no. 773/2019.** On 16 May 2019, the European Commission adopted Implementing regulation no. 773/2019 on the technical specification for interoperability relating to the operation and traffic management subsystem of the rail system within the European Union, as an effect of the provisions of Directive (EU) no. 797/2016 on the interoperability of the rail system within the European Union. The Implementing regulation was published on the Official Journal of the European Union on 27 May 2019.
- **Implementing regulation (EU) no. 774/2019.** In the framework of Directive (EU) no. 57/2008 on the interoperability of the railway system within the European Union, the European Commission adopted Implementing regulation no. 774/2019, which establishes the technical specification for interoperability relating to the 'rolling stock — noise' subsystem of the rail system in the Union ('TSI'), amending Regulation no. 1304/2014. The Implementing regulation was published in the Official Journal of the European Union on 27 May 2019.
- **Implementing regulations (EU) nos. 775/2019 and 776/2019.** On 16 May 2019, the European Commission adopted Implementing regulations nos. 775/2019 and 776/2019, which, on the basis of Directive (EU) no. 797/2016 on the interoperability of the rail system within the European Union, establish the technical specifications to implement objectives set out in delegated deeds. The implementing regulations, amending Regulations (EU) nos. 454/2011, 321/2013, 1299/2014, 1301/2014, 1302/2014, 1303/2014 and 919/2016 and Implementing decision (EU) no. 665/2011, were published in the Official Journal of the European Union on 27 May 2019.
- **Implementing regulation (EU) no. 777/2019.** On 16 May 2019, the European Commission, implementing the provisions of Directive (EU) 797/2016, adopted Implementing regulation no. 777/2019 on the common specifications for the register of railway infrastructure. The Implementing regulation was published in the Official Journal of the European Union on 27 May 2019.
- **Implementing regulation (EU) no. 778/2019.** On 16 May 2019, the European Commission, implementing the provisions of Directive (EU) 797/2016, adopted Implementing regulation no. 778/2019. This regulation provides for amendments to TAF technical specifications for interoperability of Regulation no. 1305/2014. The Implementing regulation was published in the Official Journal of the European Union on 27 May 2019.
- **Implementing regulation (EU) no. 779/2019.** Having regard to Directive (EU) no. 798/2016 – aiming to improve access to the market for rail transport services by defining common principles for the management, regulation and supervision of railway safety – on 16 May 2019, the European Commission adopted Implementing regulation no. 779/2019 laying down detailed provisions on a system of certification of entities in charge of maintenance of vehicles pursuant to Directive (EU) no. 798/2016. The Implementing regulation, repealing Regulation no. 445/2011, was published in the Official Journal of the European Union on 27 May 2019.
- **Implementing regulation (EU) no. 881/2019.** With a view to ensuring the proper functioning of the internal market while aiming to achieve a high level of cybersecurity, cyber resilience and trust within the Union, Implementing regulation no. 881/2019 lays down a framework for the establishment of European cybersecurity certification schemes and the objectives, tasks and organisational matters relating to ENISA (the European Union Agency for cybersecurity, certification of cybersecurity and ICT). The Implementing regulation, repealing Regulation no. 526/2013 on cybersecurity, was published in the Official Journal of the European Union on 7 June 2019.

- **Directive (EU) no. 882/2019.** On 17 April 2019, Directive (EU) no. 882/2019 was adopted with the purpose of contributing to the proper functioning of the internal market by approximating laws, regulations and administrative provisions of the Member States as regards accessibility requirements for certain products and services by, in particular, eliminating and preventing barriers to the free movement of certain products and services arising from divergent accessibility requirements in the Member States. The Directive was published in the Official Journal of the European Union on 7 June 2019.
- **Directive (EU) no. 1024/2019.** The purpose of Directive (EU) no. 1024/2019, adopted on 20 June 2019, is to promote the use of open data and stimulate innovation in products and services, by establishing a set of minimum rules governing the re-use and the practical arrangements for facilitating the re-use of existing documents held by public sector bodies of the Member States, public undertakings and research data, pursuant to the conditions set out in the same Directive. The Directive was published in the Official Journal of the European Union on 26 June 2019.
- **Decision (EU) no. 1763/2019.** Council decision (EU) no. 1763/2019 of 4 October 2019 establishes the position to be adopted on behalf of the European Union within the Committee of Technical Experts of the Intergovernmental Organisation for International Carriage by Rail (OTIF) as regards certain modifications to the National Vehicle Registers (NVR) specification and the Uniform Technical Prescriptions — Telematics applications for freight services (UTP - TAF). The Decision was published in the Official Journal of the European Union on 24 October 2019.
- **Decision (EU) no. 1750/2019.** Council decision (EU) no. 1750/2019 of 21 October 2019 amends Decision (EU) no. 274/2019 on the signing, on behalf of the European Union and of the European Atomic Energy Community, of the Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland. In particular, On 11 January 2019, the Council adopted Decision (EU) no. 274/2019 and, subsequently, with Decision (EU) no. 476/2019, in agreement with the United Kingdom, decided to extend the period until 12 April 2019. That period was further extended until 31 October 2019. Therefore, following negotiations between the Union and the United Kingdom, with the necessary technical adaptations to articles 184 and 185 of the Agreement, on 17 October 2019, the European Council endorsed the amended Withdrawal Agreement. As provided for in Article 50.4 TEU, the United Kingdom has not taken part in the discussions of the Council concerning this decision nor in its adoption. The Decision was published in the Official Journal of the European Union on 28 October 2019.
- **Decision (EU) no. 1810/2019.** Council decision (EU) no. 1810/2019 of 29 October 2019, taken in agreement with the United Kingdom, extends the term for the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community under article 50.3 TEU. The European Council agreed to a further extension until 31 January 2020, consequently the withdrawal took place on 1 February 2019.
- **Directive no. 1936/2019.** Directive no. 1936/2019 of the European Parliament and of the Council of 23 October 2019, amends Directive no. 96/2008/EC on road infrastructure safety management. The Directive aims to ensure better design and maintenance of the infrastructure by extending the scope of application of present regulations to motorways and other primary roads, the trans-European transport network (TEN-T) and roads outside urban areas. The Directive was published in the Official Journal of the European Union on 27 November 2019.
- **Directive no. 2161/2019.** Directive no. 2161/2019 of the European Parliament and of the Council of 27 November 2019 amends Council directive 93/13/EEC and Directives nos. 98/6/EC, 29/2005/EC and 83/2011/EU of the European



Parliament and of the Council as regards the better enforcement and modernisation of Union consumer protection rules. The Directive amends a set of five Directives belonging to the “New deal for consumers”. This deal aims to ensure a high level of consumer protection and the application of consumer rights, guaranteeing at the same time its consistent application throughout the Union. Furthermore, the Directive aims to enable access to information and to improve awareness on consumer rights among consumers. The Directive was published in the Official Journal of the European Union on 18 December 2019.

## **Developments in Italian legislation**

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Developments in Italian legislation affecting the group are summarised below.

- **MIT decree of 7 January 2019, containing methods and criteria for the assignment of grants for the financing of works and the upgrade, renewal and the restructuring of the braking system on freight carriages, to dampen the noise produced by such carriages.** In order to promote the reduction of noise pollution produced by freight trains and the progressive upgrade of existing vehicles, by adopting technical solutions that are certifiable or approved in the EU (Regulation (EU) no. 321/2013, “TSI freight wagons”) and implementing the provisions of article 47.10/11 of Law decree no. 50/2017, converted, with amendments, into Law no. 96 of 21 June 2017, the decree lays down methods and criteria for the assignment of grants for the financing of works and the upgrade, renewal and the retrofitting of the braking system on freight carriages registered before 1 January 2015, in order to dampen the noise produced by such carriages, and grants offsetting of the higher related operating expense to eligible recipients.
- **Law decree no. 135 of 14 December 2018, in coordination with Conversion Law no. 12 of 11 February 2019, containing urgent provisions to support and simplify businesses and the public administration.** The regulation includes:
  - the rules for the reimbursement of the bridge loan to Alitalia ;
  - simplification rules in favour of businesses in the Special Economic Areas (SEAs) Special Logistics Areas (SLAs). Specifically it provides for: i) the reduction by a third of, among others, the environmental impact assessment, strategic environmental assessment, integrated environmental authorisation, unified environmental authorisation and, the reduction by half and simplified implementation of those authorisation acts that require the acquisition of opinions, understandings, agreements or approval deeds in general; ii) the rules for the SEA steering committee by setting up a specific control body within the Prime Minister’s office; iii) strict terms for the construction of primary urbanisation works for public utilities operators entitled to the tax credit as per Presidential decree no. 380 of 6 June 2001;
  - exemption from the reporting obligations for beneficiaries of individual government assistance and the *de minimis* included in the national government assistance database, provided that the existence of the assistance subject to the reporting obligations in the database is disclosed in the notes to the financial statements;
  - changes to the Public Contracting Code as per Legislative decree no. 50/2016, in relation to the addition of further reasons for the ineligibility of economic operators in tender procedures, such as gross professional misconduct, undue influence on the decision-making process of the contractor and significant weaknesses in the execution of previous contracts for which penalties were applied.
- **Decree of the Prime Minister of 15 February 2019, containing the set-up of the “Strategia Italia” Control body.** Pursuant to article 40 of Law decree no. 109 of 28 September 2018 (“Genoa decree”), converted, with amendments, into Law no. 130 of 16 November 2018, the Control body will carry out the following activities:

- verification of the status of implementation of infrastructural investment plans and programmes, also based on the results of public works monitoring (BDAP-MOP), listing the critical issues resulting in slowdowns in their construction and identifying, with the support of the competent administrative bodies in the implementation of such plans and programmes, the operating solutions to overcome such critical issues in order to speed up funding and enable their completion;
- verification of the status of implementation of works connected to significant matters of risk for the territory, such as hydrogeological instability, earthquake vulnerability of public buildings, including their development, and situations of particular environmental deterioration that need reclamation works with the identification of related extraordinary, operating and financial instruments;
- boosting, coordination, monitoring and control tasks for the correct, efficient and effective use of financial and economic resources available at the moment for such purposes.

The Control body will be chaired by the Prime Minister or the Under Secretary of State of the Prime Minister's Office and comprised of the Minister of the Economy and Finance, the Minister of Infrastructure and Transport, the Minister of the Environment and Land and Sea Protection, the Minister for Southern Italy and the Minister for Regional Affairs and Autonomies, along with the Ministers concerned considering the matters discussed, as well as the President of the Conference of Regions and Autonomous Provinces, the President of the Union of Italian provinces and the President of the National association of Italian municipalities.

- **Law decree no. 4 of 28 January 2019, in coordination with Conversion law no. 26 of 28 March 2019, containing urgent provisions on the citizenship income and pensions.** The decree introduces:

- citizenship income and pension for individuals and households suffering from particular economic and social hardship. These measures aim to define a new model of collective well-being using mechanisms that ensure a minimum subsistence level and, in the case of the citizenship income, foster conditions that enable people to exercise their right to work and to training;
- a new definition of the minimum requirements for early retirement pension and measures for encouraging the hiring of young workers.

Specifically, the companies which hire, full-time and with permanent contracts, the beneficiary of a citizenship income are given incentives in the form of tax benefits. The same benefits are applied to beneficiaries of the citizenship income who start up an individual freelance activity or business or a cooperative company within the first 12 months of the benefit. A control body chaired by the Minister of Labour and Social Policies was set up to enable discussions at various government levels for an easier implementation of the citizenship income. Specific provisions were accrued for the Extraordinary plan to enhance job centres. Provisions in favour of the National agency for labour active policies (ANPAL) were also accrued to enable the recruitment of professionals necessary to implement the citizenship income. It is estimated that, within the regions and local bodies, 3,000 people will be hired from 2020 and 4,600 more from 2021, including the conversion from temporary to permanent contracts for employees already hired.

The decree introduces the right to an early retirement pension, without any penalty, at 62 years of age and a minimum 38 years of contributions. In the first-time application, employees of private companies who fulfil the requirements before 31 December 2018 may retire starting from 1 April 2019, while public workers who fulfil the requirements at the date of the entry into force of the decree may retire starting from 1 August 2019. In addition, school employees may retire from 1 September 2019, i.e., the start of the school year.

Furthermore:

- men have the right to early retirement after 42 years and ten months of contributions, while women may retire after 41 years and ten months. The pension is paid after three months from when the requirements are met;

- women may retire at the age of 58 if they are employees or at 59 if they are freelancers and have at least 35 years of contributions at 31 December 2018;
  - the adjustment to life expectancy is not applied to workers who began working at a young age, hence they may retire after 41 year of contributions. This right vests after three months from when they meet the requirements;
  - a lower cost is set for the conversion of years spent studying for a university degree into years of service for the purposes of calculating early retirement based on payment of contributions;
  - periods not covered by contributions may be claimed with 50% of the cost being tax deductible and the cost of redemption payable in annual instalments for up to five years, provided that no contribution was accrued before 31 December 1995 and applicants are not entitled to a pension;
  - post-employment benefits may be paid using financing specifically requested by the entitled party with the establishment of a specific guarantee fund;
  - bilateral solidarity funds will grant extraordinary income assistance to those workers who leave their jobs before achieving the "Quota 100" requirements, if they are replaced at the same time by someone hired with a permanent contract.
- **Law no. 31 of 12 April 2019, containing provisions on class action.** It enhances the instrument of the class action, extending its scope of application for the subjects entitled to act, the legal situations that can be brought to court and protections that can be obtained. Class actions transferred from the consumer code to the civil code, allowing not only consumers, but all those who claim for compensation for illegal conduct against a group of people with similar rights eligible for protection.
  - **Law no. 37 of 3 May 2019, containing provisions for the fulfilment of the obligations deriving from Italy's membership of the European Union - European Law 2018.** It contains provisions to guarantee the adjustment of the Italian framework to the European framework, including the resolution of infringement procedures. It includes:
    - provisions regarding payments in commercial transactions - Infringement procedure no. 2017/2090; article 113-bis of the public contracting code is amended in relation to payment terms and penalties for the delay in the execution of the contractual services;
    - National supervisory authority – Infringement procedure no. 4187/2014; the duties of the National supervisory authority regarding airport rights and related programme contracts, as per article 17.34-bis of Law decree no. 78/2009, converted, with amendments by Law no. 102 of 3 August 2009, are transferred to the Transport Authority;
    - provisions relating to VAT applicable to transport services and shipment of duty-free goods – Infringement procedure no. 4000/2018; article 9 lays down the VAT regime applicable to transport services and shipment of duty-free goods in order to dismiss infringement procedure no. 4000/2018, currently notified pursuant to article 258 of the TFUE for failure to fulfil an obligation. Should the value of the above services be included in the tax base, and not liable to custom duties, these amendments exempt them from VAT;
    - provisions relating to time limit of custom duties - amends article 84 of Presidential decree no. 43 of 23 January 1973, containing the Consolidated regulations on customs (TULD), with particular attention to the time limit of custom duties, in order to ensure full implementation of the new Union Customs Code, Regulation (EU) no. 952/2013. The rules make reference to the provisions in force in the European Union for the notification terms of custom duties; should custom duties arise following criminal conduct, the term for the notification is seven years.
  - **Legislative decree no. 50 of 14 May 2019, containing the implementation of Directive (EU) no. 798/2016 of the European Parliament and Council, on railway safety.** In implementing the Directive, the decree aims to

develop and improve railway safety of the Union rail system and improve access to the market for rail transport services. Together with Directive (EU) no. 797/2016 and Regulation (EU) no. 796/2016, it comprises the so-called Technical pillar of the Fourth Railway Package, published by the European Commission in June 2016. It provides for the following:

- harmonising the national with the European regulatory structure;
- defining responsibilities between the actors;
- developing common safety targets;
- setting out the principles for issuing, renewing, amending and restricting or revoking safety certificates (for railway companies) and authorisations (for infrastructure operators);
- defining the duties, in the field of railway system, of the national safety authority for railways and road and motorway infrastructure (ANSFISA) and the accident and incident national investigating body;
- defining common principles for the management, regulation and supervision of railway safety.

- **Legislative decree no. 57 of 14 May 2019, containing the implementation of Directive (EU) no. 797/2016 of 11 May 2016 of the European Parliament and Council on the interoperability of the rail system within the European Union.** The Legislative decree implements Directive (EU) no. 797/2016 of 11 May 2016 of the European Parliament and Council on the interoperability of the rail system within the European Union, which, together with Directive (EU) no. 797/2016 and Regulation (EU) no. 796/2016, comprises the so-called Technical pillar of the Fourth Railway Package, published by the European Commission in June 2016. The implemented Directive aims to define an optimal level of technical harmonisation and make it possible to facilitate, improve and develop international rail transport services within the Union and with third countries, and contribute to the completion of the single European railway area, as well as to the progressive creation of the internal market.

- **Law decree no. 32 of 18 April 2019, in coordination with Conversion law no. 55 of 14 June 2019, containing urgent provisions to revitalise public contracts, boost infrastructural, urban regeneration and reconstruction works following earthquakes.** The Law decree, as amended when converted:

- carries out an important reorganisation of the actual framework in contract works, including:
  - establishing, until 31 December 2020, departures from the ban on integrated tenders, with exceptions, and the obligation to appoint commissioners from among the experts registered with ANAC;
  - authorising contractors to start appointment procedures even if funding is limited to the design stage only and establishing these works to be a priority when granting funds for their construction;
  - providing a transitional simplified regulation for maintenance works to enable awarding on the basis of the definitive project and execution without the executive project;
  - providing the mandatory opinion of the High Council of Public Works (CSLP) for tenders up to €75 million, reducing the term to express the opinion to 45 days and introducing an optional request for an opinion on the adequacy of costs for tenders of any value, to be expressed within 30 days;
  - making the project matters subject to assessment as per article 25 of public contracting code liable to claims, extending the scope of application of out-of-court agreements;
  - introducing, in order to prevent disputes, the possibility of appointing a consultative technical council;
  - introducing a transitional (2019-2020) regulation for the approval of changes to definitive projects, as approved by the CIPE, in relation to strategic infrastructures already in the programming instruments approved and for which the assessment procedure of environmental impact started before the entry in force of the code;
  - providing a transitional regulation for sub-contracting (31 December 2020);

- identifying a transitional regulation for the end of waste status pending the issue of the relevant criteria;
  - introducing a set of amendments to the public contracting code, specifically on the content of designs, technical and economic feasibility, instrumental expenses, prior assessment of the design, single regulation for implementation, sole manager of the procedure, tenders below the threshold by reintroducing the lower price criteria, the economic operators that can be appointed for architecture and engineering services (archaeologists and art restorers are now included), integrated tenders, disclosure obligations for candidates, applicants and participants in tender procedures, grounds for ineligibility, single system for the qualification of public works performers, evidence, validation, testing, technical control, accounting and administration, general contracting and the related qualification system (which are exclusively subject to the new single regulation for execution, implementation and integration of the code), awarding criteria and irregular offers;
  - delaying to 31 December 2020 the obligation for operators of a concession to assign 80% (60% for motorways) of contracts for works, services and supplies in relation to the services carried out;
  - extending to institutional investors and national promotion institutions the possibility to submit proposals for the awarding of concessions for public works or works for public utility through public-private partnerships;
  - abrogating the register for persons entitled to be project managers and testers for contracts awarded through general contracting;
  - eliminating the super-fast trial for administrative proceedings in relation to awarding procedures;
  - amending various parts of the Consolidated building law provisions and regulations as per Decree of the President of the Italian Republic no. 380 of 6 June 2001;
  - providing, *inter alia*, measures on extraordinary commissioners for primary infrastructural works; excluding gross negligence and administrative liability in case of early termination of motorway concessions, if the damage originates from a decree endorsed and filed with the Court of Auditors in the prior legitimacy check; allocation of sums already accrued for the renovation of the Trento interport, the Isola della Scala rail interport and the Valdaro river port; unification of the existing railway projects "Voltri-Brignole infrastructural upgrade", "HS/HC Milan-Genoa line: Terzo Valico dei Giovi" and "Genoa- Campasso upgrade", as well as the authorisation to start the sixth construction lot of the Terzo Valico dei Giovi;
  - in order to rapidly put in place public work sites, establishing the in-house company Italia Infrastrutture S.p.A. on 1 September 2019, with share capital of €10 million, held entirely by the MEF and over which the MIT has control;
  - identifying entities to carry out the repair, restoration, earthquake improvement or reconstruction of public works and cultural assets, within public reconstruction;
  - establishing that the extraordinary commissioner for the reconstruction of the Morandi bridge identifies in his own ordinance the criteria and methods to compensate citizens who suffered damage in the work sites areas, up to the limit of €7 million.
- **Law decree no. 34 of 30 April 2019, in coordination with Conversion law no. 58 of 28 June 2019, containing urgent measures on economic growth for the resolution of specific critical situations.** The decree, as amended when converted, includes:
    - requiring that in their annual report the companies highlight average DPOs for transactions during the year, weighing the days payment outstanding of each transaction by its amount and separating those to large businesses, small and medium businesses and micro businesses and must report the number and total amount of the transactions whose payment times exceeded the maximum terms set out in article 4 of the Legislative decree, with specifications of the measures adopted to comply with those times;
    - eliminating the prior authorisation of European institutions for the assignment of government grants of up to €50

million to state-owned companies or bodies governed by public law for the purpose of investments in the public interest. To this end, article 1.94 of the 2019 Budget law (Law no. 145 of 2018) was repealed;

- providing, for investments in SEAs, the activation of a specific financial instrument that facilitates direct investments, as debt or risk capital, allowing for the subscription of units of investment funds or funds of funds or other vehicles provided for by European regulations; equity investments, which are the object of this regulation, will entail gradual disengagement, whose times depend on technical specifications proper to the sectors identified by the investments plan;
- establishing the disclosure requirements in relation to government grants received, as per article 1.125-129 of Law no. 124 of 4 August 2019, whereby associations and foundations are required to disclose the information by 30 June of each year, starting from 2018, on their own websites or equivalent digital portals; companies that are required to prepare notes to the financial statements shall publish the information in the notes and, if applicable, in the notes to the consolidated financial statements; companies not required to prepare notes to the financial statements shall disclose the information on their website or, if they do not have one, on the digital portal of their trade association. From 1 January 2020, should these requirements not be met, a sanction of 1% of the amounts received, with a minimum €2,000, is imposed. A departure for government and *de minimis* assistance included in the national government assistance database is provided for;
- authorising the MEF in advance to subscribe, up to a maximum limit, investments in the newco to which Alitalia's business units will be transferred, in accordance with criteria and methods set out in a subsequent Decree of the Prime Minister; the provisions of Legislative decree no. 175/2016, (the Consolidated act on companies in which the government holds an interest) do not apply to the newco; the accrual and payment terms and methods for the interest on the Alitalia loan and repayment of the loan are also set out, establishing that all steps taken by the MEF for this transaction are exempt from taxes;
- providing some abrogations - through which the decree intends to establish that the provisions of the environmental plan should be equivalent to the adoption and effective implementation of the organisational and management models for assessment purposes from now on - applicable to the sole practices strictly related to the implementation of the integrated environmental authorisation, and not to compliance with other regulations, such as those regarding environmental, health and public safety protections. The decree also qualifies the provisions of the environmental plan as the best prevention rules only in matters of environment, and not also in matters of health, public safety and safety in the workplace protection;
- establishing a fund named "Works-rescue fund", whose purpose is to cover 70% of unpaid receivables due to sub-contractors and sub-suppliers, should the contractor go bankrupt. The Fund consists of a contribution equal to 0.5% of the amount of the decrease in the bid by the company awarded the public works tender, should the base value in the call for tenders be equal to or higher than €200,000, and for services and supplies, should the base value in the call for tenders be equal to or higher than €100,000; the provisions for the functioning and granting of the Fund's amounts are to be regulated by a Decree of the MIT.

- **Law no. 71 of 11 July 2019, containing amendments to Law no. 128 of 9 August 2017 on the awarding of transport services in tour railways.** The Law amends article 5.3 of Law no. 128 of 9 August 2017, allowing all entities that carry out or are able to carry out rail transport services to perform tour services on the national railway infrastructure, the lines connected to it and isolated railway networks. On the basis of the regulation, tour services may be carried out by rail companies licensed as per Law decree no. 112 of 2015 on the national railway infrastructure, the lines connected to it and isolated railway networks. Entities that carry out transport services in the framework provided for by Presidential decree no. 753 of 1980, may carry out tour services on isolated railway networks only. Under the

responsibilities of the two categories of authorised operators above, tour services may also be carried out by other entities, such as railway museums or associations.

- **Law decree no. 105 of 21 September 2019, in coordination with Conversion law no. 133 of 18 November 2019, containing urgent provisions on the perimeter of national cybersecurity and regulation of special powers on strategically relevant segments.** The decree aims to ensure high levels of network security, ICT systems and services of, *inter alia*, national, public, private entities and operators through the setting up of a national cybersecurity perimeter and adequate measures to mitigate risks. Furthermore, this regulation completes and upgrades the government framework, in particular in reference to 5G broadband electronic communication network. The new rules include:

- taking into account the potential breach of national security that could derive from the malfunctioning or improper use of networks, systems and services, gradually defining the purposes of the perimeter and the methods of identifying public and private subjects in Italy that are part of it, their respective networks and ICT systems and services relevant for the purposes of national cybersecurity, with the support of the Interministerial Committee for the Security of the Republic in its implementing stage;
- introducing a mechanism to guarantee higher security levels to subjects included in the perimeter that intend to outsource supplies of ICT goods and services to be used on important networks, systems and services;
- providing that the special powers in relation to strategic networks, ICT systems and services of 5G broad band communications are exercised with the prior assessment of the elements revealing the presence of vulnerability factors performed by specifically selected assessment centres and, with reference to the authorisations already granted as per the Law decree on special powers, establishing the power to update the provisions already in force to the new standards.

Moreover, the regulation contains amendments to the rules for special powers in strategically relevant sectors, providing for further guarantees and penalties and in order to update national regulations to Regulation (EU) no. 452/2019 of 19 March 2019 of the European Parliament and of the Council, the content of which is similar to that of Law decree no. 64/2019, no longer in force.

- **Law decree no. 104 of 21 September 2019, in coordination with Conversion law no. 132 of 18 November 2019, containing urgent provisions for the transfer of duties and the reorganisation of the Ministries of cultural heritage and activities and tourism, agricultural, food and forestry policies, economic development, foreign affairs and international cooperation, infrastructure and transport, environment and land and sea protection, and education, university and research, as well as for the restructuring of the allocations for the reorganisation of roles and careers and the remuneration of overtime work of the police and armed forces, with regard to managers' qualifications and the remuneration charts of the personnel of the national fire brigades, and for the continuity of AGCM's duties.** The decree, as converted with amendments, amends the provisions of ANSFISA set out in article 12 of Law decree no. 109 of 28 September 2018, converted, with amendments, by Law no. 130 of 16 November 2018 ("Genoa decree"), which establishes that the authority promotes and guarantees controls, on the entire national railway system and with sanctioning powers, of the safety conditions of the national railway system and road and motorway infrastructure, with no change to the obligations and responsibilities of the owners and operators in regards of safety. It also establishes that the owners and the operators of road and motorway infrastructure must ensure that authorised personnel of the authority have unconditional access to the infrastructure, work sites, registered offices and headquarters, as well as to all relevant documentation.

- **Law decree no. 111 of 2019, in coordination with Conversion law no. 229 of 15 December 2016, containing urgent provisions to comply with Directive no. 50/2008/EC on ambient air quality and extension of the terms set out in article 48.11/13 of Law decree no.189 of 17 October 2016.** The decree, as converted with amendments, includes:
  - the transformation of the CIPE into the Interministerial Committee for the Economic Planning and Sustainable Development ("CIPESS") from 1 January 2021, in order to ensure coordination in the public policies for the achievement of the sustainable development objectives adopted by the General Assembly of the United Nations on 25 September 2015;
  - that subjects identified in article 2-bis of Legislative decree no. 33 of 14 March 2013, public services operators and suppliers carrying out services of public utility, in the scope of the obligations as per article 40 of the same decree, publish the data on the environment resulting from the surveys made by them, in accordance with the regulations in force.
  
- **Law decree no. 123 of 24 October 2019, in coordination with Conversion law no. 156 of 12 December 2019, containing urgent provisions for the acceleration and completion of reconstruction in progress on the areas hit by earthquakes.** Upon conversion, the decree provided for:
  - the suspension of the increases in tolls for A24 and A25 motorways, pending the conclusion on the assessment of existence of the conditions for the concession to continue, if prior to 31 October 2021, and the application of the tolls in place at 31 December 2017, for the entire duration of the suspension;
  - the suspension of the operator Strada dei Parchi S.p.A.'s of obligation to make the concession fee payments to Anas S.p.A. as per article 3.3.c) of the single convention signed on 18 November 2009 for 2017 and 2018, amounting to €55,860,000 per year, including default interest;
  - the requirement that the operator, at the end of the concession (31 December 2030), pays the suspended instalments of the concession fees to Anas S.p.A., plus legal interest. The due dates of all remaining fee payments remain unchanged.
  
- **Law decree no. 124 of 26 October 2019, in coordination with Conversion law no. 157 of 19 December 2019, containing urgent provisions on taxes and non-deferrable requirements.** The decree, as converted with amendments, provides for:
  - Rete Ferroviaria Italiana S.p.A.'s exemption from the application of restrictions and obligations regarding the containment of public spending applicable to public administrations, as per the ISTAT list prepared pursuant to article 1.3 of the public accounting law (Law no. 196/2009, specifying that the company retains financial and operating autonomy, without prejudice to its obligation to inform the competent Ministries and authorities in advance of financing transactions entailing a change in the company's indebtedness);
  - an expenditure authorisation for €460 million in 2019 for infrastructure investments in the national railway network;
  - for the purposes of the allocation of the national fund for government grants to cover local public transport costs, with the extension of the local public transport reform to 2020, consideration of each region's annual increase or decrease in the railway infrastructure access introduced by RFI S.p.A., compared to 2017 and starting from 1 January 2018, in compliance with the criteria set out by the ART, specifying that, for the purposes of the 2019 allocation, only the actual 2018 figures reported and certified by the companies operating rail public transport services are taken into account;
  - the allocation of €5 million per year for the digitalisation of logistics at ports, interports, in railways and road



transport, in part to ensure the achievement of freight mobility sustainability targets;

- the obligation for the customer to ask the contractor or subcontractor (if the latter is obliged to release it) for a copy of the payment orders for withholding taxes in order to check the total amounts paid to companies; it is established that the customer must suspend payment of the fees accrued by the contractor if the orders are not sent or if payments are insufficient or missing; the VAT reverse charge applies the services carried out through contracts, subcontracts, the appointment of consortia or agreements of any name, which are performed mainly using manual labour at the customer's site and with the use of operating assets owned by the customer;
- the identification of a maximum amount of the excise duty on diesel used as fuel for commercial operations as from 1 January 2020 that can be subsidised for certain providers of freight and passenger transport;
- as regards special purpose companies, the requirements for the exclusion from deductibility limits on interest expense, as per article 96 of the Consolidated income tax code ("TUIR"), on loans used to finance long-term public infrastructural projects, are considered as complied with even if the loans are backed by guarantees different than those used to finance public infrastructural projects that fall within the scope of part V of the Contract code, as well as those referred to in parts III and IV of the same code in relation to concession contracts and public and private partnerships contracts.

• **Law no. 160 of 27 December 2019, implementing the national budget for 2020 and the long-term budget for the 2020-2022 three-year period.** The provisions of the Law include:

- a change in the authorisation of expenditure to finance the national railway infrastructure operator, with a €40 million decrease in 2020, a €40 million increase in 2021 and a €350 million increase in 2026, in addition to the €460 million decrease in funds for infrastructural investments advanced in 2019 with Law decree no. 124/2019, containing urgent provisions on taxes and non-deferrable requirements;
- authorisation of expenditure of €14 million in 2020 and €25 million in 2021 to finance and continue "Incentives to promote intermodality (Ferrobonus)";
- the allocation of €500,000 for each year from 2020 to 2026 to the MIT to add to the resources for the medium and long-haul transport service contract between the MIT and Trenitalia S.p.A., in order to enhance monitoring and supervising activities, as well as quality assessment of the services provided to users in relation to the performance of the contract;
- limiting the beneficiaries of the tax credit for freight and passenger road transport, i.e., from 1 October 2020, excluding Euro 3 or lower (instead of Euro 2 or lower) vehicles and, from 1 January 2021, excluding Euro 4 or lower vehicles;
- a €100 million increase in the resources allocated to the Government Programme Contract - Services between the MIT and Rete Ferroviaria Italiana S.p.A., in order to partially restore 2020 resources that were reduced by previous regulations;
- IRES tax rate of 27.5%, instead of the ordinary 24%, on income generated by motorway and railway concession activities in the 2019, 2020 and 2021 tax periods, which was therefore already applied for the tax period in progress at 31 December 2019;
- a €3 million funding cut for Autostrada Ferroviaria Alpina in 2020.

• **Law decree no. 162 of 30 December 2019, containing urgent provisions on the extension of the terms for legislation, the organisation of public administration and technological innovation.** In particular, the decree provides for:

- the extension of the operating period to 2020 for the fund for the training of train personnel involved in railway

- operations, and allocating €2 million for 2020, as in previous years;
- the possibility of extending to 2020 and 2021 the operating scope of the extraordinary curtailment procedure of the Anas S.p.A. dispute, as per article 49.7 of Law decree no. 50 of 24 April 2017, converted, with amendments, into Law no. 96 of 21 June 2017;
- a reference to the Government Programme Contract between the MIT and Anas S.p.A. for 2021-2025 for the implementation of the fee-based remuneration mechanism, as per article 1.870, second paragraph, of Law no. 208 of 28 December 2015;
- in the event of revocation, forfeiture or termination of road or motorways concessions, while tender procedures to award new concessions are pending, the possibility for Anas S.p.A. to operate and carry out ordinary and extraordinary maintenance and investment activities for redevelopment or upgrading, except for any conventional provisions that exclude indemnities in case of early termination of the concession, and the possibility for Anas S.p.A., in order to carry out such activities, to buy any projects designed by the operator with payment of a fee calculated considering only the design costs and the intellectual property rights as per article 2578 of the Italian Civil Code; the object and methods of the provisional management are regulated by MIT and MEF decree; should the concession end due to non-performance by the operator, article 176.4.a) of Legislative decree no. 50 of 18 April 2016 will in any case apply, without rightful termination, even if there are differing clauses and even if they have been approved by law, and the effectiveness of the revocation, lapse or termination of the concession will not be subject to payment of the amounts provided for in the same article by the granting administration.

## **ART regulations**

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The content of the main Transport Regulator ("ART") decisions in 2019 is summarised below.

- **ART decisions nos. 110 of 20 November 2018, 11 of 14 February 2019, 23 of 28 March 2019 and 43 of 18 April 2019.** On 23 October 28, with decision no. 110, the ART submitted for consultation the preliminary report prepared by its offices on the outcome of the checks carried out on the compliance of the tariff plans of Italy's railway infrastructure operator with the cost criteria, pursuant to the rulings of the Piedmont regional administrative court, nos. 1097 and 1098 of 2017, on the tariff system to access the railway infrastructure and the services provided by the operator. The cost analysis was carried out considering the analytical reports provided by Rete Ferroviaria Italiana S.p.A. (RFI S.p.A.), supplemented with the information provided by Trenitalia S.p.A. and Ferservizi S.p.A. about some specific cost items. The consultation, which ended on 19 December 2018, covered the parties which had appealed to the Piedmont regional administrative court against the above rulings, and RFI S.p.A..

On 14 February 2019, with decision no. 11, after the outcome of the preliminary activities carried out in accordance with the above rulings of the Piedmont regional administrative court (nos. 1097 and 1098 of 2017), on the tariff system to access the railway infrastructure and the services provided by the operator, the ART ordered RFI S.p.A. to apply the following measures in order to bring the 2016-2021 tariff system into line with the cost criteria approved with decision no. 96/2015:

- cutting 2014 operating costs by approximately €34 million, to calculate the related MAP (minimum access package);
- reducing the 2014 carrying amount of net non-current assets by approximately €20 million, to calculate the cost of capital to determine the MAP cost;
- increasing the 2014 net working capital by approximately €73 million, to calculate the cost of capital to determine the MAP cost;
- cutting 2014 operating costs by approximately €2 million, to calculate the fees related to services not included in the MAP, with specific allocation to individual services;

- reducing the 2014 carrying amount of net non-current assets, used to calculate the cost of capital to determine the fees related to the services not included in the MAP, by approximately €46 thousand.

Furthermore, RFI S.p.A. shall provide the ART with the tariff system (2019-2021 period) updated in accordance with the instructions received, by 28 February 2019, and shall pay, with reference to the impact of the application of the measures adjusting the instalments and the fees for the period prior to 1 January 2019, the parties to commercial relationships affected by the above rulings of the Piedmont regional administrative court. On 28 March 2019, with decision no. 23, the ART, following RFI S.p.A.'s update of the tariff system, assessed the documentation provided, lacking some detailed information necessary for the complete reconciliation of the calculation made to measure the yearly amount of the change in costs, with the amounts communicated by the ART. Therefore, it ordered to provide adequate documentation supporting the calculations made to measure the yearly amount of the change in costs, to correctly apply the mechanism based on notional items and to recalculate component B1 of the 2019, 2020 and 2021 fees.

The proceedings ended with subsequent decision no. 43 of 18 April 2019, in which the ART declared the compliance with the criteria set out in decision no. 96/2015 of the updated tariff systems of Rete Ferroviaria Italiana S.p.A. and the related minimum access package and services not included therein for the period from 1 January 2019 and 9 December 2021. Rete Ferroviaria Italiana S.p.A. shall publish the updated tariff system, through the extraordinary update of 2019 and 2020 Network Prospectuses, and the adjustment, if any, of the railway companies referring to the 1 January 2019 starting date of the new tariffs.

- **ART decision no. 116 of 31 July 2019.** With decision no. 116, the ART declared that the proposal of commitments submitted by RFI S.p.A. in relation to the amendments to the 2019 and 2020 Network Prospectuses is admissible. RFI S.p.A. submitted the proposal within the penalty proceedings that the ART took with decision no. 80 of 19 June 2019, due to non-compliance with certain provisions of ART decision no. 118 of 29 November 2018.
- **ART decision no. 130 of 30 September 2019.** with decision no. 130, the ART implemented specific measures to access railway plants and services not included in the minimum access package. Such regulatory measures refer to all service plants connected to railway networks falling within the scope of Legislative decree no. 112/2015, including the former railway companies if they are connected with the national network and are of interest to the operators and owners of service plants, and to the managers of the infrastructure and stations. The obligations laid down by the decision include: the plant operators must adopt a system to guarantee minimum service quality levels and the related penalties; the fees for spaces at stations to greet and assist passengers, as they are structures useful and necessary for the railway service, must be proportionate to the costs for such spaces, plus a reasonable mark-up; the distribution of spaces and services available at passengers' stations must be allocated on the basis of transparent and non-discriminatory criteria to all operators of passenger transport services, including those that supply information and ticketing services pursuant to trade agreements with rail companies; there must be a monitoring system of quality for shunting services in plants with 40 trains per month or 450 trains per year and in stations at borders.
- **ART decision no. 151 of 21 November 2019.** With decision no. 151, the ART approved certain instructions and provisions in relation to the 2020, 2021 and 2022 Network Prospectuses of RFI S.p.A.. In particular, with reference to the process for the allocation of train paths, the ART established that the master agreement could only be renewed once and with the ART's prior explicit authorisation. Furthermore, by 31 January 2020, the infrastructure operator shall commence a consultation (the results of which shall be reported to the ART) to evaluate whether to implement a system

of penalties that would apply if the railway companies parties to the master agreement are asked to return capacity. In relation to the management of train traffic, the ART provided for the obligation to disclose the algorithms used, if any.

- **ART decision no. 154 of 29 November 2019.** With decision no. 154, the ART revised and updated previous decision no. 49/2015, containing measures for the drafting of calls for tenders and agreements for the assignment of road and rail local public passenger transport services. The new aspects include: (i) obligation for the owner to prepare a report on the awarding procedure (results of the consultation procedure, criteria of the simulated economic/financial plan, etc.) and submit it to the ART; (ii) consultation with stakeholders to identify essential and fundamental assets, which is also required in the case of direct assignment (unless the contract is assigned to the outgoing operator of the service with the same production volumes and scope); (iii) specific provisions on the sharing of databases (transition conditions of licences of management software, sensitive business information, etc.) and operating assets purchased using public funds; (iv) extension of the minimum content of service contracts and disclosure obligations for companies; (v) regulatory accounts and unbundling obligations for the road sector and inclusion of specific efficiency/effectiveness targets in the service contracts, similar to that provided for the railway sector; (vi) monitoring and reporting of the service, checking of the balance of costs and revenue, and update of tariffs.



## Stakeholder engagement

The FS Italiane group continuously liaises with its stakeholders, as it firmly believes that understanding mutual expectations and sharing objectives with them guarantee the effective creation of value. The group’s relationship with stakeholders helps it understand and respond to needs efficiently, guaranteeing transparency in its work and improving service quality.

The following is a map of the Ferrovie dello Stato Italiane group’s stakeholders

- |   |   |  |
|---|---|--|
| <ul style="list-style-type: none"> <li>• Shareholder</li> <li>• Customers</li> <li>• Competitors</li> <li>• Employees</li> <li>• Passengers</li> <li>• Scientific community</li> <li>• Charitable organisations</li> <li>• Local bodies/Public administration</li> <li>• Suppliers</li> </ul> |  | <ul style="list-style-type: none"> <li>• Companies/Partners</li> <li>• Financial backers</li> <li>• Institutions</li> <li>• The media</li> <li>• Sector organisations</li> <li>• Civil society Groups/Associations</li> <li>• Workers representations</li> <li>• Independent supervisory and regulatory authorities</li> </ul> |
|---|---|--|

### The stakeholder panel

The group is committed to guaranteeing structured and collaborative dialogue with its stakeholders using various channels, including the stakeholder panel, an important opportunity for a direct exchange between the group and its main stakeholders resulting not only in ideas, but also in synergies to improve the sustainability profile of the entire group.

The fifth annual stakeholder panel was organised in May 2018 by the FS Italiane group in the belief that creating value for the business means creating value for its stakeholders. The meeting is organised by the Sustainability committee with the aim of fostering a shared, collaborative approach with stakeholders in establishing the long-term objectives for 2030-2050. Multi-stakeholder panels were set up for each individual issue, which involved representatives of the Sustainability committee and management of the relevant operating companies, and with around 70 stakeholders taking part. Discussion focussed on three areas: safety, energy and emissions and sustainable mobility. Based on the inputs received during the discussions, the Sustainability committee identified three long-term objectives:

- SAFETY: best in class in Europe. Vision: zero fatal events involving passengers on FS Italiane group vehicles (train, buses and other mobility systems), people interfering with the rail ecosystem and for FS Italiane group personnel and contractors, by 2050 and 50% fewer fatal accidents on roads managed by Anas than in 2015 by 2030.
- ENERGY AND EMISSIONS: carbon neutral before 2050;
- SUSTAINABLE MOBILITY: 5% modal shift from private cars to shared, public and soft mobility in 2030 (15% in 2050), compared to 2015. Freight: 50% road transport and 50% rail transport in 2050 (routes longer than 300 km).

These objectives, which were approved by FS Italiane S.p.A.’s board of directors on 28 May 2019, and were presented in Rome on 18 July at a public event before the Minister of Transport and other important stakeholders in Italian transport, to demonstrate the group’s commitment to the six Sustainable Development Goals of the United Nations’ 2030 Agenda.



In line with the 2019-2023 industrial plan and the group's ambitions, it will continue on this path by setting new long-term objectives.

The group's webpage dedicated to stakeholder engagement is simultaneously updated and, since 2013, has provided information on the status of the proposals gathered during the four earlier editions of the group's stakeholder panel. A total of 85 proposals have been gathered.

# Commitment to sustainable development

## Approach, commitment and practices

The FS Italiane group's membership of the Global Compact network demonstrates its commitment to transforming itself into a mobility company of the future, capable of operating sustainably.

In addition, with the code of conduct, the FS Italiane group transparently assumes responsibilities and commitments with both internal and external stakeholders. The 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 the group.

The group intends to bring solid contributions to the achievement of the 17 sustainable development goals of the 2030 Agenda. The group is currently committed to achieving six long-term goals<sup>20</sup>.




In order to give its solid contribution to the sustainable development path in the long term, in addition to the 2030-2050 goals, the group has adopted a sustainability policy.<sup>21</sup>

<sup>20</sup> Reference should be made to the stakeholder panel paragraph for further information.

<sup>21</sup> Reference should be made to the stakeholder panel paragraph for further information.

## Sustainability policy

To make sustainability a guiding principle in the definition of strategic and operating choices and to ensure sustainable growth in the medium and long term, the FS Italiane group has identified the principles at the heart of its operations in the sustainability policy document. This document, approved on 16 April 2019 by the board of directors and inspired by the sustainable development goals and the UN Global Compact principles, is based on seven principles.

	<b>Creating shared value</b> Align business objectives with social and environmental goals, generating value for the business, stakeholders and all the areas in which the group operates
	<b>Stakeholder and community engagement</b> Implement systematic processes for stakeholder engagement
	<b>Safety for passengers and workers</b> Ensure increasingly higher health and safety standards and consolidate a culture of risk management and prevention
	<b>Service quality</b> Improve the customer experience, devoting as much attention to delivered quality as to perceived quality
	<b>The value of employees</b> Actively contribute to the care and development of people, avoiding any form of discrimination
	<b>Efficient use of resources and environmental protection</b> Promote an efficient use of energy resources and encourage a life-cycle assessment approach in all processes
	<b>Respect for human rights</b> Protect human rights in its operations and with suppliers and business partners, to help create a responsible chain



## Environmental sustainability

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The FS Italiane group believes that an organisation's long-term success is built on a strategy that prioritises the protection of natural balances.

Railway transport is one of the most efficient and greenest form of mobility, with smallest footprint on the land. It is at the core of the sustainable mobility project, which consists of collective, shared and soft mobility for people and freight, sponsored by the FS Italiane group.

However, it is crucial to strive for the continuous improvement of environmental performance in both transport services and in the design, construction and management of infrastructure and buildings, considering assessments from outside the group, whether they are positive or negative.

As part of its continuous improvement, the FS Italiane group has set up a rules-based system to encourage the consistent and effective management of environmental issues. Group companies are required to analyse the entire value chain across all stages of the life cycle, considering the environmental aspects over which they exercise control or influence.

Given its wide range of different activities, the results of monitoring the most significant energy and environmental aspects covers the way the group companies' businesses are divided into segments: transport, infrastructure, real estate services and other services.

### Energy and emissions

One of the group's main environmental impact factors is energy, which significantly affects transport operations. Over the past few years, certain changes in the reporting perimeter, particularly in 2018, such as the inclusion of the Anas group companies and the c2c service in the UK, resulted in differences, some of which were significant, in terms of the volumes and quality of consumption.

In 2019, total volumes of 29,973 Tj<sup>22</sup> are in line with the previous year, in terms of both the overall amount and the percentage impact of each source. The most energy consumed was electrical energy, accounting for around 70%, with over 80% of electrical energy used for railway traction. Diesel accounted for almost all remaining energy consumption (24.4%).

	Terajoules		
	2019	2018	2017
<b>Final energy by source</b>	<b>* 29,973</b>	<b>* 30,165</b>	<b>* 27,055</b>
electrical energy for railway traction	57.6%	57.7%	62.9%
electrical energy for other uses	13.1%	12.6%	8.7%
diesel	24.4%	24.1%	22.0%
natural gas	4.7%	5.4%	6.2%
other*	0.2%	0.2%	0.2%
<b>Total</b>			

(\*) Heat, fuel oil, petrol and LPG

An analysis of each source individually and their distribution in the segments in which the FS Italiane group companies are divided, shows that the volumes of electrical energy consumption amount to almost 5.9 TWh. This is substantially in line

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<sup>22</sup> One terajoule (TJ) equals 1,000 gigajoules (1,012 J), a joule is the International System (SI) unit of measurement of energy, work and heat.

with the previous year, as is its distribution across the operating segments, where transport accounts for approximately three quarters of total consumption, while the remainder is used by the infrastructure segment. Other segments only consume a little marginal part.

	Gwh		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Total electrical energy consumption</b>	<b>5,884</b>	<b>5,894</b>	<b>5,386</b>
Transport	76.0%	76.5%	81.8%
Infrastructure	23.8%	23.3%	18.0%
Real estate services	0.1%	0.1%	0.1%
Other services	0.1%	0.1%	0.1%

Diesel is another significant energy component and its consumption is as high as 204.4 million litres. Although rail transport fuelled by diesel is only a small residual portion of the railway operations, which are mostly carried out on electrified network, the transport companies' diesel consumption for rail and road transport accounts for 82.3% of the group's total diesel consumption. With 17.6%, the companies in the infrastructure segment have increased their diesel consumption.

	millions of litres		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Total diesel consumption</b>	<b>204.4</b>	<b>202.1</b>	<b>166.1</b>
Transport	82.3%	85.4%	83.6%
Infrastructure	17.6%	14.5%	16.2%
Real estate services	0.0%	0.0%	0.0
Other services	0.1%	0.1%	0.1%

As mentioned earlier, natural gas accounts for less of 5% of the FS Italiane group's total energy consumption. Between 2018 and 2019, natural gas consumption plummeted to 41.4 million scm (-13%), due to the transport companies' decision to rationalise and make heating systems more efficient, while the road transport companies updated their fleet, which had previously included natural gas-fuelled vehicles.<sup>23</sup>

	scm millions		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Total natural gas consumption</b>	<b>41.4</b>	<b>47.7</b>	<b>48.6</b>
Transport	63.4%	67.5%	68.1%
Infrastructure	35.0%	31.0%	30.5%
Real estate services	0.80%	0.6%	0.6%
Other services	0.80%	0.8%	0.8%

Energy consumption impacts greenhouse gas emissions. The amount of such emissions came to around 2.54 million tonnes in 2019, over 75% of which was due to the group's transport companies. Most of the remaining carbon dioxide emissions came from the operations of the workshops, stations, offices and other operating facilities of the infrastructure companies. There are no significant differences between the various group segments.

<sup>23</sup> Scm is the measurement unit of gas and volumes.

million tonnes of CO<sub>2</sub>  
(location based\*)

	2019	2018	2017
CO <sub>2</sub> emissions	2.56	2.60	2.39
Transport	77.7%	78.7%	82.2%
Infrastructure	22.1%	21.1%	17.6%
Real estate services	0.1%	0.1%	0.1%
Other services	0.1%	0.1%	0.1%
<b>Total</b>			

\*According to GHG Protocol

## Waste management

The transition to a circular economy is a priority for the FS Italiane group, as demonstrated by its implementation of management models to prevent, re-use and recycle waste generated by industrial activities and its search for solutions to improve waste collection systems in passenger services.<sup>24</sup>

Waste generated by the operations of companies in the Infrastructure and Transport segments account for more than 99% of the total waste produced by the group. The demolition of railway carriages and the increase in maintenance activities of railway infrastructure led to an increase of approximately 17% in waste production in 2018. The percentage of special waste sent for recycling - mainly steel, iron, cement and wooden sleepers - remained at over 95%.

thousands of tonnes

	2019	2018	2017
<b>Total waste produced</b>	<b>391</b>	<b>334</b>	<b>296</b>
Transport	28.8%	30.0%	23.0%
Infrastructure	71.0%	69.8%	70.5%
Real estate services	0.1%	0.1%	6.3%
Other services	0.1%	0.1%	0.1%

\*Including waste classified as urban waste produced in spaces open to the public at stations.

## Water management

Although the FS Italiane group's core businesses entail limited water consumption, as water is mainly used for civil purposes (offices, bathrooms, showers at the workshops and drinking fountains at stations account for over 85%) and, to a lesser extent, industrial purposes (train and bus washing) the group companies are deeply committed to the efficient use of water, treatment of wastewater, protection of water quality, controls and monitoring of the network are carried out with great commitment by group companies.<sup>25</sup>

<sup>24</sup> Waste is classified by origin: special waste and waste classified as urban waste. Special waste is due to the production activities of industries and companies and that, considering the concentration of pollutants, is classified as hazardous or non-hazardous. Waste classified as urban waste is special waste with the characteristics or composition of commodities, which allow for it to be recycled or disposed of in plants originally designed for the treatment of urban or domestic waste from residential buildings and managed by public administration.

<sup>25</sup> Wastewater resulting from industrial processes is subject to a different treatment than that for civil use, considering the specific characteristics of polluting components.

The group companies run regular campaigns to raise awareness among passengers about responsible water use. They focus on reducing consumption for industrial use and ensuring the efficient collection and treatment of wastewater. 2019 data show a steady trend, confirming the need to continue rationalising water use and reducing waste.

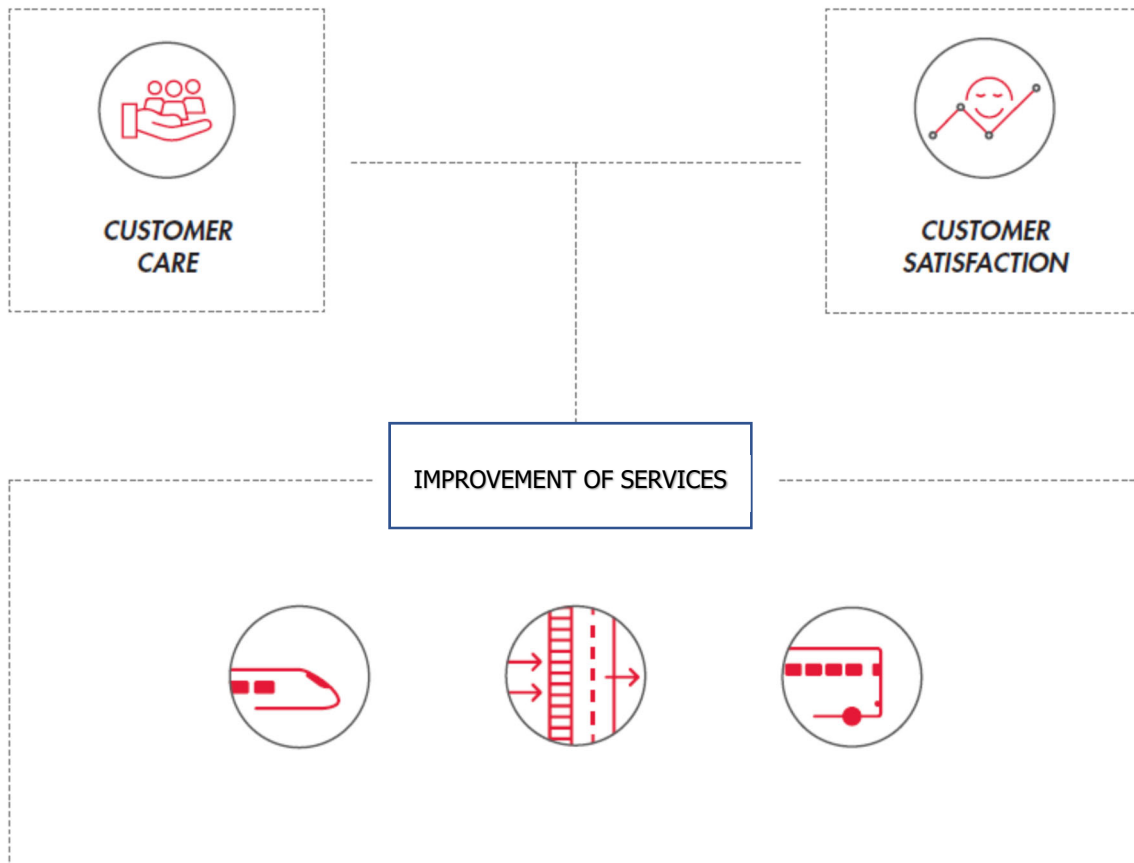
millions of cubic metres

	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Total water withdrawn</b>	<b>20</b>	<b>20</b>	<b>23</b>
Transport	18.9%	21.8%	16.9%
Infrastructure	80.4%	77.4%	73.2%
Real estate services	0.5%	0.5%	9.8%
Other services	0.2%	0.2%	0.1%

## The travel experience

The group's objective is to offer quality services to meet the needs and expectations of passengers and industrial customers in a safe and environmentally-friendly manner.

The group has had a monitoring process for customer care in place for some time, based on the parameters established in the service charters, and customer satisfaction surveys to analyse the expectations and satisfaction levels of passengers and customers.



## Infrastructure

The Infrastructure segment includes:

- railway network/stations
- road and motorway network

In respect of the railway network and the stations, the group monitors the objectives set out in the service charter (required by legislation covering public services in the transport sector - Directive of the Prime Minister of 27 January 1994 and Decree of the Prime Minister of 30 December 1998). All objectives were achieved in 2019, both as relates to the perceived quality measured via customer satisfaction surveys, and the quality offered, assessed via internal and third-party monitoring.

<b>Railway network/stations</b>	<b>Objective for 2019</b>	<b>Actual 2019</b>
<b>Indicator</b>		
Attention to the environment	Preparation of 50 projects for the efficient use of water	achieved
Station safety	Number of thefts at stations lower than the relevant three-year period average (*)	achieved
Station accessibility	Implementation of at least 80 projects to improve accessibility	achieved

(\*) Excluding in-store theft. During the 2008-2010 three-year period, considered the consolidation period for the effects produced by the agreement in place since 2007 between the parent and the Ministry of the Interior for the development of joint actions to improve customer safety and group assets.

As regards the perceived quality objectives, in terms of the percentage of passengers satisfied (those that gave a score from 6 to 9) with the services offered in the stations, the findings were basically unchanged from those of 2018 for almost all macro-factors across the entire network, all remaining above 90%.

<b>Railway network/stations</b>	<b>Actual 2019</b>	<b>Actual 2018</b>	<b>Change %</b>
Quality (Quality of stations in general)	97.1%	96.6%	0.5
Information at stations (How information is perceived in critical travel conditions)	94.8%	94.0%	0.8
Assistance (Level of satisfaction with the assistance service provided by the Sale Blu network)	99.9%	99.5%	0.4

In respect of the road and motorway network, the group monitors the objectives set out in the service charter:

<b>Roads and motorways</b>	<b>Objective for 2019</b>	<b>Actual 2019</b>
<b>Indicator</b>		
Service regularity (Road closure times for non-exceptional snowfalls and/or not due to exceptional snowfalls and/or not due to planned closures of the sample sections)	Reference standard < 12 hours	Partially achieved
Energy generation from renewable sources (Photovoltaic)	Reference standard >750 gigajoules	Achieved

During the year, a customer satisfaction survey is also carried out on the opinions and satisfaction levels of customers who contacted central and local public relations offices.

The survey revealed a satisfaction level of 7.8 out of 10 (2018: 7.4 out of 10).

### **Railway passenger transport**

Railway passenger transport can be split into two main areas:

- medium and long-haul transport
- regional

#### Italy

Punctuality in all service categories improved significantly.

Conversely, in the medium and long-haul segment, there was a slight drop in train punctuality.

<b>Punctuality in Italy ****</b>	<b>2019</b>	<b>2018</b>	<b>Change %</b>
Market services (Freccia)*	78.5%	69.7%	8.8
Universal services (Intercity day and night trains)**	81.5%	76.7%	4.8
<b>Regional services***</b>	<b>91.0%</b>	<b>89.2%</b>	<b>1.8</b>

(\*)% of trains arriving within 10 minutes of the scheduled time

(\*\*)% of trains arriving within 15 minutes of the scheduled time

(\*\*\*)% of trains arriving within 5 minutes of the scheduled time

(\*\*\*\*) All trains arriving after the indicated time limit are considered as late (no exceptions)

Perceived quality is measured through regular surveys with passengers over 14 years of age about their travel experience on trains managed by the group (medium to long-haul *and local/regional*). Surveys are conducted using face-to-face and telephone interviews.

In 2019, passenger satisfaction in the medium and long-haul segment was generally stable. General satisfaction with the overall travel experience remained substantially in line with the previous year, with 93.0% of passengers satisfied (2018: 92.5%). More specifically, on-board comfort (+0.2%) and cleanliness (+0.3%) also remain substantially stable compared with the previous year.

<b>Medium and long haul*</b>	<b>2019</b>	<b>2018</b>	<b>Change %</b>
Overall travel experience	93.0%	92.5%	0.5
Cleanliness	90.8%	90.5%	0.3
Comfort	93.4%	93.2%	0.2

\*Including market services and the universal service

The results of the regional transport segment for 2019 showed an increase in customer satisfaction in all main areas of the journey.

Satisfaction with the overall travel experience was 86.5%, an increase of approximately 2% over 2018.

Looking at the individual aspects, an improvement is observed across all factors over the previous year. In particular, satisfaction with cleanliness rose 2.3% over the previous year, and comfort increased by 1.2%.

<b>Regional</b>	<b>2019</b>	<b>2018</b>	<b>Change %</b>
Overall travel experience	86.5%	84.5%	2.0
Cleanliness	75.8%	73.5%	2.3
Comfort	86.4%	85.2%	1.2

In order to strengthen the group's focus on passenger needs, particularly those of commuters, in 2019, the first Rock and Pop trains started operating in Emilia Romagna. This new generation of regional trains combines improved comfort, reliability (remote diagnostics are a standard feature) and security standards with environmental sustainability, as they consume 30% less energy than the previous generation trains and are 96% recyclable. Overall, there will be more than 600 new regional trains, for a total investment of approximately €6 billion, replacing around 80% of national fleet for regional transport in five years.

#### UK

Trenitalia c2c Ltd, which offers passenger transport services between London and Essex, is the most punctual railway company in the United Kingdom, with 83.5% of trains arriving within one minute of the scheduled time. Train punctuality is even higher if trains arriving within five minutes of the scheduled time are also considered (slightly down on 2018).

Passenger satisfaction is measured every six months in the National Rail Passenger Survey conducted by an independent party (the rail industry appeals body, Transport Focus) on all railway passenger transport companies. 2019 results are substantially in line with those of the previous year.

<b>UK</b>	<b>2019</b>	<b>2018</b>	<b>Change %</b>
Punctuality (within five minutes) (*)	94.6%	95.3%	-0.7
Overall travel experience	86.0%	86.0%	-

(\*) Source: ORR (Office of Rail and Road) surveys

Moreover, in 2019, Trenitalia c2c was awarded the "Golden Whistle" at an event organised by the "Modern Railways" magazine for the best performance in the London area.



### Greece

TrainOSE SA monitors passenger satisfaction quarterly through surveys and mystery customer. The analysis is carried out by an independent party. All parameters improved on 2018, in particular:

<b>Greece</b>	<b>2019</b>	<b>2018</b>	<b>Change %</b>
Punctuality (% of trains arriving on time at their destination)	83.6%	n.a. (*)	-
Punctuality (% of satisfied passengers)	66.4%	52.6%	13.8
Satisfaction with travel experience (overall)	67.5%	63.3%	4.2
On-board cleanliness	58.7%	47.1%	11.6

(\*) Comparative figures are not shown due to a change in the measurement method

### Germany

To monitor punctuality and passenger satisfaction, the Netinera group uses a methodology established by the Public Transport Authority on a regional basis and on the basis of the type of service offered. Accordingly, group and company indicators are not currently available.

## Passenger road transport

### *Italy*

In Italy, punctuality improved on the previous year for both the urban and suburban transport service (the ratio of delays recorded to monitored runs, weighted by runs in the year).

<b>Passenger road transport</b>	<b>2019</b>	<b>2018</b>	<b>Change %</b>
Punctuality (urban) (% of buses arriving within 5 minutes of their scheduled time)	90.3%	86.4%	3.9
Punctuality (suburban) (% of buses arriving within 15 minutes of their scheduled time)	88.3%	87.5%	0.8

Perceived quality is measured through periodic surveys with pass holders, with a special focus through computer-assisted telephone interviews (CATI), and total passengers with face-to-face interviews and questionnaires to fill out during the journey. In the analyses, passengers who expressed scores equal to or higher than six, on a scale of one to ten, are considered "satisfied". The published customer satisfaction data reflect the aggregation of the results of phone and face-to-face interviews.

The results for urban services show an overall general increase in passenger satisfaction.

<b>Urban passenger road transport</b>	<b>2019</b>	<b>2018</b>	<b>Change %</b>
Overall score	87.9%	86.3%	1.6
Cleanliness	78.5%	75.8%	2.7
Comfort	77.3%	74.5%	2.8

Passenger satisfaction with suburban services decreased slightly, while other parameters remain substantially unchanged.

<b>Suburban passenger road transport</b>	<b>2019</b>	<b>2018</b>	<b>Change %</b>
Overall score	83.9%	84.9%	-1
Cleanliness	69.9%	69.4%	0.5
Comfort	76.6%	76.3%	0.3

## Freight transport

In 2019, the Mercitalia group companies ran a customer satisfaction survey on their main customers.

The customer-centric approach is demonstrated by:

- tailored services;

- flexibility when implementing transport solutions that are more efficient and competitive to respond to customer expectations;
- developing effective business-customer relations to ensure suitable, timely and customised offers;
- innovation and development of strategic drivers, together with the upgrade of Mercitalia's vehicles and infrastructure.

In particular, the customer satisfaction surveys have highlighted how the customer assistance aspects (care at selling offices, commercial and administrative assistance, and personnel expertise) and safety received higher perceived quality scores, whereas customers were less satisfied with management of disruptions and the tracking and tracing service.

The overall score given by customers on the Mercitalia Rail service was 7.2 on a scale of one to ten, up by roughly 22% on 2018. The average score for service safety was 7.7, while customers' administrative assistance received 7.1 (both improved compared to 2018). Management of disruptions was confirmed as the weakest link on which more efforts must be made, despite a significant improvement from 4.5 to 5.7 in 2019.<sup>26</sup>

The Multi-modal Transport and Logistics business unit<sup>27</sup> also ran a customer satisfaction survey with respect to their service. In particular, the surveyed sample consisted of the most important supermarket chain customers that used the service during the year.

The aspects that customers perceived as best are those related to customer assistance by personnel, with a score of 8.4, while the tracking and tracing service needs improvement, with a score of 6.

A focus on customers and service quality were confirmed with the maintenance of quality certification in accordance with the new standard UNI EN ISO 9001:2015.

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<sup>26</sup> The Mercitalia group company that moves the highest volumes of goods.

<sup>27</sup> This business unit ensures development and control of the transport chain and transport logistics of the consumer goods, retail and beverage sector by managing an integrated logistics network.

## Sustainable supply chain

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The FS Italiane group companies conduct negotiations in accordance with the antitrust principles in the EU Treaty and the "FS Italiane group companies negotiations regulation"<sup>28</sup>.

Relations with suppliers (including freelancers, consultants, brokers, subcontractors, sub-suppliers and all parties involved in the supply chain in general) and business partners take place in compliance with the principles of honesty, integrity, impartiality and sustainability.

As reiterated in the code of conduct, our actions and conduct are characterised by the greatest honesty and we only operate with reliable, honourable individuals and companies of good repute.

In 2019, group companies managed core purchases for roughly €5 billion, more than 85% of which from direct suppliers<sup>29</sup> with registered offices in Italy, thereby generating income and job opportunities in the country, directly and indirectly. RFI S.p.A., Anas S.p.A. and Trenitalia S.p.A. managed around 75% of the group's core purchases<sup>30</sup>, as follows:

	Amounts in billions of Euros		
	2019	2018	2017
<b>Total core purchases</b>	<b>5</b>	<b>5</b>	<b>3</b>
goods and services	58%	52%	71%
works	42%	48%	29%

More than €600 million refer to tenders managed by Ferservizi S.p.A. in 2019 for non-core purchases, i.e., those not strictly related to group companies core businesses.

The group's sustainable management of the supply chain starts with the inclusion of rules (social security, code of conduct, health and safety in the workplace, the environment, etc.) as standard clauses in supply agreements and continues with an environmental and social performance improvement process for suppliers, which is also part of the group companies' quality management systems.

This path continued in 2019 through:

- development of the "Sustainable Procurement" project to identify group standards in terms of sustainable procurement;
- update of the self-assessment questionnaire of the environmental and social impacts of the supply chain, consisting of more than 70 questions divided into six sections (general information, human rights, the environment, society, health and safety in the workplace and continuous improvement), submitted as an online survey to more than 100 strategic suppliers<sup>31</sup> of the main companies.

Targets and KPIs were defined to develop actions on three significant fields in the Railponsible works, an initiative that brings together major railway companies with the purpose of promoting sustainable procurement:

- climate change;

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<sup>28</sup> Available for consultation on the group companies' online purchase portals.

<sup>29</sup> Non-group companies with which the group companies have direct relationships.

<sup>30</sup> This amount refers to invoices issued during the year for the purchase of goods, services and works.

<sup>31</sup> Strategic suppliers were identified using the weight percentage/total purchase for 2019 criterion.

- sustainable procurement;
- social responsibility.

Finally, leveraging the experience gained by RFI S.p.A., which included a scoring criterion that rewards suppliers for their sustainability in their tenders in 2017, the group formalised at organisational level its responsibilities in the Supply Chain Sustainable Management project, using the monitoring platform developed by EcoVadis to improve the performance of the supply chain, while reducing environmental and social risks, via the three steps set out below:

1. Assessment: introduce a scoring criterion that rewards suppliers for their sustainability in tenders awarded to the offer with the best value for money;
2. Monitoring: monitor the sustainability performance of suppliers by gathering and analysing information on their environmental, social and economic impacts;
3. Verification: perform checks on suppliers.

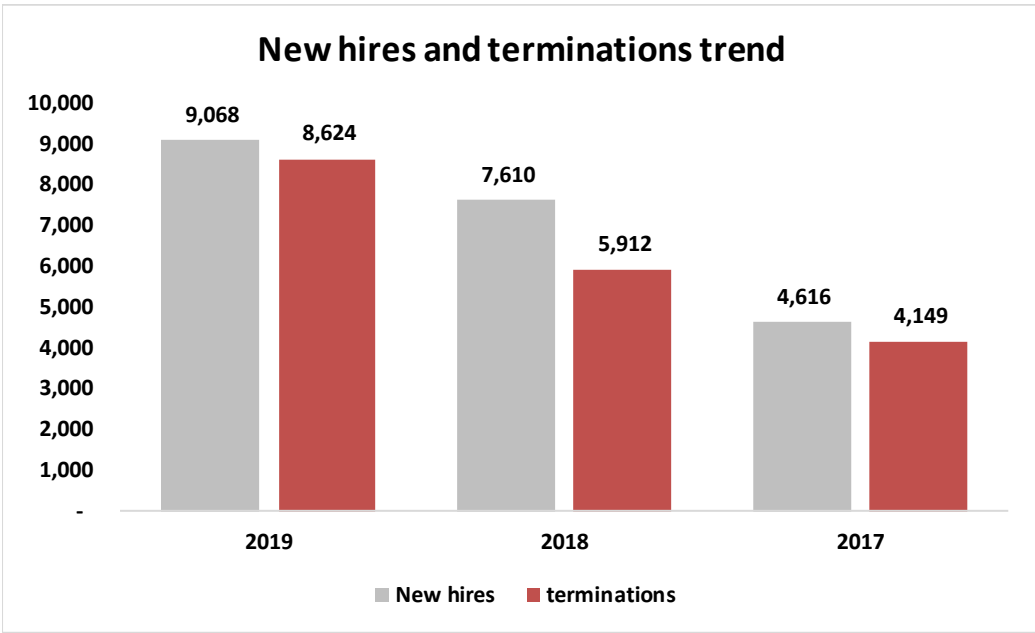
## Human capital

The number of group employees rose from 82,944 at 31 December 2018 to 83,764 at 31 December 2019, showing a net increase of 820 (average number of employees: +1,214), 517 of whom through business acquisitions. The detailed information provided below complies with the requirements of article 3.2.d)/e) of Legislative decree no. 254 of 30 December 2016.

<b>Number of employees of the FS Italiane group</b>		
	<b>2019</b>	<b>2018</b>
<b>Managers</b>	<b>999</b>	<b>972</b>
<i>Men</i>	801	796
<i>Women</i>	198	176
<b>Junior managers</b>	<b>12,298</b>	<b>12,901</b>
<i>Men</i>	9,853	10,427
<i>Women</i>	2,445	2,474
<b>White collars</b>	<b>40,299</b>	<b>39,688</b>
<i>Men</i>	30,450	30,691
<i>Women</i>	9,849	8,997
<b>Blue collars</b>	<b>30,168</b>	<b>29,383</b>
<i>Men</i>	28,005	27,283
<i>Women</i>	2,163	2,100
<b>Total number of employees at 31 December</b>	<b>83,764</b>	<b>82,944</b>
men	69,109	69,197
women	14,655	13,747
% of men	82.5%	83.4%
% of women	17.5%	16.6%
<b>Average number of the year</b>	<b>83,181</b>	<b>81,662</b>
<hr/>		
<b>NUMBER OF EMPLOYEES AT 31.12.2018</b>		<b>82,944</b>
Incoming (*) (**)		9,585
Outgoing (*) (**)		8,765
<b>NUMBER OF EMPLOYEES AT 31.12.2019(*)</b>		<b>83,764</b>
<hr/>		
<b>2018 AVERAGE</b>		<b>81,662</b>
<hr/>		
<b>2019 AVERAGE (*)</b>		<b>83,181</b>

(\*) 517 incoming employees due to business acquisitions; 141 outgoing employees due to sales and demergers

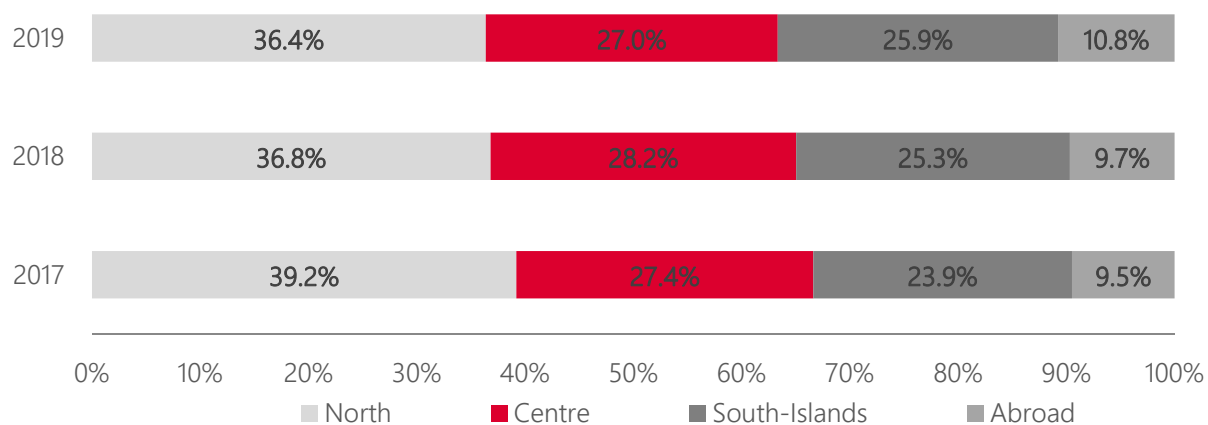
(\*\*) incoming and outgoing employees include employees with fixed-term contracts in the ferry ship sector.



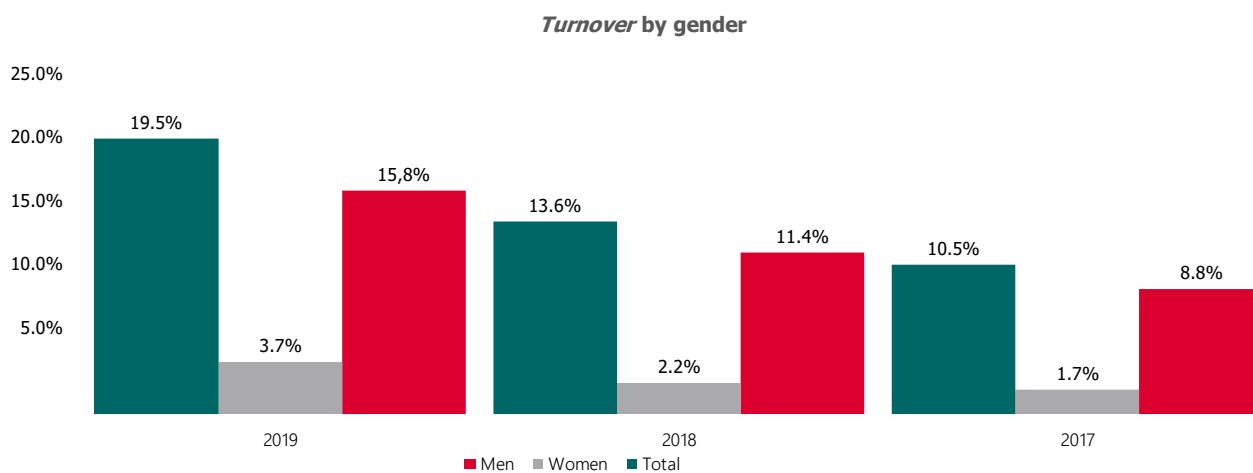
New hires do not include acquisitions and include fixed-term contracts in the navigation segment.



## Distribution of employees by geographical segment



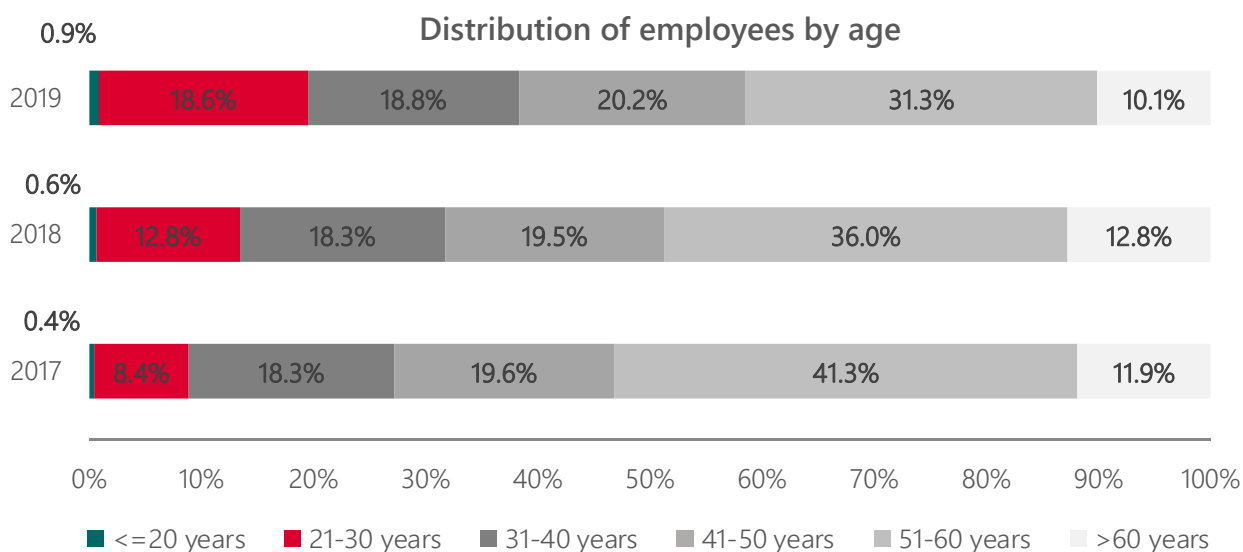
The following graphs show a detailed breakdown of the year's figures<sup>32</sup>.



The rate of turnover is 19.5%, compared to 13.6% in 2018. The increase is due to the larger number of incoming and outgoing employees in 2019.

<sup>32</sup> The scope of analysis includes the following companies: FS Holding, RFI S.p.A., Trenitalia S.p.A., Ferservizi S.p.A., Italferr S.p.A., FS Sistemi Urbani S.r.l., Mercitalia Logistics S.p.A., Mercitalia Rail S.r.l., Mercitalia Intermodal S.p.A., Busitalia Veneto S.p.A., Busitalia Rail Service S.r.l., Busitalia Campania S.p.A., Grandi Stazioni Rail S.p.A., Grandi Stazioni Immobiliare S.p.A., Terminali Italia S.r.l., Italcertifer S.p.A., Nugo S.p.A., FSTechnology S.p.A. and Cremonesi Workshop S.r.l.





Including apprenticeship contracts, the most common type of contract is open-ended, which is used for 94.8% of the FS Italiane group's personnel. 1.2% of the open-ended contracts are part-time. As in previous years, all employees are covered by national labour agreements. The national labour agreement applied to most of the group's non-management employees is that for the mobility/railway sector, supplemented by the FS Italiane group's agreement of 16 December 2016.

### Relationships with trade unions, labour law and welfare

In 2019, the relevant departments of the parent continued to provide operational guidance on the application of the national labour agreement for the mobility sector/railway sector and the FS Italiane group's employment contract of 16 December 2016 and on the changes in labour law. Moreover, they supported human resources departments in preparing documents regarding employment management (i.e., "Remote working guidelines and procedures", updating management instructions and the related forms to exercise specific legal and contractual clauses), with the implementation of regulatory changes during the year. At the same time, group measures were collaboratively prepared, with an impact on labour rules (i.e., Group measure no. 277/AD "Model for travel security governance in the FS Italiane group") and the relevant company structures were assisted in the drafting of observations on administrative measures with an impact on contractual and labour matters.

On 18 February 2019, the group companies that apply the national labour agreement for the mobility sector/railway sector and the FS Italiane group's employment contract, both dated 16 December 2016, signed an agreement with the national trade unions to define the management of the amounts provided for by article 22.1 (Corporate welfare/Benefits for a work/life balance) of the group's employment contract in order to be consistent with the provisions of article 37.1 (Welfare) of the applicable national labour agreement, if the beneficiary employees do not use the amounts and if they are no longer registered with the Eurofer fund.

On 14 June 2019, with specific minutes signed by the parties, the legal, economic and social terms and conditions were established for the employees involved in the transfer of the business units of Ferrovie dello Stato Italiane S.p.A., Trenitalia S.p.A., Rete Ferroviaria Italiana S.p.A., Ferservizi S.p.A. and Italferr S.p.A. to the newco FSTechnology S.p.A.. On 23 July 2019, an agreement was signed which, in accordance with the contractual provisions, extended the understanding on remote working of 20 April 2018 to FSTechnology S.p.A..

The group companies that apply the aforementioned national labour agreement for the mobility sector/railway sector and the FS Italiane group's employment contract also signed an agreement with the national trade unions regarding the 2019 performance bonus based on macro-indicators relating to profitability, quality, productivity and individual participation in the business targets. It will be possible to assess the achievement of such indicators for 2019 in June 2020, after the financial statements for the year have been finalised, and the bonuses will be disbursed if the targets are achieved or exceeded.

On 21 October 2019, a specific agreement was signed which, by referring to the provisions of article 21 of the national labour agreement for the mobility sector/railway sector of 16 December 2016, introduces additional positions in order to begin applying apprenticeship contracts under which apprentices are trained for specific professional positions.

In 2019, Trenitalia S.p.A. and Mercitalia Rail S.r.l. activated, for eligible employees, the extraordinary solidarity benefits under the fund for income and employment assistance for FS Italiane group companies' personnel. Furthermore, Rete Ferroviaria Italiana S.p.A. commenced the preliminary procedures for its employees to gain access to the fund.

During the year, Ferrovie dello Stato Italiane S.p.A., Trenitalia S.p.A., Rete Ferroviaria Italiana S.p.A. and Ferservizi S.p.A. commenced the procedures for their eligible employees to receive the fund's extraordinary benefits.

The absenteeism rate was 8.3% compared to 8.7% in the previous year.

### **Personnel management and development policies**

In 2019, job postings, developed in line with the group's customary principles of transparency and fairness, continued to promote professional diversification within the group, with the additional goal of developing internal resources. During the year, a total of 107 positions were filled via intragroup mobility. At the same time, in order to best manage the new challenges of a rapidly changing global context, the group recruited young talents and resources with specific expertise on the market, to achieve planned objectives.

Recruitment on the market, always carried out in accordance with the principles of fairness, merit, transparency, equal opportunities, diversity and inclusion, is increasingly innovative and digital. In 2019, recruitment focused on recent graduates in the fields of engineering, technology, business and law and specialised experts. More than 400,000 CVs were considered, including over 105,000 received in response to advertisements, creating a pool of 427 recent graduates willing to join the group, 80 of whom were recruited through the successful partnership with the network of universities and diversified employer branding activities. In particular, the group continued constant dialogue with graduates all over Italy, using their preferred instruments, channels and languages, with daily web and social recruitment activities. These activities included planning and holding eight #FSRecruitingday to attract, engage and recruit recent graduates who can propose ideas for the mobility context. In a completely digital process, approximately 12,000 candidates took online recruitment tests (on soft skills, English language skills and video interviews) and the top candidates took diversified on-site tests according to the position to be filled. These tests ranged from project management in teams and collaboration games to technical and motivational interviews with HR and business line managers. This recruiting process will also create another pool of candidates for future job openings, thus reducing the times and costs of the recruitment process, while improving the quality of the results achieved.

Professional breeding grounds were developed, identifying 400 professionals with diversified expertise to devote to different business processes. Each group company followed its own specific procedure for the recruitment of operational personnel on the market, in accordance with the group's principles and guidelines. In 2019, the Development department put the finishing touches on the new Talent Management model, which it had rolled out in 2018, systematising assessment and development practices, methods and processes in new policies. The FS Italiane group's new Talent Development system

recognises and highlights the motivation and aspirations of the people involved in the development process, as well as the different skills and know-how gained through the professional experience of personnel. Moreover, the psychometric tools used to measure potential are gender-blind and culture-free to ensure equal treatment and opportunities.

Considering the high level of predictability and standardisation of results, the group continues to use digital tools to assess potential. In 2019, all intragroup targets (recent graduates and junior managers aspiring to middle and senior management roles) involved in the potential assessment process, took digital and traditional tests.

A new policy to identify group rules of governance for the development process was published. It defines the roles, responsibilities, control measures and rules of conduct.

In 2019, development activities for the group's resources covered:

- professional and/or career development evaluation, involving 332 women and 846 men;
- the annual performance assessment conducted by resource managers using the integrated evaluation system, involving a total of 10,603 people (2,913 women and 7,690 men), representing about 17.5% of the average workforce for the year. The supervisors monitored the annual performance of resources not included in the integrated evaluation system assessment process informally (e.g., by providing feedback on strengths and areas for improvement).<sup>33 34</sup>

## Training

Training is a vital tool in enhancing labour and transforming it, as well as a strategic lever in the strengthening of the FS Italiane group companies' know-how and competitive edge in Italy and abroad.

In line with the business plan, in 2019, training contributed to translating strategies into measurable objectives and actions, through strategic, pilot and improvement projects, and supporting all employees in acquiring and updating the skills and abilities they need to achieve the business targets.

In 2019, the group provided a total of 681,221 training days<sup>35</sup>, around 19% more than in 2018. Their objectives were to:

- roll out education and training processes to develop the competences and skills of group personnel;
- retain and refresh technical-specialised skills in all jobs and professional roles comprising the group's ability to achieve results;
- develop a stronger culture of safety in the workplace and in transport operations throughout the group's various business units;
- develop knowledge and skills that help support and improve the efficiency and quality of business processes and the operating ability of people.

In 2019, the group invested significantly to develop digital learning to support know-how in various fields. This investment, in line with the digitalisation drivers of the group's business plan, has three main objectives:

- facilitating training and education processes by implementing smarter and more modern learning tools;
- reaching more trainees with the mass distribution of contents to broaden participation in training processes and share organisational knowledge;
- triggering culture changes in the approach to learning by giving self-learning opportunities to various positions and responsibility levels.

The investment was implemented through these two actions:

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<sup>33</sup>Of which: 7% managers, 50% junior managers, 43% white collars.

<sup>34</sup> Reporting scope: FS Italiane S.p.A., RFI S.p.A., Trenitalia S.p.A., Ferservizi S.p.A., Italferr S.p.A., Mercitalia Logistic S.p.A., Mercitalia Rail S.r.l., FS Sistemi Urbani S.r.l., Busitalia-Sita Nord S.r.l..

<sup>35</sup> Reporting scope: FS Italiane S.p.A., RFI S.p.A., Trenitalia S.p.A., Busitalia Sita Nord S.r.l., Ferservizi S.p.A., Italferr S.p.A., FS Sistemi Urbani S.r.l., FS Technology S.p.A., Mercitalia Logistics S.p.A. and Mercitalia Rail S.r.l..

- roll-out of a strategic group plan to implement a new intragroup learning management system. The investment in the project was approximately €3.5 million for the 2019-2021 three-year period and it aims to completely update the IT system supporting the group's training and learning processes;
- realisation and mass distribution of multimedia content on topics specific to the group's context.

Through training activities organised by each company, particular attention continued to be devoted to customer centricity matters, to raise awareness about various employees categories and to develop customer management competencies in customer relationship management in ordinary and critical conditions. Furthermore, 15,592 days of training were provided to non-group personnel belonging to supplier companies in order to ensure compliance with consistent standards of expertise and safety.

The total cost was over €8.8 million, covered by financing for training of around €4.8 million.

In accordance with the intragroup plan, the objectives of the parent's training activities were to:

- accelerate innovation processes enabling the development of a mindset that is supportive of internal entrepreneurship and the acquisition of innovative skills;
- develop the managerial culture and competences of group personnel, particularly new employees and all employees involved in development plans;
- accelerate the integration of new employees in the productive system through induction programmes;
- sustain a culture of diversity management by promoting actions to raise awareness and acquire competences to support work/life balance and the ability to value and integrate differences;
- encourage the spread of a business culture focused on internationalisation.

The group's main pilot and consolidation projects are listed below, which involved FS group employees in strategic training sessions in 2019.

- Leadership Programme – in 2019, five programmes dedicated to the development of transversal leadership throughout the group were rolled out. They were differentiated by targets and responsibilities levels. The five programmes promote knowledge of the group's leadership model and the acquisition of the competences in the model. The programmes blend classroom sessions with online learning and feature, workshops to teach soft skills and interpersonal skills, combined with self-learning through the self-guided use of multimedia learning objects;
- Induction Programme – implementing and developing the 2018 plan, a new induction programme was kicked off in 2019 for newly hired group employees. It was entirely revised for a blended approach and to integrate the talent development process in place at group level;
- Innovation Lab – to support the innovation processes, intragroup training workshops were rolled out in order to experiment with an innovation and entrepreneurship mindset, also with a focus on the cultural differences that this mindset drives in relation to conceptual frameworks and implicit, individual and group approaches. The workshop setting is meant to mix people from very different positions, professional areas, companies and hierarchy levels in each session, thus promoting equity in the discussion of ideas and experiences;
- Sustainability – in line with and to support the group's attention to sustainability in the business plan and in accordance with the 2030 European Agenda, through the parent's sustainability professional family, a set of awareness and training actions were planned and taken in the form of training workshops for the directors of all group companies, a communication and awareness video, mass distribution of a digital learning tool on all contents of the 2030 Agenda;
- Personal data protection – in line with the provisions regarding personal data protection, an important training programme was dedicated to all group data managers. The aim was to share their mission and underlying regulations and procedures, including through discussions with important experts;

- Digital workplace – in line with the business plan’s digitalisation targets and in support of the plan to adopt new workplace tools - promoted by the Intranet and Professional Community operating unit - in 2019, the training process for the use of new digital instruments was rolled out in order to enable the development of work tools and the related cooperation and collaboration approach. The plan will be developed in 2020;
- Diversity & Inclusion – in 2019, in line with the importance attributed to the centrality of people in all objectives of the business plan, many diversity and inclusion activities were carried out in order to raise awareness and to train people through digital learning and classroom training sessions. In particular, the focus was on unconscious bias in order to promote more awareness on the implicit distortion in our approach to others and how it can influence judgement, and the prejudices and discriminations of day-to-day work life. A cycle of workshops on this topic was also offered to the HR professional family as the main actor in the delivery of a culture of integration and valuing differences;
- MOOC Platform (Massive Open Online Courses) – to support self-training principles and to enrich the parent’s training projects with modern learning tools, a one-year long pilot project was prepared with a platform named OfCourseMe, which gathers all the MOOCs existing in the world. The target comprises 2,000 employees, including all top junior managers and the resources who started a training project with the parent in 2019. MOOCs are an innovative training method within a high-tech environment that can motivate self-learning and the acquisition of new knowledge, providing trainees with the opportunity to access a high level of university education.

In line with the actions rolled out in 2018 and the objectives relating to work/life balance issues, training projects for women returning work after maternity leave continued.

Professional refresher courses on various topics managed by the parent increased from 2,000 to 12,500 man-days provided in 2019, in line with the goal of promoting a continuous learning approach, including through training and teaching activities provided by internal knowledge owners.

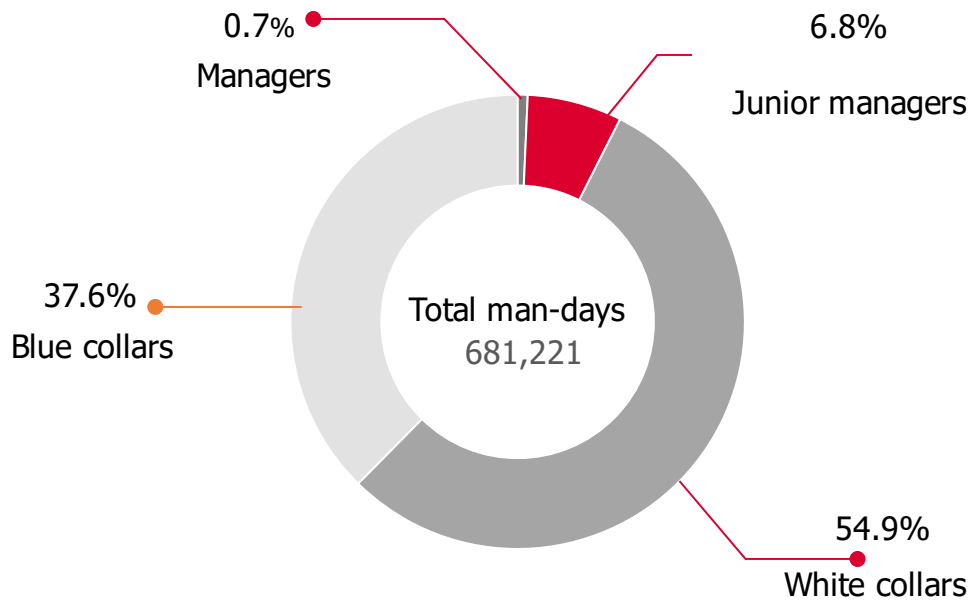
Many digital learning sessions on organisational culture and compliance were provided. They included cybersecurity, personal data regulations, ABC System, antitrust and labour law.

Projects were carried out to develop the know-how of the HR professional family in the fields of training, development, management and relationships with the trade unions, and the Recruiting Academy, an intragroup training process, was launched to create a list of in-house recruiters and to improve knowledge of processes and methods, also in light of the talent acquisition updates at group level.

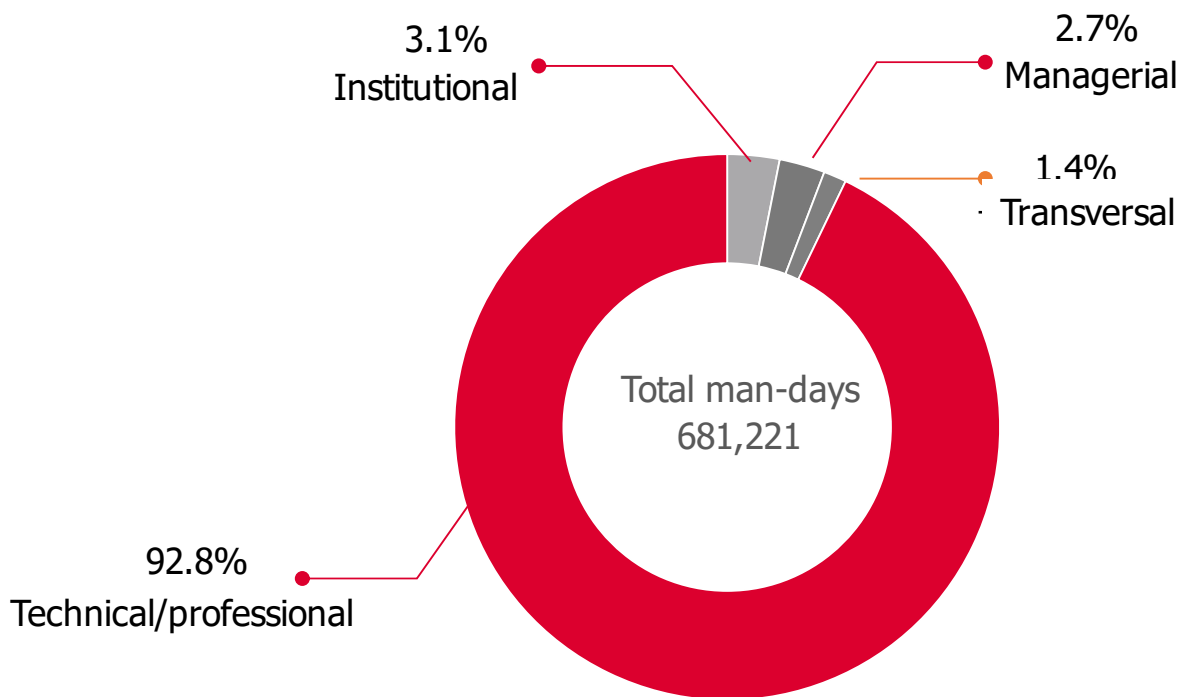
In 2019, the parent implemented an internal catalogue to support the development of soft skills for all the group’s professional roles. The catalogue is comprised of 32 titles covering the competencies of the group’s leadership model, so users may benefit from blended actions on specific topics and build training paths tailored to specific group or individual target needs.

Management training continued with the participation of 144 managers in refresher seminars and webinars on topics such as the scenario, market and leadership provided within The European House Ambrosetti programme. The latter also helped organise an event with an international guest, Leading Innovation, Innovating Leadership. The event was held for 300 top managers of the group, and its purpose was to share, through discussion with an important international figure, developments in the leadership values and behaviours that support modern organisations’ needs to focus on continuous change and technological and business innovation.

### % of training man-days by professional level



### % of training man-days by field of training



## **Health and safety in the workplace**

Health and safety in the workplace are the primary components of the 2019-2023 business plan and contribute to enhancing the group's leadership in domestic and international integrated and sustainable rail and road transport markets. They constitute the group's social architecture, define the strong sense of belonging of all personnel and are the foundation for customers' trust, contributing to the growth of the group's reputation among all stakeholders.

In this view, in late 2019, in line with the previous years, new prevention goals for group companies were set, confirming the objective of guaranteeing an ever-higher safety level for all employee activities, in order to consolidate a culture of responsible and shared safety at all levels. This strong commitment compels group companies to continue developing a prevention management model that is increasingly strict and reliable in controlling the risks inherent to all activities, that is able to adapt to all changes in the company and the outside context, to learn from errors and promote safe and exemplary conduct in employees. The new qualitative and quantitative objectives for the five-year period (including a reduction in accidents by at least 3% in a year and reducing their frequency by at least 3% in a year, particularly the more severe ones) will enable the group to retain its position as European leader for health and safety in the workplace.

In October, coinciding with the European week for occupational health and safety, in order to strengthen the commitment to safety and raise personnel's awareness of prevention, group companies promoted the Safety Day initiative, in which results, new projects and ideas for improvement on health and safety in the workplace were presented.

Considering, among other things, the continuous international growth of the group's companies, the "Updated guidelines on the employer's obligations in terms of health and safety in the workplace for activities carried out abroad". In addition to confirming that in the international context, the companies' main commitment is to ensure the spread of a culture of responsible and shared health and safety, by strict following regulations and standards, in Italy and abroad, the updated guidelines refer to the general guidelines for employer obligations, as per Legislative decree no. 81/2008 in terms of health and safety in the workplace for the group companies' employees working abroad and for EU employees in Italy.

The "Update of technical regulations for the assessment of earthquake risk health and safety in the workplace" (pursuant to Legislative decree no. 81/2008 and subsequent amendments and integrations) was also issued, highlighting the roles and responsibilities of the employer and the building owner for the correct management of earthquake risk, for the assessment of the earthquake vulnerability of commercial buildings and to update emergency provisions to manage an earthquake emergency.

The group's rigorous commitment to prevention focussed on the achievement of the accident reduction and prevention improvement targets for safety operating processes, prescribed by the new guidelines, continued in 2019.

The overall figures confirm the long-term trend of a steady reduction in the number of accidents and the frequency rate.

The table below shows the figures for accidents indemnified, currently being determined, based on INAIL data.

A general improvement can be seen at first glance. The number of accidents and the frequency rate decreased by 19% on 2018, considering a target rate of 3%, while accidents in transit and serious accidents decreased by 28%.

## Accidents indemnified by INAIL: broken down by gender

Accidents indemnified by INAIL <sup>36</sup>	2019 <sup>37</sup>	2018	2017
Accidents at work	983	1,213	1,333
Women	145	149	175
Men	838	1,064	1,158
Fatalities	1	4	1
Women	-	-	-
Men	1	4	1
Serious accidents at work <sup>38</sup>	262	365	364
Women	42	42	37
Men	220	323	327
Accidents in transit	234	324	338
Women	65	95	88
Men	169	229	250
Frequency - overall <sup>39</sup>	15.91	19.56	21.60
Frequency rate - women	13.97	15.44	17.20
Frequency rate - men	16.30	20.32	22.00
Frequency - overall	632	819	838

Anas S.p.A. reported 113 accidents at work, with a frequency rate of 17.7%<sup>40</sup>.

<sup>36</sup> The INAIL data should be considered partially consolidated. As they were reported at 31 January 2020, INAIL could liquidate certain cases referring to events in the reporting period at a later date due to longer settlement times (e.g., gaps in the reconstruction of events, appeals, events that occurred in the last few days of the year).

<sup>37</sup> 2019 figures include: FS Italiane, RFI, Trenitalia, Ferservizi, Italferr, FS Sistemi Urbani, Italcertifer, Mercitalia Logistics, Mercitalia Rail and Busitalia Sita Nord.

<sup>38</sup> Serious accidents >40 days of absence.

<sup>39</sup> Frequency rate: [no. of accidents at work/amount]x 1,000 employees, calculated in accordance with European ESAW standards.

<sup>40</sup>The data are processed using the same criteria used for the other companies.



## Commitment to the community

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In recent years, the Ferrovie dello Stato Italiane group has distinguished itself for its deep commitment to initiatives to relieve social distress in railway areas and redevelop the land for communities. The following information on sustainability in the FS Italiane group also meets the provisions of Legislative decree no. 254.3.1.b) of 30 December 2016.

### **Help Centres**

As the economic crisis continues and migration surges, all of Italy is experiencing the deterioration of social conditions, which is particularly evident at railway stations. Promoted and managed in collaboration with local bodies and non-profit associations, the help centres are the group's contribution to the growing social distress and the considerable rise in migration to Europe. The help centres are information points to shelter those who are most 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 the station on free loan to associations and bodies engaged in combating social marginalisation and covering urgent needs so they can create help centres. The help centre network currently extends to 18 railway stations from Northern to Southern Italy. A total surface area of 3,498 m<sup>2</sup> has been granted, with an estimated value of €5,247 thousand (estimating an average of €1,500 per m<sup>2</sup>). In addition to the 18 help centres already active in Italy, in 2019, the co-project to open a multi-function centre in Rovereto is almost completed, while a new help centre offering more services in Cagliari is due to open in 2020<sup>41</sup>.

The project to expand the Pescara and Messina centres is in place and help centres are being contemplated for Terni.

Existing
Rome
Chivasso
Milan
Genoa
Messina
Bologna
Bari
Pescara
Foggia
Naples
Catania
Turin
Firenze Santa Maria Novella
Melfi
Pisa
Reggio Calabria
Trieste
Brescia

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<sup>41</sup> Following an agreement between the Tuscany regional authorities and the FS Italiane group, a centre is due to open in Grosseto in 2020, while the opening of new help centres in Livorno and Montecatini is being studied.

The group collaborates closely with ONDS, the Italian observatory for solidarity at stations, so the help centres can work in synergy. ONDS, which is managed by the social cooperative Europe Consulting Onlus, coordinates the centres, handles training for help centre workers and performs analyses of social distress. In 2019, the group committed roughly €136,200 thousand to activities to help socially disadvantaged people.

### **Welcome centres**

In addition to the help centres, through various Italian non-profit associations, many shelters have been set up in railway areas, particularly in Rome and Milan:

- the "Don Luigi a Liegro" Caritas shelter in Rome;
- the "Rifugio Caritas" shelter in Milan;
- the "Binario 95" day shelter in Rome;
- the Arca onlus project in Milan;
- the "Pedro Arrupe" shelter in Rome for those seeking asylum and political refugees, managed by the "Centro Astalli" association. The centre has operated in the former Rome shunting site Ferrotel since 2002. In 2019, it hosted 16 families, for a total of 51 people. Nine families left the centre and moved into their own homes or continued semi-independently.

A total surface area of around 11,000 m<sup>2</sup> has been granted, on free loan, for social activities in welcome centres, with an estimated value of €16,524,000 (average value of €1,500 per m<sup>2</sup>). In 2019, the total surface area granted on free loan for social activities (help centres and welcome centres) corresponds to 14,514<sup>42</sup> m<sup>2</sup>, with an estimated value of €21,771,000 (average value of €1,500 per m<sup>2</sup>).

### **Reuse of idle real estate assets and railway lines**

The Ferrovie dello Stato Italiane group owns not only assets that are functional for its core business, but also extensive real estate holdings, some of which are no longer used, consisting of railway stations, booths and tracks. To date, in collaboration with local bodies and non-profit associations, 403 stations have been reassigned for activities to improve the local area or provide public services. Total spaces of roughly 144,200 m<sup>2</sup> have been provided, with a total value of €216,273 thousand<sup>43,44</sup>.

Idle railway lines that can potentially be used for social purposes and soft mobility span approximately 1,400 km, including lines that have been definitively declared out of use by ministerial decree and those consisting of idle sections due to route changes.

At present, roughly 450 km of idle lines have been converted into tourist lines, cycling paths and greenways.

Another initiative to use the group's railway assets for the purposes of tourism has involved using railway routes that are still operational for historic/tourist train journeys. This reuse preserves the infrastructure's function as a railway and the role of secondary lines, which no longer benefit from significant demand for commercial transport.

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<sup>42</sup> The figures on the surface area include the help centres network (3,498 m<sup>2</sup>) and welcome centres (11,016 m<sup>2</sup>). In addition, the group leases a space (7,000 m<sup>2</sup> in the Milano Centrale station) to the Museo della Shoah foundation for social and cultural activities for a nominal fee. The figures regarding the surface areas granted to help centres already include the Cagliari help centres, despite it being due to start activities next year.

<sup>43</sup> The number refers to stations with at least one free loan agreement in place.

<sup>44</sup> The number refers to buildings granted on a free loan basis inside and outside stations; the approximate 13,500 m<sup>2</sup> increase on 2018 is due to the signing of five free loan agreements with different associations in 2019. 4,188,336 m<sup>2</sup> of yards outside stations were granted by the group.

## Main events of the year

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The main events of the year are reported below:

- **Corporate Forum for Sustainable Finance**

On 15 January 2019, the Corporate Forum for Sustainable Finance was established by FS Italiane S.p.A. with the most important European companies that issue green bonds to promote and support sustainable finance. The founding companies, active in production sectors such as electrical energy, infrastructures, transport, environmental services and real estates, contribute to develop bonds, credit lines and other green financial instruments that acknowledge the sustainability of the business models of their issuers.

- **Investments in Lombardy's mobility by rail**

On 20 February 2019, the FS Italiane group's €14.6 billion investment programme to improve mobility in Lombardy was presented in Milan. This plan, scheduled to run until 2025, provides for an infrastructural and technological upgrade, the elimination of 110 level crossings, and works at stations and maintenance of the Lombardy lines. The overall benefits include a more reliable network, development of the intermodal mobility, reduction in road and rail intersections, and a significant improvement in the capacity of some of Lombardy's main high-traffic public transport lines.

- **Real estate and urban regeneration projects**

On 15 March 2019, at the 30th edition of *Marché International des Professionnels de l'Immobilier* (MIPIM) in Cannes, FS Sistemi Urbani S.r.l. presented real estate and urban regeneration projects: the call for tenders for the sale of Rome Tiburtina C1 lot suitable for building, where hotels/commercial areas may be built; urban regeneration of former Milan stations and the masterplan for Farini and San Cristoforo stations; redevelopment of disused areas and buildings in the perimeter of Turin municipality. These constitute, for FS Sistemi Urbani S.r.l., a portfolio of more than 70 development initiatives for a total area of roughly four million square metres for different purposes, sale or rent, residential, commercial, executive, industrial and hospitality.

- **Green Bond Working Committee update**

On 16 April 2019, the board of directors of Ferrovie dello Stato Italiane S.p.A. approved the issue of new green bonds. To implement this resolution, FS Italiane S.p.A.'s Green Bond Working Committee, established in March 2018, began the assessment and monitoring of eligible green projects (EGP), as per the Green Bond Framework (GBF) in force. The Committee found that Trenitalia S.p.A.'s Pop, Rock and ETR 1000 trains met the criteria for eligibility set out by the International Capital Market Association. The Committee also decided to update the GBF, extending the EGPs to include the Mercitalia group companies' rolling stock (new electric trains and carriages).

- **Tax police assessment on Ferrovie del Sud Est e Servizi Automobilistici S.r.l.**

In December 2018, the tax police prepared and served a tax assessment report to FSE S.r.l., with findings for direct and indirect taxes for the years from 2013 to 2016. The assessment originated from the criminal proceedings with the Bari Court commenced by the Public Prosecutor's Office against FSE S.r.l.'s former sole director for fraudulent bankruptcy allegedly committed by the *pro-tempore* sole director and some managers and employees, with the help of consultants and suppliers, in the performance of specific company transactions. The tax authorities, while the tax police conducted the assessment, blocked acknowledgement of the VAT credit due to the company and, subsequently, following the findings of the assessment, issued a notice of assessment solely for IRAP for 2013. Given the importance

of this issue, FSE S.r.l. immediately began discussions with the tax authorities and in May 2019, as per the settlement in agreement dated 7 May 2019, an agreement was reached on the amount due, which was paid on 8 May 2019, with the concurrent release of the VAT credit on 4 June 2019.

- **Delivery of the first Rock and Pop trains for the Emilia Romagna regional transport**

On 14 June 2019, Trenitalia S.p.A. delivered the first new Rock and Pop trains for Emilia Romagna regional transport, as provided for by the first European call for tenders for the urban and regional railway service. The call for tenders allowed for sizeable investments in terms of the number of new trains and their value. In fact, Trenitalia S.p.A. will supply a total of 86 new trains, which will be delivered up to the first few months of 2020, providing for improved performance and comfort in regional connections.

- **The FS Italiane group's hub dedicated to tourism in Italy is launched**

On 27 June 2019, in line with the 2019-2023 business plan, the FS Italiane group, aiming to attract 20 million more tourists than the current 100 million, kicked off a series of initiatives to redistribute flows of tourists and improve the accessibility of art cities and holiday destinations, enhancing the country's image and cultural and landscape heritage. The hub for tourism development involves the FS Italiane group companies operating in passenger transport services and in the management and development of infrastructure and real estate. It focuses on eight initiatives dedicated to: the commercial offer, intermodality, historic trains, soft tourism, experience tourism, culture and music, real estate heritage and digital infrastructure. In fact, these actions are designed for Italian and foreign tourists who, thanks to a multi-modal offer, will be able to use a system of tailored products and services that are integrated, digital and sustainable in order to reach seaside, mountain and art destinations.

- **The partnership between Mercitalia Rail S.r.l. and FFS Cargo, ÖBB Rail Cargo Group, PJM continues**

On 28 June 2019, during the 2019 transport logistics fair in Munich, Mercitalia Rail S.r.l., FFS Cargo, ÖBB Rail Cargo Group and PJM confirmed their cooperation in developing and introducing the "semi-automatic preparation" of trains. In particular, the work group focused on automatic brake tests, where operators can control brakes' status directly from electronic devices. Not only did the project focus on saving time, but it also considered safety. By automating the system, the safety of train preparation, which is already very high, should improve further.

- **Ferrovie dello Stato Italiane S.p.A., Trenitalia S.p.A. and Rete Ferroviaria Italiana S.p.A. entered the Cooperative Compliance scheme with the Tax authorities**

On 9 July 2019, Ferrovie dello Stato Italiane S.p.A., Trenitalia S.p.A. and Rete Ferroviaria Italiana S.p.A. entered the Cooperative Compliance scheme with the Tax authorities, as per Legislative decree no. 128/2015, known as Cooperative Compliance. The model for participation in this scheme was developed to fully and efficiently integrate with the model of the manager in charge of financial reporting (the "262 Model"), and participation in the scheme is a significant demonstration of the efficiency of initiatives and activities put in place over the past few years by the group to safeguard its own internal control and risk management system. It falls within the group's wider tax strategy, which has always been to minimise tax risk, with the conviction that ongoing, transparent and preventive cooperation with the tax authorities creates value for the business.

- **FSE S.r.l. delivers preparatory works and work sites for the electrification of the Martina Franca-Lecce-Gagliano and Maglie-Otranto sections**

On 31 July 2019, the preparatory works and work sites necessary for the electrification of 180 km of the Martina Franca-Lecce-Gagliano and Maglie-Otranto sections of the FSE S.r.l. network were delivered. The total investment of €130 million was financed by the regional funds of the Development and Cohesion Plan. Works will last four years, during which technological upgrade and enhancement works on 28 crossing levels will be performed to improve safety and efficiency standards, and around 2.6 km of noise dampening barriers will be installed. The work sites will employ around 150 working units and 25 vehicles. Thanks to the electrification works, the Salento backbone can be connected to the national railway network.

- **Four-year agreement between Mercitalia Rail S.r.l. and the Marcegaglia group for the railway transport of steel in Italy and abroad**

On 2 August 2019, Mercitalia Rail S.r.l. and the Marcegaglia group, world leader in steel processing, signed an agreement for the rail transport of steel in Italy and abroad. The agreement has a term of four years (2019-2022). The service provides for around 30 trains per week (using Mercitalia Rail S.r.l.'s new higher-performance electric trains and the new smart carriages for the transport of coils) on national routes and international routes between Italian and Germany, Poland and Serbia). Overall, Mercitalia Rail S.r.l. will transport approximately 1.3 million tonnes of steel every year, with clear benefits in terms of environmental sustainability as well.

- **Rete Ferroviaria Italiana S.p.A. obtained the ISO 55001 asset management certification**

On 19 September 2019, Rete Ferroviaria Italiana S.p.A. obtained asset management certification pursuant to international standard ISO 55001. It is the first and only quality certification obtained in Italy for the management of property, plant and equipment, making Rete Ferroviaria Italiana S.p.A. one of the first railway infrastructure operators to achieve this milestone in the world, in consideration of the vast railway network it operates.

- **Infrastructural enhancing works of the Quadrante Europa interport in Verona**

On 23 September 2019, the objectives of the infrastructural enhancing project for the Quadrante Europa interport were presented in Verona. The purpose is to increase overall capacity, attract increasingly higher freight volumes for the combined road-rail transport and strengthen the strategic and logistics operations in Verona. These works will increase the overall capacity of the Verona Quadrante Europa intermodal terminal in order to respond adequately to growing demand for combined rail transport, which is destined to rise when the Brenner Base Tunnel is completed and open, as well as when the HS/HC eastwards line is developed. The ultimate target is to promote integration of the railway network with ports and interports. This will be necessary to obtain maximum levels of synergy in freight transport logistics, with a view to utmost sustainability.

- **Standard & Poor's confirms its "BBB" rating and improves the stand alone credit profile of FS Italiane S.p.A.**

On 30 September 2019, Standard & Poor's issued its annual credit rating of FS Italiane S.p.A., confirming its Issuer Credit Rating at "BBB" and negative outlook reflecting that of the Italian Republic. It also confirmed its BBB rating for the €7 billion EMTN Programme and related bonds. Moreover, it upgraded the stand alone credit profile (SACP) from "bbb" to "bbb+", going one notch above FS Italiane S.p.A.'s overall rating and that of the Italian Republic.

- **Sustainability as the core of the FS Italiane group's objectives, also for freight transport**

On 30 October 2019, at the MercinTreno forum in Rome, Mercitalia Logistics S.p.A. confirmed the FS Italiane group's commitment to green freight transport, which will also continue with the setting of long-term objectives (2030-2050): i) increase in the shift to modal transport for freight; ii) reaching top safety levels in rail, road and motorway transport and iii) reducing CO<sub>2</sub> emissions to become carbon neutral by 2050.

The parent Ferrovie dello Stato Italiane S.p.A. was the first corporate issuer to finance the purchase of rolling stock for freight transport using green bonds, as well as the first to obtain the Climate Bonds Initiative (CBI) certification. CBI is an international non-profit organisation that promotes sustainable financing around the world to combat climate change.

- **Reopening of the Genova Voltri marshalling yard of the Genoa hub**

On 17 November 2019, within the context of upgrading works at the Genova Voltri marshalling yard and fully on schedule, tracks 1, 2, 3 and 4 were activated. With this first phase of the works for the Voltri station, the marshalling yard has been expanded to six tracks with modulus longer than 400 metres and the construction of a two-track connection to the port operator's rolling stock fleet. This will be completed with the adaptation of the stopping modulus to the European standard of 750 metres, the laying of a 7th track and the upcoming connection to the 'Terzo Valico dei Giovi'.

In this way, Genoa, the strategic gateway to the Mediterranean Sea, can play its role in Corridor 6 of the European TEN-T network.

- **The FS Italiane group for the Alitalia transaction**

On 20 November 2019, the board of directors of Ferrovie dello Stato Italiane S.p.A. analysed the stances of the potential industrial partners in relation to a potential offer for the Alitalia transaction, thus confirming its commitment and willingness while the extraordinary commissioners evaluate the possible measures to take. FS Italiane S.p.A. did not receive a formal reply to the consequent letter that it sent to Alitalia's extraordinary administration procedure on 20 November. Nonetheless, members of the Italian government subsequently stated that, based on the information regarding the sale procedure in which FS Italiane S.p.A. took part, the procedure was concluded without any sale.

- **The FS Italiane group presented the new "SOI" system to digitalise the monitoring of the railway network at the Smart City Expo World Congress**

On 21 November 2019, FSTechnology S.p.A. and Rete Ferroviaria Italiana S.p.A. took part in the Smart City Expo World Congress, the most important technology and innovation event in the world held in Barcelona from the 19 to the 21 of November at the Gran Via Exhibition Centre. For FSTechnology it was a chance to present the "SOI" system to digitalise the monitoring of the railway network based on HxGN OnCall, the last generation software to manage control rooms, developed by Hexagon Safety & Infrastructure, a group specialised in technological solutions for the safety of strategic infrastructures.

- **Signing of the memorandum of understanding for the construction of the Del Ferro railway logistics hub in Piacenza**

On 30 November 2019, a memorandum of understanding was signed for the construction of the new Piacenza intermodal hub, known as the "Polo del Ferro". The hub will be built thanks to significant investments by Piacenza Intermodale, a company of the Swiss group Hupac, Mercitalia Logistics S.p.A. and Rete Ferroviaria Italiana S.p.A. for the FS Italiane group. The objective is to reinforce the network to enable the circulation of trains with higher load volumes, strengthen connections with ports and improve last mile transport to and from production districts and intermodal terminals.

- **Signing of the new service contract for regional transport in Campania**

On 3 December 2019, the new 2019-2033 service contract between the Campania region and Trenitalia S.p.A. was signed. It provides for investments of approximately €680 million, 37 new trains and the replacement of the fleet by 2025, with the first train to be delivered in 2020.

Quality will be improved by updating the fleet and decreasing the average age of rolling stock: €388.9 million (€208.9 million paid by Trenitalia S.p.A. and €180 million by the Campania region) will be spent to buy 12 new medium capacity trains and 25 Rock trains.

Finally, the contract provides for the allocation of €90 million for plant and infrastructure, including €80.8 million for maintenance plant, €21.2 million for IT and €163.09 million for routine maintenance.

- **FS Italiane in support of the disabled**

On 3 December 2019, the International Day for people with disabilities in Rome, the FS Italiane group confirmed its commitment to making the railway system more accessible for everyone. To this end, RFI S.p.A. has already commenced work for an investment of €400 million (2018-2019 two-year period) in works to improve station accessibility and more than one thousand assistance services a day to persons with reduced mobility or disabilities who chose to travel by train.

- **Signing of the new 2018-2032 service contract between the Calabria region and Trenitalia**

On 11 December 2019, the new 2018-2032 service contract between the Calabria region and Trenitalia S.p.A. was signed. With the extension of this contract, Trenitalia S.p.A. will invest approximately €300 million to improve commuter services in Calabria by purchasing and rolling out 27 new trains made in Italy, including brand new Pop trains, medium capacity trains and hybrid trains, the pinnacles of the Italian regional fleet.

- **€77 million for projects financed with the National Operating Programme for Rete Ferroviaria Italiana S.p.A. in Sicily**

On 13 December 2019, the request for financing was approved with the MIT allocating €77 million to Rete Ferroviaria Italiana S.p.A. for the electrification of the Cinisi – Alcamo section of the Palermo – Trapani “via Milo” line and the construction of the new Acireale Bellavista station. The projects will be financed with the EU funds of the 2014-2020 National Operating Programme managed by the MIT.

- **The CEO of the FS Italiane group signed the UIC Railway Climate Declaration**

On 13 December 2019, the CEO of the FS Italiane group signed the Railway Climate Declaration - New 2019 Pledge of the *Union Internationale des Chemins de fer* (UIC) which committed all FS Italiane group companies to reducing energy consumption and CO<sub>2</sub> emissions in their activities, using renewable energy for infrastructure, workshops, stations and offices and supporting the modal shift towards sustainable means of transport, like trains.

- **Signing of the new 2019-2033 service contract with the Marche regional transport**

On 16 December 2019, the Marche region signed the new service contract assigning Trenitalia S.p.A. the regional service for 15 years. This contract, worth €1.2 billion, will make it possible to invest in and enhance the commuter service in the region.

- **Conclusion of the AGCM/519 proceedings**

As per the resolution approved in its meeting of 3 May 2018, the Italian Antitrust Authority (AGCM), began a formal investigation into Ferrovie dello Stato Italiane S.p.A., RFI S.p.A. and Trenitalia S.p.A. to assess whether they had violated article 102 of the Treaty on the Functioning of the European Union (abuse of a dominant position). The proceedings ended in 2019 with the AGCM imposing a symbolic fine of €1,000 on the above companies jointly and severally. FS Italiane S.p.A., RFI S.p.A. and Trenitalia S.p.A. brought an appeal before the Lazio regional court to annul measure no. 27878. The hearing for discussion of the merits has not yet been scheduled.

## Internationalisation initiatives

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- **The Netinera group is awarded the Netzes Elbe-Spree tender for regional transport**

On 5 February 2019, the company Ostdeutsche Eisenbahngesellschaft (ODEG), 50% held by Netinera Deutschland GmbH and 50% by the railway holding company BeNEX, was awarded the Netzes Elbe-Spree tender in Germany to provide transport services in the Berlin, Brandenburg and Saxony-Anhalt government districts. The contract will be in force from 2022 and entails investments of €400 million over the 12 years of the contract;

- **Italferr S.p.A. is awarded a contract for the executive design and supervision of works in India**

On 6 February 2019, Italferr S.p.A. in a joint venture with Lombardi SA, was awarded the contract for the executive design and work supervision of the construction of the first 12 km (almost entirely comprised of tunnel) of the Himalayan rail tunnel along the Rishikesh – Karnaprayag line in Uttarakhand. The executive design and the work supervision stages will last nine and 60 months, respectively.

- **The FS Italiane group promotes cooperation between the Hungarian and Russian railways for the development of freight traffic along the Mediterranean Corridor and the Silk Road**

On 18 June 2019, a trilateral meeting with delegates of the FS Italiane group (promoter), Hungarian railways (MAV) and Russian railways (RZD) was held in Budapest. During the meeting, the parties expressed their intention to develop a new freight corridor from Italy to Russia, via Slovenia, Hungary and Ukraine, in line with the planned development of the TEN-T Mediterranean Corridor and the Silk Road, supported by the services provided by the Zahony logistic terminal, the last outpost in the north-east of Hungary, at the border with Ukraine.

- **Start of Phase 2 for the development of the Metro Riyadh O&M project**

On 10 September 2019, Phase 2 for the development of the Metro Riyadh O&M project started. Specifically, it relates to the management of the operation and maintenance services of lines 3, 4, 5 and 6 and the contract was awarded to the FLOW consortium (Hitach Rail STS 35%, FS Italiane S.p.A. 35% and Alstom 30%). To confirm the positive performance of the activities, the client Riyadh Development Authority (RDA) issued the Commencement Certificates of Phase 2 of the project. This phase will last 12 months and entails mass hirings of all employees involved in the maintenance of the metropolitan system, including facility management, cleaning and security services.

- **In Europe, Trenitalia S.p.A. dominates the Iberian market**

On 28 November 2019, Trenitalia S.p.A. was awarded the HS service in Spain for the Madrid – Barcelona, Madrid – Valencia/Alicante and Madrid – Malaga/Seville connections. The commercial service will be operated by Frecciarossa on the five routes, with a fleet of 23 new ETR 1000 trains made with eco-sustainable technologies. From January 2022, Trenitalia S.p.A. will bring the ILSA consortium its know-how, which has transformed the way we travel.



- **The FS Italiane group rolled out the Avanti West Coast service in Great Britain**

On 9 December 2019, the first train of the Avanti West Coast rail service set off from Euston (London). The West Coast franchise (2019-2031) between Trenitalia S.p.A. (30%) and FirstGroup (70%) includes services from London to Birmingham, Manchester, Liverpool, Preston, Chester, Edinburgh and Glasgow. The logo is a bright orange triangle, representing the geographic extension of the line, equal to 650 km.



## Risk factors

### Internal controls and risk management system

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The FS Italiane group's operations include a wide range of particularly complex, detailed and varied processes (infrastructure design, construction and maintenance, railway and road network management, passenger and freight transport services and real estate management), which could give rise to significant risks and uncertainties. While management and the structures specialised in risk monitoring continue to play a crucial role in risk management (as they are responsible for "level 1 control"), over time, the FS Italiane group has organised various level 2 controls (e.g., the manager in charge of financial reporting, the Risk Management, the Compliance Officer, Anti-Bribery & Corruption and the Data Protection Officer at FS Italiane S.p.A.) to support management in the definition and implementation of adequate management and monitoring systems for the main risks and controls.

In this context, the group's chief risk officer (CRO) coordinates management of the group's overall risk governance process, as well as those areas falling under its responsibility (risk management and data protection officer). In this respect, the Risk management department designs, implements and governs the integrated enterprise risk management model and the integrated monitoring of the overall group risks, combining strategies, policies, processes and operating mechanisms for the identification, taking on, management, mitigation, monitoring and reporting of the main risks faced by the group and coordinating the group's various risk management controls.

For the proper attestation of the financial statements, the manager in charge of financial reporting has implemented a 262 risk control model based on risk assessments conducted on the administrative/accounting processes. Compliance's duties include checking that company and group guidelines, provisions and procedures are compliant with the relevant legislation and national and international best practices, submitting proposals for adjustments so they are legally compliant. The Anti-Bribery & Corruption Unit coordinates the methodology of the corruption prevention process, including through the monitoring and updating of the Anti-Bribery & Corruption management system.

Lastly, as the "level 3 controls", Internal Audit independently monitors and provides assurance on the architecture and efficient functioning of level 1 and 2 controls.

### Business and strategic risks

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The FS Italiane group's main business risks relate to: i) competition as access to its markets has opened up; ii) credit collection and the funding of investments arising from contracts with regions, autonomous provinces and the government and, lastly; iii) 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, which have resulted in an increase in the offer and presence on the reference market. 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 spending, 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 critical 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 continuous upgrading of the fleet is a way to

innovate and attract potential new customers, both in the domestic and the European markets. Similarly, the development of sales channels, supported by technological innovation and a greater focus on customers, will create additional competitive edge to mitigate part of the group's business risks.

In Europe, the Fourth Railway Package was completed. It radically innovates the regulatory framework and proposes an integrated approach to breathe new life into railway transport in Europe, enabling the creation of a single European railway space. The implementation of Directive (EU) no. 2370/2016 concerning the opening of the national passenger railway transport service market created the potential risk of erosion of market shares due to the possible future arrival of new competitors in the Italian HS market. The group constantly monitors risks and opportunities deriving from the opening of the market.

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 for its invested capital, enabling it to cover any delays in collections. Furthermore, Trenitalia S.p.A. is investing significantly to update the rolling stock fleet and is taking all the necessary actions to ensure that deliveries are made as scheduled, in full compliance with the contractual commitments with the regions.

As mentioned, the group is operating in a challenging context undergoing continuous change and with a steadily evolving regulatory framework. In recent years, a series of different rules and/or regulations has affected the group's business operations, while additional aspects are currently being defined. In this regard, the ART has issued decisions in the area of railway LPT, including no. 120 of 2018 which covered "methodologies and criteria to ensure the efficiency of regional railway services operations". This decision provides for operational efficiency and effectiveness targets in regional service contracts which could delay the signing of future contracts and entail the periodic review of contracts that have already been signed, starting at the end of 2020. However, the economic balance of the contracts still mitigates any such changes. In this context, among other things, Anas S.p.A. faces the risk of difficult changes to the Programme Contract, which could impact performance and the forecast results. As explained in more detail in the Compliance, legal and contractual risks section, the regulatory scenarios, coordination actions and flows of information with government and legislative bodies are analysed for these risks as well.

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

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The FS Italiane group outsources rolling stock and railway and road 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 some 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.

Infrastructural investments are complex projects requiring substantial financial resources and an intricate organisational and project management structure that the group, through its subsidiaries, has in place. Many different events could impact the performance of work, affecting forecast deadlines/costs, as well as the quality, efficiency and availability of the railway and road infrastructure, and therefore generate potential negative effects on results. To mitigate these risks, the group implements management and control procedures enabling it to constantly monitor the physical, economic and financial progress of infrastructural investments and trigger mechanisms for the definition of improvement or corrective actions. Moreover, the wide-ranging project to innovate the investment management procedures, optimising the IT tools used for operational management and, more generally, to support the whole-life asset management model continues.

Railway infrastructure is also vulnerable to interruptions/inconveniences due to faults in plant and technologies, natural disasters and vandalism, which could affect operating service continuity, bringing it to below expected quality standards. To manage these events, the group, with growing support of technology, has adopted avant-garde security, control and monitoring systems and carries out specific cyclical maintenance on the network, following procedures for the management of irregularities and emergencies and specific contingency plans with a constant focus on updating the public and providing auxiliary services.

In order to improve service quality, through its subsidiaries, the group has kicked off, among other things, projects to implement systems that optimise the scheduling of rail timetables and traffic management. It has also set up a Punctuality committee at RFI S.p.A. was set up, responsible for controlling and monitoring real punctuality with respect to all subjects involved, in order to identify short, medium and long-term actions in terms of managing traffic, the commercial offer and technical scenario, the maintenance model, planning and making investments and implementing standards to resolve recurring faults in plant. The committee may also call discussion panels with railway companies and, if necessary, with other applicants, in order to maximise results and identify shared solutions, in compliance with the regulatory framework and the principles of fairness and non-discrimination.

Moreover, the design criteria at the root of the path catalogue have been adjusted in accordance with the need to respond to greater transport demand, to make the timetable system more solid, to maintain the commercial attractiveness and to improve the integration of the HS offer and regional services in urban hubs. Lastly, to control the saturation risk of the most important commercial lines and, in general, to improve capacity, performance and network accessibility, the group is implementing actions to make circulation smoother and increase traffic capacity in big urban hubs, redefining the routes that cross big terminal stations and activating, for the entire network, investment plans for technological upgrades (i.e., ERTMS HD and ERTMS distancing systems).

With reference to stations and related services, steps continue to be taken for the reuse and redevelopment of the buildings/areas - including for social purposes - to improve accessibility, availability, appearance and security for passengers/customers. Projects are also underway to facilitate links and exchanges with other modes of transport and to deploy digital technologies to make travel information and other station utilities more innovative and efficient. These actions fall within the broader project of providing customers with additional, complementary services over the term of the plan, consistent with the new concept of the station as not only a transport hub but also as a local attraction and services hub.

The group'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 all signed an integrative labour agreement in 2009 and the national labour agreement subsequently in 2012 and 2016. Operational risk deriving from potential violations in relation to safety in the workplace is mitigated thanks to careful and constant monitoring carried out by senior management, the departments and relevant structures.

## Country risk

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Risk analyses of the countries relevant to the group supported commercial activities throughout 2019. The risk scores and rankings were updated quarterly, based on the group's methodology, for the 172 countries observed.

The group's framework for the classification of geographic areas has been updated to consider the country's level of attractiveness in order to respond to new strategic guidelines for business development on one hand, and the more complex international context in the other. It further reinforced the weight of some risk components.

2019 also saw the formal definition of the offer process as part of the parent's business development and consolidation in international markets. In particular, the decision-making process was revised for an especially risk-based approach.

## Project risks

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The group's Risk management department has been devoting increasing attention to risks related to domestic investment projects in the railway system. In 2019, more project risk management testing on selected pilot projects was carried out, making it possible to further adjust the best international standards to the group's characteristics.

The project risk management method will be extended to more group companies in 2020 and risk analyses will be carried out on the project portfolio (portfolio risk management).

## Compliance, legal and contractual risks

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The business areas in which the group operates are highly regulated at both national and international level. The group is exposed to compliance risk, which it monitors with specific controls to analyse the effect of legislative and regulatory change. Generally, in relation to risks that could arise from changes to the legislative framework, the management of relationships and information flows with the governing and regulatory bodies (sector, independent administrative authorities), even in the event of disputes, always represents an occasion for discussion and dialogue, particularly on the substance, and is characterised by transparency, collaboration and proactiveness. Given the complexity of its businesses and the many activities it carries out, the group is nonetheless exposed to risks of non-compliance generally arising from the potential failure to comply with the legislative and regulatory framework, with consequent penalties of a judicial or administrative nature, financial losses and damage to reputation.

To further strengthen its control system, the parent created a specific organisational structure responsible for checking that company and group guidelines, provisions and procedures are compliant with the relevant legislation and national and international best practices.

The FS Italiane group's compliance model provides for:

- analysis and monitoring of the changes in the internal and external context (i.e., regulatory, organisational, strategic, market), in coordination with the other departments involved (legal, specialised controls, such as the DPO, ABC system and organisation), in order to identify impacts on each company;
- specialised and methodological support provided to process owners in the identification and assessment of compliance risk with an impact on the business originating from new and/or updated laws and regulations, also in consideration of organisational, strategic and market changes;
- direct control or specialised support in the management of corporate compliance programmes (the organisational, management and control model pursuant to Legislative decree no. 231/2001, the antitrust compliance programme, the ABC management system, the data protection framework, etc.) and the promotion of internal and external training, information and communication campaigns in order to spread a culture of compliance.

The compliance model also envisages specialised support for the group's business segments in relation to commercial or business development initiatives, especially those in international markets, (business & trade compliance, sponsorships,

partnerships and/or co-marketing and mergers and acquisitions) and other innovative strategic initiatives that require prior compliance analyses.

Given the advanced stage of the deregulation of markets on which the FS Italiane group companies operate, the group has also set up an antitrust compliance programme for the group companies to follow. While respecting the autonomy and independence of the individual companies, and the railway infrastructure operator's in particular, the purpose of the antitrust compliance programme is to improve their ability to prevent and manage the risks resulting from non-compliance with antitrust regulations. In this context, a body has been appointed to implement the programme. Its members are the head of the Compliance department and the head of the Antitrust and mergers and acquisitions department reporting to Ferrovie dello Stato Italiane S.p.A.'s Central general counsel, institutional affairs and compliance department.

Considering the high levels of penalties and, more generally, the financial and reputation risks of non-compliance with Regulation (EU) no. 679/2016 (General Data Protection Regulation – GDPR), the group issued a set of organisational communications, establishing a framework for personal data protection based on three levels of control. Those group companies that are required to have appointed a Data protection officer, who monitors compliance with the regulation within the individual companies. Lastly, a computerised register of data processing was set up, various assessments have been made of the impact on data protection, and the rights of the data subjects regarding their data ensured, both by improving and updating the disclosure on processing and responding to specific requests.

Legal and contractual risks 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, after the appropriate mitigation actions and accruals, fall within the tolerance limits considering business operations.

## Procurement risks

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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 Electrical Energy, Gas and Water Authority ("AEEGSI") adjusted the cost of energy, which could affect the group companies' results and are, therefore, constantly monitored. 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. In addition, to ensure increasingly higher efficiency levels in the use of public resources, the group has commenced a project to redesign the procurement process on the basis of an analytical model to determine the optimal price of supplies. Another objective of this project is to make procurement faster, simpler, more traceable and paperless. In particular, the project will minimise processing times (from the specification of materials to accounting), ensure continuity at work sites by improving the punctuality of order deliveries, and reduce non-current assets held in local structures and the central warehouse.

## IT and cyber risks

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The digital revolution in transport and mobility has triggered a human and industrial transformation process throughout the entire sector. The use of new technologies, such as Blockchain, AI and IoT (Internet of things) is equipping the industry with cognitive capacities that only a few years ago could not even be imagined. However, while this new digital dimension

is the groundwork for the development of more efficient mobility services, it also provides cyber criminals, including terrorists, with the opportunity to launch attacks to steal confidential information or block the provision of essential services. As railway assets, trains, buses, stations, tracks, employees' devices and suppliers' IT systems are increasingly interconnected, the risk that even only one of them might be compromised, with a domino effect causing service disruptions and impacts on customers cannot be overlooked, nor accepted.

Cyber threats are an inevitable consequence of digitalisation that the group, as an operator of essential services, must recognise and contain.

Over the last few months, intense institutional activities have led legislators to issue important decrees to identify the operators providing essential services to citizens and define the perimeter of the technological systems used, whose functioning is fundamental to ensure service continuity. The recent Directive (EU) - NIS (Network and Information Security) on cyber security, implemented in Italy with decree no. 65 of 18 June 2018, requires the FS Italiane group, in its capacity as an operator of essential services (OSE), to adopt technical and organisational measures that strengthen cyber risk management and prevent IT incidents in the context of a national and European model, fundamentally based on the cooperation and integration of information throughout the EU member states. Furthermore, Legislative decree no. 105 of 21 September 2019 established the national cyber security perimeter. The perimeter includes public and private entities that may be considered strategic players and whose protection is essential for the functioning of the country. They are required to apply adequate technical and organisational security measures.

In consideration of the regulatory requirements and the rapid evolution of cyber threats, the group has resolved to adopt an integrated model to guide and govern security. This model is capable of combining physical and cyber security management in one command centre and guaranteeing consistent general principles and operating logic. The purpose is to identify threat sources as quickly and as reliably as possible, regardless of whether they are physical, cyber or hybrid attacks, and to respond as rapidly as possible. There must be a clearly-defined interface with the police forces, civil protection agency and all security bodies and institutions, as well as the equivalent bodies in other countries. The group has designated the Central corporate protection department as the single department for the management of all the group's cyber security activities.

In 2019, the Central corporate protection department created and opened the new Cyber security operations centre, a specialised hub where state-of-the-art technological and human resources meet to prevent, detect and fight cyberattacks. The new Cyber security operations centre, which is active 24 hours a day and 365 days a year, protects over 80,000 group workstations, detects, fights and neutralises more than 10,000 cyberattacks every year (10,139 in 2019, over 60% more than in 2018), and uses the most recent technologies on the market able to use AI to recognise and detect and fight cyber threats. As for physical attacks, the new Cyber security operations Centre meets high security and resilience standards and has set up Lampertz room for disaster and recovery operations. The Cyber security department's organisational model is currently being updated to the new regulatory framework, with an additional increase in expert resources.

An information classification and protection project began in the first half of 2019 to, inter alia, define an information classification framework and identify and acquire specific operating tools to manage and protect information.

Lastly, the group has begun important risk mitigation activities with the transfer of all group companies' respective ICT departments to a new company, FSTechnology S.p.A., as described in more detail in the notes to the consolidated financial statements.

## Environmental risks

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The Ferrovie dello Stato Italiane group is convinced that environmental protection is a strategic element in the development of its business. This conviction translates into maximising the environmental advantages of collective passenger transport - by rail, road and waterways - and freight railway transport, as well as minimising the adverse impacts on the environment.

The group is exposed to a number of environmental risks as it assigns contracts for the construction of infrastructure and operates transport of freight that could potentially be hazardous for the environment. Consequently, it must comply with an extensive series of environmental laws and regulations. The group's focus on environmental issues may require it to change its activities, and this could generate expected or unexpected costs.

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. Furthermore, Ferrovie dello Stato Italiane S.p.A. and the main group companies are involved in the implementation and certification of their environmental management systems in accordance with the ISO 14001:2015 standard, which promotes the integration of the environmental management system in the business and the inclusion of the environment as a strategic factor for the organisation.

The group also controls the environmental risk of its contractor companies assigned infrastructural works projects, which includes a contractual obligation for the construction companies to adopt an environmental management system (UNI EN ISO 14001) for site activities for the entire duration of the contract and provide the company and relevant bodies with objective evidence of their controls over project activities.

In addition to existing legislation, the probable future adoption of legislative instruments and new laws at a local, regional, government or inter-governmental (global) level, with the objective of containing greenhouse gas (GHG) emissions, could impact the group's business model, for instance by pushing for the use of energy produced by renewable sources.

Lastly, the risks related to climate change could have significant negative effects on the group's business. These risks, as per the definition of the European Commission's communication of June 2019, are monitored and classified as:

- transition risks, comprising:
  - risks related to policies and changes in the regulatory framework (i.e., imposing energy efficiency requirements, a carbon tax etc.);
  - legal risks (i.e., risk of litigation for failing to adopt measures to minimise adverse impacts on the climate, etc.);
  - market risks (i.e., risks related to changes in consumers' behaviour potentially privileging greener services);
  - technology risks (i.e., risks related to failure to adopt new greener technologies);
  - reputational risks (i.e., risks related to the difficulty of attracting and retaining customers, employees, business partners and investors if a company is perceived as responding inadequately to the challenges of climate change);
- physical risks, comprising:
  - acute physical risks, related to extreme weather events such as hurricanes, floods, droughts, whose increasing frequency and intensity are connected to global warming. These events may disrupt our activities and damage the infrastructure;
  - chronic physical risks, which arise from longer-term changes in the climate (temperature changes, reduced water availability, rising sea levels, less stability in land, etc.) with significant consequences for rail and road infrastructures.

These risks are controlled via continuous monitoring of the regulatory framework and national and European policies on climate change, through a governance and reporting system and the definition of long-term goals in which the group is committed to reducing CO<sub>2</sub> emissions (carbon neutrality by 2050) and driving the modal shift towards collective mobility for passengers and railway transport for freight goods.

The group mitigates physical risks by constantly monitoring possible scenarios (including participation in the work groups promoted by UIC), and designing, building and maintaining infrastructures that are more resilient to the effects of climate change, which includes redundancy mechanisms (e.g., backup lines).



## Social risks and risks related to human rights protection

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The FS Italiane group has formalised its commitment to responsible conduct in line with the ten principles endorsed by the UN in the Global Compact.

In particular, with respect to human rights, by signing the Global Compact, the group has formally undertaken to:

- uphold and comply with international human rights provisions;
- ensure that it is not complicit in human rights abuses.

The code of conduct is a “charter of fundamental rights and responsibilities” whereby the FS Italiane group establishes and clarifies its ethical and social responsibilities and commitments to all internal and external stakeholders. The principles are constantly, carefully monitored and promoted in ongoing awareness campaigns within the group. Demonstrating the effectiveness of its controls, there were no incidents of discrimination during the year (related to ethnicity, nationality, political opinions, religion, gender, age, ability, sexual orientation and personal or social conditions) involving internal and/or external stakeholders. As the group is aware of the importance of suppliers in mitigating social risks and those related to the protection of human rights, it has also designed an evaluation process for the supply chain to strengthen its ability to identify and manage its impacts. Specifically, the standard contractual clauses include requirements that the contractor must comply with: i) labour and social security laws with the application of national labour agreements; ii) health and safety in the workplace requirements; iii) the standards in the group code of conduct. However, the internationalisation process may exacerbate these types of risk. As described in the paragraph on country risk assessments, respect for human rights is a key focus point in the overall assessment of investments. Furthermore, for large projects, in order to optimise the impacts on the local area and the community, the group makes it a priority to use tools that engage the local community (e.g., social and environmental impacts assessment, the service conference, the Conference of Regions and Autonomous Provinces, the Unified Government and Regions Conference), which help it respond to the legitimate requests of stakeholders.

To ensure respect for human rights along the supply chain, the group has also commenced a project (initially with RFI S.p.A.) to include a scoring criterion that rewards suppliers for their sustainability in their tenders, using the monitoring platform developed by EcoVadis. EcoVadis’ assessment is based on 21 criteria, divided into four areas: Environment, Labour Practices and Human Right, Fair Business Practices and Sustainable Procurement. Specifically, evaluation of the respect for human rights considers the following criteria: child and forced labour, discrimination and harassment and the fundamental rights of man. The project will be progressively extended to all main group companies.

Furthermore, the group is promoting a path of continuous improvement in the management of its supply chain thanks to its participation in RailSensible, an initiative that brings together major railway companies to promote sustainable procurement by sharing best practices and virtuous processes.

## Human resource management risks

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The risk factors of human resource management constitute critical issues requiring attention at a time of significant change like the present. Failure to manage these risk factors could preclude the achievement of the challenging targets established in the business plan.

Accordingly, relationships with trade unions are of significant importance in this context. 2019 was not a year of widespread labour unrest, following the agreements signed and the roll-out of the Participation and consultation body, which managed some sensitive issues for the FS Italiane group.

With regard to legal and contractual labour regulations, operational guidance continued to be provided in 2019 on the application of the provisions of the national labour agreement for the mobility sector/railway sector and the FS Italiane group’s employment contract of 16 December 2016. In addition, support was also provided to other company departments in preparing documents regarding employment relationship management and implementing regulatory changes in the year.

Additional HR drivers include key resources, gaining difficult-to-find specialised skills, motivation and professional development. The FS Italiane group's new Talent Development project focuses on recognising and enhancing the motivation and aspirations of the people involved in the development process, as well as the various expertise and know-how embedded in the professional experience of our personnel. Moreover, the psychometric tools used to measure potential are gender-blind and culture-free to ensure equal treatment and opportunities. The group is committed to providing training, ongoing refresher courses and recruiting professionals both internally and on the market. It is managing a process to realign remuneration with the market, as established by FS Italiane S.p.A.'s directors, and consolidate corporate welfare initiatives. Internal job postings are based on the principles of transparency, equal opportunities and professional diversification, to make the most of individuals and their know-how within the group. Recruitment on the market outside the group is used when the necessary skills and experience are not available internally within the group, to find candidates who will bring value to the business by supporting the achievement of its targets, in accordance with the principles of fairness, merit, transparency, equal opportunities, diversity and inclusion. The digitalisation of the recruitment processes, including #FSRecruitingday, also enables the group to become a more attractive potential employer to its target candidates, through innovation, as well as lower costs and shorter times to manage the process, while creating a pool of candidates for future job openings. These principles are included in the talent acquisition policies, updated and disclosed to all group companies. In the code of conduct, the group makes a formal, substantial commitment to never discriminate based on gender, ethnicity, language, religion, political opinion or personal and social condition. Furthermore, the steps taken by the appointed HR units and the Equal Opportunities Committee have led the group to create inclusive working environments in which diversity is valued and developed and programmes for working women are promoted. In this context, an inclusion plan is in progress for all personnel to implement a strategic D&I (Diversity & Inclusion) approach. The plan is seen as a business process to drive change, to understand, respect and value each individual, whose uniqueness is an asset to hold onto.

## Corruption risks

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The FS Italiane group acts with integrity, ethics and zero tolerance for corruption when conducting business. Several years ago, the group also began a process to prevent corruption and illegality, which has included FS Italiane S.p.A.'s<sup>45</sup> adoption of the 231 model (in December 2003) and the issue of specific guidelines for the prevention of corruption between private parties in the FS Italiane group. It also led to the signing of the United Nations Global Compact in 2017. Confirming this commitment, in 2017, FS Italiane S.p.A. voluntarily adopted a unified anti-corruption self-regulation framework which includes, alongside the 231 model, the anti-bribery and corruption (ABC) management system and, constituting an integral part of the framework, the anti-corruption policy guidelines, containing the directive criteria for the creation of an effective anti-corruption system within FS Italiane S.p.A.. The ABC system reinforces the anti-corruption controls already in place at each company, encouraging policies to prevent corruption in all its forms (directly and indirectly giving and receiving bribes in relationships with members of the public administration and with other private parties) and expanding the scope of conduct considered punishable under the criminal code to include cases of misconduct and malfeasance (e.g., corruption in the broadest sense). The update to FS Italiane S.p.A.'s ABC system was published in 2019. It focuses on the analysis of processes regarding "Procurement and contracts", "Assignment of advisory engagements", "Business development initiatives on international markets", "Membership fees, sponsorships, co-marketing, donations and gifts" and "Human resources", considered to be, according to regulations and best practices, the most exposed to corruption risks. With a view to continuous improvement, an analysis of the findings of the risk assessment performed at the parent in 2019 to update the 231 Model, was carried out to consider whether to include additional risk areas in the ABC system. For each of the five areas mentioned above, the ABC system provides for cross-check principles and identifies a set of

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<sup>45</sup> All subsidiaries of the group are required to adopt their own 231 model and to appoint a supervisory body.

specific prevention tools in the form of standards of conduct and indicators of possible irregularities, to take informed, responsible decisions based on the values of integrity, honesty and legality.

To help spread awareness of these values at all levels of the organisation, the ABC system also includes, among its main priorities, ongoing training and communication. In this regards in 2019, the first e-learning course on the ABC system was launched, with which basic training on the reasoning behind the system, its purposes and the main ABC system tools provided to top managers and managers of macro structures in specific classroom courses in 2018, was extended to all employees. Specific training initiatives on the individual FS Italiane S.p.A. processes and further initiatives in the scope of the parent's management and coordination of group companies were held to support the adoption and implementation of their own ABC systems.

FS Italiane S.p.A.'s direct and indirect subsidiaries implement the framework by tailoring it to their specific organisation and business, in accordance with the applicable regulatory obligations<sup>46</sup>. In the context of the 2019 update, the section on those subject to FS Italiane S.p.A.'s ABC system was updated, considering the business organisation as the scope of subjects and requiring the preparation of adequate instruments to inform third parties of the ABC system's principles and rules, where applicable, in the knowledge that they take part in risk management and must cooperate in the implementation of preventive measures, in addition to control/supervision corporate bodies (and their components), management, employees, consultants and, more in general, all subjects that have relationships with FS Italiane S.p.A.. The ABC system provides that any violation of the principles and standards of conduct will be evaluated by the competent structure in order to assign responsibility.

In June 2019, FS Italiane S.p.A.'s board of directors approved the procedure for the management of reports, whose purpose is to implement Law no. 179/2017 (whistleblowing law). This procedure governs the receipt, analysis and processing of such reports, regardless of the sender, concerning conduct deemed to be illegal or in violation of the law, the organisational, management and control model pursuant to Legislative decree no. 231/2001, the ABC system and the FS Italiane group code of conduct.

## Effects of the spread of contagious diseases

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The global pandemic affecting the population (i.e., COVID-19, or "coronavirus") could cause, in addition to the deterioration of the macroeconomic context, a slowdown of the group's activities due to the measures issued by national and foreign authorities, unavailability of personnel, difficulties faced by customers in using collective mobility services and the discontinuity in the supply chain, with negative impacts on the group's results.

The group has adopted processes and procedures that support the identification, management and monitoring of events with potential impacts on its resources and business. These processes are meant to optimise the timeliness and efficiency of actions taken.

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<sup>46</sup> In 2019, the implementation of the unified anti-corruption framework was completed at FS Italiane S.p.A.'s main, directly-owned and consolidated subsidiaries, with the exception of the foreign companies and newcos, which are subject to particular regulations and present incomplete organisational structures.

## Travel safety

In EU countries, railway accidents are monitored by the European Railway Agency ("ERA"), the regulatory body established with EC Directive 2004/881 to create a borderless European railway space, increase the interoperability of railway systems and develop a common culture of railway safety. To monitor accidents, the ERA refers to the regulations of EC Directive no. 2004/49 and EU Directive no. 2014/88, which updated Attachment I of the former Directive 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, the body with responsibility for the entire national railway network, which performs the duties of EC Directive 2004/49 is ANSF. It was established by Legislative decree no. 162/2007, which implemented the aforementioned EU directive.

The context corresponds to the national infrastructure operated by Rete Ferroviaria Italiana S.p.A. and is based on a preliminary analysis with figures yet to be consolidated. The report on accidents on railway lines showed significant improvement in 2019 over the previous year, with one significant accident every 4.7 million km (3.5 million km in 2018). An analysis of the data shows that most (78%) of these accidents involved people and were caused by moving rolling stock. Specifically:

- four train collisions, compared to six in 2018;
- four derailments, compared to six in 2018;
- a total of six people hit at level crossings, including pedestrians on closed crossing, compared to three in 2018;
- 62 serious accidents to people caused by moving rolling stock, compared to 80 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);
- two accidents which, as they do not fall into any of the other categories, are classified as "other", compared to six in 2018;
- one accident due to fires involving rolling stock with consequences, compared to three accidents in 2018.

Reference should be made to "Investments" for detailed information on the safety of railway lines, the best practices that the group has adopted and investments.

The information provided below also meets the requirements of Legislative decree no. 254.3.2.c) of 30 December 2016.

# Other information

## Introduction

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This section details the most significant criminal proceedings and proceedings before the national and EU authorities pending at the reporting date. Up to the date of preparation of this report, no information had arisen that would indicate that the companies, including FS Italiane S.p.A., or the group are exposed to contingent liabilities or losses of any amount, different than those disclosed in the “Contingent liabilities” section of the notes, nor is any information known with a potentially material impact on the companies’ or group’s financial position, performance or cash flows. Furthermore, where appropriate, the companies have joined the criminal proceedings as a civil party.

In 2019, 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 directors) for any of the following:

- particularly serious fraudulent crimes entailing significant damage to the companies, including FS Italiane S.p.A., or that gave rise to the application of restrictive measures;
- fraudulent crimes covered by Legislative decree no. 231/2001;
- additional fraudulent crimes covered by Law no. 190/2012.

Furthermore, 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, are detailed in the notes to the financial statements, to which reference should be made. Similarly, reference should be made to contingent assets and liabilities in the notes, as defined by group policies.

### **Criminal proceedings pursuant to Legislative decree no. 231/01**

- hearings are underway in criminal proceedings no. 2554/2013 in the general register of crimes at the Foggia Court against RFI S.p.A. pursuant to Legislative decree no. 231/01 concerning 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 with the Public Prosecutor’s Office at the Lucca Court, following the railway accident in Viareggio on 29 June 2009, on 20 June 2019, the Florence Court of Appeal read the second-level ruling, and on 16 December 2019, the reasons for the ruling were lodged. The Court of Appeal partially reversed the first-level ruling of the Lucca Court. In particular, as relates to the Ferrovie dello Stato Italiane group, the Court of Appeal confirmed the acquittal of FS Italiane S.p.A. and FS Logistica S.p.A. (now Mercitalia Logistics S.p.A.) from any liability pursuant to Legislative decree no. 231/2001, as well as the acquittal of the former CEO and chairman of FS Logistica S.p.A. and four officers of RFI S.p.A.. It also acquitted five other former managers of RFI S.p.A., who had been found guilty in the first-level ruling, and dismissed the charges against two managers who had died in the meanwhile (one RFI S.p.A. manager, who was acquitted in the first-level ruling, and one Trenitalia S.p.A. manager, who had previously been found guilty). Moreover, the allegations of fire and negligence leading to injuries were dismissed under the statute of limitations. The Court of Appeal also confirmed Trenitalia S.p.A.’s and RFI S.p.A.’s liability pursuant to Legislative decree no. 231/2001 and the related pecuniary penalties, revoking the previously imposed ban on advertising goods and services for three months. The Court of Appeal also found FS S.p.A.’s former CEO guilty of the offences with which he was charged due to his position (for which he had been acquitted in the first level) and confirmed the first-level ruling that found him guilty in his capacity as former CEO of RFI S.p.A. (2001-2006).

The Court of Appeal also confirmed, although reducing the sentence, the liability of the former CEO of RFI S.p.A. (2006-2009), the former CEO of Trenitalia S.p.A., one RFI S.p.A. manager and two former officers of Trenitalia S.p.A. (one of whom was also found guilty considering the position he held at the time in FS Logistica S.p.A.). The Court of Appeal also confirmed the liability of the GATX group, including with respect to liability pursuant to Legislative decree no. 231/2001 (but reduced the pecuniary penalty and ban) and the liability of two officers of Cima Riparazioni (the company was definitively acquitted with respect to liability pursuant to Legislative decree no. 231/2001). As regards the civil court proceedings, the order to compensate the aggrieved parties, jointly and severally with the other parties charged and found liable, was extended to the former CEO of FS Italiane S.p.A. and, consequently to the company. Appeals have been lodged with the Court of Cassation. Therefore, the third-level proceedings will be held in the next few months;

- hearing are being held in criminal proceedings no. 1430/2014 in the general register of crimes at the Gela Court against RFI S.p.A.'s former CEO and some managers/employees for involuntary manslaughter in connection with the incident in which three maintenance workers of RFI S.p.A. were fatally hit on 17 July 2014 between the Falconara and Butera stations. The company has been charged for the alleged administrative liability pursuant to article 25-*septies* of Legislative decree no. 231/2001;
- criminal proceedings no. 3566/2015 in the general register of crimes with the Public Prosecutor's Office of Rimini were commenced 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 (ordinary maintenance workshop for trains) in Rimini, against the former manager in charge of the Rimini OMC, together with the employer and A.T.S.'s safety supervisor, for the crime covered by article 590.1/2 of the Criminal Code. The manager is also charged with violation of article 26.2 of Legislative decree no. 81/2008 and Trenitalia S.p.A. is also allegedly liable for the administrative violations covered by article 25-*septies*.3 of Legislative decree no. 231/2001;
- criminal proceedings no. 20765/2014 in the general register of crimes with the Public Prosecutor's Office at the Florence Court are currently pending at the first level in relation to the accident that occurred on 12 January 2014 during rolling stock shunting operations causing the death of an employee of the Tuscany regional division of Trenitalia S.p.A., against several managers and employees of the company for involuntary manslaughter, and against Trenitalia S.p.A. for the administrative violations covered by article 25-*septies* of Legislative decree no. 231/2001;
- criminal proceedings no. 1525/2008 with the Public Prosecutor's Office of Trani relate to multiple charges of involuntary manslaughter (the "Truck Center" case) against employees of Mercitalia Logistics S.p.A. (formerly FS Logistica S.p.A.) and the company as the party liable for damages pursuant to Legislative decree no. 231/2001. The Bari Court of Appeal acquitted the employees of Mercitalia Logistics S.p.A. and the company on appeal, finding that they had not committed the crime. Consequently, this ruling on appeal nullified the administrative fine of €1.4 million that Mercitalia Logistics S.p.A. had been ordered to pay in the first-level proceedings for the administrative violation due to the crime. The prosecution appealed against the decision before the Court of Cassation. In the hearing of 8 February 2019, the Court of Cassation annulled the acquittal, referring the case to a different section of the Bari Court of Appeals. The reasons for the ruling were lodged on 25 March 2019. On 22 October 2019, the company's lawyer was notified of the summons for the new appeal proceedings, for which, at the first preliminary hearing, the managers of FS Logistica S.p.A. requested a plea bargain on which the judge did not decide, adjourning the proceedings until the next hearing, to allow the company to consider preparing a similar request;

- criminal proceedings no. 1758/2014 with the Public Prosecutor's Office at the Milan Court were concluded, acquitting both a manager and Trenitalia S.p.A. for lack of evidence, in the hearing of 22 June 2018. The proceedings related to alleged violations of the legislative limits established for the discharge of industrial wastewater in public sewers and involved one manager of Trenitalia S.p.A. and the company itself for liability under Legislative decree no. 231/2001. The company's lawyer confirmed that the acquittal was not appealed against and that the term for the appeal has expired. Therefore, the ruling is now *res judicata*;
- with respect to criminal proceedings no. 6769/2015 with the Public Prosecutor's Office at the Perugia Court, on 11 June 2018, the Preliminary hearing judge indicted the parties under investigation and the company Busitalia Sita Nord S.r.l., charged pursuant to Legislative decree no. 231/2001, reclassifying the crime covered by article 640 *bis* of the Criminal Code (aggravated fraud for the purpose of obtaining public funds) to the less serious one covered by article 640.2.1 (aggravated fraud to the detriment of the State). The hearing is pending;
- criminal proceedings no. 18773/2009 are currently pending before the Bari Court. They involve Ferrovie del Sud Est e Servizi Automobilistici S.r.l. for administrative liability pursuant to Legislative decree no. 231/2001, in relation to fraud (originally considered a transnational crime which was subsequently excluded by the Judge), also involving the former sole director. The facts relate to the purchase of railway carriages in Poland at higher than market price. Following the request to prosecute the company and all accused natural persons, arguments are now being heard;
- criminal proceedings no. 3651/2018 in the general register of crimes with the Public Prosecutor's Office at the Milan Court relate to a railway accident that occurred on 25 January 2018 in Seggiano di Pioltello, involving the railway company Trenord S.r.l.'s regional train no. 10452 - operating the commercial service on the section between Cremona and the Milan Porta Garibaldi station - which caused the death of three passengers and injuries to others. To date, the preliminary investigations have been completed with the related notice issued as per article 415-*bis* of the Criminal Code and the term to prepare a defence is pending. As per the notice, the parties under investigation are the CEO and eight officers of RFI S.p.A.. RFI S.p.A. is also charged with administrative liability pursuant to Legislative decree no. 231/2001. The notice of completion of preliminary investigations also shows that a director and an officer of ANSF are also being investigated, while the charges against Trenord S.r.l. were dropped. RFI S.p.A. is assisted by a trusted lawyer and technical advisors;
- criminal proceedings no. 16682/2014 in the general register of crimes with the Palermo Public Prosecutor's Office against the CEO of RFI S.p.A. and the company, for administrative liability pursuant to Legislative decree no. 231/01, relate to the alleged illegal disposal of waste by the supplier at the Camastra (AG) landfill following the works carried out by RFI S.p.A. on the platform under the Petrace bridge in Gioia Tauro (RC). The alleged violations by the CEO and the company were dismissed with the ruling of the Palermo preliminary investigation judge on 24 April 2019;
- criminal proceedings no. 6224/2016 in the general register of crimes with the Parma Public Prosecutor's Office, refer to the call for tenders to award the road local public transport in the Parma area, in relation to which the CEO and one manager of Busitalia-Sita Nord S.r.l. and others are charged with, *inter alia*, illegal bid rigging and corruption between private parties. On 28 August 2019, the company was served the notice of completion of preliminary investigations as per article 415-*bis* of the Criminal Code. The notice confirmed the charges as per Legislative decree no. 231/2001

against Busitalia-Sita Nord S.r.l., for administrative liability pursuant to article 25-*ter.1.s-bis*) in connection with corruption between private parties;

- in criminal proceedings no. 3518/2009 in the general register of crimes with the Salerno Public Prosecutor's Office, Anas S.p.A. is being investigated as per Legislative decree no. 231/2001, for alleged involuntary manslaughter in violation of the health and safety in the workplace regulations (article 589 of the Criminal Code, articles 5 and 25-*septies* of Legislative decree no. 231/2001). The proceedings refer to the fatal accident that occurred on 18 March 2009 when an employee of Contursi Scarl died. This company had been awarded the works to build the Sant'Angelo tunnel on the Salerno-Reggio Calabria motorway. The proceedings reached the stages of hearing;
- criminal proceedings no. 1265/2018 in the general register of crimes with the Arezzo Public Prosecutor's Office relate to the alleged illegal disposal of special hazardous waste containing asbestos. The waste originated from the collapse of an escarpment on SS3 bis "Tiberina", route E45 (Orte - Ravenna), after which Anas S.p.A. engaged a company for the disposal of waste. On 18 April 2019, the notice of completion of the preliminary investigation was served. Anas S.p.A., charged pursuant to articles 5 and 25-*undecies* of Legislative decree no. 231/2001, presented its statement of defence asking for dismissal on 22 May 2019, through its lawyer, arguing that the company had implemented all control procedures in order to avoid the organisation being held liable;
- with respect to criminal proceedings no. 3556/2019 in the general register of crimes with the Public Prosecutor's Office at the Brindisi Court, which are currently pending in the preliminary investigation stage, on 23 January 2020 Italferr S.p.A. was served a "Notice of investigation for an administrative violation due to a crime" in relation to the fatal workplace accident on 9/10 July 2019 in Brindisi, during works carried out by the sub-contractor HI.TEC Italy S.r.l., the victim's employer, as part of a contract awarded to RFI S.p.A.. HI.TEC Italy S.r.l. and Italferr S.p.A., which were engaged by RFI S.p.A. to perform, inter alia, works management, works oversight and safety coordination in the performance of the works, were charged with an administrative violation due to a crime as per article 25-*septies.2* of Legislative decree no. 231/2001. The notice requesting the extension of the terms for the preliminary investigation, which was served to several natural persons, states that the criminal charges of involuntary manslaughter are against eight natural persons, four of whom work for Italferr S.p.A.;
- with respect to criminal proceedings no. 524/2020 in the general register of crimes with the Public Prosecutor's Office at the Lodi Court, following the derailment of the HS train 9595 in Livraga on 6 February 2020, RFI S.p.A. is being investigated for an administrative violation pursuant to article 25-*septies* of Legislative decree no. 231/2001, together with the CEO and nine employees/managers charged with involuntary manslaughter, negligence leading to injuries and negligence causing a train crash. Based on what is currently known, Alstom's CEO and other subjects outside the FS Italiane group are also being investigated for the same crimes. The preliminary investigation is being conducted.

#### **Other significant criminal proceedings**

- criminal proceedings no. 503034/2012, initially with the general register of crimes 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 level crossing on the Rossano Calabro - Mirto Crosia section. RFI S.p.A.'s managers and employees (some of whom have retired) and other parties not related to the FS Italiane group are accused, jointly, with involuntary manslaughter and negligence causing a train crash. At the



preliminary hearing, FS Italiane S.p.A. was summoned as the party liable for damages, but RFI S.p.A. appeared in its place. The preliminary hearings are currently pending;

- criminal proceedings no. 2615/2018 in the general register of crimes with the Public Prosecutor's Office at the Ivrea Court relate to a railway accident that occurred on 23 May 2018 on the Chivasso/Ivrea line when regional train no. 10027 hit a lorry (oversized load) that had driven through the level crossing barriers, and got stuck on the tracks. The train driver and the driver of the escort service died and many other people were injured, including the train manager. The Public Prosecutor requested an extension of the term for the preliminary investigation. Trenitalia S.p.A. is assisted by a trusted lawyer;
- criminal proceedings no. 6662/2017 in the general register of crimes and no. 23758/2019 in the regional register of crimes of the Court of Naples, relate to a fatal accident involving an employee of Trenitalia S.p.A. at the Naples ETR Maintenance plant (IMC). Some of the company's managers/employees are being investigated for involuntary manslaughter due to violation of health and safety in the workplace regulations. The preliminary hearings are pending;
- criminal proceedings no. 4153/2016 in the general register of crimes at the Bari Court were commenced by the Public Prosecutor's Office against FSE S.r.l.'s former sole director and other persons. The allegations relate to several instances of document, corporate company and fraudulent bankruptcy which put the company in distress and resulted in the need for FSE S.r.l. to access the procedure for a composition with creditors. FSE S.r.l. and FS S.p.A. are also claimants and joined the proceedings. The hearings are currently pending;  
criminal proceedings no. 4877/2018 in the general register of crimes with the Public Prosecutor's Office at the Bari Court originate from a complaint by FSE S.r.l. and the separation of the main criminal proceedings for bankruptcy no. 4153/2016 in the general register of crimes with the Bari Public Prosecutor's Office against the former sole director of FSE S.r.l. and other parties. The hearings are currently pending. The Public Prosecutor, in criminal proceedings no. 4877/2018, served the notice of completion of the preliminary investigation to the former sole director of FSE S.r.l. and other officers of the bank BNL for "fraudulent bankruptcy in favour of the creditor BNL" and "fraudulent bankruptcy due to illicit transactions";
- criminal proceedings no. 8790/2016 in the general register of crimes with the Public Prosecutor's Office at the Lecce Court relate to vehicular manslaughter (article 589 *bis* of the Criminal Code) and road personal injuries (article 590 *bis* of the Criminal Code) against an employee of FSE S.r.l. in relation to the accident that occurred on 1 August 2016 while the employee was driving the company's public bus. The company and the insurance company were summoned as the parties liable for damages. On 5 June 2019, the judge acquitted the defendant and consequently dismissed any liability on FSE S.r.l.'s part because the event is not a crime. The lawyers for the aggrieved party acting to recover damages appealed against the ruling;
- criminal proceedings no. 6310/2017 in the general register of crimes with the Public Prosecutor's Office at the Lecce Court related to the accident that occurred on 13 June 2017 between two FSE S.r.l. trains at the Galugnano exit, Frazione di San Donato di Lecce, along the section between Lecce and Otranto. The notice of conclusion of preliminary investigations was served to two FSE S.r.l. managers on 11 December 2018. According to the notice, two managers and two company employees are accused of negligence causing a train crash with damage to people (approximately 20 injured people, including passengers and FSE S.r.l. personnel) and property (collided trains). Following the request

to proceed by the Public Prosecutor's Office of Lecce, the preliminary hearing was held and the judge sentenced an employee to one year and ten months in prison, admitting the plea bargain agreed with the Public Prosecutor, suspending the sentence with probation. The judge also acquitted another employee, with a fast trial procedure. The reasons for the acquittal were pronounced in the same hearing. Lastly, the judge ordered to two managers of FSE S.r.l. to trial before the Collegial Court of Lecce. The hearings are currently pending;

- criminal proceedings no. 5926/2015 in the general register of crimes, anti-mafia department, with the Public Prosecutor's Office of Reggio Calabria refer to two tenders, the first of which was awarded to Anas S.p.A. for "extraordinary maintenance works on the Via Casa Savoia overpass in Gallico (former SS 184 Gamberie) at km 438+000 of the Salerno-Reggio Calabria motorway" and the second of which was awarded to RFI S.p.A. for "construction work on the Pentimele stop of the surface metro". Several of the companies performing the work and six employees of Anas S.p.A. were accused of mafia-related criminal conspiracy (articles 416 and 416-*bis* of the Criminal Code), bribery, undue soliciting (articles 319 and 319-*quater* of the Criminal Code), abuse of power and fraud (articles 323 and 640 of the Criminal Code). On 3 April 2019, the Public Prosecutor requested pre-trial supervision measures and preventive seizure. The preliminary investigation judge did not allow any of the service restriction and /or suspension measures requested by the Public Prosecutor against the employees of Anas S.p.A., but did order the preventive seizure of company assets. On 16 January 2020, the Public Prosecutor served the notice of completion of the preliminary investigation pursuant to article 415-*bis* of the Criminal Procedure Code, identifying Anas S.p.A. as the injured party.

#### **Proceedings before the Italian and EU authorities**

**K2 Discount pursuant to Ministerial decree no. 44T/2000.** In addition to that indicated in previous annual reports, to which reference should be made for additional details, the civil action commenced by Trenitalia S.p.A. before the Rome Civil Court to have RFI S.p.A. pay the amounts related to the K2 Discount, with the annulment of MIT decree no. 92T/2007 (Council of State's ruling no. 1110/2013 on compliance with which the Council of State issued ruling no. 1345/2014), is pending. As part of these proceedings, the judge allowed RFI S.p.A. to implead the MIT and the MEF to guarantee and indemnify the amounts related to the K2 Discount which may be paid to Trenitalia S.p.A.. Both Ministries appeared as per standard procedure and jointly before the court, RFI S.p.A., *inter alia*, objected lack of standing to bring the suit and, however, Trenitalia S.p.A.'s lack of eligibility to receive the K2 Discount in relation to services provided for freight transport, due to the demerger of Trenitalia S.p.A. and Mercitalia Rail S.r.l. and the assignment of the freight business unit to the latter effective from 1 January 2017. Mercitalia Rail S.r.l., as per the writ served in 2019, appeared in court. The judge has not yet decided whether to admit preliminary evidence.

**Appeals relating to the tender for the assignment of services for the Tuscany region.** With ruling of December 2019, the Council of State denied the appeals lodged by MOBIT Scarl (consortium consisting of Busitalia-Sita Nord S.r.l. and other local public transport operators in Tuscany), Autolinee Toscane S.p.A. ("AT") and the Tuscany region against rulings nos. 1548/2016 and 1159/2017 of the Tuscany regional administrative court. With ruling no. 1548/2016, the Tuscany regional administrative court admitted the appeals of MOBIT Scarl and AT, cancelling the assignment of the contract to AT and recognising that neither of the claimants/participants had presented offers that met the contractor's guidelines for the preparation of the economic/financial plan. Among the reasons for the appeal, MOBIT Scarl, *inter alia*, challenged AT's participation in the tender as it violated certain provisions of Regulation (EC) no. 1370/2007, in particular with reference to the prohibition for beneficiaries of direct contracts for public transport services to participate in tenders for areas different than those where they operate with a non-competitive advantage (prohibition of participation outside their territory). The issue was referred to the Court of Justice of the European Union, which with ruling of March 2019, resolved that article 5

of Regulation (EC) no. 1370/2007, on the prohibition of participation outside the territory, must be interpreted so that it is not applied to the awarding of contracts before 3 December 2019.

With ruling no. 1159/2017, the Tuscany regional administrative court denied the appeal of MOBIT Scarl against the measure whereby, pending judgement of the appeal against the above-mentioned ruling no. 1548/2016, the Tuscany regional authorities had reopened the call for tenders, asking the two participants to submit a new economic/financial plan accompanying their previously submitted technical and economic bids and provisionally awarding the contract to AT again. Currently, the MOBIT Scarl's appeal is pending before the Tuscany regional administrative court, against the definitive awarding of the contract to AT by the Tuscany regional authorities after the call for tenders was reopened and the ruling of the Court of Justice of the European Union of 21 March 2019 was filed.

**Appeal against the transfer of the investment in FSE S.r.l. to FS S.p.A..** With ruling no. 6417/2017, the Lazio regional administrative court rejected the appeal filed by Arriva Italia S.r.l., Ferrotramviaria S.p.A. and COTRAP (the "claimants") to repeal MIT decree no. 248/2016 which identified FS S.p.A. as the party to receive the investment in FSE S.r.l. which, at the time, was held by said Ministry, thereby confirming its lawfulness. As part of the appeal to overturn the first-level ruling, the claimants indicated the failure to comply with the requirements applicable to government assistance as the first ground of appeal, in relation to: i) the granting of €70 million to FSE S.r.l. pursuant to article 1.867 of Law no. 2018/2015, as amended by article 47 of Law decree no. 50/2017 and ii) FSE S.r.l.'s transfer to FS S.p.A. with no competitive procedure and no consideration.

The Council of State decided to refer the issue to the European Court of Justice, pursuant to article 267.1.a) of the Treaty on the Functioning of the European Union (decision to refer no. 3123/2018). The Court of Justice pronounced its resolution on 19 December 2019 (case C-385/18) stating that – except for the checks that the referring judge (i.e. Council of State) shall make – article 107 of the TFUE must be interpreted in a way that both the accrual of a sum in favour of a public entity and the transfer of the entire investment held by a member state in the share capital of the same entity to a different public entity, without compensation, but with the obligation for the latter to compensate the former capital imbalance, may be classified as government assistance. The Council of State must take actions subsequent to the interpretative resolution of the Court of Justice in order to continue the proceedings.

**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:

1. intragroup asset allocation transactions (case SA 32179); and
2. 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 the FS Italiane group, in which assets were allocated to Trenitalia S.p.A. and FS Logistica S.p.A. (now Mercitalia Logistics 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 fees from Italy to Trenitalia S.p.A. for rail freight transport from 2000 to 2014 under three consecutive public service contracts. After 2015 and 2016, in which there were no further developments, from the end of 2017, the European Commission resumed the examination of both dossiers. Accordingly, considering the current stage of the cases and their complexity, in line with previous evaluations, and based on the opinions of independent legal experts, with respect to both cases it is still impossible to objectively identify a contingent liability. Moreover, with respect to case SA 32179, the effects of any negative development would solely relate to assets within the FS Italiane group; while with respect to case SA 32953, it is still impossible to reliably estimate any amount that might be paid.

## The parent's treasury shares

At 31 December 2019, FS Italiane 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 2019.

## Related party transactions

Transactions between FS Italiane 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 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, 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.

Assets and liabilities, 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

## FS Italiane group

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The following considerations and the focus on achieving the goals described depend, especially in this moment, on the necessary, careful management, shared with all stakeholders, of the exceptional and unprecedented socio-environmental and public health emergency that our country, Europe and most countries around the world are facing in these first few months of 2020, due to the spread of COVID-19 (“coronavirus”), which initially began in China between the end of 2019 and the beginning of 2020 before spreading to Italy and around the globe. The group, well aware of the essential social role it plays and the crucial service it offers the country, is strongly committed to assessing on a daily basis and in close contact with the government, the MIT, the MEF, the Ministry of Health, public authorities and all institutions, the operating, organisational, economic and finance impacts that these unforeseeable circumstances beyond the group’s control are having and will continue to have during the year, also considering the extraordinary measures taken by the authorities to mitigate the emergency. Reference should be made to the paragraph “Events after the reporting date” of the notes for additional details in this respect.

That being said, the FS Italiane group still expects to carry forward its development in 2020, despite the complex macroeconomic, environmental and competitive scenario, which has become even more uncertain in light of the above. The group expects 2020 performance to improve on the previous years, both in the transport and the infrastructure segments.

In the transport segment, the short-haul business (regional transport) is focussing increasingly on an efficient, high-quality and innovative service. This has translated into a project to radically update the fleet with the delivery of 100 new trains, as per agreements with the regions, and a business plan diversified according to people’s needs (better service quality, customised fares, tourism and leisure) in order to improve the quality and comfort provided.

In 2020, Trenitalia-TPER will begin operating in the regional transport segment. The company is 70% held by Trenitalia S.p.A. in partnership with Trasporto Passeggeri Emilia Romagna (TPER) and was awarded in the tender for the Emilia Romagna regional transport service.

Despite an increasingly competitive context, the main objective for long-haul transport services offered on the market is to strengthen its leadership position in HS services in view of the complete deregulation of the market in 2020 (Fourth Railway Package EU). It intends to reach its goal through a strategy that puts people first, with offers tailored to their needs and leveraging all commercial product features (new connections, new stops and new service levels), as well as pricing and distribution factors for a flexible offer that is increasingly personalised. In the universal long-haul business, the objective is to continue improving service quality and comfort, as provided for by the service contract, by completing the rolling stock upgrade plan. Freight transport is expected to continue improving in 2020, in line with the trend of the past few years. Domestic and international traffic will be enhanced and expanded with targeted strategies for each individual market and the consolidation and diversification of large customers.

Infrastructure segment forecasts for 2020 show a significant increase in capital expenditure, which is expected to rise even further, confirming the group as one of the largest industrial investors in the country. These estimates are in line with the objectives of continuous improvement in transport services, ensuring an efficient, top-quality and innovative service for long-haul passenger transport (enhancing and speeding up the main European lines and airport connections), commuter routes (increasing and speeding-up service and new stations) and logistics services (connections to ports, interports and production districts and bolstering international cooperation between operators). Other areas remain priorities, such as stations (with a new concept of the station for modal integration and projects for the redevelopment of surrounding areas) and the environment and social issues (water and energy efficiency, green procurement, social use of non-instrumental assets), while upholding the high safety standards in place.

In terms of internationalisation, in 2020 the group will boost its presence in: Great Britain, with the roll-out of the West Coast railway service connecting London to Edinburgh and Glasgow on a daily basis; Spain, where it was awarded the HS railway transport services for the Madrid-Barcelona, Madrid-Valencia/Alicante and Madrid-Malaga/Seville connections for ten-year (this is the first time that a private operator was given access to the Spanish railway network), which will give rise to a new railway transport company in the Spanish market, in partnership with Air Nostrum, to operate the service from January 2022; and France, as the long-haul service in the market will expand beyond the Italian border with the roll-out of new HS services between Milan and Paris in the second half of the year. Furthermore, the FS Italiane group has been selected as Operation and Maintenance Contractor ("OMC") to participate in an international consortium to operate services on a new HS line in Thailand.

In short, in 2020, the group will remain focused on creating sustainable value (most importantly economic, social and environmental value), while striving to maintain industrial quality, strengthen its position as a company open to new challenges, technological innovation, digitalisation and valuing human capital. In a constantly evolving context, the group's goal again in 2020 is to devote increasing attention to safety, digitalisation and sustainability in terms of both long-term strategies and re-thinking choices and best practices in day-to-day operations, making them the pillars of the group's vision and using innovation as the crucial means to achieve them.

## **Ferrovie dello Stato Italiane S.p.A.**

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The parent, which reports a profit for 2019, will continue to manage and coordinate group processes in the pursuit of its strategic vision and confirms forecasts of a profit for 2020 too.



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

## **Independent auditors' report on the consolidated non-financial statement pursuant to article 3.10 of Legislative decree no. 254 of 30 December 2016 and article 5 of the Consob Regulation adopted with Resolution no. 20267 of 18 January 2018**

*To the board of directors of  
Ferrovie dello Stato Italiane S.p.A.*

Pursuant to article 3.10 of Legislative decree no. 254 of 30 December 2016 (the "decree") and article 5 of the Consob (the Italian Commission for listed companies and the stock exchange) Regulation adopted with Resolution no. 20267 of 18 January 2018, we have been engaged to perform a limited assurance engagement on the 2019 consolidated non-financial statement of the Ferrovie dello Stato Italiane Group (the "group") prepared in accordance with article 4 of the decree, presented in the specific section of the directors' report and approved by the board of directors on 31 March 2020 (the "NFS").

### ***Responsibilities of the directors and board of statutory auditors ("Collegio Sindacale") of Ferrovie dello Stato Italiane S.p.A. (the "parent") for the NFS***

The directors are responsible for the preparation of an NFS in accordance with articles 3 and 4 of the decree and the "Global Reporting Initiative Sustainability Reporting Standards" issued in 2016 by GRI - Global Reporting Initiative (the "GRI Standards"), which they have identified as the reporting standards.

The directors are also responsible, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of an NFS that is free from material misstatement, whether due to fraud or error.

Moreover, the directors are responsible for the identification of the content of the NFS, considering the aspects indicated in article 3.1 of the decree and the group's business and characteristics, to the extent necessary to enable an understanding of the group's business, performance, results and the impacts it generates.



The directors' responsibility also includes the design of an internal model for the management and organisation of the group's activities, as well as, with reference to the aspects identified and disclosed in the NFS, the group's policies and the identification and management of the risks generated or borne.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, compliance with the decree's provisions.

### ***Auditors' independence and quality control***

We are independent in compliance with the independence and all other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Our company applies International Standard on Quality Control 1 (ISQC Italia 1) and, accordingly, maintains a system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### ***Auditors' responsibility***

Our responsibility is to express a conclusion, based on the procedures performed, about the compliance of the NFS with the requirements of the decree and the GRI Standards. We carried out our work in accordance with the criteria established by "International Standard on Assurance Engagements 3000 (revised) - Assurance Engagements other than Audits or Reviews of Historical Financial Information" ("ISAE 3000 revised"), issued by the International Auditing and Assurance Standards Board applicable to limited assurance engagements. This standard requires that we plan and perform the engagement to obtain limited assurance about whether the NFS is free from material misstatement. A limited assurance engagement is less in scope than a reasonable assurance engagement carried out in accordance with ISAE 3000 revised, and consequently does not enable us to obtain assurance that we would become aware of all significant matters and events that might be identified in a reasonable assurance engagement.

The procedures we performed on the NFS are based on our professional judgement and include inquiries, primarily of the parent's personnel responsible for the preparation of the information presented in the NFS, documental analyses, recalculations and other evidence gathering procedures, as appropriate.

Specifically, we carried out the following procedures:

1. Analysing the material aspects based on the group's business and characteristics disclosed in the NFS, in order to assess the reasonableness of the identification process adopted on the basis of the provisions of article 3 of the decree and taking into account the reporting standards applied.
2. Analysing and assessing the identification criteria for the reporting scope, in order to check their compliance with the decree.
3. Comparing the financial disclosures presented in the NFS with those included in the group's consolidated financial statements.

4. Gaining an understanding of the following:

- the group's business management and organisational model, with reference to the management of the aspects set out in article 3 of the decree;
- the entity's policies in connection with the aspects set out in article 3 of the decree, the achieved results and the related key performance indicators;
- the main risks generated or borne in connection with the aspects set out in article 3 of the decree.

Moreover, we checked the above against the disclosures presented in the NFS and carried out the procedures described in point 5.a).

5. Understanding the processes underlying the generation, recording and management of the significant qualitative and quantitative information disclosed in the NFS.

Specifically, we held interviews and discussions with the parent's management personnel and personnel of Rete Ferroviaria Italiana – RFI S.p.A., Trenitalia S.p.A., ANAS S.p.A. and Busitalia - Sita Nord S.r.l.. We also performed selected procedures on documentation to gather information on the processes and procedures used to gather, combine, process and transmit non-financial data and information to the office that prepares the NFS.

Furthermore, with respect to significant information, considering the group's business and characteristics:

- at parent level,
  - a) we held interviews and obtained supporting documentation to check the qualitative information presented in the NFS and, specifically, the business model, the policies applied and main risks for consistency with available evidence,
  - b) we carried out analytical and limited procedures to check, on a sample basis, the correct aggregation of data in the quantitative information;
- at subsidiaries level,

we visited Rete Ferroviaria Italiana – RFI S.p.A., Trenitalia S.p.A., ANAS S.p.A., Busitalia - Sita Nord S.r.l., Qbuzz BV, TrainOSE S.A., Mercitalia Rail S.r.l., TX Logistik AG, Italferr S.p.A, the Production, Technical, Regional passenger and Long haul passenger divisions, which we have selected on the basis of their business, contribution to the key performance indicators at consolidated level and location, to meet their management and obtain documentary evidence supporting the correct application of the procedures and methods used to calculate the indicators.



**Ferrovie dello Stato Italiane Group**  
*Independent auditors' report*  
31 December 2019

### **Conclusion**

Based on the procedures performed, nothing has come to our attention that causes us to believe that the 2019 consolidated non-financial statement of the Ferrovie dello Stato Italiane Group has not been prepared, in all material respects, in accordance with the requirements of articles 3 and 4 of the decree and the GRI Standards.

Rome, 22 April 2020

KPMG S.p.A.

(signed on the original)

Marco Maffei  
Director of Audit



**Consolidated financial statements of the Ferrovie dello  
Stato Italiane group as at and for the year ended 31  
December 2019**



## Consolidated financial statements

**Statement of financial position**

millions of Euros

	Note	31.12.2019	31.12.2018*
<b>Assets</b>			
Property, plant and equipment	10	46,058	44,371
Investment property	11	1,385	1,403
Intangible assets	12	2,713	4,260
Deferred tax assets	13	405	413
Equity-accounted investments	14	574	555
Service concession financial assets	15	1,696	1,917
Financial assets (including derivatives)	16	1,628	2,155
Trade receivables	19	6	9
Other assets	17	5,319	4,471
<b>Total non-current assets</b>		<b>59,784</b>	<b>59,554</b>
Inventories	18	2,290	2,200
Trade receivables	19	2,671	2,494
Financial assets (including derivatives)	16	705	818
Service concession financial assets	15	1,549	1,220
Cash and cash equivalents	20	1,534	1,796
Tax assets	21	128	120
Other assets	17	3,462	4,317
<b>Total current assets</b>		<b>12,339</b>	<b>12,965</b>
<b>Assets held for sale and disposal groups</b>	<b>9</b>	<b>1,691</b>	
<b>Total assets</b>		<b>73,814</b>	<b>72,519</b>
<b>Total equity and liabilities</b>			
Share capital	22	39,204	39,204
Reserves	22	53	50
Valuation reserves	22	(428)	(436)
Retained earnings	22	2,440	1,896
Profit for the year	22	573	540
<b>Equity attributable to the owners of the parent</b>	<b>22</b>	<b>41,842</b>	<b>41,254</b>
Profit attributable to non-controlling interests	23	11	19
Share capital and reserves attributable to non-controlling interests	23	437	424
<b>Total equity attributable to non-controlling interests</b>	<b>23</b>	<b>448</b>	<b>443</b>
<b>Equity</b>		<b>42,290</b>	<b>41,697</b>
<b>Liabilities</b>			
Loans and borrowings	24	7,211	8,335
Post-employment benefits and other employee benefits	25	1,221	1,474
Provisions for risks and charges	26	2,547	2,588
Deferred tax liabilities	13	502	525
Contract advances	28	1,142	995
Financial liabilities (including derivatives)	27	1,577	1,620
Trade payables	30	27	49
Other liabilities	29	162	138
<b>Total non-current liabilities</b>		<b>14,389</b>	<b>15,724</b>
Loans and borrowings and current portion of non-current loans and borrowings	24	4,095	3,069
Current portion of provisions for risks and charges	26	34	35
Trade payables	30	5,797	5,398
Tax liabilities	31	13	19
Contract advances	28	197	142
Financial liabilities (including derivatives)	27	176	69
Other liabilities	29	5,614	6,366
<b>Total current liabilities</b>		<b>15,926</b>	<b>15,098</b>
<b>Liabilities held for sale and disposal groups</b>	<b>9</b>	<b>1,209</b>	
<b>Total liabilities</b>		<b>31,524</b>	<b>30,821</b>
<b>Total equity and liabilities</b>		<b>73,814</b>	<b>72,519</b>

(\*) The group applied IFRS 16 for the first time on 1 January 2019. Under the transition method chosen, comparative information has not been restated.

## Income statement

millions of Euros

	Note	2019	2018*
<b>Revenue*</b>			
Revenue from sales and services	32	11,957	11,560
Other income	33	478	512
<b>Total revenue</b>		<b>12,435</b>	<b>12,072</b>
<b>Operating costs</b>			
Personnel expense	34	(4,945)	(4,853)
Raw materials, consumables, supplies and goods	35	(1,491)	(1,599)
Services	36	(4,741)	(4,371)
Use of third-party assets	37	(140)	(257)
Other operating costs	38	(220)	(198)
Internal work capitalised	39	1,711	1,682
<b>Total operating costs</b>		<b>(9,826)</b>	<b>(9,596)</b>
<b>Amortisation and depreciation</b>	<b>40</b>	<b>(1,712)</b>	<b>(1,571)</b>
<b>Net impairment gains</b>	<b>41</b>	<b>(90)</b>	<b>(155)</b>
<b>Accruals</b>	<b>42</b>	<b>22</b>	<b>(36)</b>
<b>Operating profit</b>		<b>829</b>	<b>714</b>
<b>Financial income and expense</b>			
Financial income	43	88	92
Financial expense	44	(286)	(221)
<b>Net financial expense</b>		<b>(198)</b>	<b>(129)</b>
Share of profits of equity-accounted investees	45	22	32
<b>Pre-tax profit</b>		<b>653</b>	<b>617</b>
Income taxes	46	(60)	(58)
<b>Profit (loss) from assets held for sale, net of taxes</b>	<b>47</b>	<b>(9)</b>	
<b>Profit for the year (attributable to the owners of the parent and non-controlling interests)</b>		<b>584</b>	<b>559</b>
<i>Profit for the year attributable to the owners of the parent</i>		573	540
<i>Profit for the year attributable to non-controlling interests</i>		11	19

(\*) The group applied IFRS 16 for the first time on 1 January 2019. Under the transition method chosen, comparative information has not been restated.

## Statement of comprehensive income

millions of Euros

	Note	2019	2018 *
<b>Profit for the year (attributable to the owners of the parent and non-controlling interests)</b>		<b>584</b>	<b>559</b>
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to profit or loss, net of the tax effect:</b>			
Net actuarial gains/(losses) attributable to the owners of the parent	22	(9)	13
attributable to non-controlling interests		(9)	13
Items reclassified to profit or loss	22	13	16
<b>Items that will or may be reclassified to profit or loss, net of the tax effect:</b>			
Cash flow hedges - effective portion of changes in fair value attributable to the owners of the parent	22	6	15
attributable to non-controlling interests		4	15
Net exchange gains	22	2	
<b>Other comprehensive income, net of the tax effect</b>		<b>10</b>	<b>44</b>
<b>Comprehensive income (attributable to the owners of the parent and non-controlling interests)</b>		<b>594</b>	<b>603</b>
<i>Comprehensive income attributable to:</i>			
Owners of the parent		581	584
<i>Non-controlling interests</i>		13	19

(\*) The group applied IFRS 16 for the first time on 1 January 2019. Under the transition method chosen, comparative information has not been restated.



## Statement of changes in equity

millions of Euros

Equity															
	Reserves										Retained earnings	Profit for the year	Equity attributable to the owners of the parent	Equity attributable to non-controlling interests	Total equity
	Share capital	Reserves				Valuation reserves				Total reserves					
		Legal reserve	Extraordinary reserve	Other reserves	Translation reserve	Hedging reserve	Actuarial reserve	Fair value reserve							
<b>Balance at 1 January 2018</b>	<b>36,340</b>	<b>39</b>			<b>3</b>	<b>(105)</b>	<b>(362)</b>		<b>(425)</b>	<b>1,681</b>	<b>542</b>	<b>38,138</b>	<b>250</b>	<b>38,388</b>	
Capital increase	2,864											2,864	15	2,879	
Dividend distribution												(150)	(9)	(159)	
Allocation of profit for the previous year		11							11	381	(392)				
Change in consolidation scope					(3)	(12)	(1)		(16)	(166)		(182)	168	(14)	
Other changes															
Comprehensive income						31	13		44		540	584	19	603	
of which:															
Profit for the year											540	540	19	559	
Gains recognised directly in equity						31	13		44			44		44	
<b>Balance at 31 December 2018 (*)</b>	<b>39,204</b>	<b>50</b>				<b>(86)</b>	<b>(350)</b>		<b>(386)</b>	<b>1,896</b>	<b>540</b>	<b>41,254</b>	<b>443</b>	<b>41,697</b>	
<b>Balance at 1 January 2019</b>	<b>39,204</b>	<b>50</b>				<b>(86)</b>	<b>(350)</b>		<b>(386)</b>	<b>1,896</b>	<b>540</b>	<b>41,254</b>	<b>443</b>	<b>41,697</b>	
Capital increase													8	8	
Dividend distribution											(2)	(2)	(6)	(8)	
Allocation of profit for the previous year		3							3	537	(540)				
Change in consolidation scope													(1)	(1)	
Other changes										9		9	(9)		
Comprehensive income						17	(9)		8		573	581	13	594	
of which:															
Profit for the year											573	573	11	584	
Gains/(losses) recognised directly in equity						17	(9)		8			8	2	10	
<b>Balance at 31 December 2019</b>	<b>39,204</b>	<b>53</b>				<b>(69)</b>	<b>(359)</b>		<b>(375)</b>	<b>2,440</b>	<b>573</b>	<b>41,842</b>	<b>448</b>	<b>42,290</b>	

(\*) The group applied IFRS 16 for the first time on 1 January 2019. Under the transition method chosen, comparative information has not been restated.

**Statement of cash flows**

millions of Euros

	<b>2019</b>	<b>2018 *</b>
<b>Profit for the year</b>	<b>584</b>	<b>559</b>
Income taxes	60	57
Net financial expense	198	107
Amortisation and depreciation	1,712	1,571
Share of profits of equity-accounted investees	(22)	(32)
Accruals to provisions and impairment losses	427	305
Gains on sales	(111)	(82)
Change in inventories	(91)	(74)
Change in trade receivables	(285)	535
Change in trade payables	421	(165)
Change in other liabilities	(740)	263
Change in other assets	(7)	(578)
Utilisation of the provisions for risks and charges	(339)	(364)
Payment of employee benefits	(273)	(200)
Change in assets/liabilities held for sale	(28)	
Financial income collected/financial expense paid	(199)	(107)
Income taxes paid, net of reimbursed tax assets	(61)	(47)
Change in service concession financial assets/liabilities	26	(283)
<b>Net cash flows generated by operating activities</b>	<b>1,273</b>	<b>1,466</b>
Increases in property, plant and equipment	(6,542)	(5,770)
Increases in investment property	(2)	(1)
Increases in intangible assets	(340)	(402)
Increases in equity investments	(120)	(141)
<b>Investments, before grants</b>	<b>(7,003)</b>	<b>(6,314)</b>
Grants for property, plant and equipment	4,116	4,725
Grants for investment property		
Grants for intangible assets		2
Grants for equity investments	112	125
<b>Grants</b>	<b>4,229</b>	<b>4,852</b>
Decreases in property, plant and equipment	141	115
Decreases in investment property	1	17
Decreases in intangible assets	2	20
Decreases in equity investments and profit-sharing arrangements	9	12
<b>Decreases</b>	<b>153</b>	<b>163</b>
<b>Net cash flows used in investing activities</b>	<b>(2,622)</b>	<b>(1,299)</b>
Finance lease payments	(180)	
Disbursement and repayment of non-current loans	131	(1,106)
Disbursement and repayment of current loans	486	111
Change in lease liabilities		
Change in financial assets	657	428
Change in financial liabilities		154
Dividends	(8)	(159)
Changes in equity and cash from non-recur. trans.	1	367
<b>Net cash flows generated by (used in) financing activities</b>	<b>1,087</b>	<b>(205)</b>
<b>Total cash flows</b>	<b>(262)</b>	<b>(38)</b>
<b>Opening cash and cash equivalents</b>	<b>1,796</b>	<b>1,834</b>
<b>Closing cash and cash equivalents</b>	<b>1,534</b>	<b>1,796</b>

(\*) The group applied IFRS 16 for the first time on 1 January 2019. Under the transition method chosen, comparative information has not been restated.

## Notes to the consolidated financial statements

## 1. The FS Italiane group's business 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, freight transport and logistics services, both in Italy and abroad, and manage an extensive railway and road network, following Anas group's consolidation in the previous year. The 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 Regulation (EC) no. 1606/2002 and in effect at the reporting date ("IFRS"). Specifically, the group consistently applies the IFRS to all periods presented in these consolidated financial statements.

The consolidated financial statements have been prepared and presented in Euro, which is the FS Italiane group's functional currency, i.e., the currency of the primary economic environment in which the 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 the 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 (loss) for the year and other changes in equity, specifically actuarial gains or losses, 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 presenting cash flows 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 the 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 "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, as required.

These consolidated financial statements have been prepared using the same accounting policies as those applied for the consolidated financial statements at 31 December 2018, except for that set out below in respect of the newly-applied standards.

The directors approved the separate financial statements at 31 December 2019 on 31 March 2020 and they will be made available to the shareholder pursuant to article 2429 of the Italian Civil Code. These consolidated financial statements will be submitted to the shareholder for approval and subsequent filing within the terms established by article 2435 of the

Italian Civil Code. The shareholder has the power to make changes to these consolidated financial statements. For the purposes of IAS 10.17, the directors authorised these consolidated financial statements for publication on 31 March 2020, which is the date when they approved them.

KPMG S.p.A. was assigned the engagement to carry out the statutory audit of the consolidated financial statements for the 2014-2022 period pursuant to Legislative decree no. 39/2010.

### 3. Consolidation scope

The consolidation policies applied by the FS Italiane group to define the consolidation scope and, specifically, subsidiaries, joint arrangements 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 considered when determining control.

When non-controlling interests are acquired, goodwill is recognised only to the extent that it is 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 reliably and fairly present the transaction in accordance with OPI 1 (Assirevi's preliminary guidance on the IFRS).

The reporting date of the financial statements of subsidiaries, joint arrangements 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 the 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 with third parties, are eliminated, except for unrealised losses when the transaction reflects an impairment loss on the transferred asset. Assets and liabilities 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 the 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 the 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 the 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 the 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 the 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, joint arrangements and associates, whose consolidation or recognition in the consolidated financial statements using the equity method does not generate significant effects on the group's consolidated financial statements, 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

##### Purchase price allocation of the acquired companies

###### Cremonesi Workshop S.r.l. (CREW)

On 30 November 2018, Italferr S.p.A. acquired 80% of Cremonesi Workshop S.r.l., a company well established in many foreign countries which has made a name for itself with major civil, industrial, infrastructure and energy projects. The aim of the acquisition was to create synergies for the Italian and international markets, anticipating the demand for integrated infrastructure, and ensure a multi-disciplinary approach for operations in the metro and tram sector as well. The total consideration paid, inclusive of the price adjustment envisaged in the investment agreement signed by the parties, in order to reflect the differences in Cremonesi Workshop S.r.l.'s net financial position used to calculate the provisional price and that at 30 November 2018, and Italferr's option to purchase an additional 20% of share capital, as set out in the shareholders' agreements, which can be exercised from 1 January 2023, amounted to €21 million.

The purchase price allocation procedure took place in 2019. The tables below show the consideration transferred to acquire the company and the fair value of the acquired assets and the assumed liabilities as part of a business combination, in accordance with IFRS 3 Business Combinations.

##### Purchase price allocation

	In millions of Euros
Cash including the price adjustment	17.2
<b>Purchase price</b>	<b>17.2</b>
Non-controlling interests (put option)	4.0
<b>Total</b>	<b>21.2</b>

<b>Equity of Cremonesi Workshop at the acquisition date, net of non-controlling interests</b>	<b>3.2</b>
Other intangible assets - Relationships with customers	3.6
Other intangible assets - Tradename	1.6
Other intangible assets - Backlog	4.1
Deferred tax liabilities	(2.6)
<b>Net assets after price allocation</b>	<b>9.9</b>
<b>Partial goodwill</b>	<b>7.3</b>

The above net assets result from the application of IFRS, which has entailed the recognition of all identifiable assets and liabilities in the acquisition scope at 30 November 2018 according to the partial goodwill method and recognising the put option using the present access method.

Goodwill of €7.3 million, the amount by which the acquisition price exceeds the fair value of identified net assets, reflects a reasonable estimate of the value of the synergies expected to result from the acquisition. Goodwill is not tax deductible.



## ESSTY

On 1 April 2019, the Greek subsidiary TrainOSE SA acquired 100% of ESSTY SA, a Greek company specialised in rolling stock maintenance, from the HRADF Fund. ESSTY SA merged into TrainOSE SA on 31 December 2019.

The acquisition and subsequent merger are part of the group's broader plan to expand operations abroad and were carried out to improve and modernise public passenger and freight transport services in Greece by creating synergies through the integration of operation and maintenance activities in one entity and by increasing investments in this sector.

A total consideration of €22 million was paid for the acquisition, and the purchase price allocation procedure took place in the year. The tables below show the consideration transferred to acquire the company and the fair value of the acquired assets and the assumed liabilities as part of a business combination, in accordance with IFRS 3 – Business Combinations.

### Purchase price allocation

	In millions of Euros
Cash	22
<b>Purchase price</b>	<b>22</b>
Non-controlling interests	0
<b>Total</b>	<b>22</b>

<b>Equity of ESSTY at the acquisition date</b>	<b>40.6</b>
Remeasurement of property, plant and equipment	0.9
Licence	1.1
Derecognition of deferred tax assets	(2.7)
Inventory write-down	(5.9)
Derecognition of trade receivables and other assets	(7.6)
Derecognition of other liabilities	2.0
Provision for risks	(1.6)
Recognition of the liability to OSE	(1.0)
Deferred tax liabilities	(0.5)
<b>Net assets after price allocation</b>	<b>25.3</b>
<b>Negative goodwill</b>	<b>3.3</b>

Since the acquisition took place in the first few months of 2019, when the Greek economy was still suffering the effects of the financial crisis, and the acquired company had incurred losses for the previous three years (mainly due to inventory write-downs), the company is believed to have been acquired at favourable conditions and, therefore, the negative goodwill was taken to profit or loss for the year.

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### Non-recurring transactions in the reporting period

On 1 January 2019, Mercitalia Shunting & Terminal S.r.l. merged Mercitalia Transport & Services S.r.l. as per the deed signed on 19 December 2018.

On data 7 March 2019, Busitalia Sita Nord S.r.l. sold Simet S.p.A. its entire investment in Busitalia Simet S.p.A. for the agreed consideration of €1.3 million.

On 28 March 2019, implementing the decision passed by Ferrovie dello Stato Italiane S.p.A.'s board of directors on 27 November 2018, Ferrovie dello Stato Italiane S.p.A. and RFI S.p.A., as sellers, signed a purchase and sale agreement with AltaCSRETAILFR S.r.l. (wholly owned by Altea SCA), as buyer, for Centostazioni Retail S.p.A., for a consideration totalling €45 million. The group realised a gain €28 million on this transaction.

At the shareholder's meeting on 27 March 2019, the shareholder approved the capital increase of Tunnel Ferroviario del Brennero S.p.A. totalling €120 million. Following the increase and due to the various subscriptions by the other owners, the FS Italiane group, through its subsidiary RFI S.p.A., now owns 88.90% of the company, compared to 88.20% at 31 December 2018. Furthermore, on 20 December 2019, the shareholder approved another capital increase for a total of €160 million, to be carried out by 31 December 2020. The company's board of directors will schedule the tranches of the increase according to the company's actual financial needs based on the progress of Phase III of the Brenner Base tunnel.

On 31 March 2019, Ferrovie dello Stato Italiane S.p.A. established a company named Ferrovie dello Stato Saudi Arabia for Land Transport LLC, with approved, subscribed and paid-up capital of SAR500,000, divided into 500 ordinary shares with a nominal amount of SAR1,000 each. The company is based in Riyadh and its business object consists of railway infrastructure operations and maintenance in Saudi Arabia.

On 12 April 2019, RFI S.p.A. acquired Mercitalia Intermodal S.p.A.'s entire investment in Terminali Italia S.r.l..

With the deed signed on 17 April 2019, Pol Rail S.r.l. merged into Mercitalia Rail S.r.l. with retrospective effect for accounting and tax purposes at 1 January 2019.

The demerger of Blufferies S.r.l. and Blu Jet S.r.l. became effective on 1 May 2019, as established in the deed signed on 27 March 2019.

On 13 May 2019, Ferrovie dello Stato Italiane S.p.A. set up FS Italian Railways USA Inc, with approved, subscribed and paid-up capital of USD100,000, divided into 100,000 shares with a nominal amount of USD1 each. The company is based in New York and its business object consists of managing and developing transport and related activities in North America, including participating in tenders for transport contracts.

On 20 May 2019 and with effect from 1 June 2019, Ferrovie dello Stato Italiane S.p.A. contributed its equity investments in TrainOSE SA (100%) and Netinera Deutschland GmbH (51%) to Trenitalia S.p.A.. Trenitalia S.p.A. then increased its capital by €189 million.

On 10 June 2019, RFI acquired 100% of the vehicle UM Ferro S.r.l., which Umbria T.P.L. e Mobilità S.p.A. had set up and to which it had contributed its infrastructure management business unit. On 24 June 2019 and with effect from 1 July 2019, a deed was signed to merge UM Ferro S.r.l. into RFI S.p.A., thereby completing the process by which RFI S.p.A. took over management of Ferrovia Centrale Umbra.

On 16 July 2019, Die Länderbahn CZ s.r.o. was set up, wholly owned by Die Länderbahn GmbH DLB, which is in turn controlled by Netinera Deutschland GmbH.

FSTechnology S.p.A., established with the contribution of assets, contracts and personnel from Ferrovie dello Stato Italiane S.p.A. and the demergers of business units from the group's main companies (RFI, Trenitalia, Ferservizi and Italferr), began operating on 1 August 2019.

On 11 September 2019, RFI S.p.A. set up a company named Infrarail Firenze S.r.l. with approved, subscribed and paid-up quota capital of €200,000. The company's registered office is in Florence and its business object consist of performing all services and activities necessary to ensure the safety and protection of work sites for the Florence High-Speed Rail Hub, for the infrastructural works to make railway traffic at the Florence Hub traffic more fluid and for the related preparatory works, carried out on behalf of RFI S.p.A.. On 13 November 2019, Infrarail Firenze S.r.l.'s quotaholders approved a capital increase of €3 million, which was entirely subscribed and paid up by the sole quotaholder RFI S.p.A..

On 11 December 2019, Ferrovie dello Stato Italiane S.p.A. set up a company named FS International S.p.A., with fully subscribed and paid-up share capital of €1,000,000, divided into 1,000,000 ordinary shares with a nominal amount of €1 each. The company's registered office is in Rome and its business object consists of developing and consolidating, on the international markets targeted by the FS Italiane group, the design, construction, management and maintenance of railway and public and private passenger and freight transport lines, vehicles, stations and systems, including the related engineering, certification, logistics, information & communication technology, advisory and training services provided to the FS Italiane group companies, and in their interests, in fields of transport and integrated mobility services.

## 5. Translation of foreign operations' financial statements

The financial statements of subsidiaries, joint arrangements 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, includes both exchange 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:

<b>Euros</b>	<b>Average exchange rate for</b>		<b>Closing rate at 31 December</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Swiss franc	1.11	1.15	1.09	1.13
Pound sterling	0.88	0.88	0.85	0.89
Danish krone	7.47	7.45	7.47	7.47
Swedish krona	10.58	10.25	10.45	10.25
Serbian dinar	117.88	118.30	117.71	118.20
Turkish lira	6.35	5.56	6.68	6.06

### Translation of foreign currency amounts

Any transactions in a currency other than the group's 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 differences are taken to profit or loss.

## 6. Accounting policies

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 "components" were identified for each cluster:

1. components to be reconditioned: these are serialised items of a high economic value which are regularly reconditioned at set travelling/time intervals;
2. worn components: these are fully replaced with the spare parts in stock;
3. components to be restyled for obsolescence/technical ageing/safety reasons;
4. components which are not altered throughout the life of the rolling stock.

These components 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 components.

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); it is capitalised;
- revamping activities which mainly increase the asset's performance, efficiency or useful life (class 3); it is capitalised.

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 systematically 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 capacity 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 2019 and 2018 are as follows:

Line	Production indicator	
	2019	2018
<b>HS/HC network</b>	<b>2.10%</b>	<b>2.18%</b>
<b>Traditional network</b>		
Po Plain line and international transits	2.29%	2.27%
North Tyrrhenian line and branch lines	2.38%	2.23%
Backbone and branch lines	2.28%	2.23%
South Tyrrhenian line	2.27%	2.27%
Adriatic line and Apennines lines	2.33%	2.29%
Secondary network	2.30%	2.24%

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 the FS Italiane group for any other categories of property, plant and equipment are as follows:

	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%

## Leased assets

### Identification

At the inception date of the lease (i.e., the earlier of the date of a lease agreement and the date of commitment by the parties to the principal terms and conditions of the lease) and, subsequently, the group reassesses whether a contract is, or contains, a lease only if the terms and conditions of the contract are changed.

In particular, 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. For a contract that is, or contains, a lease, the group accounts for each lease component within the contract as a lease separately from non-lease components of the contract, which are accounted for in accordance with other standards.

The commencement date is the date on which a lessor makes an underlying asset available for use by a lessee. It is determined by assessing the length of the non-cancellable period of a lease, i.e., the period in which the contract is enforceable, including any rent-free periods provided to the lessee by the lessor. In addition to this term, the group considers:

- the period covered by the option to renew the lease if the group is reasonably certain to exercise the renewal option;

- periods after the termination option if the group is reasonably certain not to exercise the option.

Options to terminate the lease held only by the lessor are not considered.

## Recognition

At the commencement date of a lease, the group recognises the right-of-use asset under intangible assets/property, plant and equipment and/or investment property, depending on the nature of the asset subject to each lease contract and the lease liability in current and non-current financial liabilities.

The right-of-use asset is initially measured at cost, including the amount of the initial measurement of the lease liability, adjusted by any lease payments made at or before the commencement date, plus any initial direct costs incurred by the lessee and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, less any lease incentives received.

The group measures the lease liability at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, or the lessee's incremental borrowing rate if it cannot. The lease payments included in the measurement of the lease liability include fixed payments, variable lease payments that depend on an index or a rate, any residual value guarantees, the exercise price of a purchase option (if the group is reasonably certain to exercise that option), the exercise price of an extension option (if the group is reasonably certain to exercise that option) and payments of penalties for terminating the lease (if the lease term reflects the lessee exercising an option to terminate the lease).

The right-of-use asset is subsequently depreciated on a straight-line basis over the entire term of the contract, unless the contract provides for the transfer of ownership at the end of the lease or the cost of the lease reflects the fact that the purchase option will be exercised. If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term, the group depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are calculated using the same depreciation requirements as those for the relevant intangible assets or property, plant and equipment. Furthermore, the right-of-use asset is recognised net of any impairment losses on the cash-generating unit (CGU) to which it has been allocated and is adjusted to reflect the remeasurement of the lease liability.

The lease liability is subsequently measured at amortised cost using the effective interest method and is remeasured whenever there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, a change in the amount that the group expects to be payable under a residual value guarantee or when the group changes its assessment of an option to purchase the underlying asset or extend or terminate the lease. If the lease liability is remeasured, the group adjusts the right-of-use asset. If the carrying amount of the right-of-use asset is reduced to zero, any remaining amount is recognised in profit or loss.

In the statement of financial position, the group includes right-of-use assets within the same captions as that within which the corresponding assets would be presented if they were owned, and the lease liabilities in other financial liabilities. In the income statement, interest expense on the lease liability is a component of financial expense and is presented separately from the depreciation charge for the right-of-use asset.

The group has opted not to recognise the right-of-use assets and lease liabilities for short-term leases (i.e., those with a term of 12 months or less) or leases for low-value assets (i.e., assets that, when new, are worth €5,000 or less and leases with a total contractual value of €5,000 or less). The group recognises the lease payments associated with these types of leases as an expense on either a straight-line basis over the lease term or another systematic basis if that basis is more representative of the pattern of the lessee's benefit.



As lessor, at the inception date of the lease, the group classifies each of its leases as a finance lease or an operating lease. In order to do so, it assesses, in general, whether the lease transfers substantially all the risks and rewards incidental to ownership of an underlying asset. The group recognises lease payments from operating leases as income on either a straight-line basis or another systematic basis over the term of the lease.

With respect to subleases, as the intermediate lessor, the group classifies its share in the head lease separately from the sublease. In order to do so, it classifies the sublease by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset. If the head lease is a short-term lease that the group has recognised electing to apply the exception under IFRS 16, the sublease is classified as an operating lease. If a lessee subleases an asset, or expects to sublease an asset, the head lease does not qualify as a lease of a low-value asset.

#### Applicable before 1 January 2019

The group continues to apply the measurement and recognition criteria of IAS 17 Leases and IFRIC 4 Determining Whether an Arrangement contains a Lease to leases signed before 1 January 2019 (the FS Italiane group's initial application date for IFRS 16 Leases, in accordance with the requirements of the standard). Therefore, with respect to the comparative data at 31 December 2018, property, plant and equipment held under finance leases, through which the risks and rewards incidental to ownership are substantially transferred to the FS Italiane group, are recognised as assets of the 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.

Since 1 January 2018, the group companies have recognised reclassifications from/to "Investment property" applying IASB's amendments to IAS 40 endorsed by Regulation (EU) no. 400 of 14 March 2018. Consequently, these reclassifications are made only when there is evidence of a change in use in the property, considering that a change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.

#### 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 systematically over its estimated useful life. Specifically, the 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 systematically, but tested for impairment at least every year to identify any impairment losses. Impairment losses on goodwill are not reversed.

*d) Research and development expenditure*

Research expenditure is recognised in profit or loss when incurred, while development expenditure is recognised under intangible assets when 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 had been 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 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 by 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 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

### *a) 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, any changes 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 group 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. The cash flows consider the overall financial performance and the relevant sector, the cash flows generated by the CGU in the past few years and the expected growth rates. 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 behind the impairment loss cease to exist, the carrying amount of the asset is reversed

through 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.

*b) 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.

For impairment test purposes, goodwill acquired in a business combination is allocated to individual 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.

## Financial instruments

### Classification and measurement of financial assets

The group's financial assets are classified and measured considering both the business model used to manage such assets and the characteristics of their cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. The group performs SPPI (Solely Payment of Principal and Interest) tests on each instrument to determine whether these contractual cash flows are solely payments of principal and interest (in which case the SPPI test is passed).

Financial assets are classified in one of the following categories at initial recognition:

- at amortised cost (AC)
- at fair value through other comprehensive income (FVOCI)
- at fair value through profit or loss (FVTPL)

*a) Financial assets measured at amortised cost*

This category includes all financial assets that meet both of the following conditions:

- the financial asset is held solely to collect contractual cash flows (HTC - Held To Collect -business model); and
- the contractual cash flows are solely payments of principal and interest (SPPI test passed).

In this category, financial instruments are initially recognised at fair value, inclusive of transaction costs, and subsequently measured at amortised cost. Interest, calculated using the effective interest method, impairment losses (impairment gains), exchange gains (losses) and gains (losses) on derecognition are recognised in profit or loss.

*b) Financial assets at fair value through other comprehensive income (FVTOCI)*

This category includes all financial assets that meet both of the following conditions:

- the asset is held to collect not only contractual cash flows but also the cash flows generated from its sale (HTC&S model); and
- the contractual cash flows are solely payments of principal and interest (SPPI test passed).

In this category, the financial assets are initially measured at fair value, inclusive of transaction costs. Interest (calculated using the effective interest method), impairment losses (impairment gains), exchange gains (losses) and gains (losses) on derecognition are recognised in profit or loss. Other fair value gains or losses are recognised in OCI. Upon derecognition, all cumulative gains or losses previously recognised in OCI will be reclassified to profit or loss.

*c) Financial assets at fair value through profit or loss (FVTPL)*

This category includes all financial assets not classified as measured at amortised cost or fair value through other comprehensive income.

Financial instruments classified under this category are initially and subsequently measured at fair value. Transaction costs and fair value gains and losses are recognised in profit or loss.

#### Classification and measurement of financial liabilities

Loans and borrowings, 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 and borrowings, trade payables and other financial liabilities are classified under current liabilities, except for those with a contractual term of more than twelve months after the reporting date and those for which the group has an unconditional right to defer their settlement for at least twelve months after the reporting date. Loans and borrowings, trade payables and other financial liabilities are derecognised when repaid and when the group has transferred all risks and charges related to the instrument.

#### Classification and measurement of derivatives

The group has opted to continue applying hedge accounting to derivatives, as permitted by IAS 39 until the IASB completes the macro-hedging project to simplify the accounting treatment of hedges.

The group uses derivatives as part of its hedging strategies to mitigate the risk of fair value gains or losses on recognised assets or liabilities 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 27 for details on the recognition of currency risk hedges 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 gains or losses on the hedge to those on 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 gains or losses on derivatives designated as fair value hedges and which qualify as such are recognised in profit or loss, similarly to fair value gains or losses on hedged assets or liabilities attributable to the hedged risk.

Cash flow hedges: fair value gains or losses on derivatives designated as cash flow hedges and 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.

#### Subsequent measurement: impairment losses

The group applies the expected credit loss (ECL) model to determine impairment losses, which entails a significant assessment level of the impact of the changes in economic factors on the ECL, which are probability-weighted.

Loss allowances are measured using the general deterioration method and the simplified approach. Specifically:

- under the general deterioration method, the financial instruments are to be classified in three stages which reflect the level of deterioration from the moment the financial instrument is acquired and provide for a different ECL calculation method;
- under the simplified approach, some simplifications may be applied to trade receivables, contract assets and lease assets so that the entities are not required to monitor credit risk changes, as required instead by the general approach. Under the simplified approach, lifetime expected credit losses are recognised, therefore, no stage allocation is necessary. Losses are calculated over the residual life of the asset or receivable, which does not generally exceed 12 months.

As mentioned earlier, when the general deterioration method applies, financial instruments are classified into three stages based on the deterioration of credit quality between initial recognition and the measurement date:

- *Stage 1:* includes all financial assets under assessment on the date of initial recognition regardless of qualitative indicators (e.g., ratings) and except for situations with objective evidence of impairment. Upon subsequent measurement, all financial instruments whose credit risk has not increased significantly since the date of initial recognition or whose credit risk at the reporting date is low, remain in Stage 1. For these exposures, 12-month ECL are provided for that represent the ECL that result from default events that are possible within the 12-months after the reporting date. Interest on Stage 1 financial instruments is calculated on the gross carrying amount (without deducting the loss allowance);
- *Stage 2:* includes the financial instruments whose credit risk has increased significantly since the date of initial recognition, which, however, do not show objective evidence of impairment. For these assets, only lifetime ECL are provided for, i.e., ECL that result from all possible default events over the expected life of a financial instrument. Interest on Stage 2 financial instruments is calculated on the gross carrying amount (without deducting the loss allowance);
- *Stage 3:* includes financial assets with objective evidence of impairment at the reporting date. For these assets, only lifetime ECL are provided for, i.e., ECL that result from all possible default events over the expected life of a financial instrument.

In order to identify the methodological approach to be applied to the assets that are in scope of the impairment requirements and, specifically, the correct probability of default, the group defined a conventional cluster segmentation based on counterparty:

- Public administration: all loans and receivables with the government, regions, provinces, municipalities, the EU or related bodies;
- Intragroup: all loans and receivables with subsidiaries;
- Deposits: all deposits with banks;
- Amounts from third parties: loans and receivables other than those above, with non-financial companies, producers and consumers.

Furthermore, the group opted to apply the low credit risk exemption allowed by IFRS 9 to assets other than trade receivables with Investment Grade rating between AAA and BBB-. Accordingly, there is no stage allocation: in fact, these assets are directly allocated to Stage 1 with a one-year provision.

Therefore, the application of the impairment model entails the following steps:

- Separation between loans and trade receivables: this distinction isolates the scope of the assets subject to the stage allocation criteria, i.e., all loans. Conversely, these criteria do not apply to trade receivables following the application of the simplified approach whereby expected credit losses are always classified on a lifetime basis.
- Calculation of expected credit losses - Loans: the expected credit loss is calculated for each cluster, once the relevant stage has been identified;

- Calculation of expected credit losses - trade receivables: for each cluster, trade receivables are broken down by due date (specifically, falling due, past due up to one year, past due up to two years, past due by more than two years). The expected credit losses are then calculated accordingly.

The impairment of financial assets is calculated based on public providers' information to determine the probability of default (PD), applying a loss given default which is in line with the scenario analysed as part of the most comparable competitors and considering the supervisory bodies' recommendations for entities with listed financial instruments. The exposure at default usually coincides with the carrying amount of the financial asset, except when lifetime ECL apply, in which case, the repayment plan and instalments of the loan asset at the maturity dates are considered.

## Fair value estimates

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 measured 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 directly or indirectly;
- Level 3: financial assets and financial liabilities whose fair value is calculated based on unobservable inputs.

## 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, net of impairment losses calculated in accordance with IFRS 9. At the reporting date, current account overdrafts are classified in the statement of financial position as loans and borrowings under current liabilities. Cash and cash equivalents are measured at fair value through profit or loss.

## 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.

The net realisable value of finished products and property is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The net realisable value of raw materials, consumables and supplies is replacement cost.

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.

Buildings 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.

## 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 the FS Italiane group have both defined benefit and defined contribution 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 does not have sufficient assets to meet the commitments with employees. With respect to the defined contribution plans, the 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 equity in the relevant year, taking account of the related deferred tax effect.

Specifically, the 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 same accounting treatment is applied to the Free Travel Card benefits and the effects arising from actuarial gains and losses as for post-employment benefits.

## Provisions for risks and charges

Provisions for risks and charges are recognised to cover specific liabilities that are certain or probable, but whose amount and/or due date is unknown at the reporting date. A provision is recognised when there is a present obligation (legal or constructive), as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation. The provisions are stated as the best estimate of the expenditure required to settle the obligation. The discount rate used to determine the present value of the liability reflects current market values and considers the risk specific 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 from contracts with customers

### Initial recognition and subsequent measurement

The group recognises revenue in order to depict the transfer of the promised goods and/or services to customers in an amount that reflects the consideration to which the group expects to be entitled in exchange for those goods or services. Revenue is recognised using the five step model, which entails: i) identifying the contract with the customer, ii) identifying the performance obligations in the contract, iii) determine the transaction price, iv) allocate the transaction price to the performance obligations in the contract and v) recognising revenue.

Revenue is measured considering the contract terms and the commercial practices usually applied to transactions with customers. The transaction price is the amount of consideration (which may include fixed amounts, variable amounts, or both) to which the group expects to be entitled in exchange for transferring promised goods or services to a customer. Control refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset (good/service). The total consideration of contracts for the provision of services is allocated among all services based on the selling prices of the related services as if they had been sold separately. For each contract, the reference element for the recognition of revenue is the single performance obligation. For each performance obligation, the group recognises revenue when (or as) it satisfies a performance obligation by transferring a promised good or service (i.e., an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset. For performance obligations satisfied over time, revenue is recognised over time, assessing the progress towards complete satisfaction of the performance obligation at each reporting date. The group measures progress in accordance with an input method (cost-to-cost method). Accordingly, revenue is recognised based on the inputs used to satisfy the obligation up to the reporting date, compared to the total inputs assumed to satisfy the entire obligation. When the inputs are distributed consistently over time, the group recognises the corresponding revenue on a straight-line basis. In some circumstances, when the group is unable to reasonably measure the outcome of a performance obligation, revenue is recognised only to the extent of the costs incurred. The nature and timing of performance obligations and the significant terms for the satisfaction of performance obligations are summarised below for the group's main contracts with customers:

*a) Revenue from transport services*

Revenue from transport services arises from passenger and freight transport in Italy and abroad. This caption includes revenue from market services (e.g., high speed services) and public service contract fees (such as with the MIT (Ministry of Infrastructure and Transport), the regions, etc.).

Revenue from rail/road transport services is governed by the General terms of transport applicable to several types of services: regional or long haul throughout Italy. Revenue from freight transport services, both rail and road, are governed by specific contracts agreed with the customer which generally provide for free at destination deliveries. The contract with customers generally coincides with their ticket which also grants access to a number of services (e.g., transport, lounge, complementary drink, wi-fi, etc.). However, these services are considered as a single performance obligation which customers may benefit from, except for reward points. Freight transport services are governed by standard contracts which substantially provide for the obligation to transport the goods to destination.

Revenue is recognised from the moment the customer starts using the service. In the case of partial services (delays, cancellations, etc.), the current terms and conditions provide for reimbursements and bonuses which are recognised as a direct adjustment to revenue. During the year, the group companies offer discounts and promotions to enhance customer loyalty. Reward points, which entitle customers to buy the group's products in the future, qualify as a performance obligation and their amount has never been significant. Revenue is recognised as the reward points are redeemed or expired. Because of the nature of the business, amounts are collected in advance. However, the timing of this advance does not have a significant impact.

Since customers enjoy the benefits at the time of their transfer, revenue is recognised over time.

Revenue from public transport services consists of revenue from the rail transport services governed by the long-term service contracts signed with the regions, autonomous provinces and the ministries (MIT and MEF) for local and national rail transport services covered by a public service arrangement, and also includes regional services and day and night intercity trains.

The transport services are performance obligations. Revenue is recognised on an accruals basis in accordance with the contract. If the contractually-agreed services are not provided in the agreed quantities (e.g., cancellations), the contract provides for adjustments to the consideration. It also provides for penalties when quality targets (delays, cleanliness, etc.) are not met. In this respect, an estimate is made and an accrual is recognised in the risk provision to be used when the adjustments are finalised. Since customers enjoy the benefits at the time of their transfer, revenue is recognised over time.

*b) Revenue from infrastructure services*

Revenue from infrastructure services related to the rail/road/motorway infrastructure arises from management of this infrastructure. This caption includes revenue from fees, service concession arrangements and, to a lesser extent, revenue from ferrying services. This is the amount paid by railway companies to use the train paths necessary to carry out the long and short haul domestic passenger rail transport and for freight transport. Therefore, only one performance obligation exists. Revenue is recognised over time based on contract amounts; every quarter, it is adjusted to reflect the actual number of trains in operation. This figure is calculated for each train by pricing the train paths under the contract and those actually used by each railway company. With respect to road infrastructure, tolls are the amount paid by third-party companies assigned road and motorway construction, operation and maintenance under specific concession arrangements. A single performance obligation is identified. The price is set by the law and is equal to a percentage of the net proceeds from tolls received from operators. Revenue is recognised over time.

#### *Variable consideration*

If the consideration promised in a contract includes a variable amount (e.g., because of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or because the consideration is contingent on the occurrence or non-occurrence of a future event), an entity shall estimate the amount of consideration to which it is entitled. The group companies estimate variable considerations consistently for similar items, using the expected value or the most likely amount method. They subsequently include in the transaction price the amount of variable consideration estimated, only to the extent that it is highly probable.

#### *Existence of a significant financing component*

When a significant financing component exists, revenue is adjusted, both when companies are financed by their customer (advance collection) and when they finance it (deferred collection). The existence of a significant financing component is identified when the contract is signed by comparing expected revenue against the payments to be received. It is not recognised if the period between when the entity transfers a promised good or service and when the customer pays for that good or service is one year or less.

#### *Incremental costs of obtaining a contract and costs to fulfil a contract*

The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained (for example, a sales commission), which it expects to recover. Conversely, if no contract is obtained, they are recognised provided that they are explicitly chargeable to the customer. The group recognises the costs incurred to fulfil a contract only when they relate directly to a contract, generate or enhance resources that will be used in satisfying performance obligations in the future and are expected to be recovered.

## 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 the 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.

#### *a) Grants related to assets*

They refer to amounts paid by the government and other public authorities to the 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.

#### *b) Grants related to income*

They refer to amounts paid by the government or other public authorities to the 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 shareholder's right to receive payment thereof arises. The latter usually coincides with the shareholder's resolution approving dividend distribution.

Dividends distributed to Ferrovie dello Stato Italiane S.p.A.'s shareholder are presented as a change in equity and recognised under liabilities when their distribution is approved by the shareholder.

## 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 carry forward 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 or directly taken to equity, in which case they are respectively under the "Tax effect" caption related to the other comprehensive income and directly in equity. 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 and may not exceed 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 on after 1 January 2019.

#### **IFRS 16 Leases**

On 13 January 2016, the IASB issued IFRS 16 Leases which was endorsed by the EU with Regulation no. 1986 of 31 October 2017. This standard replaces IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases - Incentives and SIC 27 Evaluating the Substance of Transactions in the Legal Form of a Lease. It introduces a new definition of a lease and the concept of control to distinguish leases from service contracts. Specifically, in order to determine whether a contract is a lease, IFRS 16 requires the reporting entity to check whether the lessee has the right to control the use of an identified asset for a specific period of time. This standard is applicable to annual periods beginning on or after 1 January 2019 and introduces a single lessee accounting model that requires a lessee recognise a right-of-use asset and a lease liability (i.e., the obligation to make lease payments). The changes in the financial statements of the lessor as a result of this standard are not particularly significant. The FS Italiane group companies have completed the preliminary assessment of the potential impacts of applying IFRS 16 at the transition date (1 January 2019). This assessment consisted of various stages, including mapping contracts that could potentially contain a lease and analysing such contracts to understand the main clauses that are relevant for the purposes of IFRS 16. Reference should be made to that described earlier for a detailed description of the impacts of this new standard and to that indicated further on for information on the impacts of initial application.

#### ***Annual improvements to IFRS: 2015-2017 cycle***

On 12 December 2017, the IASB issued the Annual improvements to IFRS Standards 2015-2017 Cycle. The amendments are part of the normal rationalisation and clarification of the IFRS and cover: IAS 12 Income taxes, IAS 23 Borrowing costs, IFRS 3 Business combinations, IFRS 11 Joint arrangements, IAS 19 Employee benefits and IAS 28 Investments in associates and joint ventures. The application of this amendment, where applicable and because of its nature, did not have any significant impacts on the consolidated financial statements.

#### **Amendments to IAS 19 Plan amendment, curtailment or settlement**

On 7 February 2018, the IASB issued the amendments to IAS 19 Employee benefits. The amendments clarify the accounting treatments for defined benefit plans when a plan amendment, curtailment or settlement occurs. Accordingly, an entity shall use the updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement. The application of this amendment, where applicable and because of its nature, did not have any significant impacts on the consolidated financial statements.

#### **Amendments to IAS 28 Long-term interests in associates and joint ventures**

On 12 October 2017, the IASB issued the amendment to IAS 28 - Investment entities. The amendment clarifies that IFRS 9 applies to non-current amounts due from an associate or a joint venture that form part of the net investment in the associate or joint venture. Furthermore, under the amendments, IFRS 9 also applies to said amounts prior to the adoption of IAS 28, so that the entity does not consider any adjustments to the long-term interests arising from the application of this standard. The application of this amendment, where applicable and because of its nature, did not have any significant impacts on the consolidated financial statements.

### **IFRIC 23 Uncertainty over income tax treatments**

On 7 June 2017, the IASB issued IFRIC 23 Uncertainty over income tax treatments. The interpretation clarifies the accounting for uncertain deferred or current taxes, related to interpretation issues not clarified by the relevant tax authorities. The application of this interpretation, where applicable and because of its nature, did not have any significant impacts on the consolidated financial statements.

### **Amendments to IFRS 9 - Prepayment features with negative compensation**

On 12 October 2017, the IASB issued the amendment to IFRS 9 Financial instruments - Prepayment features with negative compensation, which was endorsed by the EU with Regulation no. 498 of 22 March 2018. The amendments clarify the accounting of particular prepayable financial assets when IFRS 9 applies. Specifically, the amendment proposes measuring such financial assets, which may result in negative compensation, at amortised cost or at fair value through other comprehensive income, depending on a company's model. The application of this amendment, where applicable and because of its nature, did not have any significant impacts on the consolidated financial statements.

## **STANDARDS, AMENDMENTS AND INTERPRETATIONS RECENTLY ENDORSED BY THE EUROPEAN UNION NOT YET APPLIED**

### ***Amendments to references to the conceptual framework in IFRS standards***

On 29 March 2018, the IASB issued the revised version of the Conceptual framework for financial reporting. The main changes compared to the 2010 version include: a new chapter on measurement, improved definitions and guidance, specifically with respect to the definition of liability, clarifications of major concepts, such as stewardship, prudence and measurement uncertainties. The EU endorsed this amendment on 29 November 2019.

### ***Amendments to IAS 1 and IAS 8 – Definition of material***

On 31 October 2018, the IASB issued an amendment to IAS 1 and IAS 8 Definition of material. The main changes relate to the alignment of the references and quotes included in some standards in order to reflect the new version of the Conceptual Framework, which was approved in March 2018, instead of the 2010 version. The amendment applies to annual periods beginning on or after 1 January 2020. The EU endorsed this amendment on 29 November 2019.

## **STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET ENDORSED BY THE EUROPEAN UNION**

### ***Amendments to IFRS 3 Business Combinations***

On 22 October 2018, the IASB issued an amendment to IFRS 3 Business combination. The amendment relates to the definition of business which, at present, is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities. Previously, it was an integrated set of activities and assets that was capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants. The amended definition of business shall be applied to acquisitions that occur on or after 1 January 2020. The EU is expected to endorse this amendment in 2020.

### **Amendments to IFRS 9, IAS 39 and IFRS 7**

The IASB published Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7), which amends the hedge accounting requirements under IFRS 9 and IAS 39.

The amendments will come into effect from 1 January 2020 but companies may choose to apply them earlier.

## Use of estimates and judgements

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 estimates and judgements based on past experience and on assumptions considered to be reasonable and realistic over time 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 standards 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 - non-financial assets**

In accordance with the FS Italiane group's accounting policies, property, plant and equipment and intangible assets with a finite life are tested for impairment. Impairment testing is conducted by checking for evidence that it will be difficult to recover the asset's carrying amount through use. Impairment tests require the directors to make subjective valuations based on the information available within the group 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 influencing the estimates and judgements made by the directors.

### **ii) Impairment losses - financial assets**

According to the group's impairment model, an expected loss is the sum of the expected losses that result from possible default events on a financial instrument over a specific time horizon; this results in the recognition of a loss using both past and present figures and forward looking information. The estimate of expected losses, especially when the financial assets are deteriorated or show objective evidence of impairment, requires the directors to make subjective valuations based on the information available within the group (e.g. the financial asset's estimated cash flows) and in the market, as well as from past experience. 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.

### **iii) Extension/termination options in leases**

Leases that contain extension/termination options require the directors to, at the inception of the lease, to assess whether it is reasonably certain to exercise an extension option or not to exercise a termination option, upon occurrence of either a significant event or a significant change in circumstances that is within the group's control. The assessment of extension options may require the directors to make subjective judgements based on the information available at the assessment date and past experience.

#### **iv) 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 production unit method.

Calculating the amortisation/depreciation of these assets entails a complex accounting estimate that is, by its nature, subjective, as it is influenced by a number of factors, including:

- the estimated production volumes expressed as train-km for the railway infrastructure (for further details, see the paragraph on “RFI S.p.A.’s calculation of depreciation of property, plant and equipment”);
- the identification of each component of rolling stock with a significant cost in proportion to the total cost of the item to be depreciated separately (component approach) and the estimated useful life (for further details, see the paragraph on “Trenitalia S.p.A.’s calculation of rolling stock depreciation”);
- the estimated residual value. In accordance with IAS 16, 38 and 40, the depreciable cost of the railway infrastructure and rolling stock is calculated by subtracting their residual value. The residual value of an asset is the estimated amount that an entity could obtain at the time of disposal of the 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 or the useful life of the rolling stock. The subsidiaries RFI S.p.A. (which operates the railway infrastructure) and Trenitalia S.p.A. (which owns the rolling stock), periodically review the residual value of assets and measure their recoverability using the best information available at that date. Periodic updates may cause changes in the depreciation rate for future years;
- the impacts of any changes to the regulatory framework.

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. The 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.

#### **v) 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 the FS Italiane group’s consolidated financial statements.

#### **vi) 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.

#### **vii) Fair value of derivatives**

The fair value of derivatives that are not quoted on active markets is measured using valuation techniques. The 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.

## 7. Effects of initial application of IFRS 16 Leases

The effects of the initial application of IFRS 16 Leases are described below:

### **Lessee**

As indicated earlier, the FS Italiane group applied IFRS 16 as from 1 January 2019 using the modified retrospective approach, whereby the cumulative effect of initial application is recognised in the opening balance of retained earnings.

At the date of initial application, the group opted to use the practical expedient offered by the standard in order to avoid reassessing whether each contract is, or contains, a lease at the date of initial application. Accordingly, the group only applied this standard to leases that it had already identified as leases in accordance with IAS 17 Leases and IFRIC 4 Determining Whether an Arrangement Contains a Lease. The IFRS 16 definition of a lease was therefore only applied to contracts signed or amended on or after 1 January 2019.

Having excluded short-term leases and those for low-value assets as they were exempt, the group recognised right-of-use assets and lease liabilities for the leases it had previously classified as operating leases applying IAS 17:

- it measured lease liabilities at the present value of the residual lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019;
- it measured right-of-use assets at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised immediately before the date of initial application.

The group used the practical expedients to simplify the application of IFRS 16 to leases previously classified as operating leases applying IAS 17:

- it applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
- it assessed the recoverability of right-of-use assets at 1 January 2019 based on the assessment of whether leases are onerous applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

For leases that were classified as finance leases applying IAS 17, the carrying amounts of the right-of-use asset and the lease liability at 1 January 2019 are the carrying amounts of the lease asset and lease liability immediately before that date measured applying IAS 17.

### **Lessor**

The standard does not require the group to make any adjustments on transition for leases in which it is a lessor. It therefore accounts for these leases applying IFRS 16 from the date of initial application.

### **Subleases**

In accordance with IFRS 16, the group assesses the classification of subleases by reference to the right-of-use asset, rather than by reference to the underlying asset. At initial application, the group reassessed subleases that had previously been classified as operating leases applying IAS 17.

At initial application of IFRS 16, the group recognised right-of-use assets (classified as property, plant and equipment due to the nature of the lease asset) and lease liabilities (classified as current and non-current financial liabilities) of €586 million and €591 million, respectively. The €5 million difference between the two captions is due to the reclassification of the provision for routine maintenance, which was recognised at 31 December 2018 as a decrease in the recognised right-of-use asset. When

measuring lease liabilities, the group discounted lease payments using the incremental borrowing rate at 1 January 2019. The average of the rates applied, based on the term of the financial liability, is shown in the table below:

	From year 1 to 2	From year 2 to 3	From year 3 to 4	From year 4 to 5	From year 5 to 6	From year 6 to 7	From year 7 to 8	From year 8 to 9	From year 9 to 10	After year 10
Italy	1.34	1.78	2.15	2.46	2.74	2.98	3.10	3.30	3.46	3.46
Abroad	2.47	2.97	3.36	3.72	3.99	4.22	4.32	4.50	4.64	4.64

The table below shows the impacts of IFRS 16 application on the group's financial position at the transition date (it does not include the reclassification of finance leases under the previously applied IAS 17):

	millions of Euros
	<b>Impacts at 01.01.2019</b>
<b>ASSETS</b>	
Land	2
Non-industrial buildings	54
Industrial buildings	34
Plant	
Vehicles	6
Rolling stock	461
Equipment	6
Loading/unloading equipment for int. transport	
Internal communications devices	
Cars	22
Office equipment	
Mobile phones	
Sundry small equipment	
Other assets	1
Intangible assets	
<b>TOTAL</b>	<b>586</b>
<b>LIABILITIES</b>	
Lease liabilities (non-current)	427
Lease liabilities (current)	164
Provisions for risks and charges	(5)
<b>TOTAL</b>	<b>586</b>
<b>EQUITY</b>	
<b>Retained earnings</b>	

The table below shows the impacts of the standard on consolidated profit or loss:

	millions of Euros
	<b>Impacts</b>
Reversal of lease payments	130
Depreciation of right-of-use assets	(118)
<b>Impact on operating profit</b>	<b>12</b>
Increase in interest expense	(20)
<b>Impact on profit for the year</b>	<b>(8)</b>

The table below reconciles commitments at 31 December 2018 recognised in accordance with IAS 17/IFRIC 4 and lease liabilities at 1 January 2019 recognised in accordance with IFRS 16:

	millions of Euros
	<b>Impacts</b>
Lease commitments at 31 December 2018 (unrecognised)	1,102
Discounting of 2018 commitments	(140)
<b>Discounted lease commitments at 31 December 2018</b>	<b>962</b>
<b>Recognised lease liabilities at 31 December 2018</b>	<b>402</b>
Unrecognised lease liabilities under IFRS 16 exemptions	(383)
Other changes	13
<b>Total lease liabilities at 1 January 2019</b>	<b>994</b>

## 8. Financial and operational risk management

The 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.

The 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 financial performance.

### **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 loans with the public administration, trade receivables and the financial investments of the 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 the amounts due from the public administration within the contractually agreed timeframe.

The following table shows the FS Italiane group's exposure to credit risk at 31 December 2019, compared with that at 31 December 2018.

millions of Euros

	<b>31.12.2019</b>	<b>31.12.2018</b>
Trade receivables	3,362	3,160
Loss allowance	(691)	(666)
<b>Current trade receivables, net of the loss allowance</b>	<b>2,671</b>	<b>2,494</b>
Other assets	3,481	4,259
Loss allowance	(94)	(122)
<b>Other current assets, net of the loss allowance</b>	<b>3,387</b>	<b>4,137</b>
Financial assets (including derivatives)	2,914	3,807
Loss allowance	(127)	(131)
<b>Non-current financial assets (including derivatives), net of the loss allowance</b>	<b>2,787</b>	<b>3,676</b>
Other assets	5,239	4,380
Loss allowance	(12)	(10)
<b>Other non-current assets, net of the loss allowance</b>	<b>5,227</b>	<b>4,370</b>
Cash and cash equivalents	1,487	1,750
Loss allowance	(2)	(1)
<b>Cash and cash equivalents, net of the loss allowance</b>	<b>1,485</b>	<b>1,749</b>
Current financial assets (including derivatives)	2,317	2,089
Loss allowance	(62)	(51)
<b>Current financial assets (including derivatives), net of the loss allowance</b>	<b>2,255</b>	<b>2,038</b>
Trade receivables	6	16
Loss allowance		(7)
<b>Non-current trade receivables, net of the loss allowance</b>	<b>6</b>	<b>9</b>
<b>Total financial assets (*)</b>	<b>17,818</b>	<b>18,473</b>

(\*) Does not include prepayments and accrued income, tax assets, cash in hand and equity investments.

The tables below show the exposure to credit risks by counterparty, in absolute terms and as a percentage.

millions of Euros

	<b>31.12.2019</b>	<b>31.12.2018</b>
Public administration	13,455	13,694
Third party customers	2,735	2,744
Financial institutions	1,572	1,794
Group companies	56	241
<b>Total financial assets</b>	<b>17,818</b>	<b>18,473</b>

A significant portion of trade receivables and loans 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 loss allowance was accrued in this respect.

The following table gives a breakdown of financial assets and trade receivables at 31 December 2019 by past due bracket.

millions of Euros

31.12.2019

	Past due by					Total
	Not past due	0-180 days	180-360 days	360-720 days	More than 720 days	
Public administration (gross)	11,687	235	455	839	403	13,619
Loss allowance	(32)	(3)	(1)	(8)	(120)	(164)
<b>Public administration (net)</b>	<b>11,655</b>	<b>232</b>	<b>454</b>	<b>831</b>	<b>283</b>	<b>13,455</b>
Third party customers (gross)	2,329	285	83	232	616	3,545
Loss allowance	(232)	(13)	(22)	(54)	(489)	(810)
<b>Third party customers (net)</b>	<b>2,097</b>	<b>272</b>	<b>61</b>	<b>178</b>	<b>127</b>	<b>2,735</b>
Financial institutions (gross)	1,526	34	7	6	1	1,574
Loss allowance	(2)					(2)
<b>Financial institutions (net)</b>	<b>1,524</b>	<b>34</b>	<b>7</b>	<b>6</b>	<b>1</b>	<b>1,572</b>
Group companies (gross)	9	18	4	12	25	68
Loss allowance		(6)			(6)	(12)
<b>Group companies (net)</b>	<b>9</b>	<b>12</b>	<b>4</b>	<b>12</b>	<b>19</b>	<b>56</b>
<b>Total financial assets</b>	<b>15,285</b>	<b>550</b>	<b>526</b>	<b>1,027</b>	<b>430</b>	<b>17,818</b>

millions of Euros

31.12.2018

	Past due by					Total
	Not past due	0-180 days	180-360 days	360-720 days	More than 720 days	
Public administration (gross)	12,368	256	174	640	429	13,867
Loss allowance	(16)	(1)		(4)	(153)	(174)
<b>Public administration (net)</b>	<b>12,352</b>	<b>255</b>	<b>174</b>	<b>636</b>	<b>277</b>	<b>13,694</b>
Third party customers (gross)	2,171	400	67	160	739	3,537
Loss allowance	(121)	(14)	(6)	(16)	(636)	(793)
<b>Third party customers (net)</b>	<b>2,050</b>	<b>386</b>	<b>61</b>	<b>144</b>	<b>103</b>	<b>2,744</b>
Financial institutions (gross)	1,663	123	7	2		1,795
Loss allowance	(1)					(1)
<b>Financial institutions</b>	<b>1,662</b>	<b>123</b>	<b>7</b>	<b>2</b>		<b>1,794</b>
Group companies (gross)	168	52		13	13	246
Loss allowance					(5)	(5)
<b>Group companies (net)</b>	<b>168</b>	<b>52</b>		<b>13</b>	<b>8</b>	<b>241</b>
<b>Total financial assets</b>	<b>16,232</b>	<b>816</b>	<b>242</b>	<b>795</b>	<b>388</b>	<b>18,473</b>

The total exposure and the impairment of each category was reclassified by risk class at 31 December 2019, considering the Standard & Poor's rating, shown below:

<b>31.12.2019</b>					
	<b>FVTPL</b>	<b>FVOCI</b>		<b>Amortised cost</b>	
		12-month expected credit losses	12-month expected credit losses	Lifetime - not impaired	Lifetime - impaired
from AAA to BBB-			7,869	6,839	563
from BB to BB+			809	285	467
from B to CCC			225	1,531	216
from CC to C					
D					
<b>Gross carrying amounts</b>			8,903	8,655	1,246
Loss allowance			46	292	648
<b>Carrying amount</b>			8,857	8,363	598

<b>31.12.2018</b>					
	<b>FVTPL</b>	<b>FVOCI</b>		<b>Amortised cost</b>	
		12-month expected credit losses	12-month expected credit losses	Lifetime - not impaired	Lifetime - impaired
from AAA to BBB-			8,691	6,860	599
from BB to BB+			454	241	820
from B to CCC			213	1,454	129
from CC to C					
D					
<b>Gross carrying amounts</b>			9,358	8,555	1,548
Loss allowance			(55)	(272)	(661)
<b>Carrying amount</b>			9,303	8,283	887

Changes in the loss allowance are shown below. The 2018 comparative figures reflect the loss allowance calculated in accordance with IAS 39.



	<b>2019</b>			
	<b>12-month expected credit losses</b>	<b>Lifetime-not impaired</b>	<b>Lifetime-impaired</b>	<b>Total</b>
<b>Balance at 1 January 2019</b>	<b>55</b>	<b>272</b>	<b>661</b>	<b>988</b>
Reclassification	(2)			(2)
Net impairment loss	9	13	27	49
Transfer to lifetime - impaired				
Transfer to lifetime - not impaired				
Repaid financial assets	(1)	(5)	(16)	(22)
New assets acquired		2	34	36
Utilisation of the allowance	(5)	(2)	(55)	(62)
<b>Balance at 31 December 2019</b>	<b>56</b>	<b>280</b>	<b>651</b>	<b>987</b>

### 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.

In order to meet potential and temporary cash requirements, the parent agreed a three-year revolving and committed backup credit facility in 2019 (€2 billion) for general purposes.

Furthermore, the group has numerous uncommitted credit lines granted by banks.

The following tables show the due dates of financial liabilities and trade payables at 31 December 2019 and 2018, including interest to be paid:

millions of Euros

<b>31 December 2019</b>	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>6 months or less</b>	<b>6-12 months</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>After 5 years</b>
Bonds	6,341	6,671	168	818	657	1,492	3,536
Bank loans and borrowings	4,423	4,634	1,917	900	548	755	514
Loans and borrowings from other financial backers	537	553	118	269	134	29	3
Loans and borrowings from group companies	5	5		5			
Financial liabilities	775	1,536	7	2	6	98	1,423
Lease liabilities	946	1,049	75	121	100	407	346
<b>Non-derivative financial liabilities</b>	<b>13,027</b>	<b>14,448</b>	<b>2,285</b>	<b>2,115</b>	<b>1,445</b>	<b>2,781</b>	<b>5,822</b>
<b>Trade payables</b>	<b>5,824</b>	<b>5,821</b>	<b>2,052</b>	<b>3,742</b>	<b>27</b>		
<b>Derivatives</b>	<b>32</b>	<b>31</b>	<b>9</b>	<b>6</b>	<b>10</b>	<b>3</b>	<b>3</b>
<b>Total financial liabilities</b>	<b>18,883</b>	<b>20,300</b>	<b>4,346</b>	<b>5,863</b>	<b>1,482</b>	<b>2,784</b>	<b>5,825</b>

millions of Euros

<b>31 December 2018</b>	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>6 months or less</b>	<b>6-12 months</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>After 5 years</b>
Bonds	5,343	5,705	16	402	977	1,789	2,521
Bank loans and borrowings	4,655	4,934	1,217	1,275	656	1,119	667
Loans and borrowings from other financial backers	1,402	1,549	142	143	421	401	442
Loans and borrowings from group companies	5	5		5			
Financial liabilities	1,620	1,621	13	20	10	100	1,478
Lease liabilities							
<b>Non-derivative financial liabilities</b>	<b>13,025</b>	<b>13,814</b>	<b>1,388</b>	<b>1,845</b>	<b>2,064</b>	<b>3,409</b>	<b>5,108</b>
<b>Trade payables</b>	<b>5,446</b>	<b>5,360</b>	<b>1,766</b>	<b>3,536</b>	<b>20</b>	<b>32</b>	<b>6</b>
<b>Derivatives</b>	<b>69</b>	<b>74</b>	<b>9</b>	<b>7</b>	<b>12</b>	<b>11</b>	<b>35</b>
<b>Total financial liabilities</b>	<b>18,540</b>	<b>19,248</b>	<b>3,163</b>	<b>5,388</b>	<b>2,096</b>	<b>3,452</b>	<b>5,149</b>

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 after five years.

millions of Euros

<b>31 December 2019</b>	<b>Carrying amount</b>	<b>Within one year</b>	<b>1-5 years</b>	<b>After 5 years</b>
Bonds	6,341	929	1,982	3,430
Bank loans and borrowings	4,423	2,776	1,197	450
Loans and borrowings from other financial backers	537	375	160	2
Loans and borrowings from group companies	5	5		
Financial liabilities	775	9	5	761
Lease liabilities	946	180	432	332
<b>Non-derivative financial liabilities</b>	<b>13,027</b>	<b>4,274</b>	<b>3,776</b>	<b>4,975</b>
<b>Trade payables</b>	<b>5,824</b>	<b>5,791</b>	<b>33</b>	

millions of Euros

<b>31 December 2018</b>	<b>Carrying amount</b>	<b>Within one year</b>	<b>1-5 years</b>	<b>After 5 years</b>
Bonds	5,343	366	2,565	2,412
Bank loans and borrowings	4,655	2,450	1,637	568
Loans and borrowings from other financial backers	1,402	251	761	390
Loans and borrowings from group companies	5	5		
Financial liabilities	1,620	33	106	1,481
Lease liabilities				
<b>Non-derivative financial liabilities</b>	<b>13,025</b>	<b>3,105</b>	<b>5,069</b>	<b>4,851</b>
<b>Trade payables</b>	<b>5,446</b>	<b>5,384</b>	<b>55</b>	<b>7</b>

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, including lease liabilities, is repaid using cash flows from operations and bank loans and borrowings.

### 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, the 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 manage and keep the group companies' exposure to these risks within acceptable levels, while optimising returns on investments. The 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 policies 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 opportunities to optimise borrowing costs offered by the indexing of variable-rate debt.

In accordance with the above policies, 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	1-2 years	2-5 years	after 5 years
Variable rate	5,825	5,924	2,483	327	1,320	1,794
Fixed rate	7,202	7,765	1,917	1,118	1,366	3,364
<b>Balance at 31 December 2019</b>	<b>13,027</b>	<b>13,689</b>	<b>4,400</b>	<b>1,445</b>	<b>2,686</b>	<b>5,158</b>
Variable rate	5,408	5,340	1,750	702	1,216	1,672
Fixed rate	7,617	8,474	1,483	1,362	2,193	3,436
<b>Balance at 31 December 2018</b>	<b>13,025</b>	<b>13,814</b>	<b>3,233</b>	<b>2,064</b>	<b>3,409</b>	<b>5,108</b>

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, i.e., which hedge against rises in variable rates beyond the maximum levels defined.

	31.12.2019	31.12.2018
<b>Before hedging with derivatives</b>		
Variable rate	45%	42%
Fixed rate	55%	58%
<b>After hedging with derivatives</b>		
Variable rate	24%	63%
Hedged variable rate	12%	8%
Fixed rate	64%	30%

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 2019:

	millions of Euros	
	<b>+ 50 bps</b>	<b>- 50 bps</b>
Greater/(lower) interest expense on variable-rate debt	13	(7)
Net cash flow from hedges	(2)	3
<b>Total</b>	<b>11</b>	<b>(4)</b>

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 2019.

millions of Euros

	<i>+ 50 bps</i>	<i>- 50 bps</i>
Fair value of hedging derivatives	4	(3)
<b>Total</b>	<b>4</b>	<b>(3)</b>

#### Currency risk

The group is mainly active in Italy. Therefore, the risk arising from the different currencies in which it operates is limited and substantially relates to the contracts agreed by Italferr.

In February 2017, Trenitalia UK Ltd, a British company set up in 2016 and wholly-owned by Trenitalia S.p.A., acquired NXET Trains Limited. The liquid funds necessary for the acquisition were provided by the parent which granted an intragroup loan to Trenitalia UK Ltd (GBP60 million), while the residual amount was raised by means of a capital increase carried out by Trenitalia S.p.A. in favour of Trenitalia UK Ltd (GBP13 million). Cross currency swaps hedging the currency risk were agreed in respect of FS Italiane S.p.A.'s intragroup loan granted to Trenitalia UK Ltd.

The group also has loans and borrowings in Swiss francs totalling CHF45 million.

#### **Capital management**

The 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 the shareholder and benefits for the other stakeholders. The 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 liabilities as reported in the consolidated statement of financial position and the categories of financial assets and liabilities identified pursuant to IFRS 7.

millions of Euros

<b>31 December 2019</b>	<b>Financial assets</b>	<b>Financial liabilities</b>	<b>of which: hedging derivatives</b>
Non-current financial assets (including derivatives) (*)	1,228		2
Non-current service concession financial assets	1,696		
Non-current trade receivables	6		
Other non-current assets (*)	5,280		
Current trade receivables	2,671		
Current financial assets (including derivatives)	705		
Current service concession financial assets	1,549		
Cash and cash equivalents	1,534		
Other current assets (*)	3,402		
Non-current loans and borrowings		7,211	
Non-current financial liabilities (including derivatives)		1,577	30
Non-current contract advances		1,142	
Non-current trade payables		27	
Other liabilities		162	
Current loans and borrowings and current portion of non-current loans and borrowings		4,095	
Current trade payables		5,797	
Current financial liabilities (including derivatives)		176	2
Current contract advances		197	
Other current liabilities		5,614	

(\*) Tax assets and equity investments are not included

<b>31 December 2018</b>	<b>Financial assets</b>	<b>Financial liabilities</b>	<b>of which: hedging derivatives</b>
Non-current financial assets (including derivatives) (*)	1,758		3
Non-current service concession financial assets	1,917		
Non-current trade receivables	9		
Other non-current assets (*)	4,372		
Current trade receivables	2,494		
Current financial assets (including derivatives)	818		
Current service concession financial assets	1,220		
Cash and cash equivalents	1,796		
Other current assets (*)	4,155		
Non-current loans and borrowings		8,335	
Non-current financial liabilities (including derivatives)		1,620	67
Non-current contract advances		995	
Non-current trade payables		49	
Other non-current liabilities		138	
Current loans and borrowings and current portion of non-current loans and borrowings		3,069	
Current trade payables		5,398	
Current financial liabilities (including derivatives)		69	2
Current contract advances		142	
Other current liabilities		6,365	

(\*) Tax assets and equity investments are not included

## 9. Assets and liabilities held for sale and disposal groups

On 28 October 2019, the Council of State published rulings nos. 7392/2019 and 7393/2019, establishing the means for the implementation of rulings nos. 2424/2016 and 2425/2016 and admitting the motions filed by the private shareholders. Specifically, the Council of State: i) also declared the subsequent resolutions of the Turin municipal and provincial authorities null and void on the grounds that they eluded the intent of the ruling, ii) declared the share transfer agreement between the Turin municipal authorities, the Turin provincial authorities and ANAS null and void, and iii) ordered the transferring authorities to call a public tender for the sale of the equity investments, in accordance with article 3.27 of Law no. 277/2007, within 120 days of the notification of the ruling, i.e. 25 February 2020. The Turin municipal authorities have called a public tender for the sale of its 10.653% interest. To gain a better understanding of the effects of the Council of State decisions, Anas consulted both the State Attorney and leading law and tax advisory firms. Their analyses show that there is no way to automatically and directly restore the situation that was in place before the invalidated contract was signed and that additional action by the parties is required in order to do so. Accordingly, the rulings establishing the means of implementation give rise to an obligation for the parties (to meet the necessary requirements for the restoration of the pre-contract situation), performance of which will lead to a tangible change in the legal situation created by the invalidated contract.

Based on that described above, the SITAF group's assets and liabilities, with a net value of €482 million, have been reclassified to "Assets held for sale and disposal groups" and "Liabilities held for sale and disposal groups" in accordance with IFRS 5.

The table below details the reclassified amounts by caption:

**31.12.2019****Assets**

Property, plant and equipment	9
Intangible assets	1,504
Deferred tax assets	17
Equity-accounted investments	2
Financial assets (including derivatives)	1
Trade receivables	1
<b>Total non-current assets</b>	<b>1,534</b>
Inventories	4
Trade receivables	109
Financial assets (including derivatives)	1
Cash and cash equivalents	28
Tax assets	3
Other assets	12
<b>Total current assets</b>	<b>157</b>
<b>Total assets</b>	<b>1,691</b>

**Liabilities**

Loans and borrowings	255
Post-employment benefits and other employee benefits	5
Provisions for risks and charges	55
Deferred tax liabilities	1
Financial liabilities (including derivatives)	740
<b>Total non-current liabilities</b>	<b>1,056</b>
Loans and borrowings and current portion of non-current loans and borrowings	21
Trade payables	50
Tax liabilities	
Financial liabilities (including derivatives)	59
Other liabilities	23
<b>Total current liabilities</b>	<b>153</b>
<b>Total liabilities</b>	<b>1,209</b>
<b>Net assets</b>	<b>482</b>



## 10. 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	91,839	20,608	985	1,080	27,277	141,789
Depreciation and impairment losses	(24,616)	(11,164)	(554)	(743)	(1,560)	(38,637)
Grants	(35,490)	(836)	(252)	(111)	(22,014)	(58,703)
<b>Balance at 1.1.2018</b>	<b>31,733</b>	<b>8,608</b>	<b>179</b>	<b>226</b>	<b>3,703</b>	<b>44,449</b>
Investments	10	144	4	21	5,591	5,770
Placement in service	6,529	827	73	55	(7,484)	
Depreciation	(142)	(1,093)	(14)	(44)		(1,293)
Impairment losses		(111)			(1)	(112)
Non-recurring transactions						
Change in consolidation scope	299	8		27	6	340
Exchange differences						
Disposals and divestments	(24)	(6)		(1)	(2)	(33)
Other changes						
Reclassifications from/to "Assets held for sale"						
Increases in grants	(5,923)	(19)	(64)	(27)	1,308	(4,725)
Other reclassifications	(74)	10	4	2	33	(25)
<b>Total changes</b>	<b>675</b>	<b>(240)</b>	<b>3</b>	<b>33</b>	<b>(549)</b>	<b>(78)</b>
Historical cost	98,431	20,875	1,097	1,258	25,352	147,013
Depreciation and impairment losses	(24,693)	(11,651)	(594)	(874)	(1,562)	(39,374)
Grants	(41,330)	(856)	(314)	(132)	(20,636)	(63,268)
<b>Balance at 31.12.2018</b>	<b>32,408</b>	<b>8,368</b>	<b>189</b>	<b>252</b>	<b>3,154</b>	<b>44,371</b>
<b>Recognition of leases on initial application of IFRS 16 at 1.1.2019</b>	<b>90</b>	<b>468</b>	<b>5</b>	<b>23</b>		<b>586</b>
<b>Balance at 01.01.2019</b>	<b>32,498</b>	<b>8,836</b>	<b>194</b>	<b>275</b>	<b>3,154</b>	<b>44,957</b>
Investments	34	165	7	60	6,331	6,597
Placement in service	5,483	1,389	40	61	(6,973)	
Depreciation	(160)	(1,196)	(17)	(48)		(1,421)
Impairment losses					(4)	(4)
Non-recurring transactions (1)						
Change in consolidation scope (1)	42	(6)	5			41
Exchange differences		7		2		9
Disposals and divestments (2)	(3)	(15)		(1)	(14)	(33)
Reclassifications from/to "Assets held for sale" (3)	(4)	(3)		(1)	(1)	(9)
Increases and placement in service of subsidised assets during the year	(5,091)	(91)	(35)	(12)	1,113	(4,116)
Other reclassifications (3)	25	(8)	1	(11)	33	40
<b>Total changes</b>	<b>326</b>	<b>242</b>	<b>1</b>	<b>50</b>	<b>485</b>	<b>1,104</b>
Historical cost	104,157	22,189	1,151	1,365	24,569	153,431
Depreciation and impairment losses	(24,881)	(12,144)	(608)	(900)	(1,566)	(40,099)
Grants	(46,452)	(972)	(349)	(139)	(19,362)	(67,274)
<b>Balance at 31.12.2019</b>	<b>32,824</b>	<b>9,073</b>	<b>194</b>	<b>326</b>	<b>3,641</b>	<b>46,058</b>

Notes (1), (2) and (3) are broken down in the following table.

	Land, buildings, railway and port infrastructure	Plant and machinery	Industrial and commercial equipment	Other assets	Assets under construction and payments on account	Total
<b>1) Change in consolidation scope</b>						
Historical cost	41	(14)		5	(1)	31
Depreciation	1	8			1	10
Impairment losses						
Grants						
	<b>42</b>	<b>(6)</b>		<b>5</b>		<b>41</b>
<b>2) Disposals and divestments</b>						
Historical cost	(11)	(650)	(1)	(12)	(30)	(704)
Depreciation	8	515	1	7		531
Impairment losses		113				113
Grants		7		4	16	27
	<b>(3)</b>	<b>(15)</b>		<b>(1)</b>	<b>(14)</b>	<b>(33)</b>
<b>3) Other reclassifications and transfers from/to "Assets held for sale"</b>						
Historical cost	77	(51)		(26)	(113)	(113)
Depreciation	(13)	49	1	14		51
Impairment losses	(12)	23				11
Grants	(31)	(32)			145	82
	<b>21</b>	<b>(11)</b>	<b>1</b>	<b>(12)</b>	<b>32</b>	<b>31</b>

At the initial application date (1 January 2019) of IFRS 16, the application of the new standard generated an increase in assets due to the recognition of right-of-use assets of €586 million.

The table below shows changes in right-of-use assets in the year, including the reclassification of finance leases previously recognised applying IAS 17.

millions of Euros

	Land, buildings and railway and port infrastructure	Plant and machinery	Industrial and commercial equipment	Other assets	Assets under construction and payments on account	Total
Historical cost						
Depreciation and impairment losses						
Grants						
<b>Balance at 01.01.2019</b>	<b>90</b>	<b>468</b>	<b>5</b>	<b>23</b>		<b>586</b>
Investments	28	18	2	7		55
Placement in service						
Depreciation	(18)	(121)	(1)	(9)		(149)
Impairment losses						
Non-recurring transactions (1)						
Change in consolidation scope (1)	41					41
Exchange differences		7				7
Disposals and divestments (2)		(4)				(4)
Other changes						
Reclassifications from/to "Assets held for sale" (3)						
Increases and placement in service of subsidised assets during the year						
Reclassifications from IAS 17 (3)		400				400
Mergers						
<b>Total changes</b>	<b>51</b>	<b>300</b>	<b>1</b>	<b>(2)</b>		<b>350</b>
Historical cost	159	1,006	7	30		1,202
Depreciation and impairment losses	(18)	(238)	(1)	(9)		(266)
Grants						
<b>Balance at 31.12.2019</b>	<b>141</b>	<b>768</b>	<b>6</b>	<b>21</b>		<b>936</b>

millions of Euros

	Land, buildings and railway and port infrastructure	Plant and machinery	Industrial and commercial equipment	Other assets	Assets under construction and payments on account	Total
<b>1) Change in consolidation scope</b>						
Historical cost	41					41
Depreciation						
Impairment losses						
Grants						
	<b>41</b>					<b>41</b>
<b>2) Disposals and divestments</b>						
Historical cost		(17)				(17)
Depreciation		13				13
Impairment losses						
Grants						
		<b>(4)</b>				<b>(4)</b>
<b>3) Reclassifications from IAS 17</b>						
Historical cost		530				530
Depreciation		(127)				(127)
Impairment losses		(3)				(3)
Grants						
		<b>400</b>				<b>400</b>

The increase in investments under "Assets under construction and payments on account" (€6,331 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 (€4,666 million);
- the costs incurred to purchase, revamp and redevelop rolling stock, particularly to update both the high-speed fleet, with the delivery of the final tranche of new ETR 700 electric trains, and the regional transport fleet, with the delivery of 25 new "Pop" and 23 new "Rock" trains, in addition to investments in 43 new "Blues" bi-mode trains (€1,283 million);
- the costs incurred to update plant, workshop buildings and technical equipment (€106 million);
- the capitalisation of internal and external costs mainly related to designs and works for the measures covered by the "Obiettivo law" (external works) and for surveillance, in addition to extraordinary maintenance (€43 million);
- the costs incurred to purchase new buses in Italy (€17 million) and abroad (€152 million), mainly by the investee Qbuzz, which it will use for the concessions it operates in the Netherlands;
- the capitalisation of costs incurred for routine maintenance on freight rolling stock (€44 million).

The placement in service of "Land, buildings, railway and port infrastructure" mainly refers to RFI S.p.A.'s railway infrastructures (€5,414 million) and the sheds for rolling stock (€54 million). The placement in service of "Plant and machinery" principally relates to new locomotives and new buses (€1,265 million) and ancillary works for stations (€82 million).

As detailed in paragraph 4 of these notes, the changes in the consolidation scope affecting "Land, buildings and railway and port infrastructure", "Plant and machinery" and "Industrial and commercial equipment" include €48 million for the first-time consolidation of EESSTY SA, which was acquired on 1 April 2019 and subsequently merged into its parent TrainOSE SA, and the remaining €8 million due to the sale of Busitalia Simet.

At 31 December 2019, there are no mortgages or privileges on property, plant and equipment, except for part of Trenitalia S.p.A.'s rolling stock worth €1,373 million, which was pledged to Eurofima SA to secure non-current loans and borrowings agreed through the parent.

The reclassifications in the year mainly refer to areas whose use was changed in the year and therefore reclassified to "Property, plant and machinery", "Intangible assets", "Investment property" and "Inventories" to give a true and fair view. In addition, the investment in the SITAF group (€9 million) was reclassified to "Assets held for sale", as described in further detail in note 9 "Assets and liabilities held for sale and disposal groups".

### **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 €4,116 million, were disbursed. They may be analysed as follows:

- €3,533 million related to the advances for grants from the MEF for investments in traditional network infrastructures;
- €187 million related to the advances for grants from the MIT for investments in traditional network infrastructures;
- €15 million related to work in progress concerning "complementary works for stations", approved as part of the strategic infrastructure programme (Law no. 443/2001 – the so-called "Obiettivo" law);
- €45 million related to grants from the regional authorities for the purchase of rolling stock;
- other grants (€312 million) mainly related 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.

## 11. Investment property

The following table shows the opening and closing balances of investment property at 31 December 2019 and 2018.

	millions of Euros			
	<b>2019</b>		<b>2018</b>	
	<b>Land</b>	<b>Buildings</b>	<b>Land</b>	<b>Buildings</b>
<b>Balance at 1 January</b>				
Cost	2,140	1,242	2,268	670
of which:				
Historical cost	2,158	1,376	2,268	732
Grants	(18)	(134)		(61)
Accumulated depreciation		(487)		(412)
Loss allowance	(1,309)	(183)	(1,061)	(67)
<b>Carrying amount</b>	<b>831</b>	<b>572</b>	<b>1,207</b>	<b>191</b>
<b>Changes of the year</b>				
Acquisitions/Increases		2		1
Placement in service				
Reclassifications (1)	1	6	(366)	404
Grants				
Depreciation and impairment losses	(16)	(9)	(8)	(9)
Disposals and divestments	(1)	(1)	(2)	(15)
Change in consolidation scope				
<b>Total changes</b>	<b>(16)</b>	<b>(2)</b>	<b>(376)</b>	<b>381</b>
<b>Balance at 31 December</b>				
Cost	2,124	1,235	2,140	1,242
of which:				
Historical cost	2,142	1,418	2,158	1,376
Grants	(18)	(184)	(18)	(134)
Accumulated depreciation		(482)		(487)
Loss allowance	(1,309)	(183)	(1,309)	(183)
<b>Carrying amount</b>	<b>815</b>	<b>570</b>	<b>831</b>	<b>572</b>
<b>Reclassifications (1)</b>				
Cost	(1)	30	(102)	660
Accumulated depreciation		15		(68)
Loss allowance	2	11	(246)	(116)
Grants		(50)	(18)	(72)
<b>Total</b>	<b>1</b>	<b>6</b>	<b>(366)</b>	<b>404</b>

"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.

## 12. Intangible assets

	Develop- ment expen- diture	Ind. patents and intel- lectual propert y rights	Conc., licences , trade- marks and similar rights	Assets under develop- ment and paymen ts on account	Conces- sion assets	Other	Goodwill	Total
Historical cost	128	14	1,140	464	43	51	211	2,051
Amortisation and impairment losses	(93)	(13)	(579)	(7)	(35)	(43)		(770)
Grants	(13)		(261)	(19)				(293)
<b>Balance at 1.1.2018</b>	<b>22</b>	<b>1</b>	<b>300</b>	<b>438</b>	<b>8</b>	<b>8</b>	<b>211</b>	<b>988</b>
Investments		2	24	307	40	14		387
Placement in service	1	1	211	(214)				
Amortisation	(1)	(1)	(95)		(165)	(9)		(271)
Disposals and divestments			(1)	(19)				(20)
Non-recurring transactions			25	343	2,808		15	3,191
Impairment losses							(1)	(1)
Change in consolidation scope								
Reclassifications from/to "Assets held for sale"								
Increases in grants			(44)	42				(2)
Other reclassifications			(4)	(33)	22	28	(25)	(12)
<b>Total changes</b>		<b>2</b>	<b>116</b>	<b>426</b>	<b>2,705</b>	<b>33</b>	<b>(10)</b>	<b>3,272</b>
Historical cost	130	10	1,495	915	4,874	59	200	7,683
Amortisation and impairment losses	(96)	(6)	(774)	(7)	(830)	(18)		(1,731)
Grants	(13)		(305)	(44)	(1,332)			(1,693)
<b>Balance at 31.12.2018</b>	<b>21</b>	<b>4</b>	<b>416</b>	<b>865</b>	<b>2,713</b>	<b>41</b>	<b>200</b>	<b>4,260</b>
Investments		1	15	315	4	4		339
Placement in service	10		116	(126)				
Amortisation	(1)	(2)	(107)		(164)	(9)		(283)
Disposals and divestments (1)				(2)				(2)
Non-recurring transactions (2)								
Impairment losses				(1)			(46)	(47)
Change in consolidation scope (2)						(15)	(5)	(20)
Reclassifications from/to "Assets held for sale" (3)				(420)	(1,083)	(1)		(1,504)
Increases in grants	(9)		(24)	33				
Other reclassifications (3)		(2)	17	(47)		7	(4)	(29)
<b>Total changes</b>		<b>(3)</b>	<b>17</b>	<b>(248)</b>	<b>(1,243)</b>	<b>(14)</b>	<b>(55)</b>	<b>(1,546)</b>
Historical cost	140	5	1,640	643	1,898	26	191	4,543
Amortisation and impairment losses	(97)	(3)	(881)	(7)	(429)	2	(46)	(1,461)
Grants	(22)		(328)	(19)				(369)
<b>Balance at 31.12.2019</b>	<b>21</b>	<b>2</b>	<b>431</b>	<b>617</b>	<b>1,469</b>	<b>28</b>	<b>145</b>	<b>2,713</b>

Notes (1), (2) and (3) are broken down in the following table



	Develop- ment expen- diture	Ind. patents and intel- lectual property rights	Conc., licences, trade- marks and similar rights	Assets under develop- ment and payments on account	Conces- sion assets	Other	Goodwill	Total
1) Disposals and divestments								
Historical cost						(1)		(1)
Amortisation						1		1
Impairment losses								
Grants								
<b>Total</b>								
2) Change in consolidation scope								
Historical cost						(22)	(5)	(27)
Amortisation						7		7
Impairment losses								
Grants								
<b>Total</b>						<b>(15)</b>	<b>(5)</b>	<b>(20)</b>
3) Reclassifications from/to "Assets held for sale" and Other reclassifications								
Historical cost	(6)	14	(458)	(2,979)	(14)	(4)		(3,447)
Amortisation	4	3		564	20			591
Impairment losses								
Grants				(9)	1,332			1,323
<b>Total</b>	<b>(2)</b>	<b>17</b>	<b>(467)</b>	<b>(1,083)</b>	<b>6</b>	<b>(4)</b>		<b>(1,533)</b>

Concession assets include Anas S.p.A.'s concession of €1,292 million, which was defined on the basis of the economic and financial plan (PEF), which was approved by the company's board of directors in February 2019 and sent to the MIT in March 2019, and the 2016-2020 Government Programme Contract, which the company signed on 27 December 2017 and which was updated in July 2019. In particular, the update entailed postponing the application of the investment fee funding model to the next Government Programme Contract for 2021-2025, meaning that investments for 2019 and 2020 will be funded exclusively through grants. Considering the new approved PEF, which reflects this change, actual data for the period and the process commenced to request the extension of the concession for up to 50 years, Anas S.p.A.'s directors decided to retest the recoverable amount of the concession. The test, which also considered development projects in progress, did not show any impairment. Therefore, none was recognised in the financial statements. The concession is amortised systematically over the term of the current concession, i.e., until 2032, and the portion of amortisation pertaining to 2019 amounts to €99 million.

Investments in "Assets under development and payments on account" and placement in service refer to the software development and implementation costs, measures to improve the efficiency of production processes and the increase in the efficiency and streamlining of sales channels for the group's business.

The changes in the consolidation scope affecting "Other" refer to the sale of Centostazioni Retail S.p.A. in the year, as detailed in note 4 "Change in consolidation scope and non-recurring transactions".

Note 9 "Assets and liabilities held for sale and disposal groups" includes additional information on the reclassification of €1,504 million to "Assets held for sale and disposal groups".

"Other reclassifications" mainly relate to the portion pertaining to software for sundry investment projects which was duly reclassified to the relevant caption when it was placed in service.

### Impairment testing

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 2019, the impairment test focused on the goodwill of Netinera Deutschland GmbH group, Mercitalia Logistics S.p.A., Ataf Gestioni S.r.l., 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), Busitalia Campania S.p.A., Trenitalia C2C Ltd and Cremonesi Workshop S.r.l., each of which is an independent CGU.

With respect to these CGUs, the test was carried out using 2020 budget figures and the amounts included in the latest business plan prepared by their management.

Conversely, Ataf Gestioni S.r.l. was tested using the economic forecasts and the changes in certain statement of financial position items included in the first five months of the 2020 budget approved by the board of directors on 28 January 2020 and updated on the basis of the new revenue projections considering the obligations imposed by the Tuscan regional authorities as a result of the appeals against the tender award, as described in the directors' report. Consequently, a five-month period has been considered, with a terminal value corresponding to net invested capital for the year.

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, 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:

<b>CGU</b>	<b>Goodwill (millions of Euros)</b>	<b>Discount rate (WACC)</b>	<b>Growth rate</b>
Netinera Deutschland	78	3.59%	1.00%
Mercitalia Logistics (formerly FS Logistica)	7	7.06%	1.50%
Ataf Gestioni	2	5.06%	
Busitalia - Umbria CGU	18	4.29%	
Busitalia Campania	2	4.87%	
Trenitalia C2C	8	5.87%	0.75%
Cremonesi Workshop	7	10.70%	1.50%
TrainOSE	2	7.98%	
Qbuzz	18	4.47%	

The test showed that goodwill of Trenitalia C2C was impaired by €40 million and that of Ataf Gestioni by €7 million.

With the exception of the tests on Trenitalia C2C and ATAF Gestioni, whose recoverable amounts proved to be consistent with the carrying amount of the CGU and, consequently, any change in the inputs could impact recoverability, the sensitivity analyses conducted on the discount and the growth rates showed no significant effects on the outcome of the assessments.

### 13. Deferred tax assets and deferred tax liabilities

The table below shows deferred tax assets and deferred tax liabilities at 31 December 2019 and changes of the year due to the main temporary differences.

		millions of Euros			
	<b>31.12.2018</b>	<b>Incr. (decr.) through profit or loss</b>	<b>Incr. (decr.) through OCI</b>	<b>Other changes</b>	<b>31.12.2019</b>
Deferred tax assets	413	(4)		(4)	405
Deferred tax liabilities	525	(34)		11	502

Deferred tax assets and deferred tax liabilities mainly relate to the misalignment between the carrying amount and the tax value 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.

Changes in the year reflect new temporary differences and releases by the group companies in the year, as well as increases due to acquisitions and reclassifications, indicated under other changes, due to the ESSTTY and Crew purchase price allocation procedure and the possible sale of the SITAF group, as detailed in notes 4 "Change in consolidation scope" and 9 "Assets and liabilities held for sale and disposal groups".

### 14. Equity-accounted investments

They include the carrying amount of investments in joint arrangements and associates.

The following table gives a breakdown of the carrying amount of equity investments at 31 December 2019, 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 31.12.2019	% of investment	Carrying amount at 31.12.2018	% of investment
<b>Investments in joint arrangements</b>				
Mercitalia Maintenance	3.00	50.00	0.75	50.00
ODEG Ostdeutsche Eisenbahngesellschaft mbH	4.84	50.00	3.71	50.00
Trenord S.r.l.	41.48	50.00	40.58	50.00
TELT Sas (formerly LTF Sas)	95.05	50.00	95.05	50.00
Verkehrsbetriebe Osthannover GmbH*	2.46	57.45	2.36	57.45
Other**	8.26		7.79	
<b>Investments in associates</b>				
Autostrada Asti-Cuneo S.p.A.	19.31	35.00	18.29	35.00
B.B.T. SE S.p.A.	134.27	50.00	126.61	50.00
Concessioni Autostradali Venete CAV S.p.A.	79.89	50.00	73.58	50.00
Ferrovie Nord Milano S.p.A.	63.99	14.74	60.21	14.74
Metro 5 S.p.A.	37.73	36.70	39.57	36.70
Quadrante Europa Terminal Gate S.p.A.	7.09	50.00	7.08	50.00
SITMB S.p.A. Società Italiana per il Traforo del Monte Bianco	65.34	32.12	68.19	32.12
Other**	10.89		11.51	
<b>Total</b>	<b>574</b>		<b>555</b>	

\* 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" investments in associates and joint arrangements 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 31.12.2018	Decrease due to dividends	Change in the consolidation scope	Income statement impact	Other	Closing balance at 31.12.2019
Investments in joint arrangements	150	(4)		4	5	155
Investments in associates	405	(5)		18	1	419
<b>Total</b>	<b>555</b>	<b>(9)</b>		<b>22</b>	<b>6</b>	<b>574</b>

"Other" investments in associates essentially refer to TFB S.p.A.'s subscription of BBT SE's share capital (€120 million), which was partially offset by the grants related to assets disbursed by the MEF to RFI S.p.A. and related to chapter 7122 for financial investments (€112 million). These amounts were recognised as an adjustment to the carrying amount of the investment. "Other" also includes changes in the "Hedging reserve" and the reclassification of the SITAF group (€2 million) which is detailed in note 9 "Assets and liabilities held for sale and disposal groups".

With respect to investments in joint arrangements, TELT Sas carried out a €80 million capital increase, fully offset by the increase in the grants related to assets disbursed by the MEF in connection with the financial investments related to chapter 7122.

The income statement impact mainly refers to the profits/losses for 2019.

### *Investments in joint arrangements*

The following financial information is provided about the most significant investments in joint arrangements. The following tables also include a reconciliation between the investment's summarised financial information and its consolidated carrying amount.

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	
<b>Trenord S.r.l.</b>	<b>31.12.2019</b>	<b>31.12.2018</b>
<b>% of investment</b>	<b>50%</b>	<b>50%</b>
Cash and cash equivalents	22	52
Current financial assets		
Other current assets	290	252
Non-current financial assets	2	2
Other non-current assets	338	211
Current financial liabilities	(131)	(1)
Other current liabilities	(364)	(353)
Non-current financial liabilities		
Other non-current liabilities	(64)	(71)
<b>Equity</b>	<b>93</b>	<b>91</b>
<b>Equity attributable to the owners of the parent</b>	<b>46</b>	<b>46</b>
Elimination of gain on business unit contribution	(9)	(9)
Other adjustments	4	4
<b>Carrying amount of the equity investment</b>	<b>41</b>	<b>41</b>
Revenue	832	797
Operating costs	(630)	(729)
Amortisation, depreciation and impairment losses	(192)	(63)
Provisions		
<b>Operating profit</b>	<b>10</b>	<b>5</b>
Financial income		
Financial expense	(3)	(1)
<b>Pre-tax profit</b>	<b>7</b>	<b>4</b>
Net tax expense	(3)	(2)
<b>Profit for the year</b>	<b>4</b>	<b>2</b>
Other comprehensive income		
<b>Comprehensive income</b>	<b>4</b>	<b>2</b>
<b>Comprehensive income attributable to the owners of the parent</b>	<b>2</b>	<b>1</b>
<b>Dividends received from the group</b>		<b>2</b>

ODEG Ostdeutsche Eisenbahngesellschaft mbH's business object is passenger transport by rail in Germany, specifically, regional transport in northern Germany.

	millions of Euros	
<b>ODEG Ostdeutsche Eisenbahngesellschaft mbH</b>	<b>31.12.2019</b>	<b>31.12.2018</b>
<b>% of investment</b>	<b>50%</b>	<b>50%</b>
Cash and cash equivalents	17	11
Current financial assets		
Other current assets	35	35
Non-current financial assets		4
Other non-current assets	73	3
Current financial liabilities		
Other current liabilities	(44)	(18)
Non-current financial liabilities	(66)	(17)
Other non-current liabilities	(8)	(9)
<b>Equity</b>	<b>7</b>	<b>8</b>
<b>Equity attributable to the owners of the parent</b>	<b>4</b>	<b>4</b>
<b>Carrying amount of the equity investment</b>	<b>4</b>	<b>4</b>
Revenue	158	150
Operating costs	(131)	(138)
Amortisation, depreciation and impairment losses	(20)	(1)
Provisions		(1)
<b>Operating profit</b>	<b>7</b>	<b>10</b>
Financial income		
Financial expense	(3)	(1)
<b>Pre-tax profit</b>	<b>5</b>	<b>10</b>
Net tax expense	(2)	(3)
<b>Profit for the year</b>	<b>3</b>	<b>7</b>
Other comprehensive income		
<b>Comprehensive income</b>	<b>3</b>	<b>7</b>
<b>Comprehensive income attributable to the owners of the parent</b>	<b>1</b>	<b>4</b>
<b>Dividends received from the group</b>	<b>3</b>	

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	
<b>TELT Sas (formerly LTF Sas)</b>	<b>31.12.2019</b>	<b>31.12.2018</b>
<b>% of investment</b>	<b>50%</b>	<b>50%</b>
Cash and cash equivalents	9	25
Current financial assets		
Other current assets	15	13
Non-current financial assets		
Other non-current assets	1,397	1,254
Current financial liabilities		
Other current liabilities	(46)	(61)
Non-current financial liabilities		
Other non-current liabilities	(1,376)	(1,229)
<b>Equity</b>		<b>1</b>
<b>Equity attributable to the owners of the parent</b>		
Difference arising from the different accounting treatment of grants related to assets*	95	95
<b>Carrying amount of the equity investment</b>	<b>95</b>	<b>95</b>
Revenue	11	38
Operating costs	(9)	(37)
Amortisation, depreciation and impairment losses	(3)	(1)
<b>Profit for the year</b>		
<b>Comprehensive income</b>		
<b>Comprehensive income attributable to the owners of the parent</b>		
<b>Dividends received from the group</b>		

\* Reclassification of the governments grants related to assets disbursed until 2006 in accordance with the group's accounting policies (as per IAS 20.27) through the former parent RFI S.p.A.. These grants are intended to finance the studies and preliminary works for the construction of the international section of the Turin-Lyon railway line. In accordance with French GAAP, the company does not present them in equity.



## 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.B.T. SE</b>	<b>31.12.2019</b>	<b>31.12.2018</b>
<b>% of investment</b>	<b>50%</b>	<b>50%</b>
Cash and cash equivalents	102	116
Current financial assets		
Other current assets	66	40
Non-current financial assets		
Other non-current assets	2,429	1,948
Current financial liabilities		
Other current liabilities	(203)	(158)
Non-current financial liabilities		
Other non-current liabilities	(836)	(709)
<b>Equity</b>	<b>1,558</b>	<b>1,238</b>
<b>Equity attributable to the owners of the parent</b>	<b>779</b>	<b>619</b>
Effect of grants on consolidated carrying amount of equity investment*	(656)	(503)
Other adjustments	11	11
<b>Carrying amount of the equity investment</b>	<b>134</b>	<b>127</b>
Revenue	23	21
Operating costs	(22)	(20)
Amortisation, depreciation and impairment losses	(1)	(1)
<b>Profit for the year</b>		
<b>Comprehensive income</b>		
<b>Comprehensive income attributable to the owners of the parent</b>		
<b>Dividends received from the group</b>		

\* 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, including, but not limited to, those operating in the transport and real estate sectors.

FNM S.p.A. is listed on Borsa Italiana's OTC market. At 31 December 2019, its price per share was €0.6890.

The following figures are taken from FNM group's consolidated financial statements as at and for the year ended 31 December 2018 as FNM S.p.A. had not provided data updated to 31 December 2019 at the preparation date of these notes. Furthermore, the comparative figures are taken from FNM group's interim consolidated financial statements at 30 June 2018.

	millions of Euros	
<b>Ferrovie Nord Milano group</b>	<b>31.12.2019</b>	<b>31.12.2018</b>
<b>% of investment</b>	<b>14.74%</b>	<b>14.74%</b>
Cash and cash equivalents	137	160
Current financial assets	74	85
Other current assets	158	112
Non-current financial assets	6	7
Other non-current assets	557	561
Current financial liabilities	(97)	(188)
Other current liabilities	(154)	(149)
Non-current financial liabilities	(129)	(84)
Other non-current liabilities	(118)	(80)
<b>Equity</b>	<b>435</b>	<b>425</b>
<b>Equity attributable to the owners of the parent</b>	<b>64</b>	<b>63</b>
<b>Carrying amount of the equity investment</b>	<b>64</b>	<b>60</b>
Revenue	318	148
Operating costs	(246)	(113)
Amortisation, depreciation and impairment losses	(40)	(19)
Provisions		
<b>Operating profit</b>	<b>31</b>	<b>17</b>
Financial income	1	1
Financial expense	(2)	(1)
<b>Pre-tax profit</b>	<b>31</b>	<b>17</b>
Tax expense	(8)	(4)
<b>Profit for the year</b>	<b>23</b>	<b>13</b>
Other comprehensive income	6	6
<b>Comprehensive income</b>	<b>29</b>	<b>19</b>
<b>Comprehensive income attributable to the owners of the parent</b>	<b>4</b>	<b>3</b>
<b>Dividends received from the group</b>		<b>1</b>

Metro 5 S.p.A.'s business object is the definitive and executive design, expropriation, work supervision, performance of civil and technological works, supply of rolling stock and subsequent management of the new line 5 of the Milan metro (the "purple line").

millions of Euros

<b>Metro 5 S.p.A</b>	<b>31.12.2019</b>	<b>31.12.2018</b>
<b>% of investment</b>	<b>36.70%</b>	<b>36.70%</b>
Cash and cash equivalents	68	54
Current financial assets		4
Other current assets	65	76
Non-current financial assets	621	629
Other non-current assets	19	14
Current financial liabilities	(10)	(14)
Other current liabilities	(62)	(76)
Non-current financial liabilities	(293)	(518)
Other non-current liabilities	(318)	(75)
<b>Equity</b>	<b>90</b>	<b>95</b>
<b>Equity attributable to the owners of the parent</b>	<b>33</b>	<b>35</b>
Goodwill	5	5
<b>Carrying amount of the equity investment</b>	<b>38</b>	<b>40</b>
Revenue	28	26
Operating costs	(31)	(27)
Amortisation, depreciation and impairment losses		
Provisions		
<b>Operating loss</b>	<b>(4)</b>	<b>(2)</b>
Financial income	52	53
Financial expense	(37)	(34)
<b>Pre-tax profit</b>	<b>11</b>	<b>17</b>
Tax expense	(5)	(6)
<b>Profit for the year</b>	<b>7</b>	<b>11</b>
Other comprehensive income		
<b>Comprehensive income</b>	<b>7</b>	<b>11</b>
<b>Comprehensive income attributable to the owners of the parent</b>	<b>2</b>	<b>4</b>
<b>Dividends received from the group</b>		

Concessioni Autostradali Venete CAV S.p.A.'s business object is the completion and performance of all activities, deeds and relationships related to the operation, including ordinary and extraordinary maintenance, of the motorway link between the A4 motorway - Venice-Trieste section, and ancillary works, and the Venice-Padua motorway section.

The following figures are taken from the interim financial statements at 30 June 2019 as Concessioni Autostradali Venete CAV S.p.A. had not provided figures updated to 31 December 2019 at the preparation date of these notes.

	millions of Euros	
<b>Concessioni Autostradali Venete CAV S.p.A.</b>	<b>31.12.2019</b>	<b>31.12.2018</b>
<b>% of investment</b>	<b>50%</b>	<b>50%</b>
Cash and cash equivalents	92	76
Current financial assets	10	10
Other current assets	68	80
Non-current financial assets	73	73
Other non-current assets	617	643
Current financial liabilities	(60)	(62)
Other current liabilities	(31)	(30)
Non-current financial liabilities	(587)	(620)
Other non-current liabilities	(22)	(22)
<b>Equity</b>	<b>160</b>	<b>147</b>
<b>Equity attributable to the owners of the parent</b>	<b>80</b>	<b>74</b>
<b>Carrying amount of the equity investment</b>	<b>80</b>	<b>74</b>
Revenue	89	177
Operating costs	(33)	(65)
Amortisation, depreciation and impairment losses	(23)	(46)
Provisions	(7)	(13)
<b>Operating profit</b>	<b>26</b>	<b>53</b>
Financial income		1
Financial expense	(8)	(21)
<b>Pre-tax profit</b>	<b>18</b>	<b>33</b>
Tax expense	(5)	(10)
<b>Profit for the year</b>	<b>13</b>	<b>23</b>
Other comprehensive income		
<b>Comprehensive income</b>	<b>13</b>	<b>23</b>
<b>Comprehensive income attributable to the owners of the parent</b>	<b>6</b>	<b>12</b>
<b>Dividends received from the group</b>		

Autostrada Asti-Cuneo S.p.A.'s business object is the design, construction, maintenance and operation of the motorway link between Asti and Cuneo, acting as MIT's operator.

The following figures are taken from the interim financial statements at 30 September 2019 as Autostrada Asti-Cuneo S.p.A. had not provided figures updated to 31 December 2019 at the preparation date of these notes.

	millions of Euros	
<b>Autostrada Asti-Cuneo S.p.A.</b>	<b>31.12.2019</b>	<b>31.12.2018</b>
<b>% of investment</b>	<b>35%</b>	<b>35%</b>
Cash and cash equivalents	1	1
Current financial assets	5	5
Other current assets	4	3
Non-current financial assets	21	23
Other non-current assets	349	340
Current financial liabilities	(140)	(182)
Other current liabilities	(17)	(18)
Non-current financial liabilities	(100)	(50)
Other non-current liabilities	(68)	(68)
<b>Equity</b>	<b>55</b>	<b>53</b>
<b>Equity attributable to the owners of the parent</b>	<b>19</b>	<b>19</b>
<b>Carrying amount of the equity investment</b>	<b>19</b>	<b>18</b>
Revenue	22	27
Operating costs	(19)	(24)
Amortisation, depreciation and impairment losses		
Provisions		
<b>Operating profit</b>	<b>2</b>	<b>3</b>
Financial income		
Financial expense		
<b>Pre-tax profit</b>	<b>3</b>	<b>3</b>
Tax expense	(1)	(1)
<b>Profit for the year</b>	<b>2</b>	<b>2</b>
Other comprehensive income		
<b>Comprehensive income</b>	<b>2</b>	<b>2</b>
<b>Comprehensive income attributable to the owners of the parent</b>		
<b>Dividends received from the group</b>		

SITMB S.p.A. Società Italiana per il Traforo del Monte Bianco's business object is the construction and operation, or only the operation, of the motorways and tunnels covered by the relevant concession.

The following figures are taken from the interim financial statements at 30 June 2019 as SITMB S.p.A. Società Italiana per il Traforo del Monte Bianco had not provided figures updated to 31 December 2019 at the preparation date of these notes.

	millions of Euros	
<b>SITMB S.p.A. Società Italiana per il Traforo del Monte Bianco</b>	<b>31.12.2019</b>	<b>31.12.2018</b>
<b>% of investment</b>	<b>32.12%</b>	<b>32.12%</b>
Cash and cash equivalents	115	163
Current financial assets	50	
Other current assets	25	14
Non-current financial assets		
Other non-current assets	343	338
Current financial liabilities	(32)	(35)
Other current liabilities	(100)	(88)
Non-current financial liabilities		
Other non-current liabilities	(198)	(181)
<b>Equity</b>	<b>203</b>	<b>211</b>
<b>Equity attributable to the owners of the parent</b>	<b>65</b>	<b>68</b>
<b>Carrying amount of the equity investment</b>	<b>65</b>	<b>68</b>
Revenue	31	65
Operating costs	(15)	(30)
Amortisation, depreciation and impairment losses	(2)	(3)
Provisions	(10)	(12)
<b>Operating profit</b>	<b>4</b>	<b>19</b>
Financial income		
Financial expense	(1)	
<b>Pre-tax profit</b>	<b>3</b>	<b>19</b>
Tax expense	(1)	(6)
<b>Profit for the year</b>	<b>2</b>	<b>13</b>
Other comprehensive income		
<b>Comprehensive income</b>	<b>2</b>	<b>13</b>
<b>Comprehensive income attributable to the owners of the parent</b>		
<b>Dividends received from the group</b>		

## 15. Service concession financial assets - current and non-current

Service concession financial assets - current and non-current, total €3,245 million (the current portion amounts to €1,549 million) and relate to the production volume generated on the infrastructure under concession, mainly motorways, whose reimbursement by the relevant ministries or bodies is pending.

These assets mainly refer to:

- the agreements entered into with the regions and local bodies (€976 million);
- the measures included in the Programme contracts from 2007 to 2016-2020 (€744 million);
- the measures financed by long-term grants, CIPE (the interministerial committee for economic planning) resolutions and the funds for development and cohesion (€562 million);
- the measures covered by EU projects (€98 million);
- the measures covered by the three "Bridges and viaducts" and "Get Italy Moving" schemes (€109 million);
- the works financed by MIT loans (€111 million);
- the measures financed by the post-earthquake funds and the Infrastructure fund (€382 million);
- the measures financed by the Plan for the South funds (€100 million);
- Quadrilatero's contract (€107 million).

The amount, shown net of the IFRS 9 loss allowance (€89 million), substantially comprises the costs incurred by Anas S.p.A., whose reporting and claim for reimbursement has already been submitted to the competent ministries and bodies, and those incurred by said company which will be recognised in the future as they refer to production completed, but not yet paid to contractors.

The €108 million increase on 2018 is the net effect of the increase in assets due in connection with production of the year and the decrease in progress payments.

Service concession financial assets are discounted using a 3% rate, which reflects the current borrowing costs of Anas S.p.A.'s loans. The discounted effect is taken to profit or loss as cost.

## 16. Financial assets (including derivatives)

The following table gives a breakdown of financial assets at the 2019 and 2018 year ends:

	Carrying amount								
	31.12.2019			31.12.2018			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Hedging derivatives	2		2	3		3	(1)		(1)
Other equity investments	410		410	406		406	4		4
Securities and loans	58		58	47	25	72	11	(25)	(14)
Fifteen-year grants from the MEF	497	600	1,097	1,097	592	1,689	(600)	8	(592)
Loans	132	14	146	133	11	144	(1)	3	2
Loans with Strada dei Parchi (pursuant to article 7 of Law no. 178/02)	615	56	671	552	123	675	63	(67)	(4)
Other loans		54	54		81	81		(27)	(27)
<b>Total</b>	<b>1,717</b>	<b>724</b>	<b>2,441</b>	<b>2,238</b>	<b>832</b>	<b>3,070</b>	<b>(521)</b>	<b>(108)</b>	<b>(629)</b>
Loss allowance	(89)	(19)	(108)	(83)	(14)	(97)	(6)	(5)	(11)
<b>Total net of the loss allowance</b>	<b>1,628</b>	<b>705</b>	<b>2,333</b>	<b>2,155</b>	<b>818</b>	<b>2,973</b>	<b>(527)</b>	<b>(113)</b>	<b>(640)</b>

"Fifteen-year grants from the MEF", of €1,097 million, can be analysed as follows:

- €287 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 a specific decree of the MEF. This caption decreased by €183 million on the previous year end to the combined effect of the interest accrued in 2018 (€17 million) on the loan and the collection of the annual grant pertaining to 2019 (€200 million);
- €792 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 €400 million decrease on 31 December 2018 is due to the collection of the grant for 2019.

The loan with the operator Strada dei Parchi S.p.A. amounts to €671 million. It is discounted using a 6% rate and is recognised in accordance with the agreement in place between Anas S.p.A. and Strada dei Parchi S.p.A., and Law decree no. 50/2017, containing emergency financial and earthquake safety measures for the A24 and A25 motorways. During the year, due to the amendment under article 9-*tricies semel* of Law decree no. 123/2019, which extended the 2017 and 2018 dates to 2030, the loan's repayment plan was revised, generating the recognition of an increase of roughly €34 million in interest expense due to the discounting of the deferred assets. Moreover, during the year, the loan was increased by the portion of interest relating to the discounting, approximately €30 million.

"Other loans" decreased by €27 million, mainly in relation to short-term deposits agreed with the former Central Guarantee Fund.



The loss allowance mainly consists of expected credit losses on the loan with Strada dei Parchi S.p.A. (€92 million), which was assessed as stage 2, with the consequent recognition of the expected credit loss deriving from any possible default events over its expected lifetime. As a result of the amendment described above, the loan with Strada dei Parchi S.p.A. was impaired by another €6 million.

## 17. Other non-current and current assets

They can be analysed as follows:

millions of Euros									
	31.12.2019			31.12.2018			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Other assets from group companies	1	21	22		27	27	1	(6)	(5)
VAT assets	26	36	62	80	132	212	(54)	(96)	(150)
MEF	3,517	898	4,415	2,078	1,980	4,058	1,439	(1,082)	357
MIT	642	1,407	2,049	1,248	1,192	2,440	(606)	215	(391)
Grants related to assets from the EU, other Ministries and other		98	98		157	157		(59)	(59)
Government for litigation	1,056		1,056	975		975	81		81
Other government authorities		209	209		221	221		(12)	(12)
Sundry assets and prepayments and accrued income	90	886	976	99	730	829	(9)	156	147
<b>Total</b>	<b>5,332</b>	<b>3,555</b>	<b>8,887</b>	<b>4,480</b>	<b>4,439</b>	<b>8,919</b>	<b>852</b>	<b>(884)</b>	<b>(32)</b>
Loss allowance	(13)	(93)	(106)	(9)	(122)	(131)	(4)	29	25
<b>Total net of the loss allowance</b>	<b>5,319</b>	<b>3,462</b>	<b>8,781</b>	<b>4,471</b>	<b>4,317</b>	<b>8,788</b>	<b>848</b>	<b>(855)</b>	<b>(7)</b>

"VAT assets" decreased by €150 million mainly due to the settlement of the 2011-2017 and 2018 VAT claimed for reimbursement (€52 million), the derecognition of the asset for interest on 1998-1999 VAT claimed for reimbursement (€8 million) and the application of the split payment regulations.

The assets with the MEF and the MIT, totalling €6,464 million, are mainly related to:

- grants earmarked for FS S.p.A. (€514 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 Stability Act").
- MIT grants earmarked for Grandi Stazioni Rail S.p.A. for the "Grandi Stazioni" scheme and to redevelop and improve the accessibility of large railway stations (€95 million);

- MIT grants earmarked for Mercitalia Logistics S.p.A. and Mercitalia Intermodal S.p.A. (€11 million) pursuant to Law no. 166/2002;
- grants earmarked for RFI S.p.A. (€5,774 million).

The table below shows the relevant figures:

<b>Grants to the FS Italiane group</b>	<b>Carrying amount at 31.12.2018</b>	<b>Increases</b>	<b>Decreases</b>	<b>Other changes</b>	<b>Carrying amount at 31.12.2019</b>
<b>Grants related to income:</b>					
MEF		1,016	(1,016)		
MIT	81	117	(111)		87
<b>Total grants related to income</b>	<b>81</b>	<b>1,133</b>	<b>(1,127)</b>		<b>87</b>
<b>Grants related to assets:</b>					
MEF	4,058	2,932	(2,575)		4,415
MIT	2,289	83	(480)		1,892
<b>Total grants related to assets</b>	<b>6,347</b>	<b>3,015</b>	<b>(3,055)</b>		<b>6,307</b>
<b>Capital injections:</b>					
MIT	70				70
<b>Total grants to the FS Italiane group</b>	<b>6,498</b>	<b>4,148</b>	<b>(4,182)</b>		<b>6,464</b>

### Grants related to income

The following grants were recognised in 2019:

- €1,016 million from the MEF, mainly in relation to the Government Programme Contract. These amounts were granted using the chapter 1541 funds according to the allocations in the 2019 Budget Act (Law no. 145 of 30 December 2018). The recognised grants have been collected in full;
- €117 million from the MIT, including €7 million using the chapter 7255 funds earmarked for "passenger transport in the Messina Strait", freight grants of €105 million for 2019 and 2018 and the grant as per Law no. 166/2002 of €5 million.

### Grants related to assets

The following grants were recognised in 2019:

- €2,932 million from the MEF, mainly in relation to the Government Programme Contract. These amounts were granted for investments and extraordinary maintenance to develop and update railway infrastructure, as established by the 2019 Budget Act, the 2019 Tax Decree (Law decree no. 124/2019), the 2018 Budget Act and the 2017 Budget Act, and were refinanced by the 2015 Stability Act. This caption also includes the additional amounts related to management plans 2, 4 and 10 for the 2020-2022 three-year period;
- €83 million from the MIT, including, in particular, €26 million for the laying of quadruple tracks on the Pistoia-Lucca line, €15 million to eliminate and automate railway level crossings and €42 million to redevelop and improve the accessibility of large railway stations.

With respect to the MIT's capital injections, the amount which ensures the business continuity of Ferrovie del Sud Est e Servizi Automobilistici – FSE S.r.l., equal to €70 million, is unchanged in 2019.

During the year, €4,182 million was collected in total.

The 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 contract advances.

"Grants related to assets from the EU, other Ministries and ordinary customers" of €98 million include grants received from the European Union, other Ministries and other bodies.

The amounts from the Government for litigation of €1,056 million cover disputes in connection with works that are deemed probable and relate to projects financed by grants for which, unlike investments against a consideration, the risk of additional costs no longer lies with Anas S.p.A.. The €81 million increase refers to an adjustment following the annual estimate of the dispute and the operators' collections in connection with former Central Guarantee Fund loans.

"Other government authorities" decreased by €12 million on the previous year, mainly due to greater collections, net of amounts recognised in the year, from Cassa per i Servizi Energetici e Ambientali (CSEA, the energy and environmental service fund), the regional authorities and local bodies.

"Sundry assets and prepayments and accrued income" increased by €147 million on 2018 mainly due to higher advances to suppliers and local bodies for works (€183 million), partly offset by the net decrease in other sundry assets and prepayments and accrued income (€24 million) and the reclassification of the equity investment in the SITAF group (€12 million), which is detailed in note 9 "Assets and liabilities held for sale and disposal groups".

The following table gives a breakdown of other non-current and current assets by geographical segment:

	millions of Euros		
	<b>31.12.2019</b>	<b>31.12.2018</b>	<b>Changes</b>
Italy	8,709	8,707	2
Eurozone countries	133	169	(36)
United Kingdom	20	18	2
Other European countries (EU, non-Euro)	2	1	1
Other non-EU European countries	18	22	(4)
United States			
Other countries	5	2	3
<b>Total</b>	<b>8,887</b>	<b>8,919</b>	<b>(32)</b>

## 18. Inventories

This caption can be analysed as follows:

	31.12.2019	31.12.2018	Changes
			millions of Euros
Raw materials, consumables and supplies	1,714	1,586	128
Allowance for inventory write-down	(181)	(176)	(5)
<b>Carrying amount</b>	<b>1,533</b>	<b>1,410</b>	<b>123</b>
Work in progress and semi-finished products	1	2	(1)
Allowance for inventory write-down			
<b>Carrying amount</b>	<b>1</b>	<b>2</b>	<b>(1)</b>
Finished products and goods		5	(5)
Allowance for inventory write-down			
<b>Carrying amount</b>		<b>5</b>	<b>(5)</b>
Retired assets to be sold	3	13	(10)
Allowance for inventory write-down	(1)	(10)	9
<b>Carrying amount</b>	<b>2</b>	<b>3</b>	<b>(1)</b>
Land and buildings held for trading	1,028	1,072	(44)
Allowance for inventory write-down	(274)	(292)	18
<b>Carrying amount</b>	<b>754</b>	<b>780</b>	<b>(26)</b>
<b>Total inventories</b>	<b>2,290</b>	<b>2,200</b>	<b>90</b>

Raw materials, consumables and supplies comprise the inventories to be used in investments, superstructure material, electrical systems, navigation equipment and maintenance materials. The €123 million increase is mainly the combined effect of greater purchases, and the corresponding consumption, of materials for infrastructure.

Land and buildings held for trading refer to the group's properties which will be sold. The €26 million decrease is due to the sales of the year, net of the write-downs which brought the carrying amount of the assets into line with the related market value.

## 19. Non-current and current trade receivables

millions of Euros

	31.12.2019			31.12.2018			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Ordinary customers	4	1,644	1,648	15	1,633	1,648	(11)	11	
Government authorities and other public authorities	2	194	196	1	165	166	1	29	30
Foreign railways		9	9		9	9			
Railways under concession		33	33		21	21		12	12
Agencies and other transport companies		30	30		23	23		7	7
Receivables for public service contracts:									
- regions		881	881		780	780		101	101
- government		266	266		228	228		38	38
Receivables from group companies		150	150		153	153		(3)	(3)
<b>Total trade receivables</b>	<b>6</b>	<b>3,207</b>	<b>3,213</b>	<b>16</b>	<b>3,012</b>	<b>3,028</b>	<b>(10)</b>	<b>195</b>	<b>185</b>
Loss allowance		(690)	(690)	(7)	(665)	(672)	7	(25)	(18)
<b>Carrying amount</b>	<b>6</b>	<b>2,517</b>	<b>2,523</b>	<b>9</b>	<b>2,347</b>	<b>2,356</b>	<b>(3)</b>	<b>170</b>	<b>167</b>
Contract assets for contract work in progress		154	154		148	148		6	6
Loss allowance					(1)	(1)		1	1
<b>Carrying amount</b>		<b>154</b>	<b>154</b>		<b>147</b>	<b>147</b>		<b>7</b>	<b>7</b>
<b>Total non-current and current trade receivables</b>	<b>6</b>	<b>2,671</b>	<b>2,677</b>	<b>9</b>	<b>2,494</b>	<b>2,503</b>	<b>(3)</b>	<b>177</b>	<b>174</b>

“Current and non-current trade receivables” before the loss allowance amount to €3,213 million, up €185 million on the previous year end. Those from ordinary customers are substantially the same as the previous year mainly due to the combined effect of the increase in trade receivables as a result of the start of trade activities in connection with the Riyadh contract (+€33 million), the change in the consolidation scope (+€8 million), greater production in the year and smaller progress payments, partly offset by the reclassification of €99 million (SITAF group) to “Assets held for sale and disposal groups”, as detailed in note 9. Receivables for public service contracts show an overall increase of €139 million mainly due to consideration due from the regions and the MEF in the year but not yet collected.

The loss allowance shows an overall increase of €18 million, due to greater accruals in the year, mainly to cover receivables for travel irregularities.

“Contract assets for contract work in progress” of €154 million reflect the gross amount due from customers for work in progress on contracts for which incurred costs, plus recorded profits (and less recorded losses), exceed progress billing. The increase in the year (+€6 million) is substantially due to the rise in work already performed on regional roads (+€7 million), and the progress of work for third parties (+€8 million), partly offset by the reclassification of €11 million relating to the SITAF group to “Assets held for sale and disposal groups”, as detailed in note 9 “Assets and liabilities held for sale and disposal groups”.

The following table gives a breakdown of non-current and current trade receivables, including contract assets for contract work in progress, by geographical segment:

	millions of Euros		
	<b>31.12.2019</b>	<b>31.12.2018</b>	<b>Changes</b>
Italy	3,092	2,936	156
Eurozone countries	166	171	(5)
United Kingdom	13	9	4
Other European countries (EU, non-Euro)	1	18	(17)
Other non-EU European countries	22	19	3
Other countries	73	23	50
<b>Total</b>	<b>3,367</b>	<b>3,176</b>	<b>191</b>

## 20. Cash and cash equivalents

They can be analysed as follows:

	31.12.2019	31.12.2018	Changes
			millions of Euros
Bank and postal accounts	721	763	(42)
Cash and cash on hand	48	47	1
Cash pooling accounts	767	987	(220)
<b>Total</b>	<b>1,536</b>	<b>1,797</b>	<b>(261)</b>
Loss allowance	(2)	(1)	(1)
<b>Total net of the loss allowance</b>	<b>1,534</b>	<b>1,796</b>	<b>(262)</b>

The decrease in cash and cash equivalents at 31 December 2019 is mainly due to the cash pooling accounts which hold the payments made by the MEF for the Government Programme Contract and other EU grants.

During the year, €28 million relating to the SITAF group was reclassified to "Assets held for sale and disposal groups". Additional details are given in note 9 "Assets and liabilities held for sale and disposal groups".

For a breakdown of the changes in the balance, reference should be made to the statement of cash flows.

## 21. Tax assets

Tax assets amount to €128 million at 31 December 2019 and relate to prior year income tax assets or foreign withholding taxes. The €7 million increase on 31 December 2018 (€120 million) is mainly due to the asset recognised by TrainOSE for withholdings that the government applied to payments.

## 22. Equity attributable to the owners of the parent

Changes in the main equity captions in 2019 and 2018 are shown in the statement of changes in equity.

### Share capital

At 31 December 2019, the parent's share capital, fully subscribed and paid up by the sole shareholder, the MEF, was made up of 39,204,173,802 ordinary shares, with a par value of €1 each, for a total of €39,204 million.

### Legal reserve

The legal reserve, of €53 million, rose to the extent related to the profit of the parent allocated to this caption.

### Translation reserve

This reserve has a nil balance, in line with the previous year end.

### 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 2019, this reserve was negative by €69 million (negative by €86 million at 31 December 2018) essentially due to the fair value measurement of hedging instruments at the reporting date (increase of €4 million) and the release of the portion of the year following the above-mentioned early termination of contracts (increase of €13 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 €359 million at the reporting date (31 December 2018: negative by €350 million).

**Retained earnings**

Retained earnings of €2,440 million substantially refer to the retained earnings and losses carried forward of the consolidated companies and prior year consolidation adjustments, as well as Anas S.p.A.'s distribution of the dividend to MEF, in accordance with Law decree no. 50/2017 (€2 million).

**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.



## 23. Equity attributable to non-controlling interests

The following table shows the financial highlights of each subsidiary with significant non-controlling interests for the group, before intragroup eliminations. Consequently, these figures match the information provided by these companies in their financial statements and in the consolidated financial statements of Netinera Deutschland group, before intragroup eliminations.

	millions of Euros								
	Grandi Stazioni Immobiliare S.p.A.	SITAF S.p.A.	Terminal Alptransit	Mercitalia Intermodal S.p.A. (formerly Cemat S.p.A.)	Tunnel Ferroviario del Brennero S.p.A.	Netinera Deutschland group	Other subsidiaries which are not individually material	Eliminations/ Adjustments	Total
<b>Balances at 31.12.2019</b>									
<i>Non-controlling interests (%)</i>	40%	48.91%	42%	46.72%	11.01%	49%			
Current assets	6	136	5	85	38	207			
Non-current assets	55	1,533	15	63	790	652			
Current liabilities	(16)	(130)	(1)	(104)		(236)			
Non-current liabilities	(9)	(1,168)	(4)	(7)		(390)			
Net assets	36	371	15	37	828	233			
<b>Net assets (liabilities) pertaining to non-controlling interests</b>	<b>14</b>	<b>182</b>	<b>6</b>	<b>17</b>	<b>91</b>	<b>114</b>	<b>34</b>	<b>(10)</b>	<b>448</b>
Revenue	6	251		208		599			
Profit (loss) for the year	(3)	31		(3)		(9)			
Other comprehensive income		1				2			
Comprehensive income (expense)	(3)	32		(3)		(7)			
<b>Profit (loss) attributable to non-controlling interests</b>	<b>(1)</b>	<b>15</b>		<b>(1)</b>		<b>(4)</b>	<b>2</b>		<b>11</b>
Other comprehensive income attributable to non-controlling interests						1			
Net cash flows generated by (used in) operating activities	1	84	(16)	(30)		54			
Net cash flows used in investing activities		(66)	(1)	(15)	(160)	(20)			
Net cash flows generated by (used in) financing activities	(1)	(51)	1	50	120	(55)			
Total net cash flows for the year		(33)	(16)	5	(40)	(21)			
Dividends paid to non-controlling interests						(10)			

	Grandi Stazioni Immobiliare S.p.A.	SITAF S.p.A.	Terminal Alptransit	Mercitalia Intermodal S.p.A. (formerly Cemat S.p.A.)	Tunnel Ferroviario del Brennero S.p.A.	Netinera Deutschland group	Other subsidiaries which are not individually material	Eliminations/ Adjustments	Total
<b>Balances at 31.12.2018</b>									
<i>Non-controlling interests (%)</i>	40%	48.91%	42%	46.72%	11.80%	49%			
Current assets	6	153	21	101	78	204			
Non-current assets	59	1,504	14	67	630	645			
Current liabilities	(13)	(141)	(16)	(116)		(209)			
Non-current liabilities	(14)	(1,178)	(4)	(12)		(390)			
Net assets	39	339	15	40	708	250			
<b>Net assets pertaining to non-controlling interests</b>	<b>16</b>	<b>166</b>	<b>6</b>	<b>19</b>	<b>83</b>	<b>122</b>	<b>29</b>	<b>3</b>	<b>443</b>
Revenue	6	240		209		625			
Profit (loss) for the year		28		(4)		6			
Other comprehensive expense		(23)							
Comprehensive income (expense)		5		(4)		6			
<b>Profit (loss) attributable to non-controlling interests</b>		<b>14</b>		<b>(2)</b>		<b>5</b>	<b>2</b>		<b>19</b>
Other comprehensive expense attributable to non-controlling interests		(11)							
Net cash flows generated by operating activities	1	114		11		20			
Net cash flows generated by (used in) investing activities		(63)	7	(11)	(90)	(6)			
Net cash flows generated by (used in) financing activities	(1)	(39)	9		140	(37)			
Total net cash flows for the year		13	16		50	(23)			
Dividends paid to non-controlling interests						(16)			

The balance of €448 million at 31 December 2019 shows a €5 million increase on the previous year end (€443 million), mainly due to the capital increase of Tunnel Ferroviario del Brennero – Società di partecipazioni S.p.A., and the profit for the year, partly offset by the approved distribution of dividends to non-controlling interests.

## 24. Non-current and current loans and borrowings

This caption amounts to €11,306 million and can be analysed as follows:

millions of Euros			
<b>Non-current loans and borrowings, net of the current portion</b>	<b>Carrying amount</b>		
	<b>31.12.2019</b>	<b>31.12.2018</b>	<b>Changes</b>
Bonds	5,412	4,975	437
Bank loans and borrowings	1,637	2,198	(561)
Loans and borrowings from other financial backers	162	1,162	(1,000)
<b>Total</b>	<b>7,211</b>	<b>8,335</b>	<b>(1,124)</b>

millions of Euros			
<b>Current loans and borrowings and current portion of non-current loans and borrowings</b>	<b>Carrying amount</b>		
	<b>31.12.2019</b>	<b>31.12.2018</b>	<b>Changes</b>
Bonds (current portion)	929	367	562
Bank loans and borrowings (current portion)	2,786	2,457	329
Loans and borrowings from other financial backers (current portion)	375	240	135
Loans and borrowings from group companies (current portion)	5	5	
<b>Total</b>	<b>4,095</b>	<b>3,069</b>	<b>1,026</b>
<b>Total loans and borrowings</b>	<b>11,306</b>	<b>11,404</b>	<b>(98)</b>

“Bonds” at 31 December 2019 comprise:

- twelve bonds issued by the parent and fully subscribed by the Swiss investee, Eurofima SA (private placement), totalling €1,237 million. The aim of these bonds (up to 2012) was 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 eleven bonds and at a fixed annual rate for the remaining bond. They are not listed on “official markets”, domestic or foreign stock exchanges, cannot be traded and will remain with Eurofima’s financial statements as the sole holder;
- thirteen tranches, for a total of €5,080 million, of the bonds related to the Euro Medium Term Notes Programme placed by FS Italiane dello Stato S.p.A. on the Dublin Stock Exchange between 2013 and 2018. The first tranche, with a nominal amount of €750 million and annual fixed coupon of 4%, matures on 22 July 2020; the second tranche, with a nominal amount of €600 million and annual fixed coupon of 3.5%, matures on 13 December 2021; the third tranche, 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 tranche, with a nominal amount of €350 million and a variable six-monthly coupon indexed to the 6M Euribor, matures on 18 July 2022; the fifth tranche, with a nominal amount of €50 million and an annual fixed coupon of 1.65%, matures on 25 July 2031; the sixth tranche, with a nominal amount of €1,000 million and an annual fixed coupon of 1.5%,

matures on 27 June 2025; the seventh tranche, as part of the Green Bond Framework, with a nominal amount of €600 million and an annual fixed coupon of 0.875%, matures on 7 December 2023; the eighth tranche, with a nominal amount of €100 million and a variable rate, matures on 19 December 2025; the ninth tranche, with a nominal amount of €200 million and variable coupon indexed to the 6M Euribor, matures on 26 March 2030; the twelfth tranche, with a nominal amount of €700 million and a fixed rate of 1.12%, matures on 9 July 2026; the eleventh tranche, with a nominal amount of €100 million and a fixed rate of 1.035%, matures on 1 August 2029; the twelfth tranche, with a nominal amount of €140 million and a variable rate indexed to the 6M Euribor, matures on 23 December 2029; and the thirteenth tranche, with a nominal amount of €190 million and a variable rate indexed to the 6M Euribor, matures on 23 June 2024.

In 2019, the amount of bonds (both current and non-current) increased by €999 million, mainly as the combined effect of the four new tranches of the bonds related to the Euro Medium Term Notes Programme (€1,130 million) and the new Eurofima bond (€200 million), offset by repayments of the Eurofima bond (€343 million).

Bank loans and borrowings (both current and non-current) decreased by €232 million in 2019, mainly as the combined effect of the €697 million increase in current bank loans and borrowings and the agreement of the new five-year loan of €71 million with Banco di Sardegna, offset by the repayments of €712 million on loans from EIB and Intesa Sanpaolo to finance the purchase of new rolling stock for medium and long-haul transport and regional transport, the €194 million reduction on current account overdrafts and the payment of privileged creditors in the deed of arrangement for Ferrovie del Sud Est.

Loans and borrowings from other financial backers (both current and non-current) decreased by €865 million, mainly due to the reclassification of pre-existing lease liabilities (€402 million), which generated a corresponding increase in current and non-current liabilities.

During the year, €276 million relating to the SITAF group was reclassified to "liabilities held for sale and disposal groups" (including €21 million from bank loans and borrowings and €255 million from Loans and borrowings from other financial backers), as detailed in note 9 "Assets and liabilities held for sale and disposal groups".

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 2018:

millions of Euros

<b>Net financial debt</b>	<b>31.12.2019</b>	<b>31.12.2018</b>	<b>Change</b>
<b>Net current financial (position) debt</b>	<b>677</b>	<b>(555)</b>	<b>1,232</b>
Cash pooling accounts	(766)	(985)	219
Fifteen-year grants from the MEF	(599)	(592)	(7)
Loans and borrowings from other financial backers	375	240	135
Bank loans and borrowings	2,786	2,457	329
Bonds	929	367	562
Current concession financial assets	(1,549)	(1,220)	(329)
Contract advances	197	142	55
Other financial liabilities	8	67	(59)
Current financial liabilities recognised in accordance with IFRS 16	166		166
Other	(870)	(1,031)	161
<b>Net non-current financial debt</b>	<b>6,982</b>	<b>7,210</b>	<b>(228)</b>
Fifteen-year grants from the MEF	(497)	(1,096)	599
Loans and borrowings from other financial backers	162	1,162	(1,000)
Bank loans and borrowings	1,637	2,198	(561)
Bonds	5,412	4,975	437
Non-current concession financial assets	(1,696)	(1,917)	221
Contract advances	1,142	995	147
Non-current financial liabilities recognised in accordance with IFRS 16	780		780
Other	42	893	(851)
<b>Total</b>	<b>7,659</b>	<b>6,655</b>	<b>1,004</b>

Pursuant to the amendments to IAS 7, the reconciliation between the total changes in financial assets and liabilities broken down by monetary and non-monetary is given below:

millions of Euros

	31.12.2018	Monetary items (statement of cash flows)		Non-monetary changes				31.12.2019
		Change in consolidation scope		New leases	Reclassification to AFS	Hedging reserve	Other	
Disbursement and repayment of current and non-current loans	11,404	617	(5)	(402)	(276)		(32)	11,306
Change in other financial assets	(2,973)	657			2		(19)	(2,333)
Change in other financial liabilities	1,689	(180)	43	1,079	(799)	(17)	(62)	1,753
<b>Total</b>	<b>10,120</b>	<b>1,094</b>	<b>38</b>	<b>677</b>	<b>(1,073)</b>	<b>(17)</b>	<b>(113)</b>	<b>(10,726)</b>

## 25. Post-employment benefits and other employee benefits

	millions of Euros	
	<b>2019</b>	<b>2018</b>
Present value of post-employment benefit obligations	1,153	1,422
Present value of Free Travel Card obligations	60	48
Present value of post-employment benefit obligations	8	4
<b>Total present value of obligations</b>	<b>1,221</b>	<b>1,474</b>

Changes in the present value of liabilities for defined benefit obligations are shown in the table below.

	millions of Euros	
	<b>2019</b>	<b>2018</b>
Defined benefit obligations at 1 January	1,474	1,633
Service costs	6	7
Interest cost (*)	7	13
Actuarial (gains) losses recognised in equity	9	(11)
Advances, utilisations and other changes	(275)	(168)
<b>Total defined benefit obligations</b>	<b>1,221</b>	<b>1,474</b>

(\*) through profit or loss

During the year, €5 million relating to the SITAF group was reclassified to "Liabilities held for sale and disposal groups". Additional details are given in note 9 "Assets and liabilities held for sale and disposal groups".

### Actuarial assumptions

The main assumptions for the actuarial estimate process are described below:

	<b>2019</b>	<b>2018</b>
Discount rate (post-employment benefits)	0.18%	0.83%
Discount rate (Free Travel Card)	0.77%	1.57%
Annual increase rate of post-employment benefits	2.40%	2.63%
Inflation rate (post-employment benefits)	1.20%	1.50%
Inflation rate (Free Travel Card)	1.20%	1.50%
Expected turnover rate for employees - post-employment benefits	3.39%	3.38%
Expected turnover rate for employees - Free Travel Card	3.10%	3.14%
Expected rate of advances	1.97%	1.97%
Probability of death	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		
	<b>Post-employment benefits</b>	<b>Free Travel Card</b>	<b>Other employee benefits</b>
Inflation rate +0.25%	1,217	60	
Inflation rate -0.25%	1,196	58	
Discount rate +0.25%	1,189	58	
Discount rate -0.25%	1,224	61	
Turnover rate +1%	1,200		
Turnover rate -1%	1,214		
Plan duration	6	12	
Payment - first year	332	4	
Payment - second year	150	4	
Payment - third year	44	4	
Payment - fourth year	66	4	
Payment - fifth year	91	4	

## 26. Provisions for risks and charges

The opening and the closing balances of, and changes in, the provisions for risks and charges for 2019 are given below, indicating the current and non-current portions.

	millions of Euros				
<b>Provisions for risks and charges</b>	<b>31.12.2018</b>	<b>Accruals</b>	<b>Utilisations and other changes</b>	<b>Release of excess provisions</b>	<b>31.12.2019</b>
Tax provision	20	1			21
Other provisions	2,568	353	(375)	(20)	2,526
<b>Total non-current portion</b>	<b>2,588</b>	<b>354</b>	<b>(375)</b>	<b>(20)</b>	<b>2,547</b>

	millions of Euros				
<b>Current portion of provisions for risks and charges</b>	<b>31.12.2018</b>	<b>Accruals</b>	<b>Utilisations and other changes</b>	<b>31.12.2019</b>	
Other provisions	35	3	(4)	34	
<b>Total current portion</b>	<b>35</b>	<b>3</b>	<b>(4)</b>	<b>34</b>	

Other provisions are broken down below.

The bilateral fund for income assistance, set up for proactive income and employment assistance, amounts to €12 million. €81 million was used during the year for the projects launched during the year, while €1 million was accrued for the extraordinary benefits to be paid in future years and €12 million was released due to lower than expected requirements.

The provision for termination benefits amounts to €12 million. It was increased by accruals of approximately €1 million and decreased by utilisations of €8 million during the year, to cover costs incurred for the change management processes and the group's production structure rationalisation. €7 million was released in the year due to lower than expected requirements.

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 €82 million. In 2019, a total of €21 million was accrued. The provision was used for a total of €29 million to cover the social security contribution charges and costs related to disputes with personnel.

The provisions for litigation with third parties of €1,927 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 €214 million was accrued, with several income statement captions as balancing entries. Approximately €157 million was used following the settlement of disputes with an unfavourable outcome for the group and the payment of penalties to customers and the regions. Conversely, approximately €2 million was released through profit or loss to reflect the smaller needs related to some pending disputes.

The provision accrued to cover the charges related to the reclamation of polluted sites and the enhancement of works to be sold amounts to €49 million. €2 million was released in the year.



Other provisions of approximately €477 million include accruals mainly for maintenance, workshop expense, expense related to buildings held for trading and disputes with agents. During the year, the group accrued €120 million for probable future risks and charges. It also released €4 million to profit or loss due to smaller-than-expected requirements for pending contractual disputes and used €41 million essentially to cover charges related to contractual obligations.

This caption also reflects the reclassification of €55 million relating to the SITAF group to “Liabilities held for sale and disposal groups”, as detailed in note 9 “Assets and liabilities held for sale and disposal groups”.

## 27. Non-current and current financial liabilities (including derivatives)

millions of Euros

	Carrying amount								
	31.12.2019			31.12.2018			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Financial liabilities									
Hedging derivatives	30	2	32	67	2	69	(37)		(37)
Lease liabilities	780	166	946				780	166	946
Other financial liabilities	767	8	775	1,553	67	1,620	(786)	(59)	(845)
<b>Total</b>	<b>1,577</b>	<b>176</b>	<b>1,753</b>	<b>1,620</b>	<b>69</b>	<b>1,689</b>	<b>(43)</b>	<b>107</b>	<b>64</b>

During the year, €799 million relating to the SITAF group was reclassified from "Current and non-current financial liabilities (including derivatives)" to "Liabilities held for sale and disposal groups" (non-current: €740 million; current: €59 million), as detailed in note 9 "Assets and liabilities held for sale and disposal groups".

Hedging derivatives essentially reflect the total of interest rate swaps, interest rate collars, forward rate agreements 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 interest rates. The €37 million decrease is due to the aforementioned reclassification relating to the SITAF group and the fair value losses on hedging derivatives (€6 million).

"Lease liabilities" amount to €946 million and increased mainly as the combined effect of the reclassification of pre-existing lease liabilities (€402 million) from loans and borrowings from other financial backers, which decreased accordingly, the recognition of current and non-current financial liabilities in the year, as a balancing entry to right-of-use assets (€641 million), and the previously described non-recurring acquisition of the Greek company EESSTY, which then merged into TrainOSE SA (€43 million), in addition to payments (€180 million) and financial expense of the year (€34 million) and foreign exchange losses on contracts in foreign currency (€6 million).

The decrease in "Other financial liabilities", net of the SITAF group reclassification, is mainly due to the decrease in contract advances collected by Anas S.p.A. for works that have not yet been built and that it is not certain will be built for lack of specific plans. Loans and borrowings of €68 million were put in place for planned works.

### 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 option contracts (cap and collar) using market value calculation models.

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 Basis GBP vs. EUR curve, the swap vs. 6M LIBOR GBP 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 and ii) adequate CDS curves to reflect their probabilities of default (PD).

There are no extension options on leases that the group reasonably expects to exercise.

## 28. Contract advances - non-current and current

Contract advances - non-current and current, totalling €1,339 million (current portion: €197 million), refer to the portion of grants already collected for works still to be performed related to Anas S.p.A..

This caption mainly comprises advances related to prior year grants, such as the residual amounts pursuant to article 7 of Law no. 178/2002, 2003-2005 capital injections, former FAS and Funds for development and cohesion, which were not required to be reported prior to collection. The advances relate to works not yet performed and scheduled over the next few years and works in progress which resulted in bidding discounts and economies pending their utilisation in the work or their use in other programmes, after discussion with the competent ministries. The caption also includes extraordinary maintenance yet to be performed and financed using the portion of revenue from fee integration as per article 19.9-bis of Law no. 102/09, which was suspended until 2016 (€82 million).

The €202 million decrease on the previous year end is mainly due to the increase in production of the year, net of progress payments (€26 million), new advances (€54 million), the effect of discounting (€24 million, net of prior year reversals) and the Prime Minister Office's reimbursement of amounts that the company paid in connection with the SS 268 Vesuviana project dispute (€96 million).

## 29. Other non-current and current liabilities

They can be analysed as follows:

	millions of Euros								
	31.12.2019			31.12.2018			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Advances for grants		3,360	3,360		4,175	4,175		(815)	(815)
Advances to customers		1	1					1	1
Social security charges payable	30	313	343	36	310	346	(6)	3	(3)
VAT liabilities		18	18		6	6		12	12
Other liabilities with group companies		15	15		56	56		(41)	(41)
Other liabilities and accrued expenses and deferred income	132	1,907	2,039	102	1,819	1,921	30	88	118
<b>Total</b>	<b>162</b>	<b>5,614</b>	<b>5,776</b>	<b>138</b>	<b>6,366</b>	<b>6,504</b>	<b>24</b>	<b>(752)</b>	<b>(728)</b>

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 bodies, for infrastructural investments.

The table below shows the changes in advances for grants related to the FS Italiane group:

	millions of Euros				
	<b>31.12.2018</b>	<b>Increases</b>	<b>Decreases</b>	<b>Other changes</b>	<b>31.12.2019</b>
<b>Advances for grants:</b>					
- MEF	1,250	2,949	(3,705)	154	648
- MIT	2,302	83	(202)		2,183
- European Regional Development Fund	125	137	(114)	(99)	49
- Trans-European Network	187	12	(9)	(167)	23
- Other	311	335	(189)		457
<b>Total</b>	<b>4,175</b>	<b>3,516</b>	<b>(4,219)</b>	<b>(112)</b>	<b>3,360</b>

The increases in advances for grants from the MEF and the MIT include the new amounts related to grants allocated during the year, as described in the notes to Other non-current and current assets and Financial assets.

The decreases in advances refer to the recognition of grants under “Property, plant and equipment” and “Intangible assets”, to which reference should be made for additional information. Furthermore, €70 million refers to grants recognised in profit or loss to cover financial expense.

“Other changes” refer to the net decrease of €112 million for the capital increases of Tunnel Ferroviario del Brennero S.p.A., as detailed in the note to “Equity investments”.

The €118 million increase in “Other liabilities and accrued expenses and deferred income” is mainly due to the increase in amounts due to personnel, partly in connection with the fund for income and employment assistance (€49 million) and partly for amounts accrued in the year (€58 million, including €6 million for holidays accrued but not taken) and guarantee deposits (€27 million). These increases were partly offset by the reclassification of €17 million relating to the SITAF group, as detailed in note 9 “Assets and liabilities held for sale and disposal groups”.

The change in “Other non-current and current liabilities” generated by the reclassification mentioned above totals €23 million.

### 30. Non-current and current trade payables

They can be analysed as follows:

millions of Euros

	31.12.2019			31.12.2018			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Suppliers	23	5,614	5,636	44	5,246	5,290	(21)	368	347
Advances	4	96	101	5	84	89	(1)	12	11
Group companies		73	73		54	54		19	19
Contract liabilities for contract work in progress		14	14		14	14			
<b>Total</b>	<b>27</b>	<b>5,797</b>	<b>5,824</b>	<b>49</b>	<b>5,398</b>	<b>5,447</b>	<b>(22)</b>	<b>399</b>	<b>377</b>

“Non-current and current trade payables” show an overall increase of €377 million on the previous year end, mainly due to the rise in investment volumes in the year for new rolling stock (+€244 million), greater accruals for works on the road network (+€108 million), the increase in invoices to be received at year end (+€25 million), advances paid by the customer for the foreign contract for the Riyadh Metro (+€23 million) and the change in the consolidation scope (+€2 million), partly offset by the reclassification of €50 million relating to the SITAF group to “Liabilities held for sale and disposal groups”, as detailed in note 9 “Assets and liabilities held for sale and disposal groups”.

### 31. Tax liabilities

The balance at 2019 year end, equal to €13 million (€19 million at 2018 year end), includes €10 million due by the group companies included in the tax consolidation scheme, for the purposes of IRAP (regional production tax), and by the other group companies not included in the scheme, for IRES (corporate income tax) and IRAP, as well as €3 million related to the income taxes of foreign companies.

## 32. Revenue from sales and services

The table and comments below give a breakdown of changes in revenue from sales and services.

millions of Euros

	2019	2018	Change
<b>Revenue from transport services</b>	<b>7,572</b>	<b>7,342</b>	<b>230</b>
Passenger traffic products	3,932	3,745	187
Freight traffic products	838	821	17
<b>Market revenue</b>	<b>4,770</b>	<b>4,566</b>	<b>204</b>
Public service contracts and other contracts	394	408	(14)
Fees from the regions	2,408	2,368	40
<b>Service contract fees</b>	<b>2,802</b>	<b>2,776</b>	<b>26</b>
<b>Revenue from infrastructure services</b>	<b>2,606</b>	<b>2,473</b>	<b>133</b>
<b>Other service revenue</b>	<b>349</b>	<b>333</b>	<b>16</b>
<b>Revenue from contract work in progress</b>	<b>76</b>	<b>74</b>	<b>2</b>
<b>Total revenue from contracts with customers</b>	<b>10,603</b>	<b>10,222</b>	<b>381</b>
<b>Other revenue</b>	<b>1,354</b>	<b>1,338</b>	<b>16</b>
<b>Total</b>	<b>11,957</b>	<b>11,560</b>	<b>397</b>

Revenue from "Passenger traffic products" rose by €187 million on the previous year, highlighting the positive performance of the various passenger service sectors.

Medium and long-haul transport revenue shows an overall improvement of €99 million, due to a commercial policy increasingly focused on meeting customers' needs by strengthening the offer, improving pricing and revenue management, boosting the sales channels and a more effective communications campaign and for the development of ancillary services. Regional transport revenue rose by €63 million, thanks to the strong performance on both the domestic and the international market. In particular, revenue generated in Italy grew by 58 million mainly due to the increase in passenger-km as an effect of actions to raise customer satisfaction levels. For example, these actions included rolling out regional customer care (assistance and safety), continuing projects to curb recurrent fare evasion through the checks by the national and regional fare evasion officers at stations and on board trains and developing initiatives for the use of regional trains for tourism. Revenue abroad grew by €5 million, driven by both the excellent results in Greece and the UK, up by €8 million and €7 million, respectively, partly offset by the contraction on the German market (-€10 million).

Road transport revenue rose by €25 million, mainly due to the Dutch market (+€31 million), essentially following the start of a new LPT concession in the Zuid-Holland province, partly offset by the change in consolidation scope with the exit of Busitalia Simet (-€12 million) on 7 March 2019.

Revenue from "Freight traffic products" increased by €17 million, mainly due to the consolidation of ROM Rail S.r.l. (+€14 million) since 14 December 2018.

The €14 million decrease in "Public service contract fees" is due to the application of the restructuring and postponement of the investment plan, as established in the same contract.

“Fees from the regions” show growth of €40 million on both the domestic market (+€15 million) and abroad (+€25 million). In particular, the domestic market benefited from the application of the economic terms of the new contracts signed with the Lazio, Liguria, Puglia and Friuli Venezia Giulia regions and from the contractual mechanisms in place to maintain financial balance with respect to the same contracts. The Dutch road transport market (+€34 million) drove the group’s growth abroad but was partly offset by the German market’s performance (-€9 million).

The table below gives a breakdown of fees for public service contracts with the government:

	millions of Euros		
	2019	2018	Changes
Rate and service obligations: for passenger transport	342	359	(17)
<b>Total</b>	<b>342</b>	<b>359</b>	<b>(17)</b>

“Revenue from infrastructure services” grew by €133 million, mainly due to the increase in grants for disputes to match the greater accruals to the provision for risks of disputes on motorway network works in 2019 (+€112 million) and the increase in revenue from fees (+€13 million) as the combined effect of the change in traffic volumes measured as train/km and changes in the fee system approved with ART Resolution no. 43/2019.

“Other service revenue” includes, inter alia:

- revenue from the sale of land and buildings held for trading, up by €6 million, mainly due to the sale of areas in Florence, Milan, Turin Scalo Vallino, Turin Porta Susa, Bisceglie, Ragusa and Acireale;
- revenue from services provided to railway companies and traffic-related services, down by €36 million. The decrease refers to both the domestic market (-€20 million) as a result of the greater accruals to the provision for risks of disputes on motorway network works (-€10 million) and abroad (-€16 million), mainly due to the drop in revenue on the German market because of the discontinued operations (-€17 million);
- revenue from sundry services, which includes revenue from the group’s international operations, penalties and sanctions, commissions on ticket sales and health services provided to third parties. The €45 increase is mainly due to actual revenue on the Riyadh metro contract (+€32 million).

	millions of Euros		
	2019	2018	Change
Leases	139	154	(15)
Recharging of condominium expenses and income tax	31	29	2
Sale of advertising spaces	12	13	(1)
<b>Revenue from property management</b>	<b>182</b>	<b>196</b>	<b>(14)</b>
<b>Sundry revenue</b>	<b>102</b>	<b>83</b>	<b>19</b>
<b>Revenue from grants</b>	<b>1,070</b>	<b>1,059</b>	<b>11</b>
<b>Total</b>	<b>1,354</b>	<b>1,338</b>	<b>16</b>

“Revenue from property management” is down by €14 million, substantially due to the sale of Centostazioni Retail S.p.A. on 28 March 2019.

“Revenue from grants” rose by €11 million mainly due to the increase in grants from the Government Programme Contract (€7 million).

## REVENUE BROKEN DOWN UNDER IFRS 15

In the table below, revenue from contracts with customers is broken down by geographical segment, product line and moment of recognition:

	<i>millions of Euros</i>									
	Transport		Infrastructure		Real estate		Other services		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
<b>Geographical segment</b>										
Italy	6,374	6,304	2,783	2,650	34	28	5	3	9,196	8,985
Europe	1,302	1,147	12	10					1,314	1,157
Non-EU	20	23	41	57			32		93	80
<b>Total revenue from contracts with customers</b>	<b>7,696</b>	<b>7,474</b>	<b>2,836</b>	<b>2,717</b>	<b>34</b>	<b>28</b>	<b>37</b>	<b>3</b>	<b>10,603</b>	<b>10,222</b>
<b>Product lines</b>										
Revenue from transport services	7,552	7,324	20	18					7,572	7,342
· <b>Market revenue</b>	4,750	4,548	20	18					4,770	4,566
Passenger traffic products	3,930	3,743	2	2					3,932	3,745
Freight traffic products	820	805	18	16					838	821
· <b>Revenue from public service contracts</b>	2,802	2,776							2,802	2,776
Public service contract and other contracts	394	408							394	408
Fees from the regions	2,408	2,368							2,408	2,368
<b>Revenue from infrastructure services</b>	7	6	2,599	2,467					2,606	2,473
<b>Other service revenue</b>	139	143	139	159	34	28	37	3	349	333
<b>Revenue from contract work in progress</b>	(2)	1	78	73					76	74
<b>Total revenue from contracts with customers</b>	<b>7,696</b>	<b>7,474</b>	<b>2,836</b>	<b>2,717</b>	<b>34</b>	<b>28</b>	<b>37</b>	<b>3</b>	<b>10,603</b>	<b>10,222</b>
<b>Moment of recognition</b>										
At a point in time	483	351	224	227	20	8			727	586
Over time	7,213	7,123	2,612	2,490	14	20	37	3	9,876	9,636
<b>Total revenue from contracts with customers</b>	<b>7,696</b>	<b>7,474</b>	<b>2,836</b>	<b>2,717</b>	<b>34</b>	<b>28</b>	<b>37</b>	<b>3</b>	<b>10,603</b>	<b>10,222</b>
<b>Total other revenue from sales and services</b>	<b>160</b>	<b>147</b>	<b>1,140</b>	<b>1,131</b>	<b>54</b>	<b>60</b>			<b>1,354</b>	<b>1,338</b>
<b>Total revenue from sales and services</b>	<b>7,856</b>	<b>7,621</b>	<b>3,976</b>	<b>3,848</b>	<b>88</b>	<b>88</b>	<b>37</b>	<b>3</b>	<b>11,957</b>	<b>11,560</b>



## CONTRACT ASSETS AND LIABILITIES

The table below provides information about contract assets and liabilities:

	millions of Euros	
	<b>31.12.2019</b>	<b>31.12.2018</b>
Contract assets classified under "Current/non-current trade receivables"	1,649	1,221
Contract assets classified under "Other current assets/Non-current assets"	45	56
Other assets not included in the above categories	3,245	3,138
Contract assets	875	799
Contract liabilities	(64)	(53)

## BREAKDOWN OF CHANGES IN CONTRACT ASSETS AND LIABILITIES

The table below shows the significant changes in contract assets and liabilities for the year:

	millions of Euros	
	<b>31.12.2019</b>	
	<b>Contract assets</b>	<b>Contract liabilities</b>
Revenue recognised during the year which was included in the opening balance of "contract liabilities"		52
Increases in contract liabilities, net of the amounts recognised during the year		(58)
Reclassifications from "contract assets" recognised at the beginning of the year	(533)	
Increases in contract assets due to the provision of services	636	
Increases in contract assets due to changes in the assessment of the percentage of completion	(17)	
Business combinations		
Other changes	(10)	(5)

The table below includes an ageing analysis of payments to be received in future years for assets that the group has given under operating lease:

	millions of Euros						
	<b>Within one year</b>	<b>1-2 years</b>	<b>2-3 years</b>	<b>3-4 years</b>	<b>4-5 years</b>	<b>After five years</b>	<b>Total</b>
Undiscounted payments to be received for operating leases	178	180	181	174	174	177	1,064

### 33. Other income

"Other income" of €478 million (2018: €512 million) decreased by €34 million, mainly in connection with the derecognition of unsecured liabilities in the deed of arrangement of Ferrovie del Sud Est e Servizi Automobilistici S.r.l. (-€63 million) agreed last year, partly offset by the gain on the sale of Centostazioni Retail S.p.A. (€28 million).

### 34. Personnel expense

This caption can be analysed as follows:

	millions of Euros		
	<b>2019</b>	<b>2018</b>	<b>Change</b>
Wages and salaries	3,550	3,452	98
Social security charges	935	945	(10)
Other expense for employees	25	31	(6)
Post-employment benefits	206	206	
Post-employment benefits/Free Travel Card service costs	3	7	(4)
Accruals/releases	69	51	18
<b>Employees</b>	<b>4,788</b>	<b>4,692</b>	<b>96</b>
Wages and salaries	5	5	
Social security charges			
Other costs			
<b>Consultants and freelancers</b>	<b>5</b>	<b>5</b>	
<b>Other costs</b>	<b>152</b>	<b>156</b>	<b>(4)</b>
<b>Total</b>	<b>4,945</b>	<b>4,853</b>	<b>92</b>

“Employees” increased by €96 million in the year. The increase referred to both domestic employees (€43 million) and those abroad (€53 million). Growth on the domestic market was due to the increase in the average workforce to meet the rise in turnover in the year, while the growth abroad was mainly seen on the Dutch market (+€35 million) following new contracts, and in Greece (+€13 million) as a result of the acquisition of the Greek company EESTY SA, which merged into TrainOSE SA in the year, as detailed in paragraph 4 “Change in consolidation scope and non-recurring transactions”.

The table below gives a breakdown of the FS Italiane group’s average number of employees by category:

<b>PERSONNEL</b>	<b>2019</b>	<b>2018</b>	<b>Changes</b>
Managers	980	957	23
Junior managers	12,687	12,988	(301)
Other	69,515	67,717	1,798
<b>TOTAL</b>	<b>83,182</b>	<b>81,662</b>	<b>1,520</b>

### 35. Raw materials, consumables, supplies and goods

millions of Euros

	2019	2018	Change
Raw materials and consumables	1,057	1,155	(98)
Electrical energy and fuel for traction	333	354	(21)
Lighting and driving force	68	60	8
Change in land and buildings held for trading	29	32	(3)
Accruals/releases	4	(2)	6
<b>Total</b>	<b>1,491</b>	<b>1,599</b>	<b>(108)</b>

The €98 million decrease in "Raw materials and consumables" is mainly due to the lower consumption of materials for capitalised assets (-€89 million) and the greater production output of the national workshops of Bari, Pontassieve and Bologna (-€37 million) for frogs, switches, glued insulation joints and equipment, partly offset by the increased consumption of materials for operations (+€10 million).

"Electrical energy and fuel for traction" decreased by €21 million on the previous year, mainly due to the reduction in the unit cost of electricity.

The €3 million decrease in the change in land and buildings held for trading is due to the different carrying amounts of the assets sold in the year compared to the previous year.

The €6 million decrease in "Accruals/releases" is mainly due to the greater accruals to the allowance for inventory write-down following the analysis of obsolete and slow-moving items to be disposed of.

### 36. Services

This caption can be analysed as follows:

millions of Euros

	2019	2018	Change
Other transport-related services	127	89	38
Fees	363	358	5
Shunting services	29	25	4
Freight transport services	327	322	5
Accruals/releases for transport services			
<b>Transport services</b>	<b>846</b>	<b>793</b>	<b>53</b>
Contracted services and work	31	39	(8)
Cleaning and other contracted services	422	414	8
Maintenance and repair of intangible assets and property, plant and equipment	765	748	17
Accruals/releases for maintenance	2	1	1
Ordinary maintenance on the road and motorway network	238	236	2
<b>Maintenance, cleaning and other contracted services</b>	<b>1,458</b>	<b>1,438</b>	<b>20</b>

<b>Property services and utilities</b>	<b>103</b>	<b>98</b>	<b>5</b>
<b>Administrative and IT services</b>	<b>292</b>	<b>227</b>	<b>65</b>
<b>External communications and advertising expense</b>	<b>51</b>	<b>45</b>	<b>6</b>
<b>Costs for new works and extraordinary maintenance of the road and motorway network</b>	<b>1,116</b>	<b>1,196</b>	<b>(80)</b>
Professional services and consultancies	73	79	(6)
Prize competitions and fees to other railway companies	7	6	1
Insurance	71	64	7
Sleeping carriages and catering	119	115	4
Agency fees	76	76	
Engineering services	54	38	16
Other costs for services, accruals/releases	148	(69)	217
Other	327	265	62
<b>Other sundry services</b>	<b>875</b>	<b>574</b>	<b>301</b>
<b>Total</b>	<b>4,741</b>	<b>4,371</b>	<b>370</b>

The €53 million increase in “Transport services” is mainly due to the growth on the Dutch market thanks to the new concessions acquired in the year (+€10 million), increased services provided in the UK (+€12 million) and Greece (+€3 million) and the inclusion of ROM Rail S.r.l. in the consolidation scope (+€12 million) on 14 December 2018. The rise in costs for “Maintenance, cleaning and other contracted services” (€20 million) is mainly due to the increase in those for maintenance on buildings and lines (+€18 million) and road and motorway network maintenance (+€2 million), partly offset by lower costs for maintenance on movable assets (-€6 million).

The €65 million increase in “Administrative and IT services”, due to the establishment of the in-house company FSTechnology, which centralised IT service procurement for most FS Italiane group companies, should be considered together with the €40 million increase in “Internal work capitalised” due to IT services. The net increase of €25 million is due to higher hardware and software maintenance costs incurred for various business areas in the year.

The €80 million decrease in “Costs for new works and extraordinary maintenance of the road and motorway network” is mainly due to less extraordinary maintenance and fewer new road works in the year.

Finally, the €301 million increase in “Other sundry services” essentially reflects the increase in “Other costs” mainly due to costs for the Riyadh metro contract (+€21 million), the increase in works on the regional road network (+€18 million), greater engineering service costs incurred in the year (+€16 million), higher accruals and lower releases for civil court disputes and disputed liabilities (+€25 million), as well as greater accruals to the provision for risks of disputes on works in 2019 (+€189 million).

### 37. Use of third-party assets

This caption can be analysed as follows:

		millions of Euros	
	<b>2019</b>	<b>2018</b>	<b>Change</b>
Lease payments	10	13	(3)
Lease payments, condominium expenses and registration tax	64	86	(22)
Leases and indemnities for rolling stock and other	66	158	(92)
Accruals/releases			
<b>Total</b>	<b>140</b>	<b>257</b>	<b>(117)</b>

The €117 million decrease in "Use of third-party assets" is mainly due to the initial application of IFRS 16 (-€130 million), which led to a new accounting treatment for leases, as detailed in note 7 "Effects of initial application of IFRS 16 Leases".

### 38. Other operating costs

This caption can be analysed as follows:

		millions of Euros	
	<b>2019</b>	<b>2018</b>	<b>Change</b>
Other costs	197	182	15
Losses	1	2	(1)
Accruals/releases	22	14	8
<b>Total</b>	<b>220</b>	<b>198</b>	<b>22</b>

"Other costs" increased by €15 million on the previous year, mainly due to the rise in contractual penalties (+€2 million), the increase in indemnities and legal expenses not covered by insurance (+€4 million) and higher taxes and duties (+€8 million), including the portion of non-deductible VAT pertaining to the year. "Accruals/releases" mostly refer to accruals for the probable risk of losing lawsuits with third parties and for disputes with personnel (2018: +€8 million).

### 39. Internal work capitalised

Internal work capitalised mainly refers to the cost of materials, personnel expense and the cost of IT services and transport capitalised in 2019 for work on the infrastructure, maintenance increasing the value of rolling stock at FS group workshops and technological upgrades. This caption amounts to €1,711 million, up by €29 million on 2018, due to increases in routine maintenance on trains (+€7 million), the intensification of maintenance on owned trains and locomotives (+€10 million), greater road and motorway infrastructure development work (+€13 million) and increased capitalisation of IT services following the establishment of FSTechnology S.p.A., as indicated in note 36 "Services" (+€40 million), partly offset by the smaller use of materials (-€49 million).

#### 40. Amortisation and depreciation

This caption can be analysed as follows:

	millions of Euros		
	<b>2019</b>	<b>2018</b>	<b>Change</b>
Amortisation	283	271	12
Depreciation	1,429	1,300	129
<b>Total</b>	<b>1,712</b>	<b>1,571</b>	<b>141</b>

The €141 million increase in "Amortisation and depreciation" compared to 2018 is mainly due to the initial application of IFRS 16 (€118 million) and, residually, to normal trends in amortisation and depreciation resulting from investments of the year.

#### 41. Impairment losses (gains)

This caption can be analysed as follows:

	millions of Euros		
	<b>2019</b>	<b>2018</b>	<b>Change</b>
Impairment losses on intangible assets	48	5	43
Impairment losses on property, plant and equipment	26	124	(98)
Impairment losses on financial assets	16	26	(10)
Impairment losses on cash and cash equivalents			
<b>Total</b>	<b>90</b>	<b>155</b>	<b>(65)</b>

"Impairment losses" decreased by €65 million on 2018 due to the reduction in the year relating to property, plant and machinery, intangible assets and financial assets.

Reference should be made to notes 9, 10 and 15 for additional details on impairment losses recognised in the year.

#### 42. Provisions

"Provisions" amount to €22 million (2018: -€36 million) and mainly consist of releases by FS group companies of prior year provisions no longer deemed necessary in relation to the extraordinary portion of the bilateral fund for income assistance, as described in note 23 "Provisions for risks and charges".

#### 43. Financial income

This caption can be analysed as follows:

	millions of Euros		
	<b>2019</b>	<b>2018</b>	<b>Change</b>
Financial income from non-current loans and receivables and securities	2	2	
Financial income from derivatives			
Other financial income	68	73	(5)
Exchange gains	18	17	1
<b>Total</b>	<b>88</b>	<b>92</b>	<b>(4)</b>

“Other financial income” is substantially in line with the previous year.

#### 44. Financial expense

This caption can be analysed as follows:

	millions of Euros		
	<b>2019</b>	<b>2018</b>	<b>Change</b>
Interest on financial liabilities	194	165	29
Financial expense on employee benefits	11	14	(3)
Financial expense on derivatives	5		5
Financial expense on leases	35	16	19
Impairment losses on financial assets	14	9	5
Exchange loss	16	16	
Accruals/releases	11		11
<b>Total</b>	<b>286</b>	<b>221</b>	<b>65</b>

“Interest on financial liabilities” increased by €29 million, mainly due to the discounting of the receivable from Strada dei Parchi following the amendment postponing the repayment of the 2017 and 2018 instalments to 2030.

“Financial expense on leases” increased by €19 million as a consequence of the initial application of IFRS 16, as detailed in note 7 “Effects of initial application of IFRS 16 Leases”.

“Accruals/releases” increased by €11 million, mainly due to the interest on disputes with road works suppliers.

The above financial expense is shown net of government grants of €70 million (reference should also be made to note 25 “Other non-current and current liabilities”).

#### 45. 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, came to €22 million, down by €10 million on the previous year (€32 million). For additional information, reference should be made to note 14 "Equity-accounted investments".

#### 46. Current and deferred taxes

Income taxes can be analysed as follows:

	millions of Euros		
	<b>2019</b>	<b>2018</b>	<b>Change</b>
IRAP	43	37	6
IRES	13	11	2
Income from the tax consolidation scheme		(7)	7
Foreign current taxes	4	9	(5)
Deferred taxes	(19)	6	(25)
Foreign deferred taxes	(11)	(7)	(4)
Accruals/releases for taxes	10		10
Adjustments to prior year income taxes	20	9	11
<b>Total income taxes</b>	<b>60</b>	<b>58</b>	<b>2</b>

Current IRAP increased by €6 million due to the higher taxable profit for the year.

The group's IRES is net of the "Income from the tax consolidation scheme" of €168 million (of which €10 million related to Anas group), recognised on the tax losses transferred to the group over the years and used during the year, as their subsequent remuneration was not deemed probable.

Current foreign taxes decreased because Netinera group and Italferr's foreign branches reported lower taxes for the year. In 2019, deferred taxes amount to €30 million, including foreign taxes. For additional information about changes in deferred taxes, reference should be made to note 13 "Deferred tax assets and deferred tax liabilities".

Adjustments to prior year income taxes mainly refer to the settlement of tax disputes, totalling €14 million.

#### 47. Loss attributable to assets held for sale

This caption shows a loss of €9 million for 2019, due to Netinera Werke GmbH's loss for the year. This company was transferred to third parties on 23 December 2019, with effect for legal purposes on 3 March 2020.

#### 48. Contingent assets and contingent liabilities

The FS Italiane 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 incur additional liabilities, currently deemed improbable and/or unquantifiable. The main contingent assets and liabilities are described below.



- RFI S.p.A./COSIAC S.p.A.: in 2011, COSIAC S.p.A. brought a legal action before the Rome Civil Court claiming compensation for damage (roughly €1 billion) following the alleged violation of rules of integrity, impartiality and good faith in the performance of the integrated service concession for the laying of double tracks on the Tommaso Natale – Carini railway line, and the connection to the Punta Raisi airport. With ruling no. 9769/2015, the Rome Court, admitting all RFI S.p.A.’s arguments and ordering COSIAC S.p.A. to pay all legal fees, declared that it did not have jurisdiction, while the administrative judge did, and denied all claims of liability (contractual, pre-contractual and non-contractual). COSIAC S.p.A. appealed against the ruling. With ruling no. 1.477 of 1 March 2019, the Rome Court of Appeal partially admitted COSIAC S.p.A.’s appeal and transferred the case to the Court, recognising the ordinary judge’s jurisdiction on the assumption that COSIAC S.p.A. claim in the case was an expression of its subjective right arising from a contract subject to private law. RFI S.p.A. appealed against this ruling before the Court of Cassation and requested its revocation before the Court of Appeals, as it was in contract with the cases already pending in civil and administrative court, including with respect to jurisdiction. With summons notified on 3 May 2019, COSIAC S.p.A. reinstated the case before the Rome Civil Court. RFI S.p.A. appeared in court and requested a stay of the proceedings pending the decisions of the Court of Cassation and the Court of Appeal for revocation on the matters of jurisdiction and conflicting cases;
- disputes with a supplier: Trenitalia S.p.A. has two large disputes pending with one of its main rolling stock suppliers. The first-level rulings in 2019 were favourable for the company. The supplier appealed against both rulings and the second-level proceedings have not yet commenced. Any costs that should arise as a result of the definitive ruling will substantially be accounted for as higher costs for the investments in rolling stock;
- ruling no. 63958/2016 RG Anas S.p.A./Strada dei Parchi: concerning the dispute relating to the payment of instalments of the Single Agreement for the operation, completion and modernisation of the A24 and A25 motorways concession. In 2016, as Strada dei Parchi failed to pay the 2015 instalment for the concession, Anas S.p.A. filed a petition for a court order forcing the concession operator to pay the sums due. The dispute arose in 2016 after SDP challenged the court order. During the dispute, the question of the constitutional legitimacy of article 52 *quinquies* of Law decree no. 50/2017 arose and was found inadmissible and partly without grounds in Constitutional Court ruling no. 181/2019. The case was reinstated in light of the Constitutional Court ruling and Strada dei Parchi subsequently asked for the matter in question to be dropped, with the revocation of the court order that it had challenged, as, in the meantime, the receivable had become not due when article 52-*quinquies* of Law decree no. 50/2017, which postponed the payment of the instalment subject to the 2018 case, went into force and the plan approving emergency measures was presented and approved (with Ministerial decree of 9 August 2017). Anas S.p.A. insisted on hearing the conclusions as per the court documents and, therefore, primarily referring to its request that the court deny the challenge to the order and, subordinately, order Strada dei Parchi to pay the 2015 instalment when it becomes due. The judge informed “the parties of the possibility of reaching a settlement entailing the resolution of the matter subject to the case, the invalidity of the court order and the offsetting of legal fees”; Strada dei Parchi’s lawyers accepted the settlement proposed by the judge and Anas S.p.A.’s lawyers asked for time to consider it with their client. Having acknowledged the parties’ position, the judge adjourned to consider Anas S.p.A.’s acceptance of the settlement proposal or, should it not accept, to hear the closing arguments.
- 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 the Italian Republic 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 reinstated. Trenitalia S.p.A. appeared in both proceedings. The appeals lodged by RFI S.p.A. and the former Grandi Stazioni S.p.A. were rejected by the Piedmont Regional Administrative Court with rulings nos. 541/2017 and 1025/2017, respectively. The companies filed an appeal against said rulings. With ruling no. 6108/2019, the Council of State admitted RFI S.p.A.'s appeal (against the Piedmont Regional Administrative Court's ruling no. 541/2017) and cancelled the section of ART resolution no. 70/2014 referring to the regulation, which determined the toll to access the HS/HC railway infrastructure for 2015. The Council of State also ordered the ART to renew the procedure for the regulatory period from 6 November 2014 to 31 December 2015 and begin the preliminary process in accordance with the principles upheld in the ruling. Trenitalia S.p.A., another railway company and – in cross appeal – the ART appealed against Council of State ruling no. 6108/2019, asking that it be revoked. At the same time, the ART petitioned for the precautionary suspension of the effects of the ruling. Furthermore, the ART claimed the quashing of the Council of State's ruling before the Joint Sections of the Court of Cassation, on the grounds that it went beyond the outer limits of the administrative court judge's jurisdiction. With ruling no. 5534/2019, the Council of State denied the station manager's (the former Grandi Stazioni S.p.A.) appeal against ruling no. 1025/2017, thereby confirming – inter alia – that the spaces set up to greet and assist passengers also fall within the scope of application of ART regulations;

- appeal against ART resolution no. 96/2015: the proceedings refer to the extraordinary appeals lodged to the President of the Italian Republic by RFI S.p.A., Trenitalia S.p.A. and the former Grandi Stazioni S.p.A. 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 appeal lodged by another railway company against the same ART resolution. Following the termination of the proceedings commenced by RFI S.p.A. for loss of interest by the infrastructure operator (Piedmont Regional Administrative Court's ruling no. 1287/2017), the appeals lodged by Trenitalia S.p.A. against ruling no. 1240/2017, in which the Piedmont Regional Administrative Court rejected Trenitalia S.p.A.'s appeal against resolution no. 80/2016 (and related measures) remain in progress, as well as ruling no. 57/2018, with which the Piedmont Regional Administrative Court rejected Trenitalia S.p.A.'s appeal against Resolution no. 96/2015 (and related measures, including resolution no. 75/2016). In its ruling no. 58/2018, the Piedmont Regional Administrative Court also rejected the appeal lodged by former Grandi Stazioni S.p.A. against resolution no. 96/2015 (and related measures);
- appeal against ART resolution no. 169 of 5 December 2019: with resolution no. 169/2018, the ART commenced penalty proceedings for the (alleged) violation of ART resolution no. 106/2018 "*Measures concerning the minimum content of specific rights that users of railway transport services entailing public service costs may exercise with the service and railway infrastructure operators*", Measure 10.1 (Adjustment to the Service Charter) for not having offered - solely for the regional service - an indemnity to passengers with disabilities or reduced mobility for services that they could not access (Measure 5.3) and for not having complied with the requirement of indemnifying passengers holding public service passes in the event of repeated delays or cancellations (Measures 7.1 and 7.2). Trenitalia S.p.A. is drafting specific commitments in order to remedy the alleged violations. The ART may apply penalties of up to 10% of turnover. The penalty proceedings are scheduled to end on 1 June 2020.

#### 49. Audit fees

Pursuant to article 37 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 €5,323 thousand and include the fees paid for services other than the statutory audit (€1,762 thousand).

## 50. Directors' and statutory auditors' fees

The following fees were paid to directors and statutory auditors for the performance of their duties:

	thousands of Euros		
	<b>2019</b>	<b>2018</b>	<b>Change</b>
Directors	1,334	3,235	(1,901)
Statutory auditors	100	100	
<b>TOTAL</b>	<b>1,434</b>	<b>3,335</b>	<b>(1,901)</b>

Directors' fees include the amounts envisaged for the positions of Chairman 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 €78 thousand (2018: €78 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.

The decrease on the previous year is mainly due to end-of-office fees paid in 2018 to outgoing directors.

## 51. 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 with the same entities at market conditions.

Key managers' fees are as follows:

	millions of Euros	
	<b>2019</b>	<b>2018</b>
Short-term benefits	28.9	26.0
Post-employment benefits	2.0	1.7
Other long-term benefits		
Termination benefits	0.3	6.1
<b>Total</b>	<b>31.2</b>	<b>33.8</b>

The benefits relate to the fees paid to the above parties. In addition to short-term benefits of €29 million paid out in 2019, a variable portion is to be paid in 2020, for an amount not exceeding €7.5 million (€6.3 million in 2018).

During the year, the key managers did not carry out any transactions, directly or through close family members, with the FS Italiane group, group companies or other related parties.

## Related party transactions

The main transactions between the 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					
	Assets	Liabilities	Purchases for investments	Guarantees	Revenue	Costs
Enel group	157	160		17	3	90
Eni group	2	6			10	12
Leonardo - Finmeccanica group		45				1
Invitalia group		4				
Cassa Depositi e Prestiti group	11	116		25	12	83
GSE group				150		340
Poste Italiane group	1	1			1	2
SO.G.I.N. group	(1)				3	
IPZS						1
EUROFER		(6)				14
PREVINDAI		2				3
Other pension funds	(6)	(71)				12
Other related parties	6	2			170	17
<b>Total</b>	<b>170</b>	<b>259</b>		<b>192</b>	<b>199</b>	<b>575</b>

## Financial transactions

	millions of Euros			
	Assets	Liabilities	Income	Expense
Enel group			1	
Cassa Depositi e Prestiti group		531		17
Poste Italiane group	2			
<b>Total</b>	<b>2</b>	<b>531</b>	<b>1</b>	<b>17</b>

The nature of the main transactions with non-group parties is described below.

Assets with the Enel group and Eni group mainly refer to lease payments and material transport costs, while liabilities relate to sundry utility payments.

Liabilities with the Leonardo - Finmeccanica group mainly refer to sundry maintenance (rolling stock, lines, software) and the purchase of materials.

Liabilities with the GSE group mainly relate to the purchasing of electrical energy for train traction.

Assets with from the Cassa Depositi e Prestiti group mainly relate to lease and easement payments for land, while liabilities relate to loans and borrowings and electrical energy with Terna S.p.A..

Assets with the Poste Italiane group mainly relate to lease payments, while liabilities principally relate to postal charges.

## 52. 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 granted through Ferrovie dello Stato Italiane S.p.A. (the liability with Eurofima SA at 31 December 2019 amounts to €1,237 million);

- guarantees issued by Ferrovie dello Stato Italiane S.p.A. in favour of the EIB on behalf of RFI S.p.A. (€100 million) and Trenitalia S.p.A. (€19 million), guaranteeing non-current loans and borrowings granted by the above bank to the two companies;
- bank guarantees issued on behalf of Trenitalia S.p.A., including in connection with the service contracts signed with the regions (€56 million);
- parent guarantees issued on behalf of group companies to the tax authorities (€2,346 million);
- parent (€4 million) and bank (€13 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 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 (€21 million);
- parent and bank guarantees as part of projects abroad, issued mainly on behalf of Trenitalia C2C Ltd (for an amount corresponding to €98 million), Trenitalia UK Ltd (for an amount corresponding to €163 million) and Italferr S.p.A. (for an amount corresponding to €3.4 million);
- parent guarantees issued on behalf of Netinera Deutschland GmbH, mainly in favour of lease companies and banks (€222 million);
- bank guarantees issued on behalf of the parent: the main guarantees total €18 million (in favour of Alitalia, undergoing extraordinary administration) and €16 million (in favour of the Brescia municipal authorities). Projects abroad include a bank counter-guarantee for an amount corresponding to €45 million and relating to the performance bond issued in favour of the Arriyadh Development Authority;
- bank sureties issued to other parties such as bid bonds, performance bonds and advance payment bonds;
- sureties issued in favour of third parties by Anas (€825 million), of which €763 million related to the recovery of the 2013-2014 VAT assets and €52 million related to the contracts in Algeria, Libya, Qatar, Russia, Georgia and India;
- sureties issued in favour of third parties by the SITAF group (mainly SITAF S.p.A.) (€60 million);
- the SITAF group's commitments related to the interest swaps agreed in order to hedge the interest rate risk (€215 million);
- special-purpose loans from the Government agreed and not yet disbursed related to Quadrilatero Marche-Umbria S.p.A.'s contracts (€27 million).

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.

### 53. Information pursuant to Law no. 124/2017

Reference should be made to Annex 6 for the information required by article 125 of Law no. 124/2017 about consolidated Italian investees, as shown in the financial statements of such investees.

#### 54. Segment reporting by operating segment

The financial highlights of the group's operating segments for 2019 and 2018 are shown below:

millions of Euros						
2019	Transport	Infra- structure	Real Estate Services	Other Services	Adjust- ments and inter- segment eliminations	FS Italiane group
Revenue from third parties	7,858	4,156	88	52	9	12,163
Inter-segment revenue	302	1,312	50	344	(1,736)	272
<b>Revenue</b>	<b>8,160</b>	<b>5,468</b>	<b>138</b>	<b>396</b>	<b>(1,727)</b>	<b>12,435</b>
Personnel expense	(2,648)	(2,171)	(6)	(147)	27	(4,945)
Other costs, net	(3,630)	(2,504)	(113)	(285)	1,651	(4,881)
<b>Operating costs</b>	<b>(6,278)</b>	<b>(4,675)</b>	<b>(119)</b>	<b>(432)</b>	<b>1,678</b>	<b>(9,826)</b>
<b>Gross operating profit (loss)</b>	<b>1,882</b>	<b>793</b>	<b>19</b>	<b>(36)</b>	<b>(49)</b>	<b>2,609</b>
Amortisation and depreciation	(1,352)	(335)	(9)	(35)	19	(1,712)
Impairment losses and accruals	(63)	(3)	(4)	6	(4)	(68)
<b>Operating profit (loss)</b>	<b>467</b>	<b>455</b>	<b>6</b>	<b>(65)</b>	<b>(34)</b>	<b>829</b>
Net financial income (expense)	(108)	(107)	2	37		(176)
Income taxes	(57)	(40)	(8)	145	(100)	(60)
Loss from assets held for sale, net of taxes	(9)					(9)
<b>Segment profit (loss) (attributable to the owners of the parent and non-controlling interests)</b>	<b>293</b>	<b>308</b>		<b>117</b>	<b>(134)</b>	<b>584</b>

millions of Euros						
31.12.2019	Transport	Infra- structure	Real Estate Services	Other Services	Adjust- ments and inter- segment eliminations	FS Italiane group
<b>Net invested capital</b>	<b>11,195</b>	<b>37,292</b>	<b>1,425</b>	<b>548</b>	<b>(483)</b>	<b>49,977</b>

millions of Euros

2018	Transport	Infra-structure	Real Estate Services	Other Services	Adjustments and inter-segment eliminations	FS Italiane group
Revenue from third parties	7,649	4,036	87	6	5	11,783
Inter-segment revenue	293	1,338	53	255	(1,650)	289
<b>Revenue</b>	<b>7,942</b>	<b>5,374</b>	<b>140</b>	<b>261</b>	<b>(1,645)</b>	<b>12,072</b>
Personnel expense	(2,611)	(2,113)	(4)	(152)	27	(4,853)
Other costs, net	(3,652)	(2,444)	(121)	(133)	1,607	(4,743)
<b>Operating costs</b>	<b>(6,263)</b>	<b>(4,557)</b>	<b>(125)</b>	<b>(285)</b>	<b>1,634</b>	<b>(9,596)</b>
<b>Gross operating profit (loss)</b>	<b>1,679</b>	<b>817</b>	<b>15</b>	<b>(24)</b>	<b>(11)</b>	<b>2,476</b>
Amortisation and depreciation	(1,228)	(314)	(10)	(19)		(1,571)
Impairment losses and accruals	(115)	(48)	(11)	(19)	2	(191)
<b>Operating profit (loss)</b>	<b>336</b>	<b>455</b>	<b>(6)</b>	<b>(62)</b>	<b>(9)</b>	<b>714</b>
Net financial income (expense)	(91)	(31)	2	(101)	124	(97)
Income taxes	(55)	(25)	1	112	(91)	(58)
<b>Segment profit (loss) (attributable to the owners of the parent and non-controlling interests)</b>	<b>190</b>	<b>399</b>	<b>(3)</b>	<b>(51)</b>	<b>24</b>	<b>559</b>

millions of Euros

31.12.2018	Transport	Infra-structure	Real Estate Services	Other Services	Adjustments and inter-segment eliminations	FS Italiane group
<b>Net invested capital</b>	<b>10,213</b>	<b>36,884</b>	<b>1,458</b>	<b>231</b>	<b>(368)</b>	<b>48,418</b>

Reference should be made to the directors' report for information on the performance of the individual segments.



## 55. Events after the reporting date

### January

#### **Italferr wins the contract for Ethiopia's Transport Master Plan**

On 10 January 2020, following an international call for tenders that saw the world's leading railway engineering companies competing against each other, Italferr S.p.A. and SPT were awarded the contract for the National Transport Master Plan with the Ethiopian Road Authority, as customer. Commissioned by the Ethiopian Transport Ministry, this is the country's first project to receive funding from the African Development Bank.

The aims of the project are to define the transport policy, establish the priority projects in the various sectors (rail, road, air and waterway) and improve the knowledge of the Ethiopian Transport Ministry's personnel by transferring know-how in specific workshops.

The activities will begin in February 2020 and continue for 12 months, in which Italferr will analyse a railway network of 10,000 km, a road network of 60,000 km and projects in the air and waterway transport sectors (lake and river ports).

The project will involve many different stakeholders, including the main ministries, government agencies, transport users and other Ethiopian institutions.

Italferr S.p.A. has already prepared master plans for various other countries, giving it invaluable experience to strengthen its presence in Africa, where investments of €10 billion are forecast for the transport sector.

### February

#### **Lodi railway accident**

On 6 February 2020, there was a railway accident in Livraga (Lodi) involving Frecciarossa train no. 9595 - operating the commercial service on the section between Milan and Salerno - which caused the death of the two train drivers and injured many passengers. Reference should be made to "Other information" in the directors' report for details.

#### **COVID-19 outbreak**

After the end of the year, the outbreak of a novel coronavirus, COVID-19, was widely reported in January 2020. The epidemic rapidly spread to many other countries around the world, leading the World Health Organisation to define it a "pandemic".

Italy is currently one of the countries hardest hit and this has put extreme pressure on the country's healthcare system, with the government authorities consequently issuing a series of measures to contain the risk of further infection spreading throughout the population.

The COVID-19 emergency is already affecting the regular, ordinary performance of group activities, despite the mitigation actions that the various group companies impacted have already taken or are taking for the primary purpose of ensuring production continuity while protecting their workers' health and safety.

As COVID-19 (the "coronavirus") spread in Italy in the first few months of 2020, the transport market recorded significant overall drops in passenger volumes.

During the initial stage of the emergency, as it waited to see how the situation would evolve, the group maintained its commercial offer to ensure normal mobility services for passengers and freight. Then, as a genuine emergency arose in our country, the situation in the transport sector became critical. While the drop in volumes has initially been the result of plummeting demand in the tourism and business travel segments, the Italian government approved crucial, urgent measures that deeply affected the mobility of Italian citizens, creating a situation in which practically all passenger and freight transport sectors experienced massive drops in traffic volumes, often the consequence of specific government

restrictions, including local restrictions. The sharp decline in demand for railway services also had significant consequences on decisions regarding traffic management as part of the current operation of the infrastructure.

The group is conducting a broad and extensive analysis of the effectiveness and efficiency of reorganising passenger and freight transport in response to that described above, with selective projects and the temporary, targeted suspension of its operations in certain units at operating and maintenance sites where it is impossible for workers to work remotely.

In order to ensure that this situation does not alter the group's current, confirmed medium- and long-term prospects of a strong performance, management is constantly monitoring developments in the emergency, the duration of which cannot currently be foreseen. As soon as it is possible to move forward from this phase of uncertainty, in which no predictions are reliable, and accurately quantify the fall-out of COVID-19 and, at the same time, identify, with equal accuracy, the potential targeted actions to spur recovery, including on the basis of exceptional measures taken by the Italian and European institutions deeply focused on preparing aid packages for production companies and businesses.

## **March**

### **Tuscany tender**

Given the complex developments in the regional tendering process for the assignment of LPT services for the Tuscany region, at the end of December 2019, the Tuscany regional authorities passed emergency measures pursuant to article 5.5 of Regulation (EC) no. 1370/2007, issuing a monthly compliance order for January 2020, requiring the correct performance of LPT services. Compliance orders were subsequently received for February, March and April 2020 as well.

With ruling no. 344 of 19 March 2020, the Tuscany regional administrative court denied MOBIT's appeal. A brief is currently being prepared for an appeal before the Council of State against the ruling, which will include a motion for a precautionary injunction.

With respect to the schedule of preliminary activities to prepare for the new contract assignee to take over operations, considering the emergency caused by the COVID-19 outbreak and the consequent government measures, with the note of 19 March 2020, the Tuscany regional authorities postponed the deeds for the transfer of essential assets to 16 April 2020. In this respect, the disclosures required by IFRS 5 for the assets included in the transfer are given below.

Tuscany regional law no. 42/1998 and invitation to tender require the new operator to acquire, from the outgoing operator, plant and other assets that are essential for the performance of the service, such as rolling stock, transport vehicles, infrastructure, depots, workshops and plant at stops. Furthermore, they require the new operator to acquire, from previous operators, all LPT personnel indicated in the "List of workers (for bid)" document in the data room, as from the date when the service contract is signed.

In exchange for this transfer, the new operator is required to pay a price equal to the market value of the assets indicated in the tender documentation.

With respect to that described above, all captions recognised in the statement of financial position, including those not transferred, were measured in accordance with IFRS and, specifically, their carrying amounts do not exceed their recoverable amounts considering all impairment assessments.

### **Memorandum of understanding between Anas, the City of Turin and FCT Holding S.p.A.**

On 26 March 2020, the CEO of Anas signed a protocol of understanding with representatives of FCT Holding S.r.l. and the City of Turin (CMT) to implement the Council of State rulings nos. 7392 and 7393/2019 establishing the means of implementing rulings. The protocol of understanding was reached in a context of active collaboration between institutions

and without the parties waiving their respective rights, in order to agree on the terms and methods for the implementation of these rulings, and with a view to preferably settling all matters connected to the terms and conditions out-of-court. In short, according to this memorandum of understanding, FCT and the CMT, as from the approval date of SITAF S.p.A.'s 2019 financial statements, may have ANAS transfer the shares in exchange for payment of the originally paid price but, until the deed for the transfer of share certificates is signed, ANAS shall retain the right to exercise all rights arising from its equity investments in FCT and CMT.

# Annexes

## Consolidation scope and the group's equity investments

### 1. PARENT AND LIST OF SUBSIDIARIES

**Parent**

	Registered office	Main office	Share/quota capital	Investor	% of voting rights	% of equity ratio	Consolidation method
Ferrovie dello Stato Italiane S.p.A.	Rome	Italy	39,204,173,802				

**Operating segment: Transport**

	Registered office	Main office	Share/quota capital	Investor	% of voting rights	% of equity ratio	Consolidation method
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**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
Busitalia - Sita Nord S.r.l.	Rome	Italy	73,000,000	FS Italiane S.p.A.	100.00	100.00	Line-by-line
Busitalia Campania S.p.A.	Salerno	Italy	5,900,000	Busitalia - Sita Nord S.r.l.	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
Ferrovie del Sud Est e Servizi Automobilistici S.r.l.	Bari	Italy	4,682,830	FS Italiane S.p.A.	100.00	100.00	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
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 Intermodal S.p.A. (formerly CEMAT S.p.A.)	Milan	Italy	7,000,000	Mercitalia Logistics S.p.A. Non-controlling interests	53.28 46.72	53.28	Line-by-line
Mercitalia Logistics S.p.A. (formerly FS Logistica S.p.A.)	Rome	Italy	184,611,372	FS Italiane S.p.A.	100.00	100.00	Line-by-line
Mercitalia Rail S.r.l. (formerly FS Telco S.r.l.)	Rome	Italy	87,345,163	Mercitalia Logistics S.p.A.	100.00	100.00	Line-by-line
Mercitalia Shunting & Terminal S.r.l. (formerly Serfer S.r.l.)	Genoa	Italy	5,000,000	Mercitalia Logistics 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.	100.00	100.00	Line-by-line
Terminal Alptransit S.r.l.	Milan	Italy	15,000,000	Mercitalia Logistics S.p.A. Non-controlling interests	58.00 42.00	58.00	Line-by-line
Trenitalia S.p.A.	Rome	Italy	1,607,137,500	FS Italiane S.p.A.	100.00	100.00	Line-by-line

	Registered office	Main office	Share/quota capital	Investor	% of voting rights	% of equity ratio	Consolidation method
<b>Abroad</b>							
Autobus Sippel GmbH	Hofheim am Taunus (Germany)	Germany	50,000	Netinera Deutschland GmbH	100.00	51.00	Line-by-line
Die Länderbahn GmbH DLB (formerly Vogtlandbahn-GmbH)	Viechtach (Germany)	Germany	1,022,584	Regentalbahn 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
Metronom Eisenbahngesellschaft mbH	Uelzen (Germany)	Germany	500,000	NiedersachsenBahn GmbH & Co. KG	73.58	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	Viechtach (Germany)	Germany	1,025,000	Trenitalia 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
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
Qbuzz BV	Amersfoort (The Netherlands)	The Netherlands	400,000	Busitalia - Sita Nord S.r.l.	100.00	100.00	Line-by-line
Qbuzz Groningen-Utrecht BV	Amersfoort (The Netherlands)	The Netherlands	18,000	Qbuzz BV	100.00	100.00	Line-by-line
Qbuzz Mobility Service BV	Utrecht (The Netherlands)	The Netherlands	18,000	Busitalia - Sita Nord S.r.l.	100.00	100.00	Line-by-line
Qbuzz Multimodaal BV	Amersfoort (The Netherlands)	The Netherlands	100	Qbuzz BV	100.00	100.00	Line-by-line
Qbuzz Taxi BV	Amersfoort (The Netherlands)	The Netherlands	100	Qbuzz BV	100.00	100.00	Line-by-line
Regentalbahn GmbH	Viechtach (Germany)	Germany	2,444,152	Netinera Deutschland GmbH	100.00	51.00	Line-by-line
Rom Rail S.r.l.	Bucharest (Romania)	Romania	372,000	Mercitalia Rail S.r.l. Non-controlling interests	93.00 7.00	93.00	Line-by-line
Sei Mobil Verkehrsgesellschaft mbH (formerly Lausitzer Nahverkehrsgesellschaft mbH)	Sendenhorst (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	Berlin (Germany)	Germany	1,022,584	Netinera Deutschland GmbH	100.00	51.00	Line-by-line
Thello SAS	Paris (France)	France	10,500,000	Trenitalia S.p.A.	100.00	100.00	Line-by-line
TrainOSE SA	Athens (Greece)	Athens	34,406,509	Trenitalia S.p.A.	100.00	100.00	Line-by-line
Trenitalia c2c Limited	London (United Kingdom)	United Kingdom	100,000 (1)	Trenitalia UK Limited	100.00	100.00	Line-by-line
Trenitalia UK Limited	London (United Kingdom)	United Kingdom	13,000,100 (1)	Trenitalia S.p.A.	100.00	100.00	Line-by-line
TX Logistik AG	Troisdorf (Germany)	Germany	286,070	Mercitalia Logistics 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
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 GmbH	100.00	51.00	Line-by-line

(1) Figures expressed in local currency

**Operating segment: Infrastructure**

	Registered office	Main office	Share/quota capital	Investor	% of voting rights	% of equity ratio	Consolidation method
<b>In Italy</b>							
Anas S.p.A.	Rome	Italy	2,269,892,000	FS Italiane S.p.A.	100.00	100.00	Line-by-line
Anas International Enterprise S.p.A.	Rome	Italy	3,000,000	Anas S.p.A.	100.00	100.00	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
Blu Jet S.r.l.	Messina	Italy	200,000	Rete Ferroviaria Italiana - RFI S.p.A.	100.00	100.00	Line-by-line
Cremonesi Workshop S.r.l.	Brescia	Italy	100,000	Italferr S.p.A. Non-controlling interests	80.00 20.00	80.00	Line-by-line
Grandi Stazioni Rail S.p.A.	Rome	Italy	4,304,201	Rete Ferroviaria Italiana - RFI 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
Musinet Engineering S.p.A.	Turin	Italy	520,000	Società Italiana Autostradale del Frejus - SITAF S.p.A.	100.00	51.09	Line-by-line
Ok-Gol S.r.l.	Susa	Italy	100,000	Società Italiana Autostradale del Frejus - SITAF S.p.A.	100.00	51.09	Line-by-line
Quadrilatero Marche-Umbria S.p.A.	Rome	Italy	50,000,000	Anas S.p.A. Non-controlling interests	92.38 7.62	92.38	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
Rete Ferroviaria Italiana - RFI S.p.A.	Rome	Italy	31,528,425,067	FS Italiane S.p.A.	100.00	100.00	Line-by-line
Sitalfa S.p.A.	Bruzolo	Italy	520,000	Società Italiana Autostradale del Frejus - SITAF S.p.A.	100.00	51.09	Line-by-line
Società Italiana Autostradale del Frejus - SITAF S.p.A.	Susa	Italy	65,016,000	Anas S.p.A. Non-controlling interests	51.09 48.91	51.09	Line-by-line
Tecnositaf S.p.A.	Turin	Italy	520,000	Società Italiana Autostradale del Frejus - SITAF S.p.A.	100.00	51.09	Line-by-line
Terminali Italia S.r.l.	Rome	Italy	7,345,686	Rete Ferroviaria Italiana - RFI S.p.A.	100.00	100.00	Line-by-line
Tunnel Ferroviario del Brennero S.p.A.	Rome	Italy - Austria	825,790,910	Rete Ferroviaria Italiana - RFI S.p.A. Non-controlling interests	88.99 11.01	88.99	Line-by-line



**Operating segment: Real estate services**

	Registered office	Main office	Share/quota capital	Investor	% of voting rights	% of equity ratio	Consolidation method
<b>In Italy</b>							
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 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

**Operating segment: Other services**

	Registered office	Main office	Share/quota capital	Investor	% of voting rights	% of equity ratio	Consolidation method
<b>In Italy</b>							
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
FS Technology S.p.A.	Rome	Italy	27,578,244	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
NUGO S.p.A.	Rome	Italy	1,000,000	FS Italiane S.p.A.	100.00	100.00	Line-by-line

## 2. LIST OF JOINT VENTURES

### Operating segment: Transport

	Registered office	Main office	Share/quota capital	Investor	% of voting rights	% of equity ratio	Consolidation method
<b>In Italy</b>							
Mercitalia Maintenance S.r.l.	Milan	Italy	6,000,000	Mercitalia Rail S.r.l. (formerly FS Telco S.r.l.)	50.00	50.00	Equity
Trenord S.r.l.	Milan	Italy	76,120,000	Non-controlling interests Trenitalia S.p.A. Non-controlling interests	50.00	50.00	Equity
<b>Abroad</b>							
Berchtesgardener Land Bahn GmbH	Freilassing (Germany)	Germany	25,000	Die Länderbahn GmbH DLB	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	1,099,300	Verkehrsbetriebe Osthannover GmbH	61.00	13.98	Equity
KVG Stade GmbH & Co. KG	Stade (Germany)	Germany	4,600,000	Non-controlling interests Verkehrsbetriebe Osthannover GmbH	39.00	13.75	Equity
KVG Stade Verwaltungs GmbH	Stade (Germany)	Germany	25,000	Verkehrsbetriebe Osthannover GmbH	60.00	13.75	Equity
ODEG Ostdeutsche Eisenbahngesellschaft mbH	Parchim (Germany)	Germany	500,000	Non-controlling interests Prignitzer Eisenbahngesellschaft mbH	40.00	25.50	Equity
ODIG Ostdeutsche Instandhaltungsgesellschaft mbH	Eberswalde (Germany)	Germany	250,000	ODEG Ostdeutsche Eisenbahngesellschaft mbH	50.00	25.50	Equity
Verkehrsbetriebe Osthannover GmbH	Celle (Germany)	Germany	600,000	Non-controlling interests Osthannoversche Eisenbahnen AG	100.00	22.92	Equity

(1) Figures expressed in local currency

## Operating segment: Infrastructure

	Registered office	Main office	Share/quota capital	Investor	% of voting rights	% of equity ratio	Consolidation method
<b>Abroad</b>							
Italferr+Altinok partnership	Istanbul	Turkey	1,000 (1)	Italferr S.p.A. Altinok Müşavir Mühendislik Taahhüt San. Ve Tic. Ltd. Şti.	50.10 49.90	50.10	Equity
SWS Italferr Adi Ortakligi	Ankara	Turkey	1,000 (1)	Italfer S.p.A. Merkezi İtalya İstanbul Merkez Şubesi SWS Global Mühendislik Proje Taahhüt San. ve Tic. A.Ş. FS Italiane S.p.A. Non- controlling interests	50.00 50.00	50.00	Equity
Tunnel Euralpin Lyon Turin - TELT SaS (formerly Lyon-Turin Ferroviarie - LTF Sas)	Le Bourget du Lac (France)	Italy - France	1,000,000		50.00 50.00	50.00	Equity

(1) Figures expressed in local currency

## 3. LIST OF ASSOCIATES

### Operating segment: Transport

	Registered office	Main office	Share/quota capital	Investor	% of voting rights	% of equity ratio	Consolidation method
<b>In Italy</b>							
Alpe Adria S.p.A.	Trieste	Italy	120,000	Mercitalia Rail S.r.l. Non- controlling interests	33.33 66.67	33.33	Equity
City Boat S.r.l.	Florence	Italy	20,000	Busitalia - Sita Nord S.r.l. Non- controlling interests	25.00 75.00	25.00	Equity
Eurogateway S.r.l.	Novara	Italy	599,000	Mercitalia Intermodal S.p.A. (formerly CEMAT S.p.A.) Mercitalia Rail S.r.l. Non- controlling interests	38.95 11.58 49.47	32.33	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	Mercitalia Shunting & Terminal S.r.l. (formerly Serfer S.r.l.) Mercitalia Rail S.r.l. 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
METRO 5 S.p.A.	Milan	Italy	55,300,000	FS Italiane S.p.A. Non-controlling interests	36.7 63.3	36.70	Equity

	Registered office	Main office	Share/quota capital	Investor	% of voting rights	% of equity ratio	Consolidation method
<b>Abroad</b>							
Cesar Information Services - CIS Scrl	Brussels (Belgium)	Belgium	100,000	Mercitalia Intermodal S.p.A. (formerly 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 1.00 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 1.00 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	84,000	Verkehrsbetriebe Bils GmbH Non-controlling interests	29.67 70.33	15.13	Equity
EVG Euregio Verwaltungs- und Beteiligungs GmbH	Münster (Germany)	Germany	36,000	Verkehrsbetriebe Bils GmbH Non-controlling interests	29.67 70.33	15.13	Equity
First Trenitalia West Coast Limited	London (United Kingdom)	United Kingdom	100	Trenitalia UK Limited Non-controlling interests	30.00 70.00	30.00	Equity
Hafen Lüneburg GmbH	Lüneburg (Germany)	Germany	1,750,000	Osthannoversche Eisenbahnen AG Non-controlling interests	30.00 70.00	13.39	Equity
Logistica SA	Levallois (France)	France	37,000	Mercitalia Rail S.r.l. Non-controlling interests	50.00 50.00	50.00	Equity

**Operating segment: Infrastructure**

	Registered office	Main office	Share/quota capital	Investor	% of voting rights	% of equity ratio	Consolidation method
<b>In Italy</b>							
Autostrada Asti - Cuneo S.p.A.	Rome	Italy	200,000,000	Anas S.p.A. Non-controlling interests	35.00 65.00	35.00	Equity
Autostrade del Lazio S.p.A.	Rome	Italy	1,061,886	Anas S.p.A. Non-controlling interests	50.00 50.00	50.00	Equity
Concessioni Autostradali Lombarde - CAL S.p.A.	Milan	Italy	4,000,000	Anas S.p.A. Non-controlling interests	50.00 50.00	50.00	Equity
Concessioni Autostradali Venete - CAV S.p.A.	Venice	Italy	2,000,000	Anas S.p.A. Non-controlling interests	50.00 50.00	50.00	Equity
Consepi S.p.A.	Susa	Italy	3,376,515	SITAF S.p.A. Ok-Gol S.r.l. Non-controlling interests	49.13 0.03 50.87	25.11	Equity
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	44.10	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
Società Italiana per il Traforo del Monte Bianco S.p.A.	Prè Saint Didier (AO)	Italy	198,749,200	Anas S.p.A. Non-controlling interests	32.12 67.88	32.12	Equity
Terminal Tremestieri S.r.l.	Messina	Italy	900,000	Blufferies S.r.l. Non-controlling interests	33.33 66.67	33.33	Equity
Transenergia S.r.l.	Turin	Italy	1,022,661	Società Italiana Autostradale del Frejus - SITAF S.p.A. Non-controlling interests	50.00 50.00	25.55	Equity
<b>Abroad</b>							
Tecnositaf Gulf Integrated System WLL	Doha (Qatar)	Qatar	200,000 (1)	Tecnositaf S.p.A. Non-controlling interests	49.00 51.00	25.03	Equity

(1) Figures expressed in local currency

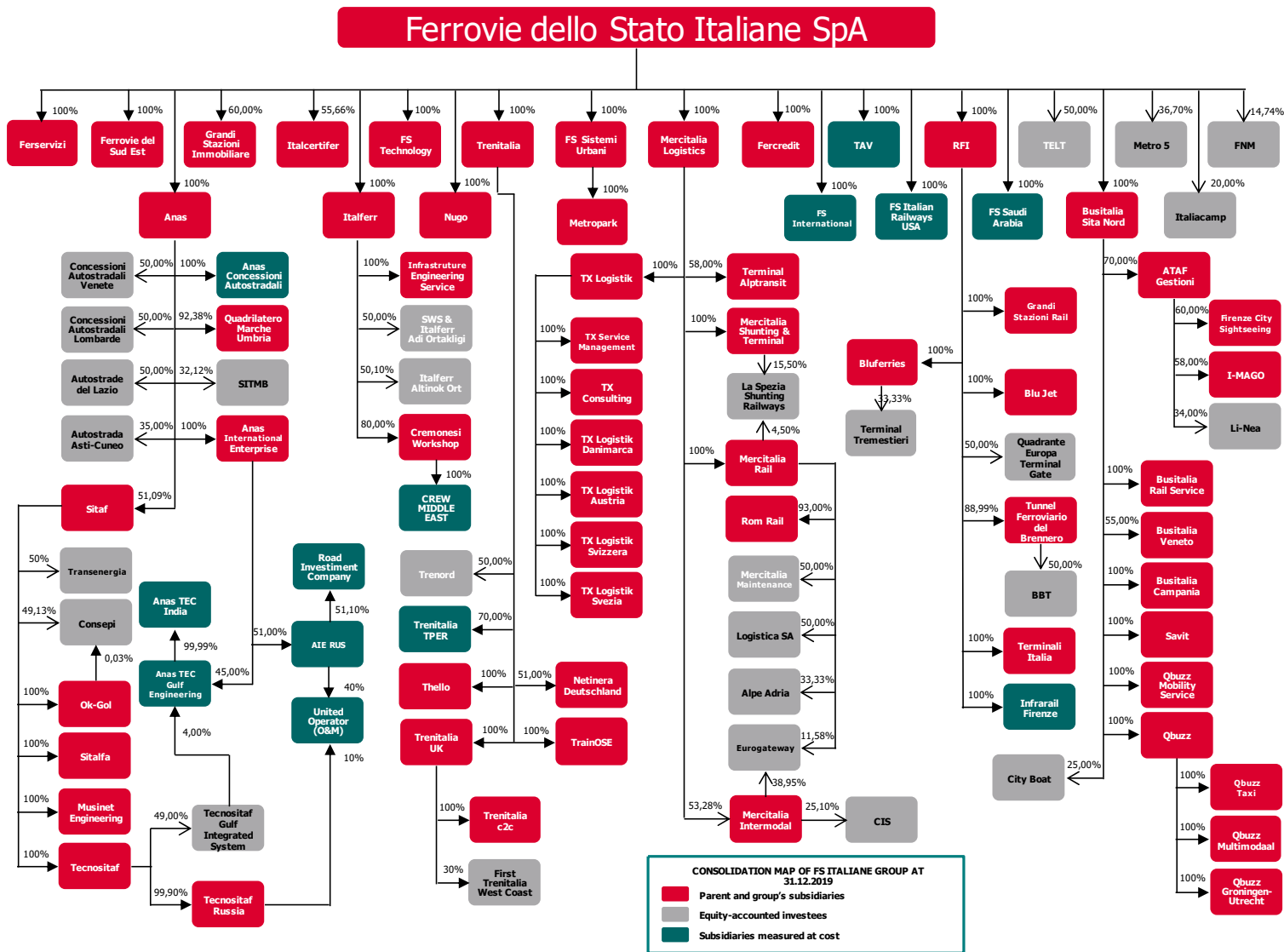
#### 4. LIST OF OTHER UNCONSOLIDATED EQUITY INVESTMENTS

	Registered office	Share/quota capital	Investor	% of voting rights
<b>In Italy</b>				
Anas Concessioni Autostradali S.p.A.	Rome	1,000,000	Anas S.p.A.	100.00
Autostrada del Molise S.p.A. in liquidation	Campobasso	3,000,000	Anas S.p.A. Non-controlling interests	50.00 50.00
FS International S.p.A.	Rome	1,000,000	FS Italiane S.p.A.	100.00
Infrarail Firenze S.r.l.	Florence	200,000	RFI S.p.A.	100.00
Nord Est Terminal - NET S.p.A. in liquidation	Padua	200,000	RFI S.p.A. Non-controlling interests	51.00 49.00
Servizi Ferroviari Portuali – Ferport Genova S.r.l. in liquidation	Genoa	712,000	Mercitalia Shunting & Terminal S.r.l. (formerly Serfer S.r.l.) Non-controlling interests	51.00 49.00
Sita S.p.A. in liquidation	Rome	200,000	FS Italiane S.p.A. Non-controlling interests	55.00 45.00
Stretto di Messina S.p.A. in liquidation	Rome	383,179,794	Anas S.p.A. Rete Ferroviaria Italiana - RFI S.p.A. Non-controlling interests	81.84 13.00 5.16
TAV S.r.l.	Rome	50,000	FS Italiane S.p.A.	100.00
Trenitalia TPER Scarl	Bologna	1,000,000	Trenitalia S.p.A. Non-controlling interests	70.00 30.00

	Registered office	Share capital	Investor	% of voting rights
<b>Abroad</b>				
Anas International Enterprise RUS LLC	Moscow (Russia)	63,000 (1)	Anas International Enterprise S.p. Non-controlling interests	51.00 49.00
Anas Tec Gulf Engineering LLC	Doha (Qatar)	50,000 (1)	Anas International Enterprise S.p. Tecnositaf Gulf Integrated System WLL Non-controlling interests	45.00 4.00 51.00
Anas Tec India Private Limited	Vijaywada, Krishna, State of Andhra Pradesh (India)	235,282,002 (1)	Anas Tec Gulf Engineering LLC	99.99
Cisalpino SA in liquidation	Berne (Switzerland)	100,750(1)	Trenitalia S.p.A. Non-controlling interests	50.00 50.00
Crew Middle East DMCC	Dubai (United Arab Emirates)	25,220	Cremonesi Workshop S.r.l.	100.00
FS Italian Railways USA Inc	San Francisco (California)	100,000(1)	FS Italiane S.p.A.	100.00
FSI Saudi Arabia for Land Transport LLC	Riyadh (Saudi Arabia)	500,000(1)	FS Italiane S.p.A.	100.00
Road Investment Company (RIC) LLC	Moscow (Russia)	500,000 (1)	Anas International Enterprise RUS LLC Non-controlling interests	51.10 48.90
United Operator (O&M)	Moscow (Russia)	10,000 (1)	Anas International Enterprise RUS LLC Tecnositaf Russia LLC Non-controlling interests	40.00 10.00 50.00

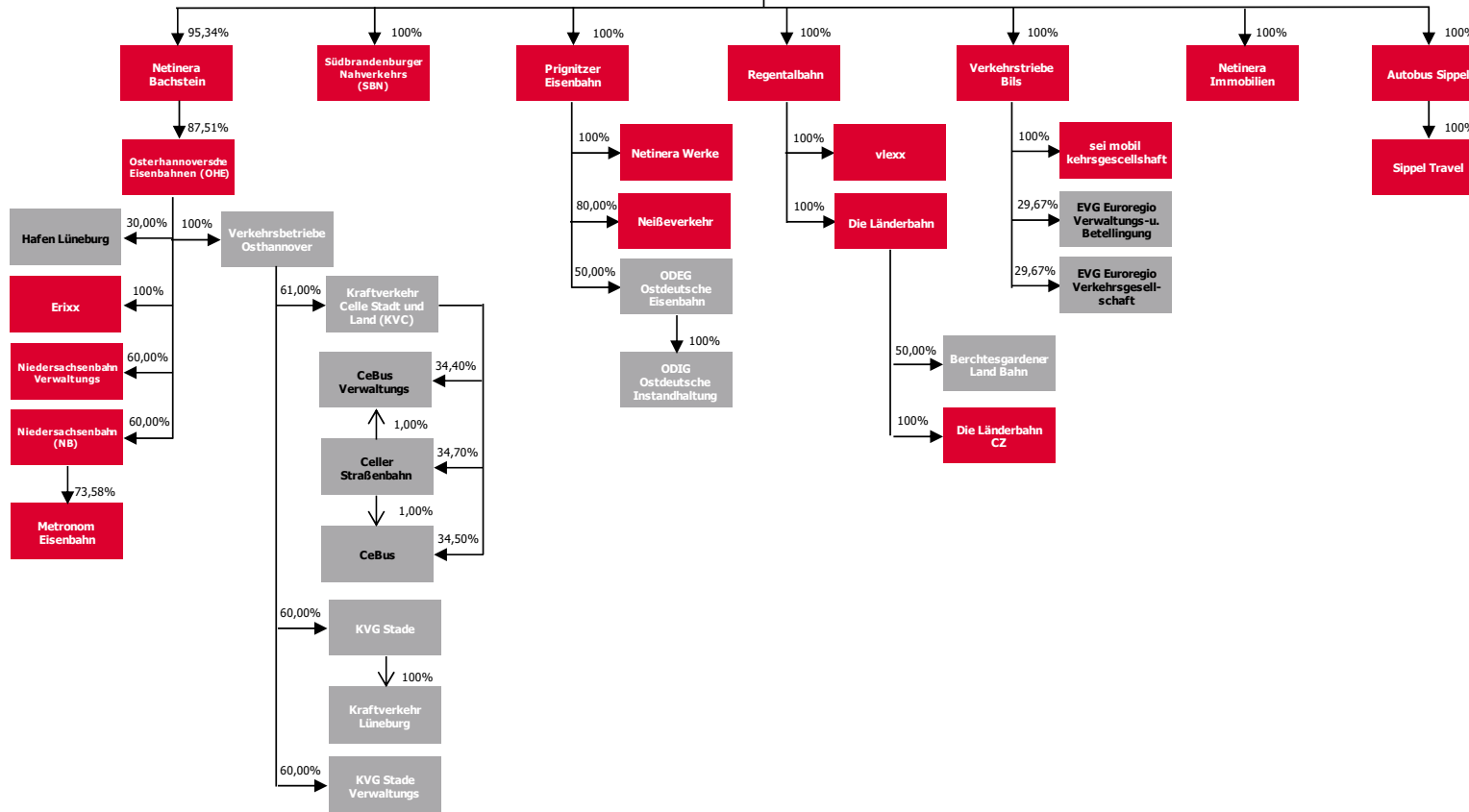
(1) Figures expressed in local currency

5. CONSOLIDATION MAP OF THE FERROVIE DELLO STATO ITALIANE GROUP





# Netinera Deutschland GmbH



**CONSOLIDATION MAP OF NETINERA GROUP AT 31.12.2019**  
■ Parent and group's subsidiaries  
■ Equity-accounted investees

## 6. DISCLOSURE PURSUANT TO LAW NO. 124/2017

### FERROVIE DELLO STATO ITALIANE

<b>Beneficiary</b>		<b>Amount in €</b>
Ministry of the Economy and Finance (in favour of TELT)	Chapter 7122	79,757,976

### FERSERVIZI

<b>Provider</b>		<b>Amount in €</b>
Fondimpresa	Financing for training	36,013

### TRENITALIA

<b>Provider</b>		<b>Amount in €</b>
European Union	Chariot research project	70,625
European Union	5G-Eve project	13,965
European Union	ST4RT Project	58,272
Fondo Impresa	Grants for training	1,033,803

### RETE FERROVIARIA ITALIANA

<b>Provider</b>		<b>Amount in €</b>
Local bodies	Grants related to assets	
MEF	Grants related to assets	3,152,115,968
MIT	Grants related to assets	402,899,547
EU	Grants related to assets	149,935,729
EU – local bodies	Grants related to assets	330,043,805
Other	Grants related to assets	54,560,057
MEF	Grant related to income	1,015,556,791
CSEA	Grants	335,429,597
Ministry of Infrastructure and Transport – Chapter 1274 Incentive for freight transport	Grants	99,905,000
Fondimpresa	Aid for training (art. 31)	1,395,048

### GRANDI STAZIONI RAIL

<b>Provider</b>		<b>Amount in €</b>
MIT	Grandi Stazioni programme	18,973,676

### ITALFERR

<b>Provider</b>		<b>Amount in €</b>
Fondimpresa/Fondirigenti	Financing for training	21,000

### METROPARK

<b>Provider</b>		<b>Amount in €</b>
Municipality of Albano	Lease of spaces	25,000
Municipality of Certaldo	Lease of spaces	20,000
Roma Servizi Mobilità	Lease of spaces	60,000
Municipality of Legnano	Lease of spaces	17,000

Municipality of Abbiategrasso	Lease of spaces	15,000
Poste Italiane	Lease of spaces	28,000
Municipality of Aversa	Lease of spaces	12,000

#### MERCITALIA LOGISTICS

<b>Provider</b>		<b>Amount in €</b>
Electricity Services Operator (GSE)	Photovoltaic grants	255,965
MIT	Incentives to promote intermodality (Ferrobonus)	1,287,063
MIT	Freight grants	1,299,588
Lugo Terminal S.p.A.	Transfer of incentives to promote intermodality (Ferrobonus)	19,402
CFI Intermodal S.r.l.	Transfer of incentives to promote intermodality (Ferrobonus)	2,290
Mercitalia Intermodal S.p.A.	Transfer of incentives to promote intermodality (Ferrobonus)	342

#### MERCITALIA SHUNTING & TERMINAL

<b>Provider</b>		<b>Amount in €</b>
RFI	Grant pursuant to Law no. 190/2014	9,907
MIT	Grants related to assets	13,016

#### MERCITALIA RAIL

<b>Provider</b>		<b>Amount in €</b>
MIT	Grants related to income - road vehicles	210,373
MIT	Grants for training train drivers	323,774
MIT	Grant related to income - freight	54,597,656

#### MERCITALIA INTERMODAL

<b>Provider</b>		<b>Amount in €</b>
Autonomous province of Bolzano	Freight grants	830,881
MIT	Freight grants	3,399,376
MIT	Incentives to promote intermodality (Ferrobonus)	7,182,204
Lombardy region	Freight grants	58,885

#### BUSITALIA CAMPANIA

<b>Provider</b>		<b>Amount in €</b>
Ministry of Labour	2019 contribution for illness costs	62,531
Campania region	Investment grants for the purchase of 10 buses	1,281,000

#### BUSITALIA VENETO

<b>Provider</b>		<b>Amount in €</b>
Cassa Depositi e Prestiti	Grants related to income	16,526
Cassa Depositi e Prestiti	Grants related to income	8,194
Ministry of Labour	Grants related to income	181,413

Ministry of Labour	Grants related to income	30,000
Municipality of Padua	Grants related to income	100,000
Municipality of Padua	Grants related to assets	155,000
Municipality of Padua	Grants related to assets	62,189
Municipality of Padua	Grants related to assets	775,000
Municipality of Padua	Grants related to assets	224,452
Province di Padua	Grants related to assets	2,060,207

#### ATAF GESTIONI

<b>Provider</b>		<b>Amount in €</b>
Ministry of Labour	Grants pursuant to 2019 CCNL (national labour agreement) - first advance payment	2,389,777
Ministry of Labour	Grants pursuant to 2019 CCNL (national labour agreement) - second advance payment	1,433,866
Ministry of Labour	Grants pursuant to 2018 CCNL (national labour agreement) - final balance	706,987
Ministry of Labour	Recovery of 2013 illness costs	631,225
Ministry of Labour	Grants pursuant to 2019 CCNL (national labour agreement)	5,090,033
Ministry of Labour	2019 illness costs	60,306
Ministry of Labour	Recovery of 2013 illness costs	315,612

#### BUSITALIA SITA NORD

<b>Provider</b>		<b>Amount in €</b>
Ministry of Labour (Tuscany region)	Grants pursuant to 2019 CCNL (national labour agreement) - first advance payment	1,495,448
Ministry of Labour (Tuscany region)	Grants pursuant to 2019 CCNL (national labour agreement) - second advance payment	897,269
Ministry of Labour (Tuscany region)	Grants pursuant to 2018 CCNL (national labour agreement) - final balance	1,009,505
Ministry of Labour (Tuscany region)	Recovery of 2013 illness costs - F24	326,465
Ministry of Labour (Umbria region)	Grants pursuant to 2019 CCNL (national labour agreement) - advance payment	527,581
Ministry of Labour (Umbria region)	Grants pursuant to 2018 CCNL (national labour agreement) - final balance	1,686,985
Ministry of Labour	Grants pursuant to 2019 CCNL (national labour agreement)	9,470,515
Ministry of Labour	2019 illness costs	72,654
Ministry of Labour	Grants pursuant to CCNL (national labour agreement) - prior year adjustments	(51)

#### FERROVIE DEL SUD EST

<b>Provider</b>		<b>Amount in €</b>
MIT	Automation of level crossings in Bari area	362,845

MIT	Noise dampening barriers on the Bari / Taranto line	313,279
MIT	Noise blocking barriers on the Bari area line	499,697
MIT	Financing as per Law no. 488/99	161,225
MIT	Works on safety and signalling system 4 in the Bari and Taranto area	1,385,700
Puglia region	Purchase of 68 buses	8,999,125
Puglia region	Technological upgrades to level crossings	1,908,591
Puglia region	Automation of 26 level crossings	4,866,906
Puglia region	Works to build an on-board sub-system - baseline 3 TSCS	8,967,400
Puglia region	Works to build a TSCS encoder land sub-system (Bari loop)	199,500
Puglia region	Five electric trains + 5	14,518,250

#### FS TECHNOLOGY

<b>Provider</b>		<b>Amount in €</b>
European Union – Union des Industries Ferroviaries Europeennes	GOF4R project	74,457

#### QUADRILATERO MARCHE UMBRIA

<b>Provider</b>		<b>Amount in €</b>
Cassa Depositi e Prestiti Marche region	Grants pursuant to CIPE 13/04 Financing for Pedemontana Marche master agreement	13,794,199
Umbria region	SS3 Flaminia Pontecentesimo-Foligno	131,532
Marche chamber of commerce, industry, the trades and agriculture Anas S.p.A.	Grants related to assets MIT-Anas 2016-2020 Government Programme Contract	573,517
		3,447,150

**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 2019 pursuant to article 154-bis, paragraph 5, of Legislative decree no. 58/1998**

1. The undersigned Gianfranco Battisti and Roberto Mannozi, 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 2019.

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:

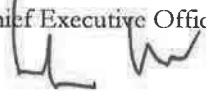
3.1. The consolidated financial statements:

- 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.

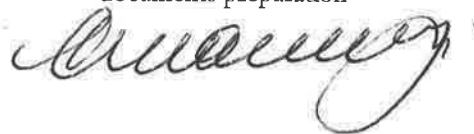
3.2. The directors' report provides a reliable analysis of the financial position, performance and results of operations of Ferrovie dello Stato Italiane SpA and the consolidated companies as a whole, together with a description of the main risks and uncertainties to which they are exposed.

31 marzo 2020

Gianfranco Battisti  
Chief Executive Officer



Roberto Mannozi  
Manager in charge of the company's accounting documents preparation



Piazza della Croce Rossa, 1 - 00161 Roma

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

## Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

*To the sole shareholder of  
Ferrovie dello Stato Italiane S.p.A.*

### Report on the audit of the consolidated financial statements

#### **Opinion**

We have audited the consolidated financial statements of the Ferrovie dello Stato Italiane Group (the "group"), which comprise the statement of financial position as at 31 December 2019, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Ferrovie dello Stato Italiane Group as at 31 December 2019 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 and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the consolidated financial statements" section of our report. We are independent of Ferrovie dello Stato Italiane S.p.A. (the "parent") in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Emphasis of matter**

We draw attention to the “Events after the reporting date” section of the notes to the consolidated financial statements, where the directors disclosed the uncertainties arising from the potential effects of the COVID-19 outbreak.

We did not qualify our opinion in these respects.

### **Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### **Calculation of depreciation of railway infrastructure and rolling stock**

*Notes to the consolidated financial statements: section on accounting policies– paragraphs “RFI S.p.A.’s calculation of depreciation of property, plant and equipment”, “Trenitalia S.p.A.’s calculation of rolling stock depreciation” and “Use of estimates and valuations”, note 10 “Property, plant and equipment”, note 11 “Investment property” and note 12 “Intangible assets”*

<b>Key audit matter</b>	<b>Audit procedures addressing the key audit matter</b>
<p>The consolidated financial statements at 31 December 2019 include assets relating to railway infrastructure and rolling stock under property, plant and equipment, investment property and intangible assets.</p> <p>Calculating the depreciation of these assets entails a complex accounting estimate that is, by its nature, subjective, as it is influenced by a number of factors, including:</p> <ul style="list-style-type: none"> <li>— the estimated production volumes expressed as train-km for the railway infrastructure;</li> <li>— the identification of each component of rolling stock with a significant cost in proportion to the total cost of the item to be depreciated separately (component approach) and the estimated useful life;</li> <li>— the estimated residual value;</li> <li>— the impacts of any changes to the regulatory framework.</li> </ul> <p>Calculating depreciation, therefore, requires a significant level of judgement by directors. For the above reasons and due to the materiality of the relevant captions, we believe that the calculation of depreciation of railway infrastructure and rolling stock is a key audit matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>— analysing the process for the calculation depreciation of railway infrastructure and rolling stock and the related IT environment and assessing the design and implementation of controls and procedures to assess the operating effectiveness of material controls;</li> <li>— analysing the reasonableness of estimates of total production volumes expressed as train-km;</li> <li>— analysing the reasonableness of the criteria used to identify the components of rolling stock;</li> <li>— analysing historical figures to check the directors’ ability to make reliable estimates of production volumes expressed as train-km based on any discrepancies between forecast and actual figures;</li> <li>— analysing the reasonableness of the estimates made by the internal departments involved in the calculation of the residual value;</li> <li>— assessing the appropriateness of the disclosures provided in the notes about the depreciation of railway infrastructure and rolling stock.</li> </ul>



### **Recoverability of Anas S.p.A.'s concession assets**

*Notes to the consolidated: section on accounting policies – paragraphs “Impairment losses on intangible assets and property, plant and machinery” and “Use of estimates and judgements” and note 12 “Intangible assets”*

<b>Key audit matter</b>	<b>Audit procedures addressing the key audit matter</b>
<p>The consolidated financial statements at 31 December 2019 include concession assets of €1,469 million under intangible assets, €1,292 million of which relating to the subsidiary Anas S.p.A..</p> <p>As part of the application for an extension of up to 50 years of the concession agreement between Anas S.p.A. and the Ministry of Infrastructure and Transport (MIT), the subsidiary's directors tested the CGU comprising the concession assets for impairment, by comparing its carrying amount at 31 December 2019 to its recoverable amount. The latter is based on value in use and has been calculated by discounting the expected cash flows using the discounted cash flow model.</p> <p>Impairment testing requires a high level of judgement by the directors, especially in relation to:</p> <ul style="list-style-type: none"> <li>— the expected cash flows, calculated by taking into account the general economic performance and that of the group's sector and the actual cash flows generated by the CGU in recent years;</li> <li>— the financial parameters to be used to discount the above cash flows.</li> </ul> <p>For the above reasons, we believe that the recoverability of Anas S.p.A.'s concession assets is a key audit matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>— understanding the impairment testing procedure;</li> <li>— understanding the process used to estimate expected cash flows (the “plan”);</li> <li>— analysing the criteria used to identify the CGU;</li> <li>— comparing the cash flows used for impairment testing to the cash flows forecast in the plan and analysing any discrepancies;</li> <li>— analysing the reasonableness of the key assumptions used by the directors to prepare the plan;</li> <li>— analysing the most significant discrepancies between past years' estimates and actual figures, in order to check the accuracy of the estimation process;</li> <li>— involving experts of the KPMG network in the assessment of the reasonableness of the impairment testing model and related assumptions, including by means of a comparison with external data and information;</li> <li>— assessing the appropriateness of the disclosures provided in the notes about the recoverability of the concession assets.</li> </ul>

**Provisions for risks and charges - claims from suppliers for additional consideration**

*Notes to the consolidated financial statements: section on accounting policies – paragraphs “Provisions for risks and charges” and “Use of estimates and judgements” and note 26 “Provisions for risks and charges”*

Key audit matter	Audit procedures addressing the key audit matter
<p>The Ferrovie dello Stato Italiane Group's business is exposed to claims from suppliers for additional consideration.</p> <p>The consolidated financial statements at 31 December 2019 include accruals to other provisions for these claims under “Provisions for risks and charges”.</p> <p>Measuring provisions for risks and charges entails directors' estimates about the outcome of claims which are complex and of an uncertain nature and required a high level of judgement by directors.</p> <p>For the above reasons and due to the materiality of the relevant captions, we believe that the measurement of the provisions for risks and charges relating to claims from suppliers for additional consideration is a key audit matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>— understanding the process for the measurement of the provisions for risks and charges relating to claims from suppliers for additional consideration and assessing the design and implementation of controls and procedures to assess the operating effectiveness of material controls;</li> <li>— analysing the discrepancies between past years' estimates of the provisions for risks and charges relating to claims from suppliers for additional consideration and actual figures resulting from their subsequent settlement, in order to check the accuracy of the estimation process;</li> <li>— sending written requests for information to the legal advisors assisting the group about the assessment of the risk of losing pending claims from suppliers for additional consideration and the quantification of the related liability;</li> <li>— for the main claims from suppliers for additional consideration, analysing the assumptions used to calculate the provisions for risks and charges through discussions with the relevant internal departments and analysis of the supporting documentation;</li> <li>— discussing assumptions or scenarios alternative to those used to calculate the provisions for risks and charges relating to claims from suppliers for additional consideration and the reasons for their rejection with the relevant internal departments;</li> <li>— analysing the events after the reporting date that provide information useful for an assessment of the provisions for risks and charges relating to claims from suppliers for additional consideration;</li> <li>— assessing the appropriateness of the disclosures provided in the notes about the provisions for risks and charges.</li> </ul>

**Initial application of the new standard IFRS 16 Leases**

*Notes to the consolidated financial statements: section on the accounting policies – paragraphs “Leased assets” and “Use of estimates and judgements”, Note 7 “Effect of Initial application of IFRS 16 Leases” and note 10 “Property, plant and equipment”*

Key audit matter	Audit procedures addressing the key audit matter
<p>The group adopted IFRS 16 “Leases” as of 1 January 2019.</p> <p>As a first-time adopter, the group opted to apply IFRS 16 using the modified retrospective approach and, therefore, it did not restate the comparative figures and applied certain practical expedients provided for by the standard. As disclosed in the notes to the consolidated financial statements, following the first-time adoption of the new standard on 1 January 2019, the group recognised right-of-use assets of €586 million and lease liabilities of €591 million.</p> <p>The transition to IFRS 16 required complex valuations and the use of estimates which, by their very nature, are subjective, about:</p> <ul style="list-style-type: none"> <li>— the assessment of whether a contract is, or contains, a lease;</li> <li>— the determination of the lease term, considering the non-cancellable period and any options to extend or terminate the lease;</li> <li>— the initial measurement of the lease liability at the present value of lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or the incremental borrowing rate;</li> <li>— the determination of the useful life of the right-of-use assets for depreciation purposes;</li> <li>— the recognition of any lease modifications that occurred during the year.</li> </ul> <p>Considering the complexity and subjectivity of the above valuations, the first-time adoption of IFRS 16 was a key audit matter.</p>	<p>Our audit procedures, which also involved our own specialists, included:</p> <ul style="list-style-type: none"> <li>— assessing the appropriateness of the accounting treatments applied on the basis of the requirements of IFRS 16, including the options and practical expedients available for its first-time adoption;</li> <li>— understanding the internal process for the transition to the new standard and the related IT environment and assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls;</li> <li>— for a sample of contracts that are or contain a lease:</li> <li>— assessing the appropriateness of the lease term determination;</li> <li>— checking the calculation of the lease payments;</li> <li>— analysing the reasonableness of the rate used to discount the lease payments to present value;</li> <li>— checking the right of use assets’ useful lives applied for depreciation/amortisation purposes;</li> <li>— assessing the appropriateness of the disclosures provided in the notes about the first-time adoption of IFRS 16.</li> </ul>

### **Responsibilities of the parent's directors and board of statutory auditors ("Collegio Sindacale") for the consolidated financial statements**

The 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 and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the group's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the consolidated financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the parent or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the group's financial reporting process.

### **Auditors' responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit 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 group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

#### ***Other information required by article 10 of Regulation (EU) no. 537/14***

On 4 November 2014, the parent's shareholders appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2014 to 31 December 2022.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the parent in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

#### **Report on other legal and regulatory requirements**

##### ***Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98***

The parent's directors are responsible for the preparation of the group's directors' report and report on corporate governance and ownership structure at 31 December 2019 and for the consistency of such reports with the related consolidated financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the group's consolidated financial statements at 31 December 2019 and their compliance with the applicable law and to state whether we have identified material misstatements.



**Ferrovie dello Stato Italiane Group**  
*Independent auditors' report*  
31 December 2019

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the group's consolidated financial statements at 31 December 2019 and have been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

***Statement pursuant to article 4 of the Consob regulation implementing Legislative decree no. 254/16***

The directors of Ferrovie dello Stato Italiane S.p.A. are responsible for the preparation of a non-financial statement pursuant to Legislative decree no. 254/16. We have checked that the directors had approved such non-financial statement. In accordance with article 3.10 of Legislative decree no. 254/16, we attested the compliance of the non-financial statement separately.

Rome, 22 April 2020

KPMG S.p.A.

(signed on the original)

Benedetto Gamucci  
Director of Audit



**Separate financial statements of Ferrovie dello Stato Italiane  
S.p.A. as at and for the year ended 31 December 2019**



## Financial statements



## Statement of financial position

Euros

	Notes	31.12.2019	31.12.2018(*)
<b>Assets</b>			
Property, plant and equipment	6	47,938,264	47,728,199
Investment property	7	447,005,704	446,432,934
Intangible assets	8	40,404,665	55,381,616
Deferred tax assets	9	182,436,348	190,566,943
Equity investments	10	38,099,497,753	38,071,710,940
Financial assets (including derivatives)	11	6,083,744,791	5,996,635,139
Trade receivables	14	4,159,204	5,797,404
Other assets	12	25,877,644	33,807,518
<b>Total non-current assets</b>		<b>44,931,064,373</b>	<b>44,848,060,693</b>
Inventories	13	377,387,565	390,256,375
Trade receivables	14	153,799,937	104,325,959
Financial assets (including derivatives)	11	3,428,890,772	2,368,162,896
Cash and cash equivalents	15	340,657,747	294,260,996
Tax assets	16	83,742,642	83,929,942
Other assets	12	571,689,908	653,318,313
<b>Total current assets</b>		<b>4,956,168,571</b>	<b>3,894,254,481</b>
<b>Assets held for sale and disposal groups</b>	17		<b>22,395,159</b>
<b>Total assets</b>		<b>49,887,232,944</b>	<b>48,764,710,333</b>
Equity			
Share capital	18	39,204,173,802	39,204,173,802
Reserves	18	53,473,021	50,353,142
Valuation reserves	18	112,825	367,959
Retained earnings	18	374,612,026	315,334,328
Profit for the year	18	226,672,871	62,397,577
<b>Total equity</b>		<b>39,859,044,545</b>	<b>39,632,626,808</b>
<b>Liabilities</b>			
Loans and borrowings	19	5,611,065,583	5,771,692,939
Post-employment benefits and other employee benefits	20	7,748,976	8,867,650
Provisions for risks and charges	21	150,959,192	159,628,552
Deferred tax liabilities	9	159,695,900	260,220,508
Financial liabilities (including derivatives)	22	2,769,448	1,367,876
Other liabilities	23	33,922,328	167,317,142
<b>Total non-current liabilities</b>		<b>5,966,161,427</b>	<b>6,369,094,667</b>
Loans and borrowings and current portion of non-current loans and borrowings	19	2,952,607,703	1,682,393,141
Trade payables	24	162,155,659	112,540,074
Financial liabilities (including derivatives)	22	340,935,917	252,473,658
Other liabilities	23	606,327,693	715,581,985
<b>Total current liabilities</b>		<b>4,062,026,972</b>	<b>2,762,988,858</b>
<b>Total liabilities</b>		<b>10,028,188,399</b>	<b>9,132,083,525</b>
<b>Total equity and liabilities</b>		<b>49,887,232,944</b>	<b>48,764,710,333</b>

(\*) The parent applied IFRS 16 for the first time on 1 January 2019. Under the transition method chosen, comparative information has not been restated.

## Income statement

		Euros	
	Notes	2019	2018(*)
Revenue from sales and services	25	173,644,017	164,904,344
Other income	26	13,612,532	15,224,719
<b>Total revenue</b>		<b>187,256,549</b>	<b>180,129,063</b>
Personnel expense	27	(63,053,941)	(73,568,558)
Raw materials, consumables, supplies and goods	28	(14,927,438)	(29,303,791)
Services	29	(144,320,921)	(104,479,553)
Use of third-party assets	30	(3,957,340)	(4,689,800)
Other operating costs	31	(39,028,342)	(25,214,408)
Internal work capitalised	32	1,592,916	238,002
<b>Total operating costs</b>		<b>(263,695,066)</b>	<b>(237,018,108)</b>
Amortisation and depreciation	33	(24,515,949)	(24,452,824)
Net impairment gains	34	(1,416,501)	(15,769,858)
<b>Operating loss</b>		<b>(102,370,967)</b>	<b>(97,111,727)</b>
Gains on equity investments	35	137,405,991	141,543,879
Other financial income	35	180,590,274	165,026,180
Losses on equity investments	36	(409,120)	(127,404,582)
Other financial expense	36	(141,747,660)	(148,355,949)
<b>Net financial income</b>		<b>175,839,485</b>	<b>30,809,528</b>
<b>Pre-tax profit (loss)</b>		<b>73,468,518</b>	<b>(66,302,199)</b>
Income taxes	37	153,204,353	128,699,776
<b>Profit from continuing operations</b>		<b>226,672,871</b>	<b>62,397,577</b>
<b>Profit for the year</b>		<b>226,672,871</b>	<b>62,397,577</b>

(\*) The parent applied IFRS 16 for the first time on 1 January 2019. Under the transition method chosen, comparative information has not been restated.

## Statement of comprehensive income

			Euros
	Notes	2019	2018 <sup>(*)</sup>
<b>Profit for the year</b>		<b>226,672,871</b>	<b>62,397,577</b>
<b>Items that will not be reclassified to profit or loss:</b>			
Actuarial gains (losses)	18/20	(305,262)	149,455
Tax effect on actuarial gains (losses)	18/20	50,128	(37,938)
<b>Other comprehensive income (expense), net of the tax effect</b>		<b>(255,134)</b>	<b>111,517</b>
<b>Comprehensive income</b>		<b>226,417,737</b>	<b>62,509,094</b>

(\*) The parent applied IFRS 16 for the first time on 1 January 2019. Under the transition method chosen, comparative information has not been restated.

## Statement of changes in equity

Euros

	Equity								
	Share capital	Reserves			Valuation reserves	Total reserves	Retained earnings	Profit for the year	Total equity
		Legal reserve	Extraordinary reserve	Other reserves					
<b>Balance at 1 January 2018</b>	<b>36,340,432,802</b>	<b>38,807,634</b>			<b>256,442</b>	<b>39,064,076</b>	<b>245,969,668</b>	<b>230,910,168</b>	<b>36,856,376,714</b>
Capital increase	2,863,741,000								2,863,741,000
Dividend distribution								(150,000,000)	(150,000,000)
Allocation of profit for the previous year		11,545,508				11,545,508	69,364,660	(80,910,168)	
Demerger to RFI									
Other changes									
Comprehensive income of which:									
Profit for the year								62,397,577	62,397,577
Net gains recognised directly in equity					111,517	111,517			111,517
<b>Balance at 31 December 2018 (*)</b>	<b>39,204,173,802</b>	<b>50,353,142</b>			<b>367,959</b>	<b>50,721,101</b>	<b>315,334,328</b>	<b>62,397,577</b>	<b>39,632,626,808</b>
Capital increase									
Dividend distribution									
Allocation of profit for the previous year		3,119,879				3,119,879	59,277,698	(62,397,577)	
Comprehensive income of which:									
Profit for the year								226,672,871	226,672,871
Net losses recognised directly in equity					(255,134)	(255,134)			(255,134)
<b>Balance at 31 December 2019</b>	<b>39,204,173,802</b>	<b>53,473,021</b>			<b>112,825</b>	<b>53,585,846</b>	<b>374,612,026</b>	<b>226,672,871</b>	<b>39,859,044,545</b>

(\*) The parent applied IFRS 16 for the first time on 1 January 2019. Under the transition method chosen, comparative information has not been restated.

## STATEMENT OF CASH FLOWS

Euros

	2019	2018*
<b>Profit for the year</b>	<b>226,672,870</b>	<b>62,397,577</b>
Income taxes	(153,204,353)	(128,699,776)
Net financial expense	(175,839,485)	(16,803,534)
Amortisation and depreciation	24,515,949	24,452,824
Accruals to provisions and impairment losses	8,462,816	8,962,670
Impairment losses	679,502	160,133,656
Employee benefits	73,786	87,623
<b>Accruals to provisions and impairment losses</b>	<b>9,216,104</b>	<b>169,183,949</b>
Losses on sales		(48)
Change in inventories	13,089,952	26,830,524
Change in trade receivables	(30,548,032)	16,546,184
Change in trade payables	49,795,662	(101,937)
Change in other assets	98,477,251	734,917,341
Change in other liabilities	(240,650,116)	(650,515,628)
Utilisation of the provisions for risks and charges	(11,499,987)	(3,137,641)
Payment of employee benefits	(1,107,393)	(193,770)
Financial income collected/financial expense paid	152,358,224	16,803,534
Change in tax assets/liabilities	44,544,593	42,994,872
<b>Net cash flows generated by operating activities</b>	<b>5,821,239</b>	<b>294,674,471</b>
Increases in property, plant and equipment	(6,284,686)	(1,811,499)
Increases in investment property	(6,706,991)	(4,073,347)
Increases in intangible assets	(40,253,917)	(37,640,316)
Increases in equity investments	(80,966,545)	(140,951,507)
<b>Investments, before grants</b>	<b>(134,212,139)</b>	<b>(184,476,669)</b>
Grants for equity investments	79,757,976	87,772,206
<b>Grants</b>	<b>79,757,976</b>	<b>87,772,206</b>
Decreases in property, plant and equipment	6,736	15,269
Decreases in investment property		11,002
Decreases in equity investments	35,257,500	
<b>Decreases</b>	<b>35,264,236</b>	<b>26,271</b>
<b>Net cash flows used in investing activities</b>	<b>(19,189,927)</b>	<b>(96,678,192)</b>
Disbursement and repayment of non-current loans	406,594,989	(675,882,420)
Disbursement and repayment of current loans	697,623,852	30,150,511
Change in lease liabilities	(106,699)	
Change in financial assets	(1,143,424,850)	289,686,958
Change in financial liabilities	(116,892)	1,777,462
Dividends		(150,000,000)
Changes in equity		
<b>Net cash flows used in financing activities</b>	<b>(39,429,599)</b>	<b>(504,267,489)</b>
<b>Total cash flows</b>	<b>(52,798,287)</b>	<b>(306,271,210)</b>
Opening cash and cash equivalents	207,821,056	514,092,267
Closing cash and cash equivalents	155,022,769	207,821,056
of which intragroup current account	(185,634,979)	(86,439,939)

(\*) The parent applied IFRS 16 for the first time on 1 January 2019. Under the transition method chosen, comparative information has not been restated.

## Notes to the separate financial statements

## 1. Company business

Ferrovie dello Stato Italiane S.p.A. (the "company" or "FS Italiane") 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 directors approved these separate financial statements on 31 March 2020 and they will be made available to the shareholder for approval and subsequent filing within the terms established by law. The shareholder has the power to make changes to these separate financial statements.

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 €41,842 million and €573 million, respectively.

KPMG S.p.A. was appointed independent auditor for the 2014-2022 nine-year period.

## 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 separate financial statements.

Furthermore, these separate financial statements have been prepared on the basis of the best knowledge of the IFRS and considering best practices in this respect. Any future guidance and interpretations will be applied in future years, as established by the standards over time.

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, indicating the profit (loss) from continuing operations separately from any profit (loss) from discontinued operations;
- the statement of comprehensive income includes the profit (loss) for the year and other changes in equity attributable to transactions that are not carried out with owners in their capacity as owners;
- the statement of changes in equity shows the profit (loss) for the year separately from any other changes not through profit or loss;
- the statement of cash flows has been prepared by presenting cash flows from operating activities using the indirect method.

- The directors' report also accompanies these separate financial statements.

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 for those items which are measured at fair value, as required.

These separate financial statements have been prepared using the same accounting policies as those applied for the financial statements at 31 December 2018. Starting from 1 January 2019, the company has applied IFRS 16, whose effects are detailed in the relevant notes.

The directors approved the separate financial statements at 31 December 2019 on 31 March 2020 and they will be made available to the shareholder pursuant to article 2429 of the Italian Civil Code. These separate financial statements will be submitted to the shareholder for approval and subsequent filing within the terms established by article 2435 of the Italian Civil Code. The shareholder has the power to make changes to these separate financial statements. For the purposes of IAS 10.17, the directors authorised these separate financial statements for publication on 31 March 2020, which is the date when they approved them.

### 3. Accounting policies

The accounting policies are the same as those applied for the preparation of the consolidated financial statements, to which reference should be made, except for the recognition and measurement of investments in subsidiaries, jointly controlled entities 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, the 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 constructive 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 recognised in profit or loss in the year when their distribution is approved.

#### **New standards**

Reference should be made to the consolidated financial statements.

#### **Use of estimates and judgements**

Reference should be made to the consolidated financial statements.



## Effects of initial application of IFRS 16

The effects of the initial application of IFRS 16 Leases are described below:

### Lessee

The company applied IFRS 16 Leases as from 1 January 2019 using the modified retrospective approach, whereby the cumulative effect of initial application is recognised in the opening balance of retained earnings.

At the date of initial application, the company opted to use the practical expedient offered by the standard in order to avoid reassessing whether each contract is, or contains, a lease at the date of initial application. Accordingly, the group only applied the new standard to leases that it had already identified as leases in accordance with IAS 17 Leases and IFRIC 4 Determining Whether an Arrangement Contains a Lease. The IFRS 16 definition of a lease was therefore only applied to contracts signed or amended on or after 1 January 2019.

Having excluded short-term leases and those for low-value assets as they were exempt, the company recognised right-of-use assets and lease liabilities for the leases it had previously classified as operating leases applying IAS 17.

- it measured lease liabilities at the present value of the residual lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019;
- it measured right-of-use assets at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised immediately before the date of initial application.

The company used the practical expedients to simplify the application of IFRS 16 to leases previously classified as operating leases applying IAS 17:

- it applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
- it assessed the recoverability of right-of-use assets at 1 January 2019 based on its assessment of whether leases are onerous applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

For leases that were classified as finance leases applying IAS 17, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 are the carrying amount of the lease asset and lease liability immediately before that date measured applying IAS 17.

### Lessor

The standard does not require the company to make any adjustments on transition for leases in which it is a lessor. It therefore accounts for these leases applying IFRS 16 from the date of initial application.

The table below shows the impacts of the standard on profit or loss for 2019:

	thousands of Euros
	<b>Impacts</b>
Reversal of lease payments	107
Depreciation of right-of-use assets	(164)
<b>Impact on operating profit</b>	<b>(57)</b>
Increase in interest expense	(4)
<b>Impact on profit for the year</b>	<b>(61)</b>

#### 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 risks), 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.

Risk management focuses on the volatility of financial markets and is aimed at minimising potential undesired effects on the company's financial position and financial performance.

##### **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 buildings 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.

With respect to trade receivables and investing activities, the company applies a policy to manage the risk of default also considering the recent application of IFRS 9.

With respect to the derivatives used for hedging purposes and which can potentially generate credit exposure to counterparties, the company applies a specific policy that defines concentration thresholds by counterparty and credit rating.

The table below shows the company's exposure to credit risk:

thousands of Euros

	<b>31.12.2019</b>	<b>31.12.2018</b>
Financial assets (including derivatives)	6,088,128	6,001,222
Loss allowance	(4,383)	(4,587)
<b>Non-current financial assets (including derivatives)</b>	<b>6,083,745</b>	<b>5,996,635</b>
Trade receivables	4,345	6,042
Loss allowance	(186)	(244)
<b>Non-current trade receivables, net of the loss allowance</b>	<b>4,159</b>	<b>5,798</b>
Other assets	1,256	1,255
Loss allowance	(1,074)	(1,073)
<b>Other non-current assets, net of the loss allowance</b>	<b>182</b>	<b>182</b>
Trade receivables	180,997	134,160
Loss allowance	(27,197)	(29,834)
<b>Current trade receivables, net of the loss allowance</b>	<b>153,800</b>	<b>104,326</b>
Current financial assets (including derivatives)	3,431,360	2,369,999
Loss allowance	(2,469)	(1,836)
<b>Current financial assets (including derivatives)</b>	<b>3,428,891</b>	<b>2,368,163</b>
Cash and cash equivalents	341,607	294,557
Loss allowance	(976)	(296)
<b>Cash and cash equivalents</b>	<b>340,631</b>	<b>294,261</b>
Other assets	571,828	648,022
Loss allowance	(443)	(708)
<b>Other current assets</b>	<b>571,385</b>	<b>647,314</b>
<b>Total financial assets (*)</b>	<b>10,582,793</b>	<b>9,416,679</b>

\*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.

thousands of Euros

	<b>31.12.2019</b>	<b>31.12.2018</b>
Public administration	515,762	594,555
Third party customers	84,695	47,421
Financial institutions	340,631	294,261
Group companies	9,641,705	8,480,442
<b>Total financial assets</b>	<b>10,582,793</b>	<b>9,416,679</b>

	<b>31.12.2019</b>	<b>31.12.2018</b>
Public administration	4.9%	6.3%
Third party customers	0.8%	0.5%
Financial institutions	3.2%	3.1%
Group companies	91.1%	90.1%
<b>Total financial assets</b>	<b>100%</b>	<b>100%</b>

The tables below gives a breakdown of financial assets at 31 December 2019 and 2018 by past due brackets, net of the loss allowance.

thousands of Euros

31.12.2019

Past due by

	Not past due	0-180 days	180-360 days	360-720 days	More than 720 days	Total
Public administration	517,606	136	85	185	2,083	520,096
Loss allowance	(2,676)	(4)	(3)	(9)	(1,644)	(4,334)
<b>Public administration (net)</b>	<b>514,930</b>	<b>132</b>	<b>82</b>	<b>176</b>	<b>439</b>	<b>515,762</b>
Third party customers	49,730	20,626	11,824	1,841	18,954	102,973
Loss allowance	(1,981)	(1)	(5)	(1)	(16,290)	(18,278)
<b>Third party customers (net)</b>	<b>47,749</b>	<b>20,625</b>	<b>11,819</b>	<b>1,840</b>	<b>2,664</b>	<b>84,695</b>
Financial institutions	341,607					341,607
Loss allowance	(976)					(976)
<b>Financial institutions</b>	<b>340,631</b>					<b>340,631</b>
Group companies	9,624,964	8,798	6,901	2,924	11,258	9,654,845
Loss allowance	(6,923)	(83)		(155)	(5,979)	(13,140)
<b>Group companies (net)</b>	<b>9,618,041</b>	<b>8,715</b>	<b>6,901</b>	<b>2,769</b>	<b>5,279</b>	<b>9,641,705</b>
<b>Total financial assets</b>	<b>10,521,351</b>	<b>29,472</b>	<b>18,802</b>	<b>4,785</b>	<b>8,382</b>	<b>10,582,793</b>

thousands of Euros

31.12.2018

Past due by

	Not past due	0-180 days	180-360 days	360-720 days	More than 720 days	Total
Public administration	596,710	207	236	23	2,106	599,282
Loss allowance	(2,950)	(37)	(48)	(12)	(1,681)	(4,727)
<b>Public administration (net)</b>	<b>593,760</b>	<b>170</b>	<b>188</b>	<b>11</b>	<b>425</b>	<b>594,555</b>
Third party customers	30,066	14,825	1,835	3,042	18,900	68,667
Loss allowance	(1,739)	(1,120)	(1,185)	(2,459)	(14,745)	(21,246)
<b>Third party customers (net)</b>	<b>28,327</b>	<b>13,705</b>	<b>650</b>	<b>583</b>	<b>4,155</b>	<b>47,421</b>
<b>Financial institutions</b>	<b>294,261</b>					<b>294,261</b>
Group companies	8,440,298	30,714	3,330	3,609	14,800	8,492,751
Loss allowance	(10,293)	(499)	(145)	(242)	(1,130)	(12,309)
<b>Group companies (net)</b>	<b>8,430,005</b>	<b>30,215</b>	<b>3,185</b>	<b>3,367</b>	<b>13,670</b>	<b>8,480,442</b>
<b>Total financial assets</b>	<b>9,346,353</b>	<b>44,090</b>	<b>4,023</b>	<b>3,961</b>	<b>18,250</b>	<b>9,416,679</b>

The total exposure and the impairment of each category, determined by risk class at 31 December 2019 and 2018, as per Fitch's rating, are shown below:

thousands of Euros

<b>31.12.2019</b>					
	<b>FVTPL (*)</b>	<b>FVOCI (**)</b>		<b>Amortised cost</b>	
		12-month expected credit losses	12-month expected credit losses	Lifetime - not impaired	Lifetime - impaired
from AAA to BBB-			10,433,447		11,258
from BB to BB+			125,420		1,249
from B to CCC			48,147		
from CC to C					
D					
<b>Gross carrying amounts</b>			10,607,014		12,507
Loss allowance			36,728		
<b>Carrying amount</b>			<b>10,570,286</b>		<b>12,507</b>

(\*) Fair value through profit and loss; (\*\*) Fair value through other comprehensive income

thousands of Euros

<b>31.12.2018</b>					
	<b>FVTPL (*)</b>	<b>FVOCI (**)</b>		<b>Amortised cost</b>	
		12-month expected credit losses	12-month expected credit losses	Lifetime - not impaired	Lifetime - impaired
from AAA to BBB-			9,342,768		14,800
from BB to BB+			46,592		9,734
from B to CCC			32,197		9,167
from CC to C					
D					
<b>Gross carrying amounts</b>			9,421,557		33,701
Loss allowance			38,579		
<b>Carrying amount</b>			<b>9,382,978</b>		<b>33,701</b>

(\*) Fair value through profit and loss; (\*\*) Fair value through other comprehensive income

Changes in the loss allowance may be analysed as follows:

	2019			thousands of Euros
	12-month expected credit losses	Lifetime-not impaired	Lifetime-impaired	Total
<b>Balance at 31 December 2018</b>	<b>38,579</b>			<b>38,579</b>
Net revaluation of the loss allowance	1,790			1,790
Transfer to lifetime - impaired				
Transfer to lifetime - not impaired				
Repaid financial assets				
New assets acquired				
Utilisation of the allowance	(3,641)			(3,641)
<b>Balance at 31 December 2019</b>	<b>36,728</b>			<b>36,728</b>

### 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 agreed in order to grant loans to FS Italiane group companies. It adopts asset liability management techniques in collecting debt and granting loans to the subsidiaries. Currently, the loans received and bonds issued have the same technical features as the loans granted to subsidiaries so the cash inflows and outflows deriving from interest and principal repayments coincide.

In order to meet potential and temporary cash requirements, it agreed a three-year revolving and committed backup credit facility in 2018 (€2 billion) for general purposes.

Furthermore, again to meet temporary cash requirements, the company has numerous uncommitted credit lines granted by banks.

The following tables show the due dates of financial liabilities and trade payables, including interest to be paid:

	thousands of Euros						
<b>31 December 2019</b>	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>6 months or less</b>	<b>6-12 months</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>After 5 years</b>
Bonds	6,338,907	6,669,344	168,081	817,972	655,416	1,492,198	3,535,677
Bank loans and borrowings	1,786,948	1,802,900	1,431,241	260,830	110,830		
Loans and borrowings from other financial backers	437,386	450,000	100,000	250,000	100,000		
Financial liabilities	341,515	341,515	341,515				
Lease liabilities	308	320	57	57	90	112	3
<b>Non-derivative financial liabilities</b>	<b>8,905,064</b>	<b>9,264,079</b>	<b>2,040,894</b>	<b>1,328,859</b>	<b>866,336</b>	<b>1,492,310</b>	<b>3,535,680</b>
<b>Trade payables</b>	<b>162,156</b>	<b>162,156</b>	<b>162,156</b>				
<b>Derivatives</b>	<b>2,314</b>	<b>2,314</b>	<b>1,026</b>	<b>(170)</b>	<b>676</b>	<b>(1,711)</b>	<b>2,492</b>
<b>Total financial liabilities</b>	<b>9,069,534</b>	<b>9,428,549</b>	<b>2,204,076</b>	<b>1,328,689</b>	<b>867,012</b>	<b>1,490,599</b>	<b>3,538,172</b>

	thousands of Euros						
<b>31.12.2018</b>	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>6 months or less</b>	<b>6-12 months</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>After 5 years</b>
Bonds	5,344,634	5,704,786	15,757	402,186	977,092	1,789,049	2,520,702
Bank loans and borrowings	1,488,851	1,517,191	734,611	410,867	260,883	110,830	
Loans and borrowings from other financial backers	620,275	650,100	100,000	100,002	350,099	100,000	
Financial liabilities	253,842	253,842	253,842				
<b>Non-derivative financial liabilities</b>	<b>7,707,602</b>	<b>8,125,919</b>	<b>1,104,210</b>	<b>913,055</b>	<b>1,588,074</b>	<b>1,999,879</b>	<b>2,520,702</b>

<b>Trade payables</b>	<b>112,540</b>	<b>112,540</b>	<b>112,540</b>				
<b>Total financial liabilities</b>	<b>7,820,142</b>	<b>8,238,459</b>	<b>1,216,750</b>	<b>913,055</b>	<b>1,588,074</b>	<b>1,999,879</b>	<b>2,520,702</b>

### 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			
<b>31 December 2019</b>	<b>Carrying amount</b>	<b>Within one year</b>	<b>1-5 years</b>	<b>After 5 years</b>
Bonds	6,338,907	929,046	1,980,375	3,429,487
Bank loans and borrowings	1,786,948	1,681,078	105,870	
Loans and borrowings from other financial backers	437,386	340,326	97,060	
Financial liabilities	341,515	341,515		
Lease liabilities	308	114	194	
<b>Non-derivative financial liabilities</b>	<b>8,905,064</b>	<b>3,292,079</b>	<b>2,183,499</b>	<b>3,429,487</b>
<b>Trade payables</b>	<b>162,156</b>	<b>162,156</b>		

	thousands of Euros			
<b>31.12.2018</b>	<b>Carrying amount</b>	<b>Within one year</b>	<b>1-5 years</b>	<b>After 5 years</b>
Bonds	5,344,634	367,329	2,565,190	2,412,116
Bank loans and borrowings	1,488,851	1,131,849	357,002	
Loans and borrowings from other financial backers	620,275	182,889	437,386	
Financial liabilities	254,168	254,168		
<b>Non-derivative financial liabilities</b>	<b>7,707,928</b>	<b>1,936,235</b>	<b>3,359,578</b>	<b>2,412,116</b>
<b>Trade payables</b>	<b>112,540</b>	<b>112,540</b>		

### 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	1-2 years	2-5 years	after 5 years
Variable rate	4,548,140	4,641,447	2,185,546	4,431	807,493	1,643,977
Fixed rate	4,356,924	4,622,632	1,184,207	861,905	684,817	1,891,703
<b>Balance at 31 December 2019</b>	<b>8,905,064</b>	<b>9,264,079</b>	<b>3,369,753</b>	<b>866,336</b>	<b>1,492,310</b>	<b>3,535,680</b>
Variable rate	3,877,487	3,986,993	1,633,619	414,447	504,824	1,434,102
Fixed rate	3,830,441	4,139,222	383,941	1,173,626	1,495,055	1,086,600
<b>Balance at 31 December 2018</b>	<b>7,707,928</b>	<b>8,126,216</b>	<b>2,017,561</b>	<b>1,588,074</b>	<b>1,999,879</b>	<b>2,520,702</b>

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 2019, 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	10,196	(8,682)
Interest income from loans	(11,198)	9,684
<b>Total</b>	<b>1,312</b>	<b>1,002</b>

### Currency risk

The company currently operates in Italy or mainly in Eurozone countries. The positions in non-EU currencies are of a modest amount which is negligible compared to total balances

The company also has loans and borrowings in Swiss francs totalling CHF45 million and an intragroup loan with Trenitalia UK of GBP60 million, in relation to which cross currency swaps were agreed to hedge the currency risk.



## 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.

<b>31 December 2019</b>	<b>Financial assets</b>	<b>Financial liabilities</b>	thousands of Euros <b>of which: hedging derivatives</b>
Financial assets (including derivatives)	6,083,745		
Trade receivables non current	4,159		
Other assets	25,878		
Trade receivables current	153,800		
Current financial assets (including derivatives)	3,428,891		
Cash and cash equivalents	340,658		
Other assets	571,690		
Loans and borrowings		5,611,066	
Non-current financial liabilities (including derivatives)		2,769	2,314
Other liabilities		33,922	
Loans and borrowings and current portion of non-current loans and borrowings		2,952,608	
Trade payables		162,156	
Financial liabilities (including derivatives)		340,936	
Other liabilities		606,328	

<b>31.12.2018</b>	<b>Financial assets</b>	<b>Financial liabilities</b>	thousands of Euros <b>of which: hedging derivatives</b>
Financial assets (including derivatives)	5,996,635		3,080
Trade receivables non current	5,797		
Other assets	33,808		
Trade receivables current	104,326		
Current financial assets (including derivatives)	2,368,163		
Cash and cash equivalents	294,261		
Other assets	653,318		
Loans and borrowings		5,771,693	
Non-current financial liabilities (including derivatives)		1,368	
Other liabilities		167,317	
Loans and borrowings and current portion of non-current loans and borrowings		1,682,393	
Trade payables		112,540	
Financial liabilities (including derivatives)		252,474	
Other liabilities		715,582	

## 5. Non-recurring transactions

During the extraordinary meeting held on 18 July 2019, Ferrovie dello Stato Italiane S.p.A., as FSTechnology S.p.A.'s sole shareholder, resolved to subscribe FSTechnology S.p.A.'s capital increase of €27,578,244, which it paid up by contributing its ICT business unit to the subsidiary. This business unit comprises all assets, liabilities and legal relationships, as detailed and appraised in the appraisal report prepared pursuant to articles 2440 and 2343-ter.2.b of the Italian Civil Code.

This transaction lays the foundation for the implementation of the FS Italiane group's larger strategy of establishing centralised ICT management and gaining a leadership role in the transport and infrastructure industry's technology community.

The proposed demerger was based on the statements of financial position as at 31 March 2019 and the transaction was scheduled to become effective on 1 August 2019. As set out in the contribution deed, any changes in the assets and liabilities contributed between the date of the statement of financial position and the date the contribution became effective generated amounts receivable/payable between the contributing company and the beneficiary.

The contributed assets and liabilities are summarised below:

	Euros
	<b>01.08.2019</b>
<b>Assets</b>	
Property, plant and equipment	(3,084,297)
Intangible assets	(40,021,883)
Equity investments	26,578,244
<b>Total non-current assets</b>	<b>(16,527,936)</b>
Trade receivables	15,520,949
<b>Total current assets</b>	<b>15,520,949</b>
<b>Total assets</b>	<b>(1,006,987)</b>
Post-employment benefits and other employee benefits	(390,330)
Provisions for risks and charges	(33,400)
<b>Total non-current liabilities</b>	<b>(423,730)</b>
Other liabilities	(583,257)
<b>Total current liabilities</b>	<b>(583,257)</b>
<b>Total liabilities</b>	<b>(1,006,987)</b>

## 6. 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.

	thousands of Euros				
	Land and buildings	Industrial and commercial equipment	Other assets	Assets under construction and payments on account	Total
Historical cost	56,677	395	5,554	1,809	<b>64,435</b>
Depreciation and impairment losses	(14,046)	(395)	(3,673)		<b>(18,114)</b>
Grants			(39)		<b>(39)</b>
<b>Balance at 1.1.2018</b>	<b>42,631</b>		<b>1,842</b>	<b>1,809</b>	<b>46,282</b>
Investments				1,805	<b>1,805</b>
Placement in service	410		2,080	(2,490)	
Depreciation	(869)		(714)		<b>(1,583)</b>
Disposals and divestments			(8)		<b>(8)</b>
Increases in grants					
Other reclassifications	1,648			(416)	<b>1,232</b>
<b>Total changes</b>	<b>1,189</b>		<b>1,358</b>	<b>(1,101)</b>	<b>1,446</b>
Historical cost	59,299	395	7,111	708	<b>67,513</b>
Depreciation and impairment losses	(15,479)	(395)	(3,872)		<b>(19,746)</b>
Grants			(39)		<b>(39)</b>
<b>Balance at 31.12.2018</b>	<b>43,820</b>		<b>3,200</b>	<b>708</b>	<b>47,728</b>
Investments	342		69	6,284	<b>6,694</b>
Placement in service	931		4,769	(5,700)	
Depreciation	(1,038)		(1,018)		<b>(2,056)</b>
Non-recurring transactions*			(3,084)		<b>(3,084)</b>
Disposals and divestments*			(7)		<b>(7)</b>
Other reclassifications **	(1,287)			(51)	<b>(1,338)</b>
<b>Total changes</b>	<b>(1,052)</b>		<b>729</b>	<b>533</b>	<b>209</b>
Historical cost	58,856	56	6,573	1,241	<b>66,726</b>
Depreciation and impairment losses	(16,088)	(56)	(2,630)		<b>(18,774)</b>
Grants			(14)		<b>(14)</b>
<b>Balance at 31.12.2019</b>	<b>42,768</b>		<b>3,929</b>	<b>1,241</b>	<b>47,938</b>
Non-recurring transactions*					
Historical cost		(339)	(5,099)		<b>(5,438)</b>
Depreciation		339	1,990		<b>2,329</b>
Grants			25		<b>25</b>
<b>Total non-recurring transactions</b>			<b>(3,084)</b>		<b>(3,084)</b>
Disposals and divestments*					
Historical cost			(277)		<b>(277)</b>
Depreciation			270		<b>270</b>
<b>Total disposals and divestments</b>			<b>(7)</b>		<b>(7)</b>
Reclassifications					
Historical cost	(1,716)			(51)	<b>(1,767)</b>
Depreciation	429				<b>429</b>
<b>Total reclassifications*</b>	<b>(1,287)</b>			<b>(51)</b>	<b>(1,338)</b>

Land and buildings refer to a section of the Villa Patrizi building where the company has its registered office. The remainder is included under investment property. The increase in the year is mostly due to the extraordinary maintenance and the upgrading of the information systems at Villa Patrizi (€6,284 thousand), offset by FS Italiane S.p.A.'s contribution of its ICT business unit to FSTechnology S.p.A. (€3,084 thousand) and depreciation of the year (€2,056 thousand).

With respect to reclassifications (€1,338 thousand), in 2019, following the smaller space in Villa Patrizi used by the company (-0.7% on 31 December 2018), a net €1,287 thousand was reclassified from Investment property. Other reclassifications (€51 thousand) refer to software for sundry investment projects which was duly reclassified to the relevant captions when it became an asset.

At the initial application date (1 January 2019) of IFRS 16, the application of the new standard generated an increase in assets due to the recognition of right-of-use assets of €246 thousand:

thousands of Euros			
<b>Right-of-use assets</b>	<b>Land and buildings</b>	<b>Other assets</b>	<b>Total</b>
Historical cost			
Depreciation and impairment losses			
Grants			
<b>Balance at 01.01.2019</b>			
Increases due to IFRS 16	341	69	410
Depreciation	(149)	(15)	(164)
<b>Total changes</b>	<b>192</b>	<b>54</b>	<b>246</b>
Historical cost	341	69	410
Depreciation and impairment losses	(149)	(15)	(164)
<b>Balance at 31.12.2019</b>	<b>192</b>	<b>54</b>	<b>246</b>

## 7. Investment property

Investment property at 31 December 2019 and changes therein are shown in the table below. The assets' estimated useful lives did not change during the year.

thousands of Euros				
	<b>2019</b>		<b>2018</b>	
	<b>Land</b>	<b>Buildings</b>	<b>Land</b>	<b>Buildings</b>
<b>Balance at 1 January</b>				
Cost	385,116	425,119	398,525	424,456
Accumulated depreciation	(38,775)	(213,197)	(38,733)	(207,716)
Loss allowance	(97,122)	(14,709)	(92,943)	(13,277)
<b>Carrying amount</b>	<b>249,219</b>	<b>197,213</b>	<b>266,849</b>	<b>203,463</b>
<b>Changes of the year</b>				
Increases		6,707		4,074
Reclassifications*	112	954	(9,384)	(1,334)
Depreciation		(7,200)		(7,225)
Impairment losses			(8,245)	(1,754)
Divestments**				(11)
<b>Total changes</b>	<b>112</b>	<b>461</b>	<b>(17,629)</b>	<b>(6,250)</b>
<b>Balance at 31 December</b>				
Cost	384,892	432,305	385,116	425,119
Accumulated depreciation	(38,775)	(220,636)	(38,775)	(213,197)
Loss allowance	(96,786)	(13,995)	(97,122)	(14,709)
<b>Carrying amount</b>	<b>249,331</b>	<b>197,674</b>	<b>249,219</b>	<b>197,213</b>

<b>Reclassifications*</b>				
Cost	(224)	479	(13,407)	(3,400)
Accumulated depreciation		(239)	(42)	1,744
Loss allowance	336	714	4,065	322
<b>Total</b>	<b>112</b>	<b>954</b>	<b>(9,384)</b>	<b>(1,334)</b>
<b>Divestments**</b>				
Cost			(2)	(11)
Accumulated depreciation				
Loss allowance			2	
<b>Total</b>				<b>(11)</b>

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 net increase of €573 thousand in the year is mainly due to increases of €6,707 thousand and reclassifications of €1,066 thousand, offset by depreciation of €7,200 thousand.

The increases of the year total €6,707 thousand and mainly refer to the restructuring of the Pietrarsa Museum, used by (leased to) Fondazione FS (€2,637 thousand) and the extraordinary maintenance work on Villa Patrizi (€2,763 thousand) and La Spezia Migliorina (€853 thousand).

Reclassifications refer to the transfer of buildings held for sale to Inventories (€221 thousand), while the residual portion (€1,287 thousand) relates to the transfer of the section of Villa Patrizi used by the company to Property, plant and equipment, as described in note 6.

## 8. Intangible assets

This caption exclusively comprises costs incurred for software development related mainly to the group's information systems.

Opening and closing balances are shown in the table below. Investments in the year amount to €40,254 thousand and placement in service totals €22,685 thousand, mainly related to the acquisition and development of commercial, administrative, management and IT security software for the group's information systems, generating an increase in amortisation. Non-recurring transactions (€40,022 thousand) refer to Ferrovie dello Stato Italiane S.p.A.'s contribution of the ICT business unit to FSTechnology S.p.A., as described earlier in paragraph 5 "Non-recurring transactions".

	thousands of Euros		
	<b>Concessions, licences, trademarks and similar rights</b>	<b>Assets under development and payments on account</b>	<b>Total</b>
Historical cost	172,201	10,953	183,154
Amortisation and impairment losses	(136,849)		(136,849)
Grants	(10,448)		(10,448)
<b>Balance at 1.1.2018</b>	<b>24,904</b>	<b>10,953</b>	<b>35,857</b>
Investments		37,640	37,640
Placement in service	45,701	(45,701)	
Amortisation	(15,645)		(15,645)
Impairment losses	(1,434)		(1,434)
Disposals and divestments	(1,456)		(1,456)
Other reclassifications		420	420
<b>Total changes</b>	<b>27,166</b>	<b>(7,641)</b>	<b>19,525</b>
Historical cost	215,419	3,312	218,731
Amortisation and impairment losses	(152,901)		(152,901)
Grants	(10,448)		(10,448)
<b>Balance at 31.12.2018</b>	<b>52,070</b>	<b>3,312</b>	<b>55,382</b>
Investments		40,254	40,254
Placement in service	22,685	(22,685)	
Amortisation	(15,260)		(15,260)
Non-recurring transactions*	(28,275)	(11,747)	(40,022)

Reclassifications**		51	51
<b>Total changes</b>	<b>(20,850)</b>	<b>5,873</b>	<b>(14,977)</b>
Historical cost	184,216	9,185	193,401
Amortisation and impairment losses	(142,906)		(142,906)
Grants	(10,090)		(10,090)
<b>Balance at 31.12.2019</b>	<b>31,220</b>	<b>9,185</b>	<b>40,405</b>
Non-recurring transactions*			
Historical cost	(53,888)	(11,747)	(65,635)
Amortisation	25,255		25,255
Grants	358		358
<b>Total non-recurring transactions</b>	<b>(28,275)</b>	<b>(11,747)</b>	<b>(40,022)</b>
Reclassifications**			
Historical cost		51	51
<b>Total reclassifications</b>		<b>51</b>	<b>51</b>

## 9. Deferred tax assets and deferred tax liabilities

The table below shows deferred tax assets and deferred tax liabilities at 31 December 2019 and changes of the year due to the main temporary differences between carrying amounts and the related tax amounts.

	thousands of Euros			
	31.12.2018	Incr. (decr.) through profit or loss	Incr. (decr.) through OCI	31.12.2019
<b>Deferred tax assets</b>				
Differences related to intangible assets and PPE	66,213	(2,812)		63,401
Provisions for risks and charges and impairment losses with deferred tax deductibility	55,257	95		55,352
Differences related to buildings held for trading - inventories	68,807	(5,419)		63,388
Other	290	(45)	50	295
<b>Total deferred tax assets</b>	<b>190,567</b>	<b>(8,181)</b>	<b>50</b>	<b>182,436</b>
<b>Deferred tax liabilities</b>				
<b>Provision for deferred tax liabilities</b>				
Differences related to intangible assets and PPE	56,762	(2,682)		54,080
Differences related to buildings held for trading - inventories	25,448	(923)		24,525
Other	99	(99)		
<b>Total provision for deferred tax liabilities</b>	<b>82,309</b>	<b>(3,704)</b>		<b>78,605</b>
- Provision for IRES consolidation scheme	177,912	(96,821)		81,091
<b>Total</b>	<b>260,221</b>	<b>(100,525)</b>		<b>159,696</b>

Deferred tax assets and liabilities mainly relate to the misalignment between the carrying amount and the tax value 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 the effects of IFRS 9 FTA.

The changes in the year refer to the net effect (€4,477 thousand) of the decrease in deferred tax assets and the decrease in deferred tax liabilities, mostly due to the differences between the carrying and tax amounts of depreciation in the year and impairment losses on land and buildings held for trading, and other amounts recognised in equity (€50 thousand), which reflect the changes in the actuarial reserves.

The provision for the IRES consolidation scheme includes the tax losses transferred by the group companies and used to offset taxes related to the parent and other subsidiaries that participate in the tax consolidation scheme. The provision also

reflects the utilisations to remunerate the same companies for the tax losses previously transferred and offset against their taxable income during the year. The company used €96,821 thousand of the provision during the year, mainly for Trenitalia S.p.A., Mercitalia Shunting & Terminal S.p.A. and SITA S.p.A. in liquidation.

## 10. Equity investments

The tables below show the opening and closing balances of equity investments, broken down by category, and changes therein in 2019 and 2018.

	thousands of Euros		
	Carrying amount 31.12.2019	Carrying amount 31.12.2018	Cumulative loss allowance
<b>Equity investments in:</b>			
Subsidiaries	37,936,238	37,908,451	160,668
Associates	53,392	53,392	
Joint arrangements	95,120	95,120	
Other companies	14,748	14,748	
<b>Total</b>	<b>38,099,498</b>	<b>38,071,711</b>	<b>160,668</b>

### Changes in 2019

	thousands of Euros							
	Changes of the year							
	Carrying amount 31.12.2018	Acquisitions/ Subscriptions	Disposals/ Decreases	Impairment losses/ gains	Reclassifications	Other changes	Carrying amount 31.12.2019	Cumulative loss allowance
<b>Investments in subsidiaries</b>								
Anas S.p.A.	2,863,741						2,863,741	
Fercredit S.p.A.	31,413						31,413	
Ferservizi S.p.A.	8,378						8,378	
Mercitalia Logistics S.p.A.	219,265						219,265	160,533
FS Sistemi Urbani S.r.l.	534,094						534,094	
Grandi Stazioni Immobiliare S.p.A.	616						616	
Netinera Deutschland GmbH (formerly FS2Move GmbH)	144,355				(144,355)			
Mercitalia Rail S.r.l. (former FS Telco S.r.l.)								135
Italcertifer S.p.A.	738						738	
Italferr S.p.A.	8,047						8,047	
RFI S.p.A.	32,463,899						32,463,899	
Sita S.p.A. in liquidation								
Trenitalia S.p.A.	1,417,782				189,355		1,607,137	
Busitalia - Sita Nord S.r.l.	85,373						85,373	
TrainOSE SA	45,000				(45,000)			

Nugo S.p.A.	11,400			11,400
TAV S.r.l.	50			50
FSTechnology S.p.A.	1,000	26,578		27,578
Ferrovie del Sud Est e Servizi Automobilistici - FSE S.r.l.	73,300			73,300
FS Italian Railways USA		89		89
FS Saudi		119		119
FS International S.p.A.		1,000		1,000
	<b>37,908,451</b>	<b>27,787</b>		<b>37,936,238</b>
<b>Investments in associates</b>				<b>160,668</b>
Metro 5 S.p.A.	30,308			30,308
Ferrovie Nord Milano S.p.A.	23,061			23,061
Italiacamp S.r.l.	23			23
	<b>53,392</b>			<b>53,392</b>
<b>Investments in joint arrangements</b>				
T.E.L.T. Sas (formerly L.T.F. Sas)	95,120	79,758	(79,758)	95,120
	<b>95,120</b>	<b>79,758</b>	<b>(79,758)</b>	<b>95,120</b>
<b>Other companies</b>				
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
	<b>14,748</b>			<b>14,748</b>
<b>Total</b>	<b>38,071,711</b>	<b>107,545</b>	<b>(79,758)</b>	<b>38,099,498</b>
				<b>160,668</b>

The changes during the year relate to:

- **Centostazioni Retail S.p.A.** – This investment, which was reclassified to “Assets held for sale” in 2018, was sold in 2019 after FS Italiane and Rete Ferroviaria Italiana S.p.A. (as sellers) signed, with AltaCSRETAILFR (as buyer) a purchase and sale agreement on 28 March 2019, whereby the latter agreed to pay a consideration of €45,000,000 (€35,257,500 to FS Italiane and €9,742,500 to RFI). FS Italiane realised a gain of roughly €12,862,341 on the transaction.
- **Ferrovie dello Stato Italiane Saudi Arabia for Land Transport LLC** – This company was set up on 31 March 2019, with registered office in Riyadh and with approved, subscribed and paid-up capital of SAR500,000 (approximately €119 thousand). Its business object consists of railway infrastructure operations and maintenance and waterway transport in Saudi Arabia.
- **RFI S.p.A.** – The proposed merger of UM Ferro S.r.l into RFI S.p.A. was approved during the shareholder’s meeting of 17 April 2019. RFI did not increase share capital after the merger since FS Italiane already directly and indirectly held all of RFI S.p.A.’s share capital and all of the merged company’s quota capital. Consequently, there were no changes in FS Italiane’s assets as a result of the merger, which became effective on 1 July 2019.
- **Italiacamp S.r.l.** – During the quotaholders’ meeting held on 8 May 2019, the quotaholders approved increasing the quota capital from €10,000 to €150,000, using “retained earnings” in the statement of financial position for the full amount of the increase.
- **FS Italian Railways USA Inc** – Set up on 13 May 2019, this company is wholly owned by Ferrovie dello Stato Italiane S.p.A., with approved, subscribed and paid-up share capital of USD100,000 (approximately €89 thousand). The company is based in San Francisco (California) and its business object consists of managing and developing transport and related activities in North America, including participating in tenders for transport contracts.



- **Trenitalia S.p.A.** – During the extraordinary meeting held on 20 May 2019, the shareholder resolved to increase Trenitalia's share capital by €189,355,500, with subscription reserved exclusively for the sole shareholder, FS Italiana, to be paid up in kind through the transfer of its equity investments in the German company Netinera and the Greek company TrainOSE, to which FS Italiana had full and exclusive title, with effect from 1 June 2019.
- **FSTechnology S.p.A.** - This company, wholly-owned by Ferrovie dello Stato S.p.A., was set up on 17 December 2018. During the shareholder's meetings held on 29 May 2019, the shareholder of RFI S.p.A., Trenitalia S.p.A., Italferr S.p.A. and Ferservizi S.p.A. approved the partial demergers of their respective ICT business units to FSTechnology. On the same date, FSTechnology's shareholder approved the partial demerger of their ICT business units from these companies and, during the extraordinary meeting of 18 July 2019, FSTechnology's shareholder resolved to increase share capital from €1,000,000 to €27,578,244. On the same date, the sole shareholder, Ferrovie dello Stato Italiane S.p.A. subscribed the capital increase with the contribution of its ICT business unit, with effect from 1 August 2019. The contribution's total net value is €26,578,244, entirely allocated to share capital. To implement the shareholder's resolutions taken during the extraordinary shareholder's meetings of 29 May 2019, these companies signed partial demerger deeds with FSTechnology for their respective ICT assets comprising the ICT business unit. All these deeds became effective on 1 August 2019, without any amendments to the demerged companies' or beneficiary company's by-laws.
- **FS International S.p.A.** – On 11 December 2019, Ferrovie dello Stato Italiane S.p.A. set up FS International S.p.A., with fully subscribed and paid-up share capital of €1,000,000. The company's registered office is in Rome and its business object consists of developing and consolidating, on the international markets targeted by the FS Italiana group, the design, construction, management and maintenance of railway and public and private passenger and freight transport lines, vehicles, stations and systems, including the related engineering, certification, logistics, information & communication technology, advisory and training services provided to the FS Italiana group companies, including in their interests, in the fields of transport and integrated mobility services.
- **TELT SaS** - the carrying amount of this investment increased by €79,758 thousand, entirely offset by the increase in the grants related to assets received from the MEF for financial investments as per chapters 7122 and 7532.

	Changes of the year						Carrying amount 31.12.2018	Cumulative loss allowance
	Carrying amount 31.12.2017	Acquisitions/ subscriptions	Disposals/ Decreases	Impairment losses/ gains	Reclassifications	Other changes		
<b>Investments in subsidiaries</b>								
Centostazioni S.p.A.	68,781				(68,781)			
Centostazioni Retail S.p.A.					22,395	(22,395)		
Anas S.p.A.		2,863,741					2,863,741	
Fercredit S.p.A.	31,413						31,413	
Ferservizi S.p.A.	8,378						8,378	
FS Training S.p.A. in liquidation								
Mercitalia Logistics S.p.A.	347,138			(127,873)			219,265	160,533
FS Sistemi Urbani S.r.l.	534,094						534,094	
Grandi Stazioni Rail S.p.A.	3,145				(3,145)			
Grandi Stazioni Immobiliare S.p.A.	616						616	
Netinera Deutschland GmbH (formerly FS2Move GmbH)	144,355						144,355	
Mercitalia Rail S.r.l. (formerly FS Telco S.r.l.)								135
Italcertifer S.p.A.	738						738	
Italferr S.p.A.	8,047						8,047	
RFI S.p.A.	32,414,368				49,531		32,463,899	
Sita S.p.A. in liquidation								
Trenitalia S.p.A.	1,417,782						1,417,782	
Busitalia - Sita Nord S.r.l.	85,373						85,373	
TrainOSE SA	45,000						45,000	
Nugo S.p.A.	1,000	10,400					11,400	
Tav S.r.l.	50						50	
FS Technology S.p.A.		1,000					1,000	
Ferrovie del Sud Est e Servizi Automobilistici - FSE S.r.l.		41,779				31,521	73,300	
	<b>35,110,278</b>	<b>2,916,920</b>		<b>(127,873)</b>		<b>9,126</b>	<b>37,908,451</b>	<b>160,668</b>
<b>Investments in associates</b>								
Metro 5 S.p.A.	30,308						30,308	
Ferrovie Nord Milano S.p.A.	23,061						23,061	
Italiacamp S.r.l.	23						23	
	<b>53,392</b>						<b>53,392</b>	
<b>Investments in joint arrangements</b>								
T.E.L.T. Sas (formerly L.T.F. Sas)	95,120	87,772				(87,772)	95,120	
	<b>95,120</b>	<b>87,772</b>				<b>(87,772)</b>	<b>95,120</b>	
<b>Other companies</b>								
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	
	<b>14,748</b>						<b>14,748</b>	
<b>Total</b>	<b>35,273,538</b>	<b>3,004,692</b>		<b>(127,873)</b>		<b>(78,646)</b>	<b>38,071,711</b>	<b>160,668</b>

The following table compares the carrying amounts of investments in subsidiaries, associates and joint arrangements with the corresponding interests in equity.

thousands of Euros

	Registered office	Share/quot a capital	Profit (loss) for the year	Equity (deficit) at 31.12.2019	% of investment	Attributable equity (a)	Carrying amount at 31.12.2019 (b)	Difference (b) - (a)
<b>Investments in subsidiaries</b>								
Busitalia - Sita Nord S.r.l.	Rome	73,000	911	89,330	100.00%	89,330	85,373	(3,957)
Anas S.p.A.	Rome	2,269,892	(68,529)	2,613,818	100.00%	2,613,818	2,863,741	249,923
Fercredit S.p.A.	Rome	32,500	4,280	91,023	100.00%	91,023	31,413	(59,610)
Ferservizi S.p.A.	Rome	8,170	26,894	35,065	100.00%	35,065	8,378	(26,687)
Mercitalia Logistics S.p.A.	Rome	184,611	9,775	194,070	100.00%	194,070	219,265	25,195
FS Sistemi Urbani S.r.l.	Rome	532,791	4,067	545,157	100.00%	545,157	534,094	(11,063)
Grandi Stazioni Immobiliare S.p.A.	Rome	4,000	(4,913)	34,257	60.00%	20,554	616	(19,938)
Italcertifer S.p.A.	Florence	480	2,059	9,149	55.66%	5,092	738	(4,354)
Italferr S.p.A.	Rome	14,186	30,395	72,900	100.00%	72,900	8,047	(64,853)
RFI S.p.A.	Rome	31,528,425	301,933	33,715,303	100.00%	33,715,303	32,463,899	(1,251,404)
FS Technology S.p.A.	Rome	27,578	49	33,831	100.00%	33,831	27,578	(6,252)
Sita S.p.A. in liquidation (*)	Florence	200		9,781	55.00%	5,380		(5,380)
Nugo S.p.A.	Rome	1,000	(6,148)	2,056	100.00%	2,056	11,400	9,344
Trenitalia S.p.A.	Rome	1,607,138	385,083	3,219,347	100.00%	3,219,347	1,607,137	(1,612,210)
TAV S.r.l. (*)	Rome	50	(12)	23	100.00%	23	50	27
Ferrovie del Sud Est e Servizi Automobilistici - FSE S.r.l.	Rome	4,683	11,497	15,823	100.00%	15,823	73,300	57,477
FS Saudi	Riyadh	119		119	100.00%	119	119	
FS Italian Railways USA	San Francisco	89		89	100.00%	89	89	
FS International S.p.A.	Rome	1,000		1,000	100.00%	1,000	1,000	
<b>Total</b>						<b>40,659,982</b>	<b>37,936,238</b>	<b>(2,723,743)</b>
<b>Investments in associates</b>								
Metro 5 S.p.A.	Milan	53,300	6,573	89,911	36.70%	32,997	30,308	(2,689)
Ferrovie Nord Milano S.p.A. (*)	Milan	230,000	35,441	389,296	14.74%	57,382	23,061	(34,321)
Italiacamp S.r.l. (*)	Rome	150		751	20.00%	150	23	(127)
<b>Total</b>						<b>90,530</b>	<b>53,392</b>	<b>(37,138)</b>
<b>Investments in joint arrangements</b>								
T.E.L.T. Sas (**)	Le Bourget du Lac	1,000		55	50.00%	27	95,120	95,093
<b>Total</b>						<b>27</b>	<b>95,120</b>	<b>95,093</b>
<b>TOTAL</b>						<b>40,750,540</b>	<b>38,084,750</b>	<b>(2,665,788)</b>

(\*) Figures refer the 2018 financial statements (\*\*) Reclassification of the governments 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.

The following companies have been recognised at carrying amounts above the corresponding portion of equity:

- Anas S.p.A., which joined the FS Italiane group in 2018 and confirms its strategic scenario even after the update of the Government Programme Contract which the CIPE approved during its 24 July 2019 meeting with resolution no. 36/2019, published in Official Journal no. 20 of 25 January 2020, which postponed the application of the fee-based remuneration method until 2021. Furthermore, the process continued to request the extension of the concession for up to 50 years. The directors decided to retest the recoverable amount of the equity investment, which did not show any impairment;
- Mercitalia Logistic S.p.A., whose goodwill was tested for impairment in 2019, showing no impairment. Accordingly, no impairment was recognised on this equity investment;
- The differences between the carrying amounts of Ferrovie del Sud Est S.r.l. and the corresponding portion of equity were not analysed as, considering the company's forecast performance in the business plan, they are not considered to be permanent.
- Nugo S.p.A., which began operating in the second half of 2018, is a genuine start-up. In line with the forecasts in the budget and business plan, its operating loss was due to start-up costs for the Nugo project;
- TAV S.r.l., which is dormant.

The following table summarises the main statement of financial position and income statement captions of associates and joint arrangements. Figures are drawn from the 2019 and 2018 financial statements.

thousands of Euros

<b>Investments in associates and joint arrangements 31.12.2019</b>	<b>% of investment</b>	<b>Current assets</b>	<b>Non-current assets</b>	<b>Assets held for sale</b>	<b>Total assets</b>	<b>Current liabilities</b>	<b>Non-current liabilities</b>	<b>Total liabilities</b>	<b>Revenue</b>	<b>Costs</b>	<b>Profit/(loss)</b>
<b>Investments in associates</b>											
FNM S.p.A. (*)	14.74%	182,403	473,548		655,951	172,710	121,594	294,304	90,142	65,830	24,312
Italiacamp S.r.l. (**)	20.00%	1,553	432		1,985	705	333	1,037	2,940	2,629	311
Metro 5 S.p.A.	36.70%	132,921	639,732		772,653	72,154	610,589	682,743	79,825	73,252	6,573
<b>Investments in joint arrangements</b>											
T.E.L.T. Sas (formerly L.T.F. Sas)	50.00%	24,529	1,396,862		1,421,390	45,831	1,375,504	1,421,336	11,267	11,267	

(\*) 2018 financial statements figures

(\*\*) Its financial statements are drawn up under Italian GAAP

thousands of Euros

<b>Investments in associates and joint arrangements 31.12.2018</b>	<b>% of investment</b>	<b>Current assets</b>	<b>Non-current assets</b>	<b>Assets held for sale</b>	<b>Total assets</b>	<b>Current liabilities</b>	<b>Non-current liabilities</b>	<b>Total liabilities</b>	<b>Revenue</b>	<b>Costs</b>	<b>Profit/(loss)</b>
<b>Investments in associates</b>											
FNM S.p.A. (*)	14.74%	190,757	482,858	1,677	675,292	252,355	76,359	328,714	79,568	58,356	21,212
Italiacamp S.r.l. (**)	20.00%	1,007	150		1,157	487	33	520	2,101	1,948	153
Metro 5 S.p.A.	36.70%	134,757	642,632		777,389	89,508	592,917	682,425	79,167	68,059	11,108
<b>Investments in joint arrangements</b>											
T.E.L.T. Sas (formerly L.T.F. Sas)	50.00%	37,606	1,254,159		1,291,765	61,441	1,229,457	1,290,898	38,367	38,367	

(\*) 2017 financial statements figures

(\*\*) Its financial statements are drawn up under Italian GAAP

## 11. Non-current and current financial assets (including derivatives)

The following table gives a breakdown of financial assets at the 2019 and 2018 year ends:

thousands of Euros

	<b>Carrying amount</b>								
	<b>31.12.2019</b>			<b>31.12.2018</b>			<b>Changes</b>		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Hedging derivatives				3,080		3,080	(3,080)		(3,080)
Loans and borrowings	6,083,657	1,539,759	7,623,416	5,991,298	955,840	6,947,138	92,359	583,919	676,278
Current loans		1,733,021	1,733,021		1,245,710	1,245,710		487,311	487,311
Other loans		88	156,111		166,613	168,870	(2,169)	(10,502)	(12,671)
<b>Total</b>	<b>6,083,745</b>	<b>3,428,891</b>	<b>9,512,636</b>	<b>5,996,635</b>	<b>2,368,163</b>	<b>8,364,798</b>	<b>87,110</b>	<b>1,060,728</b>	<b>1,147,838</b>

Financial assets increased by €1,147,838 thousand overall in 2019.

"Hedging derivatives" show a nil balance following the remeasurement of the cross currency swaps at fair value, as required by IFRS 13, with the resulting liability recognised in "current and non-current financial liabilities". The swaps were entered

into for the purpose of hedging interest rate risk on the loan granted to Trenitalia UK and described in paragraph 4 “Financial risk management”.

Loans and borrowings at 31 December 2019 refer to the loans granted to group companies, mainly to the subsidiaries RFI S.p.A. and Trenitalia S.p.A. for a total of €6,796,981 thousand, including €4,765,934 thousand in connection with the Euro Medium Term Notes Programme. The balance is net of the loss allowance of €5,492 thousand, recognised in accordance with IFRS 9.

The most significant financial transactions carried out in the year are described below:

- On 27 March 2019, Ferrovie dello Stato Italiane S.p.A. On 27 March 2019, the Ferrovie dello Stato Italiane S.p.A. granted the subsidiary TrainOSE SA an intragroup loan to finance its acquisition of 100% of Rosco SA and cover the initial outlays to purchase machinery and comply with occupational safety standards. The amount of the loan is €25,000 thousand of euro and its repayment date is 29 December 2028;
- On 5 June 2019 and 31 July 2019, Ferrovie dello Stato Italiane S.p.A. granted the subsidiary Mercitalia Logistics S.p.A. two intragroup loans specifically to cover the capital requirements of the subsidiary TX Logistik. The maximum amounts of the loans are €56,000 thousand and €83,000 thousand euro, respectively, and they are repayable on 30 June 2024. Ferrovie dello Stato Italiane S.p.A. disbursed a total of €129,000 thousand in the year;
- On 9 July 2019, Ferrovie dello Stato Italiane S.p.A. placed its second green bond issue of €700,000 thousand as part of the Euro Medium Term Notes (EMTN) Programme. The bonds have a fixed coupon of 1.125% and a seven-year maturity. This placement makes FS Italiane the first corporate issuer to finance freight rolling stocks through green bonds and the first Italian issuer to obtain the Climate Bonds Initiative (CBI) certification. The proceeds from the bond issue were allocated to two separate intragroup loans to Trenitalia S.p.A. (€582,000 thousand) and Mercitalia Rail S.p.A. (€118,000 thousand);
- On 30 July 2019, Ferrovie dello Stato Italiane S.p.A. restructured the intragroup loan granted to the subsidiary Busitalia Sita Nord S.r.l. for the acquisition of the Dutch public transport company Qbuzz BV in August 2017, extending its term. The loan amounts to €36,910 thousand and it is repayable on 28 December 2026;
- On 31 July 2019, Ferrovie dello Stato Italiane S.p.A. granted the subsidiary Mercitalia Rail S.r.l. an intragroup loan of €107 million and repayable on 30 June 2024;
- On 13 August 2019, First Trenitalia West Coast Rail (a joint venture between FirstGroup, with 70%, and Trenitalia UK Ltd, with 30%) was awarded the West Coast Partnership railway service franchise. To meet the financial requirements established by the Department for Transport (DfT), Ferrovie dello Stato Italiane S.p.A. gave the JV a loan totalling GBP30,000 thousand. Ferrovie dello Stato Italiane S.p.A.’s share of the loan amounts to GBP9,000 thousand and was disbursed in December 2019;
- On 1 August 2019, Ferrovie dello Stato Italiane S.p.A. placed a bond with a fixed coupon of 1.035%, for €100,000 thousand and with a 10-year maturity as part of the EMTN programme listed on the Irish Stock Exchange. The proceeds from the bond, following the conversion of the fixed rate to a variable rate through an interest rate swap, were allocated to an intragroup loan to RFI S.p.A. to finance the completion of the high-speed network;
- On 15 October 2019, Ferrovie dello Stato Italiane S.p.A. granted Qbuzz BV two intragroup loans for a total of €85,000 thousand repayable on 28 December 2027, to finance investments in buses and trains under the DMG concession awarded in February 2018 and commenced in December 2018. The loans are guaranteed by the company’s direct parent Busitalia Sita Nord S.r.l.;
- On 6 December 2019, Ferrovie dello Stato Italiane S.p.A. granted the subsidiary FSTechnology S.p.A. an intragroup loan of €100,000 thousand maturing on 26 December 2026 to finance the investments in software, hardware, network

and professional services envisaged in the business plan. Ferrovie dello Stato Italiane S.p.A. disbursed a total of €34,992 thousand in the year;

- On 19 December 2019, Ferrovie dello Stato Italiane S.p.A. finalised another private bond placement with Eurofima. Variable-rate, 15-year Ferrovie dello Stato Italiane S.p.A. bonds of €200,000 million were subscribed. The proceeds from the bond were allocated to an intragroup loan to Trenitalia S.p.A. to finance regional transport;
- On 23 December 2019, Ferrovie dello Stato Italiane S.p.A. placed a 10-year bond of €140,000 thousand as part of the EMTN Programme. The proceeds from the bond were allocated to an intragroup loan to RFI S.p.A. for investments in the high-speed network.

These increases are offset by the repayment of loans by group companies during the year. The repayments total €936,108 thousand and mainly refer to Trenitalia S.p.A. (€643,000 thousand) and RFI S.p.A. (€279,495 thousand).

The €487,311 thousand increase in current loans during the year is essentially due to the increase in loans granted to RFI S.p.A. (+€790,000 thousand) and Trenitalia C2C (+€53,510 thousand), offset by the decrease in the loans granted to Mercitalia Rail S.r.l. (-€126,100 thousand), Trenitalia S.p.A. (-€120,000 thousand) and Mercitalia Logistics S.p.A. (-€114,000 thousand).

The €12,671 thousand decrease in other loans is mainly due to the smaller intragroup current account balances with Trenitalia S.p.A. (-€21,613 thousand) and the €1,464 thousand reduction in the back-up facility, offset by the greater intragroup current account balances with Italferr S.p.A., up €11,682 thousand.

## 12. Other non-current and current assets

	31.12.2019			31.12.2018			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Other assets from group companies		49,319	49,319		51,055	51,055		(1,736)	(1,736)
VAT assets	25,696		25,696	33,625	5,555	39,180	(7,929)	(5,555)	(13,484)
MEF					21,850	21,850		(21,850)	(21,850)
MIT		514,371	514,371		572,279	572,279		(57,908)	(57,908)
Other government authorities		195	195		177	177		18	18
Sundry assets and prepayments and accrued income	1,256	8,248	9,504	1,255	3,110	4,365	1	5,138	5,139
<b>Total</b>	<b>26,952</b>	<b>572,133</b>	<b>599,085</b>	<b>34,880</b>	<b>654,026</b>	<b>688,906</b>	<b>(7,928)</b>	<b>(81,893)</b>	<b>(89,821)</b>
Loss allowance	(1,074)	(443)	(1,517)	(1,073)	(708)	(1,781)	1	(265)	(264)
<b>Total net of the loss allowance</b>	<b>25,878</b>	<b>571,690</b>	<b>597,568</b>	<b>33,807</b>	<b>653,318</b>	<b>687,125</b>	<b>(7,929)</b>	<b>(81,628)</b>	<b>(89,557)</b>

The decrease in other assets from group companies is mainly due to the reduction in the group's VAT assets (€10,413 thousand) and the increase in amounts receivable from the tax consolidation scheme (€8,919 thousand).

VAT assets decreased by a total of €13,484 thousand, essentially due to the offsetting of the 2018 VAT asset in the 2019 VAT return (€5,555 thousand) and the derecognition of the accrued interest on the 1998-1999 VAT assets (€7,929 thousand), which had originally been transferred from Société Générale and was derecognised when the Tax Authorities' extinguished the obligation with FS Italiane S.p.A.. The provision for risks, set up specifically for this purpose in previous years, was utilised by the same amount for the derecognition of this asset.

The amount due from the MEF was reduced to nil after the Ministry paid chapter 7122 grants of €21,850 thousand to TELT Sas for the construction of the Turin – Lyon railway line. The amount due from the MIT for chapter 7532 grants for the construction of the railway line decreased by €57,908 thousand. The MEF and MIT payments to TELT are detailed in note

10 to equity investments.

Sundry assets rose following the increases in contract advances paid (€2,625 thousand) and greater non-trade amounts due, particularly from the customer Flow Consortium, for a total of €2,077 thousand.

The loss allowance is down by a total of €264 thousand on the previous year end as a result of the losses on other assets in accordance with IFRS 9.

Assets broken down by geographical segment are as follows:

	thousands of Euros		
	<b>31.12.2019</b>	<b>31.12.2018</b>	<b>Changes</b>
Italy	595,100	687,500	(92,400)
Eurozone countries	1,525	968	557
United Kingdom	343	248	95
Other non-EU European countries	12	11	1
United States	320	179	141
Other countries	1,785		1,785
<b>Total</b>	<b>599,085</b>	<b>688,906</b>	<b>(89,821)</b>

### 13. Inventories

	thousands of Euros		
	<b>31.12.2019</b>	<b>31.12.2018</b>	<b>Changes</b>
Land and buildings held for trading	533,730	561,652	(27,922)
Allowance for inventory write-down	(156,342)	(171,396)	15,054
<b>Carrying amount</b>	<b>377,388</b>	<b>390,256</b>	<b>(12,868)</b>
<b>Total inventories</b>	<b>377,388</b>	<b>390,256</b>	<b>(12,868)</b>
<b>Reclassifications</b>			
Cost	343	14,827	(14,484)
Allowance for inventory write-down	(122)	(5,761)	5,639
Grants			
<b>Total reclassifications</b>	<b>221</b>	<b>9,066</b>	<b>(8,845)</b>

Inventories comprise buildings held for trading. The net decrease of €12,868 thousand on the previous year end is mostly due to the disposals of the year (€29,748 thousand), net of utilisation of the related allowance for inventory write-down (€25,176 thousand) and the write-downs recognised (€10,000 thousand) to align the carrying amount of the assets to their market value and increases in extraordinary maintenance on buildings (€1,483 thousand). Indeed, the regular appraisal and analysis of the company's real estate assets continue, also considering the economic climate and, in particular, the lower real estate market values.

As already disclosed in note 7 to Investment property, during the year, the company reclassified €221 thousand related to buildings covered by sales plans from that caption to inventories.

### 14. Non-current and current trade receivables



	thousands of Euros								
	31.12.2019			31.12.2018			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Ordinary customers	4,345	86,240	90,585	6,041	51,985	58,026	(1,696)	34,255	32,559
Government authorities and other public authorities		4,960	4,960		4,941	4,941		19	19
Receivables from group companies		89,797	89,797		77,234	77,234		12,563	12,563
<b>Total</b>	<b>4,345</b>	<b>180,997</b>	<b>185,342</b>	<b>6,041</b>	<b>134,160</b>	<b>140,201</b>	<b>(1,696)</b>	<b>46,837</b>	<b>45,141</b>
Loss allowance	(186)	(27,197)	(27,384)	(244)	(29,834)	(30,078)	58	2,637	2,695
Total net of the allowance for impairment	4,159	153,800	157,958	5,797	104,326	110,123	(1,638)	49,474	47,836

Trade receivables increased by €47,836 thousand in the year as a result of:

- the €32,559 thousand increase in trade receivables from ordinary customers, mainly because of the start of commercial operations in connection with the foreign contract for the Riyadh metro;
- the €19 thousand increase in trade receivables from commercial operations with the public administration;
- the €12,563 thousand increase in trade receivables from commercial operations with intragroup customers.

Intragroup trade receivables essentially refer to the service agreement and real estate items.

The loss allowance increased by a total of €2,695 thousand on the previous year end. The increase relates to both current trade receivables (€2,637 thousand) and non-current trade receivables (€58 thousand) and includes the loss allowance recognised in accordance with IFRS 9, €238 thousand of which related to trade receivables at 31 December 2019.

The maximum exposure to credit risk, broken down by geographical segment, is as follows:

	thousands of Euros		
	31.12.2019	31.12.2018	Changes
Italy	143,776	138,000	5,776
Eurozone countries	1,857	1,620	237
United Kingdom	403	330	73
Other European countries (EU, non-Euro)	16	250	(234)
Other non-EU European countries	250	1	249
<b>Total</b>	<b>185,342</b>	<b>140,201</b>	<b>45,141</b>

## 15. Cash and cash equivalents

They can be analysed as follows:

	thousands of Euros		
	31.12.2019	31.12.2018	Changes
Bank and postal accounts	259,462	213,777	45,685
Cash and cash on hand	27	25	2
Cash pooling accounts	81,169	80,459	710
<b>Total</b>	<b>340,658</b>	<b>294,261</b>	<b>46,397</b>

The €46,397 thousand increase in this caption is mainly due to the increase in bank and postal account balances, principally reflecting the collection of dividends for 2018 from subsidiaries, associates and other companies (€137,406 thousand),

residual liquidity resulting from funding and expenditure in the year (€38,251 thousand), the sale of Centostazioni Retail (€35,258 thousand) and the sales of buildings held for trading (€23,882 thousand), offset by VAT reimbursements to the group companies (€131,525 thousand), investments in intangible assets (€40,254 thousand), property, plant and equipment (€13,401 thousand), new equity investments (€1,208 thousand) and payments to outgoing employees in the year (€1,633 thousand).

## 16. Tax assets

Tax assets amount to €83,743 thousand, down by €188 thousand on the balance of €83,930 thousand at 31 December 2018, and mainly relate to IRES assets from the tax consolidation scheme and group withholdings.

## 17. Assets held for sale and disposal groups

This caption shows a nil balance due to the March 2019 sale of the 100% investment in Centostazioni Retail S.r.l. (€22,395 thousand), which was set up following the demerger from Centostazioni S.p.A., as detailed in note 10 "Equity investments" to which reference should be made.

## 18. Equity

Changes in the main equity captions in 2019 and 2018 are shown in the statement of changes in equity.

### **Share/quota capital**

Ferrovie dello Stato Italiane S.p.A.'s share capital at 31 December 2019 is entirely subscribed and paid up and consists of 39,204,173,802 ordinary shares with a nominal amount of €1 each, for a total of €39,204,173,802.

### **Legal reserve**

This reserve amounts to €53,473 thousand at the reporting date, up by €3,120 thousand after allocation of part of the 2018 profit pursuant to article 2430 of the Italian Civil Code.

### **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 €113 thousand, net of the tax effect, was recognised in 2019.

### **Retained earnings**

This caption of €374,612 thousand refers to the allocation of part of the 2018 profit.

### **Profit for the year**

2019 ended with a profit of €226,673 thousand.

The origin, availability and distributability of equity captions are shown below.

Origin	Balance at 31.12.2019 (a+b)	Unavailable portion (a)	Possibility of use	Available portion (b)
<b>Share/quota capital</b>	39,204,174	39,204,174		
<b>Income-related reserves:</b>				
Legal reserve	53,473	53,473	B	
<b>Valuation reserves</b>				
Actuarial reserve	113		A,B	113
Retained earnings	374,612		A,B,C	374,612
<b>Total</b>	<b>39,632,372</b>	<b>39,257,647</b>		<b>374,725</b>

Key:

A: capital increase

B: coverage of losses

C: dividends

## 19. 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

Non-current loans and borrowings, net of the current portion	Carrying amount		
	31.12.2019	31.12.2018	Changes
Bonds	5,409,862	4,977,305	432,557
Bank loans and borrowings	104,144	357,002	(252,858)
Loans and borrowings from other financial backers	97,060	437,386	(340,326)
<b>Total</b>	<b>5,611,066</b>	<b>5,771,693</b>	<b>(160,627)</b>

thousands of Euros

Loans and borrowings and current portion of non-current loans and borrowings	Carrying amount		
	31.12.2019	31.12.2018	Changes
Bonds (current portion)	929,046	367,329	561,717
Bank loans and borrowings (current portion)	1,682,803	1,131,849	550,954
Loans and borrowings from other financial backers (current portion)	340,326	182,889	157,437
Loans and borrowings from group companies (current portion)	432	326	106
<b>Total</b>	<b>2,952,607</b>	<b>1,682,393</b>	<b>1,270,214</b>
<b>Total loans and borrowings</b>	<b>8,563,673</b>	<b>7,454,086</b>	<b>1,109,587</b>

The €1,109,587 thousand increase in this caption on the previous year end is substantially due to the subscription of new bonds as part of the Euro Medium Term Notes Programme, with a total nominal amount of €1,130,000 thousand. These new bonds included the green bond placement of €700,000 thousand in July, €100,000 thousand in August and €330,000 in December, to meet the group's financial requirements. The increase also reflects the €696,629 thousand increase in current funding and the new private bond placement with Eurofima SA, with a nominal amount of €200,000 thousand, a variable rate and a 15-year maturity, offset by the repayments of €343,000 thousand of the Eurofima SA bond, €300,000

thousand of the TLTRO I (RTI) loan, €182,889 thousand of the Cassa Depositi e Prestiti loan and €96,606 thousand of the EIB loan.

Furthermore, this caption decreased due to the measurement of the interest rate swap classified as a fair value hedge (€1,725 thousand).

The terms and conditions of all non-current loans and borrowings, including the current portion, are summarised in the table below:

Creditor	Currency	Nominal interest rate	Year of maturity	31.12.2019		31.12.2018	
				Nominal amount	Carrying amount	Nominal amount	Carrying amount
EUROFIMA	€	6M Euribor - spread	2019			160,000	160,017
EUROFIMA	€	6M Euribor - spread	2019			183,000	183,016
EUROFIMA	€	6M Euribor - spread	2020	62,700	62,701	62,700	62,700
EUROFIMA	€	6M Euribor - spread	2026	190,000	190,065	190,000	190,045
EUROFIMA	€	6M Euribor - spread	2026	100,000	100,034	100,000	100,023
EUROFIMA	€	6M Euribor - spread	2027	128,700	128,799	128,700	128,764
EUROFIMA	€	6M Euribor - spread	2026	116,000	116,038	116,000	116,026
EUROFIMA	€	6M Euribor - spread	2022	120,000	120,108	120,000	120,076
EUROFIMA	€	6M Euribor - spread	2024	122,200	122,237	122,200	122,226
EUROFIMA	€	6M Euribor - spread	2027	65,700	65,749	65,700	65,731
EUROFIMA	€	6M Euribor - spread	2020	47,400	47,401	47,400	47,400
EUROFIMA	CHF	fixed rate 2.57%	2020	41,459	41,740	39,933	40,203
EUROFIMA	€	6M Euribor + spread	2025	42,500	42,500	42,500	42,513
EUROFIMA	€	6M Euribor + spread	2034	200,000	200,000		
EMTN PROGR. TR. 1	€	fixed rate 4.00%	2020	749,185	762,545	747,749	761,147
EMTN PROGR. TR. 2	€	fixed rate 3.50%	2021	598,990	600,080	598,501	599,594
EMTN PROGR. TR. 3	€	6M Euribor + spread	2025	300,000	300,007	300,000	300,008
EMTN PROGR. TR. 4	€	6M Euribor + spread	2022	349,570	350,139	349,387	350,086
EMTN PROGR. TR. 5	€	fixed rate 1.65%	2031	49,817	50,178	49,803	50,165
EMTN PROGR. TR. 6	€	fixed rate 1.50%	2025	997,624	1,005,329	997,213	1,004,939
EMTN PROGR. TR. 7	€	fixed rate 0.87%	2023	599,615	599,974	599,519	599,879
EMTN PROGR. TR. 8	€	6M Euribor + spread	2025	100,000	100,011	100,000	100,017
EMTN PROGR. TR. 9	€	6M Euribor + spread	2030	200,000	200,328	200,000	200,385
EMTN PROGR. TR. 10	€	fixed rate 1.12%	2026	699,327	703,114		
EMTN PROGR. TR. 11	€	fixed rate 1.03%	2029	99,818	100,234		
EMTN PROGR. TR. 12	€	6M Euribor + spread	2029	140,000	140,020		
EMTN PROGR. TR. 13	€	6M Euribor + spread	2024	190,000	190,008		
				6,310,605	6,339,339	5,320,305	5,344,960
EIB	€	fixed rate 4.685%	2021	207,002	207,433	303,608	304,240
CASSA DD.PP.	€	fixed rate 4.026%	2021	287,386	287,386	470,275	470,275
TLTRO I (RTI)	€	6M Euribor + spread	2019			300,000	300,000
TLTRO II 1 <sup>st</sup> tranche (CDP)	€	6M Euribor + spread	2020	150,000	150,000	150,000	150,000
TLTRO II 2 <sup>nd</sup> tranche (ISP)	€	6M Euribor + spread	2020	150,000	150,000	150,000	150,000
<b>Total loans and borrowings</b>				<b>7,104,993</b>	<b>7,134,158</b>	<b>6,694,188</b>	<b>6,719,475</b>

The carrying amount of loans and borrowings at 31 December 2019 excludes current funding of €1,431,241 thousand and the -€1,726 thousand adjustment to financial liabilities for fair value hedges. The balance at 31 December 2018 excluded current funding of €734,611 thousand.

The table below analyses the net financial position, shown in the reclassified statement of financial position, as presented in the 2019 Directors' report compared with 31 December 2018:

thousands of Euros			
<b>Net financial position</b>	<b>31.12.2019</b>	<b>31.12.2018</b>	<b>Change</b>
<b>Net current financial position</b>	<b>(476,005)</b>	<b>(727,557)</b>	<b>251,552</b>
Cash pooling accounts	(81,169)	(80,459)	(710)
Loans and borrowings from other financial backers	340,326	182,889	157,437
Bank loans and borrowings	1,680,626	1,130,377	550,249
Bonds	927,582	365,981	561,601
Intragroup current account	185,635	86,440	99,195
Loans with group companies	(3,269,678)	(2,198,983)	(1,070,695)
Bank and postal accounts	(259,462)	(213,777)	(45,685)
Other	135	(25)	160
<b>Net non-current financial position</b>	<b>(472,224)</b>	<b>(220,494)</b>	<b>(251,730)</b>
Loans and borrowings from other financial backers	97,060	437,386	(340,326)
Bank loans and borrowings	104,056	354,745	(250,689)
Bonds	5,409,862	4,977,305	432,557
Loans with group companies	(6,083,395)	(5,989,930)	(93,465)
Other	193		193
<b>Total</b>	<b>(948,229)</b>	<b>(948,051)</b>	<b>(178)</b>

Pursuant to the amendments to IAS 7, the reconciliation between the total changes in financial assets and liabilities broken down by monetary and non-monetary items is given below.

thousands of Euros							
	<b>31.12.2018</b>	<b>Monetary items (statement of cash flows)</b>	<b>Intragroup current account</b>	<b>Non-monetary items</b>			<b>31.12.2019</b>
				<b>New leases</b>	<b>IFRS 9</b>	<b>Other</b>	
Disbursement and repayment of current and non/current loans	7,454,086	1,104,219				5,368	8,563,673
Change in other financial assets	(8,364,798)	(1,143,425)	11,222		430	(16,065)	(9,512,636)
Change in other financial liabilities	253,842	(224)	87,988	415		1,685	343,706
<b>Total</b>	<b>(656,870)</b>	<b>(39,430)</b>	<b>99,210</b>	<b>415</b>	<b>430</b>	<b>(9,012)</b>	<b>(605,257)</b>

## 20. Post-employment benefits and other employee benefits

	thousands of Euros	
	<b>31.12.2019</b>	<b>31.12.2018</b>
Present value of post-employment benefit obligations	7,459	8,661
Present value of Free Travel Card obligations	290	207
<b>Total present value of obligations</b>	<b>7,749</b>	<b>8,868</b>

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	
	<b>2019</b>	<b>2018</b>
Defined benefit obligations at 1 January	8,868	9,123
Service costs	3	3
Interest cost (*)	70	84
Actuarial (gains) losses recognised in equity (**)	305	(149)
Advances, utilisations and other changes	(1,497)	(193)
<b>Total defined benefit obligations</b>	<b>7,749</b>	<b>8,868</b>

(\*) through profit or loss

(\*\*) net of the tax effects

The decrease in the provision for post-employment benefits and the Free Travel Card (approximately €1,119 thousand) mainly refers to:

- payments to outgoing employees in the year (€1,633 thousand) and the transfer of employees from/to other group companies (€187 thousand), including those transferred to FSTechnology with the contribution of the ICT business unit.
- 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, which represents the actuarial gains/(losses). This calculation generated an actuarial loss of €305 thousand during the year, compared to the actuarial gain of €149 thousand in 2018.

## Actuarial assumptions

The main assumptions for the actuarial estimate process are described below.

	2019	2018
Discount rate (post-employment benefits)	0.37%	1.13%
Discount rate (Free Travel Card)	0.77%	1.57%
Expected turnover rate for employees	3.00%	3.00%
Expected rate of advances	2.00%	2.00%
Probability of death	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 analyses 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 last table shows the average duration of the defined benefit obligations and the disbursements provided by the plan.

	thousands of Euros	
	<b>Post-employment benefits</b>	<b>Free Travel Card</b>
Inflation rate +0.25%	7,539	296
Inflation rate -0.25%	7,379	283
Discount rate +0.25%	7,333	280
Discount rate -0.25%	7,589	298
Turnover rate +1%	7,407	
Turnover rate -1%	7,516	
Service cost		4
<i>Plan duration</i>	<i>8</i>	<i>13</i>
Payment - first year	2,182	18
Payment - second year	613	18
Payment - third year	318	17
Payment - fourth year	231	16
Payment - fifth year	490	16

## 21. Provisions for risks and charges

The opening and the closing balances of, and changes in, the provisions for risks and charges for 2019 are given below.



thousands of Euros

	31.12.2018	Accruals	Utilisations	Other changes	Release of excess provisions	31.12.2019
Tax provision	6		(2)			4
Labour and civil litigation	6,478	343	(87)		(100)	6,634
Other minor risks	153,145	8,120	(11,311)	(5,632)		144,322
<b>Total</b>	<b>159,629</b>	<b>8,463</b>	<b>(11,400)</b>	<b>(5,632)</b>	<b>(100)</b>	<b>150,960</b>

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 suffered during sales negotiations), non-compliance with agreements or disputes about leases, claims for checks on property, pre-emption rights, etc., as well as disputes with personnel. €87 thousand of the provision was used in 2019, mainly due to the disputes with personnel and to manage real estate, while €100 thousand was released after the stay of legal proceedings due to the bankruptcy of the respondent in the case. In addition, the accrual of €343 thousand refers to the company's update of its risk assessment for accuracy.

The **provision for other minor risks** mainly covers estimated expenses to be incurred for managers involved in the change management process 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 non included in the tax provision described below.

Utilisations of the provisions for risks in the year (€11,470 thousand) refer to costs of €3,381 thousand incurred to meet the contractual obligations of the former Ferrovie Real Estate S.p.A. and other property management expenses. They also include €7,930 thousand for the derecognition of an asset for interest accrued on 1998-1999 VAT assets, due from the Tax Authorities and originally transferred from Société Générale, as the Tax Authorities' obligation to FS Italiane was extinguished.

Other changes relate to the reclassification of €5,599 thousand of the bilateral fund for income assistance (Interministerial decree of 9 January 2015 and Legislative decree no. 148/2015D and INPS circular of 29 December 2015) to other non-current liabilities, in relation to projects launched during the year, and €33 thousand for the renewal of the contract with the demerged company FSTechnology S.p.A..

Accruals of the year (€8,120 thousand) refer to forecast expenses for future restructuring and change management projects (€2,803 thousand) and adjustments for probable risks of unfavourable arbitration awards currently pending (€5,317 thousand).

The **tax provision** covers probable tax outlays.

## 22. Non-current and current financial liabilities (including derivatives)

thousands of Euros

	Carrying amount								
	31.12.2019			31.12.2018			Change		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
<b>Financial liabilities</b>									
Financial instruments	2,314		<b>2,314</b>				2,314		<b>2,314</b>
Lease liabilities	194	114	<b>308</b>				194	114	<b>308</b>
Other financial liabilities	262	340,822	<b>341,084</b>	1,368	252,474	<b>253,842</b>	(1,106)	88,348	<b>87,242</b>
<b>Total</b>	<b>2,770</b>	<b>340,936</b>	<b>343,706</b>	<b>1,368</b>	<b>252,474</b>	<b>253,842</b>	<b>1,402</b>	<b>88,462</b>	<b>89,864</b>

The increase in other financial liabilities is mainly due to the greater liability for the intragroup current accounts, mostly with FSTechnology S.p.A. (€43,789 thousand), the Busitalia group companies (€20,223 thousand), Mercitalia Rail S.r.l. (€12,513 thousand), Mercitalia Logistics S.p.A. (€10,018 thousand), RFI S.p.A. (€8,748 thousand), FS Sistemi Urbani S.r.l. (€7,687 thousand) and Grandi Stazioni Rail S.p.A. (€7,394 thousand), offset by the decrease in the balance with Ferservizi S.p.A. (-€26,404 thousand).

Financial instruments of €2,314 thousand include the liability arising from the measurement of hedging derivatives in accordance with IFRS 13. The scope of the company's derivatives at the measurement date includes cross currency swaps classified as cash flow hedges and the new interest rate swap classified as a fair value hedge and agreed in connection with the EMTN series 11 bond placement.

Lease liabilities of €308 thousand consist of the financial liability recognised in accordance with IFRS 16.

The table below shows a forecast of potential future lease payments:

thousands of Euros

Recognised lease liabilities	Potential future lease payments	Rate at which lease extension/termination options have been historically exercised
308	445	50%

## 23. Other non-current and current liabilities

thousands of Euros

	31.12.2019			31.12.2018			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Advances for grants		514,371	514,371		594,129	594,129		(79,758)	(79,758)
VAT liabilities		4,186	4,186					4,186	4,186
Social security charges payable		5,060	5,060		5,053	5,053		7	7

Other liabilities with group companies	23,982	22,165	46,147	160,881	53,378	214,259	(136,899)	(31,213)	(168,112)
Other liabilities and accrued expenses and deferred income	9,940	60,546	70,486	6,436	63,022	69,458	3,504	(2,476)	1,028
<b>Total</b>	<b>33,922</b>	<b>606,328</b>	<b>640,250</b>	<b>167,317</b>	<b>715,582</b>	<b>882,899</b>	<b>(133,395)</b>	<b>(109,254)</b>	<b>(242,649)</b>

Advances for grants are entirely related to the resources allocated to the construction of the Turin - Lyon railway line. The decrease on the previous year end mirrors the decrease in the amounts due from the MEF and MIT (see note 12).

The decrease in other liabilities with group companies is principally due to the smaller intragroup VAT liabilities (-€161,400 thousand), mainly as a result of the transfer of net VAT assets/liabilities during the year by the companies participating in the VAT consolidation scheme (€29,700 thousand) and the amounts credited to RFI S.p.A. (principal of €131,525 thousand) following VAT reimbursements received during the year, plus the €6,884 thousand increase in liabilities to subsidiaries, mainly related to the tax consolidation scheme.

The €1,028 thousand increase in other liabilities and accrued expenses and deferred income is mainly due to the adjustment of the bilateral fund for income assistance (€3,800 thousand; reference should be made to note 21 to the Provision for risks and charges for additional details), the impairment losses due to the application of IFRS 9 (-€21 thousand), guarantee deposits (€482 thousand), amounts due to employees, mainly comprised of leaving incentives formalised during the year, the financial effect of which will be recognised in the subsequent year, and bonuses for employees and managers seconded to other group companies (-€3,702 thousand).

## 24. Current trade payables

They can be analysed as follows:

	thousands of Euros		
	<b>31.12.2019</b>	<b>31.12.2018</b>	<b>Changes</b>
Suppliers	77,911	53,408	24,503
Advances	31,540	8,812	22,728
Group companies	52,705	50,320	2,385
<b>Total</b>	<b>162,156</b>	<b>112,540</b>	<b>49,616</b>

Trade payables mainly consist of amounts due to non-group suppliers (including €58,824 thousand for invoices to be received) and subsidiaries (including €52,705 thousand for invoices to be received). Liabilities with related parties are described in note 42 - Related party transactions.

Advances amount to €31,540 thousand and mainly refer to amounts received for expropriations not yet completed and advances on the foreign contract for the Riyadh metro.

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.

## 25. Revenue from sales and services

Starting from 1 January 2018 the company has recognised revenue from contracts with customers in accordance with IFRS 15. This standard is a single 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). There are no impacts to report as a result of the application of this standard, which is no longer new in 2019.

The table and comments below give a breakdown of revenue from sales and services.

thousands of Euros

	2019	2018	Changes
<b>Revenue from contracts with customers</b>	<b>94,042</b>	<b>79,633</b>	<b>14,409</b>
Patent use charges	14,878	25,160	(10,282)
Services provided by the parent	29,629	30,906	(1,277)
Communications services	2,755	3,484	(729)
Sundry services	31,950		31,950
Sale of land and buildings held for trading	14,227	19,820	(5,593)
Sundry sales	603	263	340
<b>Other revenue from sales and services</b>	<b>79,601</b>	<b>85,271</b>	<b>(5,670)</b>
Revenue from property management	79,443	83,322	(3,879)
Capitalisation of work on buildings held for trading		1,914	(1,914)
Revenue from grants	158	35	123
<b>Total</b>	<b>173,643</b>	<b>164,904</b>	<b>8,739</b>

Revenue from sales and services increased by €8,739 thousand on the previous year, mainly due to the combined effect of the following:

- the sale of land and buildings held for trading totalling €14,227 thousand during the year, realising a net gain of €9,655 thousand (+€2,278 thousand on the previous year). Revenue from property sales is down by €5,593 thousand due to lower market interest in the property portfolio available for sale;
- the €340 thousand rise in sundry sales, which refer to publications (*La Freccia* magazine, the official train schedule, etc.) and advertising space by the External relations department which has revised its management and selling model for this communications service with the in-sourcing of sales;
- less revenue from the recharges that Ferrovie dello Stato Italiane S.p.A. applies to group companies (-€1,277 thousand), mainly in relation to IT services (-€2,632 thousand) and the people experience service (-€1,322 thousand), partly offset by the expansion of the recruitment and development service (+€2,457 thousand) and the Industrial relations area (+€294 thousand);
- the €10,282 thousand decrease in fees charged for the use of patents mainly because of the lower charges to RFI S.p.A.;
- the €31,950 thousand increase in sundry revenue in connection with the start of operations on the Riyadh metro contract;
- the €729 thousand reduction in communications services to certain group companies, particularly RFI S.p.A.;
- the €3,879 thousand decrease in revenue from property management, which mainly consists of leases, recharges of condominium expenses and revenue from the commercial use of stations, substantially due to the net effect of the lower fee from Grandi Stazioni Retail (-€4,407 thousand), following the application of the new calculation method to the fee from Grandi Stazioni Retail for 2016-2019, in accordance with the definitive arbitration award, and the €528

thousand increase in revenue mainly from the sale of advertising space in the four largest stations (Roma Termini, Milano Centrale, Napoli Centrale and Torino Porta Nuova);

- the changes in the capitalisation of work on buildings held for trading, down by €1,914 thousand substantially due to a reclassification to the corresponding cost caption for maintenance work performed. The actual reduction in capitalised maintenance carried out in accordance with the annual maintenance schedules is €336 thousand.

The table below gives a breakdown of revenue from contracts with customers by category:

	thousands of Euros					
	Real estate		Other services		Total	
	2019	2018	2019	2018	2019	2018
<b>Geographical segment</b>						
Italy	14,227	19,820	47,798	59,795	62,025	79,615
<b>Total revenue from contracts with customers</b>	14,227	19,820	79,815	59,813	94,042	79,633
<b>Product lines</b>						
<b>Revenue from contracts with customers</b>						
Other service revenue	14,227	19,820	79,815	59,813	94,042	79,633
<b>Total revenue from contracts with customers</b>	14,227	19,820	79,815	59,813	94,042	79,633
<b>Moment of recognition*</b>						
Over time	14,227	19,820	79,815	59,813	94,042	79,633
<b>Total revenue from contracts with customers</b>						
<b>Total other revenue from sales and services</b>	79,443	85,236	158	35	79,601	85,271
<b>Total revenue from sales and services</b>	93,670	105,056	79,973	59,848	173,643	164,904

Information about contract assets and liabilities is given below:

<i>thousands of Euros</i>	<b>31.12.2019</b>	<b>31.12.2018</b>
Contract assets classified under "Current/non-current trade receivables"	48,796	25,995
Contract assets classified under "Other current assets/non-current assets"		
Other assets not included in the above categories		
Contract assets	16,716	12,979
Contract liabilities	22,378	

The table below shows the significant changes in contract assets and liabilities for the year:

<i>thousands of Euros</i>	<b>2019</b>	
	<b>Contract assets</b>	<b>Contract liabilities</b>
Revenue recognised during the year which was included in the opening balance of "contract liabilities"		
Increases in contract liabilities due to progress payments, net of the amounts recognised during the year		22,378
Reclassifications from "contract assets" recognised at the beginning of the year	(8,925)	
Increases in contract assets due to the provision of services	12,662	
Increases in contract assets due to changes in the assessment of the percentage of completion		
Business combinations		
Other changes		

### **Other revenue from sales and services**

Other revenue from sales and services include lease income of €63,929 thousand in 2019.

The table below includes an ageing analysis of payments to be received in future years for assets that the group has given under operating lease:

	thousands of Euros						
	<b>Within one year</b>	<b>1-2 years</b>	<b>2-3 years</b>	<b>3-4 years</b>	<b>4-5 years</b>	<b>After five years</b>	<b>Total</b>
Undiscounted payments to be received for operating leases	66,648	66,491	66,491	66,488	66,158	66,158	<b>398,434</b>

### 26. Other income

This caption can be analysed as follows:

	thousands of Euros		
	<b>2019</b>	<b>2018</b>	<b>Changes</b>
<b>Surety fee income</b>	<b>6,349</b>	<b>7,771</b>	<b>(1,422)</b>
<b>Repayments</b>			
Managers' fees as corporate officers at FS Italiane group companies	266	403	(137)
Other repayments	5,011	4,625	386
<b>Total repayments</b>	<b>5,277</b>	<b>5,028</b>	<b>249</b>
<b>Other sundry income</b>	<b>1,987</b>	<b>2,426</b>	<b>(439)</b>
<b>Total</b>	<b>13,613</b>	<b>15,225</b>	<b>(1,612)</b>

The €1,612 thousand decrease is mainly due to the combined effect of:

- the €1,422 thousand reduction in surety fee income to group companies and particularly RFI S.p.A.;
- the €137 thousand decrease in the fees due to the managers appointed in group companies and other associations;
- the increase in other repayments, mainly from group companies. This increase mainly refers to services provided to Fondazione FS (+€386 thousand);
- the €439 thousand decrease in other sundry income, mostly the effect of the reduction in services for external relations and foreign contracts, offset by the increase in assistance services for funded training provided to group companies.

### 27. Personnel expense

	thousands of Euros		
	<b>2019</b>	<b>2018</b>	<b>Changes</b>
Wages and salaries	43,569	41,795	1,774
Social security charges	12,085	11,649	436

Other expense for employees (net of recoveries for seconded personnel)	(1,217)	4,454	(5,671)
Post-employment benefits	2,792	2,753	39
Accruals and releases	2,015	8,277	(6,262)
<b>Employees</b>	<b>59,244</b>	<b>68,928</b>	<b>(9,684)</b>
Wages and salaries	80	375	(295)
Social security charges	64	77	(13)
<b>Consultants and freelancers</b>	<b>144</b>	<b>452</b>	<b>(308)</b>
Temporary workers, seconded employees and trainees	990	1,686	(696)
Other costs	2,677	2,503	174
<b>Other costs</b>	<b>3,667</b>	<b>4,189</b>	<b>(522)</b>
<b>Total</b>	<b>63,055</b>	<b>73,569</b>	<b>(10,514)</b>

Personnel expense, which totals €63,055 thousand, decreased by €10,514 thousand on the previous year.

The decrease is mainly due to:

- a €9,684 thousand decrease in personnel expense due to the combination of the increase in wages, salaries and social security charges, up by a total of €2,210 thousand considering the higher average number of employees, offset by lower leaving incentives in the year, which total €2,094 thousand (-€5,158 thousand on 2018) and the reduction in accruals for managers involved in the change management process, amounting to €1,918 thousand (-€6,342 thousand on 2018);
- a €308 thousand decrease in costs for consultants and freelancers following the reduction in collaboration agreements;
- a €522 thousand decrease in other costs, mainly due to lower costs for temporary workers, trainees and seconded employees (-€696 thousand), partially offset by higher training costs (+€149 thousand).

The table below gives a breakdown of the company's average number of employees by category:

	2019	2018	Changes
<b>Personnel</b>			
Managers	118	114	4
Junior managers	223	224	(1)
Other	301	279	22
<b>Total</b>	<b>642</b>	<b>617</b>	<b>25</b>

## 28. Raw materials, consumables, supplies and goods

They can be analysed as follows:

	2019	2018	Changes
			thousands of Euros
Raw materials and consumables	344	407	(63)
Lighting and driving force	11	33	(22)
Change in land and buildings held for trading	14,572	28,864	(14,292)
<b>Total</b>	<b>14,927</b>	<b>29,304</b>	<b>(14,377)</b>

The decrease in this caption is mainly due to the change in land and buildings held for trading, where the cost of goods sold fell by €7,871 thousand, and the €6,421 thousand decrease in the impairment losses on property held for trading

recognised during the year. Reference should be made to note 13 (Inventories) for a detailed description of the disposals of the year.

## 29. Services

This caption can be analysed as follows:

	thousands of Euros		
	2019	2018	Changes
Transport services	7	14	(7)
<b>Maintenance, cleaning and other contracted services</b>	<b>8,407</b>	<b>9,260</b>	<b>(853)</b>
Contracted services and work	415	2,426	(2,011)
Cleaning and other contracted services	591	539	52
Maintenance and repair of intangible assets and property, plant and equipment	8,502	7,057	1,445
Accruals/releases for maintenance	(1,101)	(762)	(339)
<b>Property services and utilities</b>	<b>25,070</b>	<b>26,785</b>	<b>(1,715)</b>
<b>Administrative and IT services</b>	<b>31,550</b>	<b>14,391</b>	<b>17,159</b>
<b>External communications and advertising expense</b>	<b>12,600</b>	<b>10,279</b>	<b>2,321</b>
<b>Other sundry services</b>	<b>66,687</b>	<b>43,751</b>	<b>22,936</b>
Professional services	4,008	4,845	(837)
Insurance	440	598	(158)
Consultancies	14,722	11,687	3,035
Facility management	16,491	16,936	(445)
Travel and accommodation	1,483	1,345	138
Other administrative services	2,126	1,547	579
Other services	27,417	6,793	20,624
<b>Total</b>	<b>144,321</b>	<b>104,480</b>	<b>39,841</b>

For some of the 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.

The overall increase in services is mainly due to greater IT services (€17,282 thousand), greater external communications and advertising expense (€2,231 thousand) mainly due to the launch of the campaign to mark the tenth anniversary of the high speed line, the increase in consultancies (€3,035 thousand) due to the many non-recurring transactions in the year (the two largest being the Alitalia project and the Riyadh metro) and other service expense of the year mainly relating to costs on the Riyadh metro contract (€21,043 thousand), which match with the contract revenue. These increases are offset by lower facility management costs (€445 thousand), mostly paid to Grandi Stazioni Rail S.p.A. and entirely recharged to Grandi Stazioni Retail S.p.A. for maintenance and to ensure the efficiency of the real estate assets of Italy's main train stations, lower costs paid to Ferservizi S.p.A. for the management of the company's real estate assets, maintenance and



cleaning (totalling €2,568 thousand), lower professional services (€837 thousand) and lower insurance costs (€158 thousand).

### 30. Use of third-party assets

This caption can be analysed as follows:

	thousands of Euros		
	<b>2019</b>	<b>2018</b>	<b>Changes</b>
Lease payments and condominium expenses	3,957	4,688	(731)
IT services and other	1	2	(1)
<b>Total</b>	<b>3,958</b>	<b>4,690</b>	<b>(732)</b>

This caption decreased on the previous year mainly due to the lower fees for the use of spaces at stations (€914 thousand), offset by the €139 thousand increase in lease payments and related amounts charged in respect of leased spaces.

### 31. Other operating costs

This caption can be analysed as follows:

	thousands of Euros		
	<b>2019</b>	<b>2018</b>	<b>Changes</b>
Membership fees and contributions	8,859	8,759	100
Non-deductible VAT (pro rata)	4,134	597	3,537
Taxes and duties	14,276	14,278	(2)
Other sundry expense	6,242	2,012	4,230
Other costs, accruals/releases	5,517	(432)	5,949
<b>Total</b>	<b>39,028</b>	<b>25,214</b>	<b>13,814</b>

The €13,814 thousand increase in this caption is mainly due to greater contributions for membership fees (€100 thousand), higher non-deductible VAT (pro rata) pertaining to the year (€3,537 thousand), greater provisions for the probable risk of losing a lawsuit with third parties (€5,317 thousand) and for disputes with personnel (per €199 thousand), compared to greater releases in the previous year. The increase in other sundry expense is mainly due to indemnities and legal expenses not covered by insurance (€4,395 thousand).

### 32. Internal work capitalised

Internal work capitalised, amounting to €1,593 thousand (2018: €238 thousand), refers to personnel expense attributable to the production and development of software recognised under intangible assets.

## Amortisation and depreciation

This caption can be analysed as follows:

thousands of Euros

	<b>2019</b>	<b>2018</b>	<b>Changes</b>
Amortisation	15,260	15,645	(385)
Depreciation	9,256	8,808	448
<b>Total</b>	<b>24,516</b>	<b>24,453</b>	<b>63</b>

The €63 thousand increase on the previous year is mainly due to the combined effect of lower amortisation in 2019, following the reduction and contribution of the company's investments in software and long-term licences to FSTechnology S.p.A., greater depreciation of property, plant and equipment (particularly office machines), and the depreciation of buildings and vehicles in accordance with IFRS 16 (€164 thousand), which was applied for the first time in 2019, as described in more detail above.

#### 34. Impairment losses

This caption can be analysed as follows:

thousands of Euros

	<b>2019</b>	<b>2018</b>	<b>Changes</b>
Impairment losses on property, plant and equipment	7	10,005	(9,998)
Impairment losses on intangible assets		1,434	(1,434)
Impairment losses on financial assets	730	4,407	(3,677)
Impairment losses on cash and cash equivalents	679	(76)	755
<b>Total</b>	<b>1,416</b>	<b>15,770</b>	<b>(14,354)</b>

This caption decreased by €14,354 thousand due to lower impairment losses on property, plant and equipment and software. Furthermore, net impairment losses on assets and cash and cash equivalents decreased by a total of €2,922 thousand on the basis of analytical estimates of expected recovery and the adjustment of the loss allowance in accordance with IFRS 9.

#### 35. Financial income

This caption can be analysed as follows:

thousands of Euros

	2019	2018	Changes
Gains on equity investments	137,406	141,544	(4,138)
<b>Total gains on equity investments</b>	<b>137,406</b>	<b>141,544</b>	<b>(4,138)</b>
Financial income from non-current loans and securities	136,456	135,160	1,296
Other financial income	29,550	17,096	12,454
Exchange gains	14,584	12,770	1,814
<b>Total other financial income</b>	<b>180,590</b>	<b>165,026</b>	<b>15,564</b>
<b>Total</b>	<b>317,996</b>	<b>306,570</b>	<b>11,426</b>

Financial income decreased by €11,426 thousand on the previous year, mainly due to:

- other financial income, which increased by a total of €12,454 thousand, mostly because of the €12,862 thousand gain on the purchase and sale contract that FS Italiane and RFI S.p.A. signed on 28 March 2019 (as sellers) with AltaCSRETAILFR (as buyer) for Centostazioni Retail S.p.A., as described in note 10; the €2,432 thousand increase in interest on current loans to subsidiaries, mainly Trenitalia C2C, Qbuzz S.r.l. and Mercitalia Rail S.r.l., offset by the €1,703 thousand decrease in interest on the Eurofima loans, the €778 thousand decrease in interest on VAT claimed for reimbursement and the €259 thousand reduction in interest income accrued on the intragroup current accounts;
- the €1,814 thousand increase in exchange gains, essentially due to the current and non-current loans granted to the subsidiaries Trenitalia UK and Trenitalia C2C;
- the €1,296 thousand increase in interest accrued on non-current loans, mainly to Trenitalia S.p.A. (€3,775 thousand) and Mercitalia Rail S.r.l. (€2,737 thousand), mostly following EMTN programme bond placements; to Ferrovie del Sud Est e Servizi Automobilistici S.r.l. (€1,669 thousand), Mercitalia Logistics S.p.A. (€1,233 thousand), TrainOSE SA (€662 thousand), Italferr S.p.A. (€492 thousand) and Qbuzz (€357 thousand) for the loans that they received from Ferrovie dello Stato Italiane S.p.A. in the year. These increases were offset by the reduction in interest accrued to RFI S.p.A. (€10,769 thousand) in connection with the lower cost of funding reflected in financial expense.
- the total decrease of €4,138 thousand in dividends distributed by subsidiaries, associates and non-controlling interests due to the lack of dividends from Netinera Deutschland GmbH (-€7,650 thousand) after Ferrovie dello Stato Italiane S.p.A. contributed its investment in this company to Trenitalia S.p.A., with effect from 1 June 2019, and the lack of dividends from Fercredit S.p.A. (-€6,000 thousand), offset by the greater dividends received from Italferr S.p.A. (+€4,561 thousand), Sita S.p.A. in liquidation (+€2,475 thousand, as an interim liquidation dividend), Eurofima (+€1,228 thousand), Ferservizi S.p.A. (+€563 thousand), Centostazioni Retail S.p.A. (+€525 thousand) and Ferrovie Nord Milan (+€160 thousand).

## 36. Financial expense

This caption can be analysed as follows:

	thousands of Euros		
	2019	2018	Changes
<b>Impairment losses on financial assets</b>	<b>409</b>	<b>127,404</b>	<b>(126,995)</b>
Accruals for charges on equity investments in group companies			
Impairment losses on group equity investments		127,899	(127,899)
Other expense for impairment losses on financial assets	409	(495)	904
<b>Total other financial expense</b>	<b>141,748</b>	<b>148,356</b>	<b>(6,608)</b>
Interest on financial liabilities	126,828	134,927	(8,099)
Financial expense on employee benefits	96	108	(12)
Financial expense on leases	4		4
Other financial expense	3,669		3,669
Exchange loss	11,151	13,321	(2,170)
<b>Total</b>	<b>142,157</b>	<b>275,760</b>	<b>(133,603)</b>

Financial expense decreased by €133,603 thousand on the previous year, mainly due to:

- lower impairment losses on group equity investments, down by €127,899 thousand, which in 2018, included the impairment loss on the investee Mercitalia Logistica, offset by greater impairment losses (+€904 thousand) as a result of applying IFRS 9;
- the €2,170 thousand decrease in exchange losses, mainly recognised on current and non-current loans in British pounds;
- the total decrease of €11,447 thousand in interest expense on loans from Cassa Depositi e Prestiti, the EIB and Eurofima, due to the reduction in both the outstanding liability and applicable interest rates (6M Euribor), which was reflected in lower financial income received from RFI S.p.A., as indicated in note 35; interest expense of €1,404 thousand on Eurofima loans and interest of €774 thousand accrued from subsidiaries on group VAT assets, offset by the increase in interest accrued on the EMTN programme bond (+€4,528 thousand) and greater interest and fees due to non-utilisation of the backup facility interest and fees (+€537 thousand);
- the €3,669 thousand increase in financial expense relating to cross currency swaps classified as cash flow hedges, which were entered into for the purpose of hedging current risk on the loan granted to Trenitalia UK, as described in note 4 "Financial risk management".

"Financial expense on leases" of €4 thousand includes interest accrued following the initial application of IFRS 16.

## 37. Current and deferred taxes

Income taxes can be analysed as follows:

	thousands of Euros		
	2019	2018	Changes
IRES	275	1,351	(1,076)
Income from the tax consolidation scheme	(158,297)	(124,635)	(33,662)
Deferred taxes	4,477	(8,120)	12,597
Adjustments to prior year income taxes	341	2,986	(2,645)

Accruals/releases		(282)	282
<b>Total income taxes</b>	<b>(153,204)</b>	<b>(128,700)</b>	<b>(24,504)</b>

Income taxes decreased by €24,504 thousand overall on 2018, mainly due to the combined effect of the following factors:

- the €1,076 thousand decrease in current IRES;
- the increase in the tax income from the tax consolidation scheme (€158,297 million, up by €33,662 thousand on 2018), recognised on the greater IRES transferred by the group companies over the years and used during the year, as its subsequent remuneration is not deemed probable;
- the €12,597 thousand increase in deferred tax assets and liabilities (see note 9 to Deferred tax assets and deferred tax liabilities).

## Reconciliation of the effective tax rate

thousands of Euros

	2019		2018	
	Euros	%	Euros	%
Profit for the year	226,673		62,398	
Total income taxes	(153,204)		(128,700)	
Pre-tax profit (loss)	73,469		(66,302)	
<b>IRES theoretical tax (national tax rate)</b>		<b>24.0%</b>		<b>24.0%</b>
<b>Lower taxes:</b>				
Dividends from investees	(130,536)		(134,467)	
Utilisation of provisions	(1,201)		(3,713)	
Other decreases	(13,206)		(29,145)	
<b>Higher taxes:</b>				
Accruals	8,534		20,644	
Impairment losses on equity investments			127,900	
Prior year expense	130		41	
Exchange difference	524		28	
Amortisation and depreciation	3,235		5,638	
Variation in inventories				
Non-deductible taxes	14,537		14,279	
Other increases	45,658		70,728	
Total IRES taxable profit	1,144		5,631	
<b>Total current taxes (IRES)</b>	<b>275</b>		<b>1,351</b>	
<b>Difference on prior year estimated taxes</b>	<b>341</b>		<b>2,704</b>	
<b>Total deferred taxes</b>	<b>4,477</b>		<b>(8,120)</b>	
<b>Income from the tax consolidation scheme</b>	<b>(158,297)</b>		<b>(124,635)</b>	
<b>TOTAL INCOME TAXES</b>	<b>(153,204)</b>		<b>(128,700)</b>	

## 38. Contingent assets and contingent liabilities

At the reporting date, there were no contingent assets or liabilities.

### 39. Other information

At the date of preparation of these financial statements, similarly to the previous years, 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 (€258,706 thousand at the exchange rate ruling on 31 December 2019). Its payment would increase the carrying amount of the equity investment by the same amount.

#### 40. 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 €888 thousand and include the fees paid for services other than the statutory audit (€588 thousand).

#### 41. Directors' and statutory auditors' fees

	thousands of Euros		
	2019	2018	Changes
Directors (1)	1,212	3,235	(2,023)
Statutory auditors	100	100	
<b>Total</b>	<b>1,312</b>	<b>3,335</b>	<b>(2,023)</b>

(1) Includes the fees of chairman, director and the CEO's fixed and variable remuneration, also as a manager of Ferrovie dello Stato Italiane S.p.A..

Directors' fees include the amounts envisaged for the positions of chairman and CEO, as well as those for the remaining board members. In addition to the above fees, the external members of the supervisory body received €78 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.

The decrease on the previous year is mainly due to end-of-office fees paid in 2018 to outgoing directors.

#### 42. Related parties

##### Transactions with key managers

	thousands of Euros	
	2019	2018
Short-term benefits	5,570	6,953
Post-employment benefits	371	399
Termination benefits		6,111
<b>Total</b>	<b>5,941</b>	<b>13,464</b>

The benefits relate to the sundry remuneration paid to parties indicated.

In addition to short-term benefits of €5,570 thousand paid out in 2019, a variable portion is to be paid in 2019, for an amount not exceeding €1,700 thousand, once checks have been made on whether objectives have been reached.

Key managers did not receive any termination benefits or long-term 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.



		ASSETS	LIABILITIES
Subsidiaries			
RFI S.p.A.	<ul style="list-style-type: none"> <li>Area services</li> <li>Finance</li> <li>Tax and financial statements</li> <li>Institutional affairs</li> <li>Legal/labour office</li> <li>Management administration</li> <li>Corporate development</li> <li>External relations</li> <li>Institutional affairs</li> <li>Strategies</li> <li>Legal</li> <li>Communications</li> <li>Organisation and processes</li> <li>Information systems</li> <li>Communication services</li> <li>Company officers</li> <li>Personnel services</li> <li>Insurance reimbursements</li> <li>Recharge of IT services</li> <li>Recharge of condominium expenses</li> <li>Recharge of public relation services</li> <li>Utilisation of trademark</li> <li>Lease of land, offices and workshops</li> <li>Recharge of the service cost for the bilateral fund for income assistance</li> </ul>	<ul style="list-style-type: none"> <li>Technical party - property maintenance</li> <li>Personnel services</li> <li>Health services</li> <li>Funded training</li> <li>Leases</li> </ul>	
Ferservizi S.p.A.	<ul style="list-style-type: none"> <li>Area services</li> <li>Finance</li> <li>Tax and financial statements</li> <li>Institutional affairs</li> <li>Legal/labour office</li> <li>Management administration</li> <li>Company officers</li> <li>Industrial relations</li> <li>Corporate development</li> <li>External relations</li> <li>Institutional affairs</li> <li>Strategies</li> <li>Legal</li> <li>Organisation and processes</li> <li>Information systems</li> <li>Communication services</li> </ul> <ul style="list-style-type: none"> <li>Personnel services</li> <li>Recharge of IT services</li> <li>Utilisation of trademark</li> <li>Lease and sub-lease of offices</li> <li>Recharge of condominium expenses</li> <li>Recharge of the service cost for the bilateral fund for income assistance</li> </ul>	<ul style="list-style-type: none"> <li>Property management</li> <li>Recharge of condominium expenses for asset protection</li> <li>IT services</li> <li>Personnel services</li> <li>Railway hotels</li> <li>Ticket purchase fees</li> <li>Asset enhancement fees</li> <li>Technical administration management services</li> <li>Personnel management</li> <li>Accounting and treasury</li> </ul> <ul style="list-style-type: none"> <li>Facilities and building management</li> <li>Administrative services</li> <li>Training and funded training</li> <li>Asset allocation services</li> <li>Station area management</li> <li>Manager in charge of preparing financial information</li> </ul> <ul style="list-style-type: none"> <li>Maintenance, conservation and protection fees</li> <li>Catering services</li> </ul>	
Fercredit S.p.A.	<ul style="list-style-type: none"> <li>Area services</li> <li>Finance</li> <li>Tax and financial statements</li> <li>Institutional affairs</li> <li>Legal/labour office</li> <li>External relations</li> <li>Management administration</li> <li>Strategies</li> <li>Legal</li> <li>Company officers</li> <li>Insurance reimbursements</li> <li>Recharge of IT services</li> <li>Recharge of condominium expenses</li> <li>Lease and sub-lease of offices</li> <li>Utilisation of trademark</li> <li>Communications</li> </ul>		
Grandi Stazioni Rail S.p.A.	<ul style="list-style-type: none"> <li>Area services</li> <li>Finance</li> <li>Tax and financial statements</li> <li>Institutional affairs</li> <li>Legal/labour office</li> <li>Legal</li> <li>External relations</li> <li>Corporate development</li> <li>Strategies</li> <li>Information systems</li> <li>Communication services</li> <li>Institutional affairs</li> <li>Company officers</li> <li>Personnel services</li> <li>Repurchase instalment</li> <li>Insurance reimbursements</li> <li>Contributions to AGCM charges</li> </ul>	<ul style="list-style-type: none"> <li>Facilities management</li> <li>Fees for the use of spaces</li> <li>Condominium expenses</li> <li>Management of non-core buildings</li> <li>Events, exhibitions, trade fairs and meetings</li> </ul>	

FS Sistemi Urbani S.r.l.	<p>Area services</p> <p>Finance</p> <p>Tax and financial statements</p> <p>Institutional affairs</p> <p>Legal/labour office</p> <p>Management administration</p> <p>Industrial relations</p> <p>External relations</p> <p>Corporate development</p> <p>Institutional affairs</p> <p>Strategies</p> <p>Legal</p> <p>Organisation and processes</p> <p>Information systems</p> <p>Communication services</p> <p>Company officers</p> <p>Insurance reimbursements</p> <p>Lease and sub-lease of offices</p> <p>Utilisation of trademark</p> <p>Recharge of condominium expenses</p> <p>Recharge of IT services</p>	<p>Asset enhancement fees</p> <p>Office rental</p> <p>Training funding</p>
Mercitalia Shunting & Terminal S.r.l.	<p>Finance area services</p> <p>Management administration</p> <p>Insurance reimbursements</p> <p>Contributions to AGCM charges incurred</p>	<p>Transport services</p>
TX Logistik AG	<p>Finance area services</p>	
Trenitalia S.p.A.	<p>Finance area services</p> <p>Communications</p> <p>Tax and financial statements</p> <p>Institutional affairs</p> <p>Legal/labour office</p> <p>Management administration</p> <p>Industrial relations</p> <p>Corporate development</p> <p>External relations</p> <p>Institutional affairs</p> <p>Strategies</p> <p>Legal</p> <p>Organisation and processes</p> <p>Information systems</p> <p>Company officers</p> <p>Personnel services</p> <p>Insurance reimbursements</p> <p>Recharge of IT services</p> <p>Utilisation of trademark</p> <p>Lease and sub-lease of offices and workshops</p> <p>Land rental</p> <p>Recharge of condominium expenses</p> <p>Recharge of the service cost for the bilateral fund for income assistance</p>	<p>Personnel services</p> <p>IT services</p> <p>Passenger transport costs</p> <p>Training funding</p> <p>Events, exhibitions and trade fairs</p>
Italferr S.p.A.	<p>Area services</p> <p>Finance</p> <p>Tax and financial statements</p> <p>Institutional affairs</p> <p>Legal/labour office</p> <p>Management administration</p> <p>Corporate development</p> <p>External relations</p> <p>Institutional affairs</p> <p>Strategies</p> <p>Legal</p> <p>Organisation and processes</p> <p>Information systems</p> <p>Communication services</p> <p>Company officers</p> <p>Personnel services</p> <p>Insurance reimbursements</p> <p>Recharge of IT services</p> <p>Utilisation of trademark</p> <p>Leases</p> <p>Industrial relations</p> <p>Technical assistance in training projects</p> <p>Contributions to AGCM charges incurred</p>	<p>Technical administration management services</p> <p>Training funding</p> <p>Personnel services</p>
Mercitalia Logistics S.p.A.	<p>Area services</p> <p>Finance</p> <p>Tax and financial statements</p> <p>Institutional affairs</p> <p>Industrial relations</p> <p>External relations</p> <p>Legal/labour office</p> <p>Management administration</p> <p>Corporate development</p>	<p>Seconded personnel</p> <p>Training funding</p>

	<ul style="list-style-type: none"> <li>Institutional affairs</li> <li>Strategies</li> <li>Legal</li> <li>Organisation and processes</li> <li>Information systems</li> <li>Company officers</li> <li>Insurance reimbursements</li> <li>Recharge of IT services</li> <li>Office leases</li> <li>Utilisation of trademark</li> <li>Recharge of condominium expenses</li> </ul>	
Busitalia - Sita Nord S.r.l.	<ul style="list-style-type: none"> <li>Area services</li> <li>Finance</li> <li>Tax and financial statements</li> <li>Institutional affairs</li> <li>Legal/labour office</li> <li>Management administration</li> <li>External relations</li> <li>Development and Organisation</li> <li>Institutional affairs</li> <li>Strategies</li> <li>Legal</li> <li>Organisation and processes</li> <li>Information systems</li> <li>Communication services</li> <li>Company officers</li> <li>Personnel services</li> <li>Insurance reimbursements</li> <li>Utilisation of trademark</li> <li>Office leases</li> <li>Recharge of condominium expenses</li> </ul>	Events, exhibitions, trade fairs and meetings
Italcertifier S.p.A.	<ul style="list-style-type: none"> <li>Finance area services</li> <li>Institutional affairs</li> <li>Management administration</li> <li>Corporate development</li> <li>Legal</li> <li>Institutional affairs</li> <li>Personnel services</li> <li>Industrial relations</li> <li>Communications</li> </ul>	Seconded personnel
Mercitalia Intermodal S.p.A.	<ul style="list-style-type: none"> <li>Finance</li> <li>Tax and financial statements</li> <li>Institutional affairs</li> <li>External relations</li> <li>Corporate development</li> <li>Communication services</li> <li>Company officers</li> <li>Contributions to AGCM charges incurred</li> </ul>	
Metropark S.p.A.	<ul style="list-style-type: none"> <li>Finance</li> <li>Tax and financial statements</li> <li>Institutional affairs</li> <li>Legal/labour office</li> <li>External relations</li> <li>Corporate development</li> <li>Legal</li> <li>Communication services</li> <li>Insurance reimbursements</li> <li>Lease and sub-lease of offices</li> <li>Recharge of condominium expenses</li> <li>Recharge of IT services</li> <li>Leases</li> </ul>	Seconded personnel
Netinera Deutschland GmbH	<ul style="list-style-type: none"> <li>Recruitment and development</li> <li>Recharge of IT services</li> <li>Finance area services</li> </ul>	
Ataf Gestioni S.r.l.	<ul style="list-style-type: none"> <li>Contributions to AGCM charges incurred</li> </ul>	
FSTechnology S.p.A.	<ul style="list-style-type: none"> <li>Management administration</li> <li>Industrial relations</li> <li>Recruitment and development</li> <li>Communications</li> <li>Company officers</li> <li>Seconded personnel</li> <li>Personnel services</li> </ul>	IT services
Trenord S.r.l.	<ul style="list-style-type: none"> <li>Finance area services</li> <li>Insurance reimbursements</li> <li>Lease and sub-lease of offices and workshops</li> <li>Recharge of condominium expenses</li> </ul>	
Terminali Italia S.r.l.	<ul style="list-style-type: none"> <li>Insurance reimbursements</li> <li>Institutional affairs</li> <li>Office leases</li> <li>Recharge of condominium expenses</li> </ul>	

	Finance area services	
Ferrovie del Sud Est e Servizi Automobilistici FSE S.r.l.	Recruitment and development Company officers Seconded personnel Company officers Contributions to AGCM charges incurred Management administration Finance area Recharge of IT services	
Tello Sas	Finance area services Recruitment and development	
Busitalia Rail Service S.r.l.	Finance area services	Advertising and marketing Transport services
Busitalia Veneto S.p.A.	Management administration Finance area services Strategies Insurance reimbursement	
Busitalia Campania S.p.A.	Finance area services	
Bluferries S.r.l.	Finance area services Institutional affairs	
T.E.L.T. Sas (formerly L.T.F. Sas)	Personnel services Management personnel administration Leases	
Grandi Stazioni Immobiliare S.p.A.	Tax and financial statements services Finance area services Institutional affairs Strategies Building leases Recharge of condominium expenses	
Savit S.r.l.	Finance area	
Mercitalia Rail S.r.l. (formerly FS Telco S.r.l.)	Personnel services Area services Finance Tax and financial statements Institutional affairs Legal/labour office Management administration Corporate development Legal External relations Industrial relations Information systems Communication services Insurance reimbursements Lease and sub-lease of offices Recharge of condominium expenses Recharge of IT services Leases	Seconded personnel Training funding
TrainOSE	Finance area Company officers Seconded personnel	

Anas S.p.A.	Recruitment and development Company officers Seconded personnel
Nugo S.p.A.	Seconded personnel Management personnel administration Industrial relations External relations Recruitment and development Communications Company officers People experience Seconded personnel Recharge of IT services Recharge of condominium expenses Leases
Autostrade Asti-Cuneo S.p.A.	Company officers
Qbuzz	Finance area Recruitment and development
Trenitalia C2C	Finance area Recruitment and development
Cremonesi Workshop	Management personnel administration Industrial relations

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#### Associates

Ferrovie Nord Milano S.p.A.	Company officers
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#### Associates of subsidiaries

Terminal Tremestieri S.r.l.	Company officers
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#### Other related parties (\*)

CDDPP group	Crossings Sale of advertising spaces	Loans and borrowings
ENEL group	Land easement payments Pedestrian crossings	Electrical energy supply
ENI group	Land easement payments Pedestrian crossings	Gas supply
POSTE group	Operating buildings lease payments Land lease payments	Postal charges
Eurofer	Company officers	Grants
Other pension funds		Insurance policies
Previdai		Grants
Fondazione FS	Office leases	Membership fees Professional courses
	Recharge of condominium expenses Personnel services	
Cooperatives, associations, EEIGs and partnerships	Company officers	Sponsorships Membership fees to the railway recreational association
Leonardo group RAI group		Consultancies Taxes and duties

(\*) Companies with the same parent, i.e., the MEF.

**OTHER RELATED PARTIES**

TAX CONSOLIDATION SCHEME	VAT UNDER THE VAT CONSOLIDATION SCHEME	INTRAGROUP BANK AND POST OFFICE CURRENT ACCOUNTS	LOANS GRANTED	OVERDRAFTS AND LOANS RECEIVED	ISSUE OF SURETIES TO	SUPPLEMENTARY PENSION FUNDS
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.		Italferr S.p.A.	
Grandi Stazioni Rail S.p.A.	Grandi Stazioni Rail S.p.A.	Grandi Stazioni Rail S.p.A.	Grandi Stazioni Rail S.p.A. FSTechnology		Grandi Stazioni Rail S.p.A.	
Blufferies S.r.l.	Blufferies S.r.l.	Blufferies S.r.l.				
Metropark S.p.A.	Metropark S.p.A.	Metropark S.p.A.				
Mercitalia Logistics S.p.A.	Mercitalia Logistics S.p.A.	Mercitalia Logistics S.p.A.	Mercitalia Logistics 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.	Mercitalia Rail 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.	
Mercitalia Intermodal S.p.A.	Mercitalia Intermodal S.p.A.		Mercitalia Intermodal S.p.A.		Mercitalia Intermodal S.p.A.	
Busitalia Rail Service S.r.l.	Busitalia Rail Service S.r.l.	Busitalia Rail Service S.r.l.				
Busitalia Veneto S.p.A.		Busitalia Veneto S.p.A.				
Busitalia Campania S.p.A.		Busitalia Campania S.p.A.				
		Busitalia Simet S.p.A.				
Mercitalia Shunting & Terminal S.r.l.	Mercitalia Shunting & Terminal S.r.l.	Mercitalia Shunting & Terminal S.r.l.	Mercitalia Shunting & Terminal S.r.l.		Mercitalia Shunting & Terminal 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 Nord S.r.l.	Busitalia - Sita Nord S.r.l.	Busitalia - Sita Nord S.r.l.		Busitalia - Sita Nord S.r.l.	
			TX Logistik AG		TX Logistik AG Netinera Deutschland GmbH	
Sita S.p.A. in liquidation					Mercitalia Transport & Services S.r.l.	
TAV S.r.l.						
		Grandi Stazioni Immobiliare S.p.A.	Grandi Stazioni Immobiliare S.p.A.			
					Thello Sas	
			Trenitalia UK Ferrovie Sud Est S.r.l.		Trenitalia UK Ferrovie Sud Est S.r.l.	
		Qbuzz	Qbuzz		Qbuzz	
			Metro5 S.p.A.			
			Savit S.r.l.			
		Nugo S.p.A.				
		ATAF Gestioni S.r.l.				

FSTechnology S.p.A.

TELT S.p.A.

TrainOSE  
First Trenitalia West  
Coast  
Firenze City  
Sightseeing

TrainOSE

Terminal Alpransit

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**Other related parties**

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Cassa DD.PP.

Eurofer

Previndai

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The tables below summarise statement of financial position amounts at 31 December 2019 and the income statement figures for the year then ended.

**Trade and other transactions**

thousands of Euros

	2019			2019	
	Assets	Liabilities	Guarantees and commitments	Costs	Revenue
<b>Subsidiaries</b>					
Anas	74			(34)	58
Autostrada Asti-Cuneo S.p.A.					3
Ataf Gestioni S.r.l.	77				75
Busitalia Campania S.p.A.	32				31
Busitalia Rail Service S.r.l.	274	13		96	10
Busitalia Veneto S.p.A.	88	8		(2)	86
Bluferries S.r.l.	106	759			16
Busitalia - Sita Nord S.r.l.	3,267	1,626	21,472	(685)	1,369
Cisalpino AG	250				
Cremonesi Workshop S.r.l.	2				2
Fercredit S.p.A.	485	152	763	(137)	361
Ferservizi S.p.A.	2,389	20,954	3,692	25,760	3,866
FSE S.r.l. Infrastructure	1,622		80,068	(241)	404
FSE S.r.l. Railway transport				(673)	28
FSTechnology S.p.A.	85	9,335		15,203	194
FS Sistemi Urbani S.r.l.	3,748	1,811	939	4,438	783
Grandi Stazioni Immobiliare S.p.A.	16				(59)
Grandi Stazioni Rail S.p.A.	6,253	7,140	7,698	17,680	8,419
Italcertifer S.p.A.	316	104	20	110	160
Italferr S.p.A.	12,776	7,081	3,879	(243)	2,604
Mercitalia Intermodal S.p.A.	124	350	24		88
Mercitalia Logistics S.p.A.	13,954	274	20,548	(36)	1,523
Mercitalia Rail S.r.l. (formerly FS Telco S.r.l.)	5,391	34	11,533	(750)	2,045
Mercitalia Shunting & Terminal S.r.l.	7,512	667	2,055	16	24
Mercitalia Transport & Services S.r.l.			150		
Metropark S.p.A.	600	1		(17)	319
Netinera Deutschland GmbH	841	126	35,000	(89)	91
Nugo S.p.A.	2,017			(660)	380
Qbuzz BV	200		21,021		133
RFI S.p.A.	22,001	45,754	1,853,015	(4,011)	30,886
Savit S.r.l.	1				
Sita S.p.A. in liquidation	6,760				
T.E.L.T. Sas (formerly L.T.F. Sas)	540		6,925	(1,355)	80
Terminali Italia S.r.l.	508			(8)	54
Terminal Alptransit S.r.l.	11		3,088		5
Thello Sas	18		3,902		11
TrainOSE	160			(240)	(3)
Trenitalia Logistic France Sas					
Trenitalia S.p.A.	45,038	2,536	663,400	(8,169)	37,402
Trenitalia C2C	134		36,394		83
Trenord S.r.l.	625	18		(6)	264
Tunnel Ferroviario del Brennero S.p.A.	4	112			6
TX Logistik AG	483		50		20
Trenitalia UK Ltd	282		145,250		485
<b>Total</b>	<b>139,064</b>	<b>98,855</b>	<b>2,920,886</b>	<b>45,947</b>	<b>92,306</b>
<b>Associates</b>					
Ferrovie Nord Milano S.p.A.					(1)
<b>Total</b>					<b>(1)</b>
<b>Associates of subsidiaries</b>					
Terminal Tremestieri S.r.l. in liquidation	4				4
Logistica SA	46				
<b>Total</b>	<b>50</b>				<b>4</b>
<b>TOTAL</b>	<b>139,114</b>	<b>98,855</b>	<b>2,920,886</b>	<b>45,947</b>	<b>92,309</b>
<b>Other related parties</b>					
CDDPP group	267	340,334			35
ENEL group	64	(14)		2	13
ENI group	23	171		376	13
Leonardo group				299	
Invitalia group		4			
Poste group	527	10		120	10
RAI group				1	
Eurofer	4	137		145	13
Other pension funds		57		765	
Cooperatives, associations, EEIGs and partnerships	43			37	3
Fondazione FS	1,219			3,607	847
Previdai		610		645	
<b>Total</b>	<b>2,147</b>	<b>341,309</b>		<b>5,997</b>	<b>934</b>

## Financial transactions

thousands of Euros

	31.12.2019	2019			
	Assets and current accounts	Liabilities	Guarantees and commitments	Expense	Income
<b>Subsidiaries</b>					
Anas					
Ataf Gestioni		3,688			
Bluferries S.r.l.		431			
Busitalia Campania S.p.A.		885			
Busitalia - Sita Nord S.r.l.	77,139	5,402		14	702
Busitalia Rail Service S.r.l.		1,710			
Busitalia Veneto S.p.A.		11,921		1	
Busitalia Simet				(1)	
Centostazioni Retail S.p.A.					525
Fercredit S.p.A.		357		1	3,000
Ferservizi S.p.A.		36,540		7	19,917
Firenze City Sightseeing S.r.l.	204				2
FSE S.r.l. Railway transport	85,889			(1)	1,721
FSTechnology S.p.A.	35,005	43,789		26	308
FS Sistemi Urbani S.r.l.		48,610		5	
Grandi Stazioni Rail S.p.A.	41,028	14,703			520
Grandi Stazioni Immobiliare S.p.A.	5,101	80		1	51
Italcertifer S.p.A.		511			2
Italferr S.p.A.	34,622		15,000	7	9,423
Metropark S.p.A.		6,118		1	
Metro 5 S.p.A.					1,750
Mercitalia Logistics S.p.A.	139,011	10,867		6	1,996
Mercitalia Rail S.r.l. (formerly FS Telco)	281,386	27,591	9,506	41	4,799
Mercitalia Shunting & Terminal S.r.l.	7,501	6,278		4	300
Mercitalia Transport & Services S.r.l.					
Mercitalia Intermodal S.p.A.	30,006			22	6
Netinera Deutschland GmbH			186,716		623
Nugo S.p.A.		6,778		1	
Qbuzz	166,480	13,788	10,702	41	1,201
RFI S.p.A.	2,951,446	99,860	100,000	454	168,980
Savit S.r.l.	500				
Sita S.p.A. in liquidation					2,475
Thello Sas			5,740		9
Terminali Italia S.r.l.		4			
TrainOSE	23,006			17	661
Trenitalia S.p.A.	5,398,821	1,295	442,969	2,427	59,417
Trenitalia CZC	77,552		61,176	40	1,357
Trenitalia UK Ltd	86,492		18,001	1	2,257
TX Logistik AG	32,354		2,918	14	454
Tunnel Ferroviario del Brennero S.p.A.					
<b>TOTAL</b>	<b>9,473,543</b>	<b>341,206</b>	<b>852,728</b>	<b>3,129</b>	<b>282,456</b>
<b>Associates</b>					
Metro 5	31,596				
Ferrovie Nord Milano S.p.A.					1,442
<b>Total</b>	<b>31,596</b>				<b>1,442</b>
<b>Associates of subsidiaries</b>					
First Trenitalia West Coast Rail Limited	10,617			8	39
<b>Total</b>	<b>10,617</b>			<b>8</b>	<b>39</b>
<b>TOTAL</b>	<b>9,515,756</b>	<b>341,206</b>	<b>852,728</b>	<b>3,137</b>	<b>283,937</b>
<b>Other related parties</b>					
CDDPP group		97,060		1,711	
<b>TOTAL</b>		<b>97,060</b>		<b>1,711</b>	

### 43. 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

<b>Issued on behalf of</b>	<b>Financial</b>	<b>Non-financial</b>
RFI S.p.A.	100,000	1,853,015
Trenitalia S.p.A.	442,969	663,400
Netinera Deutschland GmbH	186,716	35,000
Busitalia - Sita Nord S.r.l.		21,472
Grandi Stazioni Rail S.p.A.		7,698
FS Sistemi Urbani S.r.l.		939
Italferr S.p.A.	15,000	3,879
Ferservizi S.p.A.		3,693
Mercitalia Logistics S.p.A.		20,548
TX Logistik AG	2,918	50
Italcertifer S.p.A.		20
Thello Sas	5,740	3,902
Telt Sas		6,925
Mercitalia Rail S.r.l.	9,506	11,533
Mercitalia Intermodal S.p.A.		24
Ferrovie del Sud Est e Servizi Automobilistici - FSE S.r.l.		80,068
Telt Sas		6,925
Trenitalia C2C	61,176	36,394
Trenitalia UK Ltd	18,001	145,250
Qbuzz BV	10,702	21,021
Teralp		3,088
Fercredit S.p.A.		763
<b>Total</b>	<b>852,728</b>	<b>2,920,887</b>

Financial guarantees are mainly comprised of guarantees and counter-guarantees issued to banks for loans. Non-financial guarantees are comprised of bid bonds, performance bonds, commercial guarantees and commitments in favour of the tax authorities.

The main non-financial parent guarantees were issued to the tax authorities (€2,345,679 thousand) to guarantee reimbursements of tax credits to the following subsidiaries: RFI S.p.A., Trenitalia S.p.A., Mercitalia Logistics S.p.A., Mercitalia Intermodal S.p.A., Ferservizi S.p.A., Grandi Stazioni Rail S.p.A., Italferr S.p.A., FS Sistemi Urbani S.r.l., TELT Sas, Fercredit S.p.A., Thello Sas and Ferrovie del Sud Est e Servizi Automobilistici S.r.l..

The non-financial parent 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 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 Rete Ferroviaria Italiana S.p.A. (guarantee of €100,000 thousand);
- from the EIB to Trenitalia S.p.A. (total bank counter-guarantee of €18,630 thousand);
- from BNP Paribas Fortis and Unicredit AG to TX Logistik AG (total amount of two guarantees of €2,918 thousand);
- from Unicredit S.p.A. to Mercitalia Rail S.r.l. (guarantee of €6,458 thousand).

Furthermore, a strong comfort letter (€420,000 thousand) was issued for the 2004 loan from OPI (now Intesa Sanpaolo) granted to Trenitalia S.p.A..

The guarantees relating to projects abroad were issued mainly on behalf of Trenitalia C2C Ltd (for an amount corresponding to €97,570 thousand), Trenitalia UK Ltd (for an amount corresponding to €163,251 thousand) and Italferr S.p.A. (for an amount corresponding to €3,362 thousand).

Parent guarantees issued on behalf of Netinera Deutschland GmbH amount to €221,716 thousand,

Guarantees issued on behalf of the parent mainly refer to two bid bonds, for €17,500 thousand (issued in favour of Alitalia undergoing extraordinary receivership during the lengthy assessment process for the potential transaction and was then recalled when the project was discontinued), and €16,120 million (in favour of the Brescia municipal authorities). Guarantees for projects abroad include a bank counter-guarantee of SAR189,318 thousand (€45,408 thousand) relating to the performance bond issued in favour of the Arriyadh Development Authority.

#### 44. Information pursuant to Law no. 124/2017

Law no. 124 of 4 August 2017 on the market and competition introduced, inter alia, new reporting requirements on public funds for subsidiaries controlled directly or indirectly by the state. Specifically, article 1.125-129 provides for the inclusion of some information about the "funds disbursed" and "received from" the specific parties identified in the same articles.

The table below summarises the information required by the above law for 2019 about the funds disbursed:

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<b>CONFINDUSTRIA ASSOCIATIONS</b>	
AGENS - Agenzia Confederale dei Trasporti e Servizi	697,332
FEDERTURISMO	50,000
ASSINDUSTRI VENETO CENTRO	24,822
ASSOCIAZIONE INDUSTRIALI Taranto	14,175
ASSOCIAZIONE INDUSTRIALI BOLZANO	16,191
ASSOCIAZIONE INDUSTRIALI CAGLIARI	26,712
ASSOCIAZIONE INDUSTRIALI CATANIA	25,137
ASSOCIAZIONE INDUSTRIALI CREMONA	10,899
ASSOCIAZIONE INDUSTRIALE DELLE PROVINCE DI AREZZO, GROSSETO E SIENA	30,114
ASSOCIAZIONE INDUSTRIALI DI FOGGIA	41,769
ASSOCIAZIONE INDUSTRIALI GENOVA	80,955
ASSOCIAZIONE INDUSTRIALI PAVIA	10,143
ASSOCIAZIONE INDUSTRIALI SALERNO	16,191
ASSOLOMBARDA	230,139
CONFINDUSTRIA BENEVENTO	10,836
CONFINDUSTRIA CASERTA	13,167
CONFINDUSTRIA CHIETI e PESCARA	13,482
CONFINDUSTRIA CUNEO	18,459
CONFINDUSTRIA EMILIA AREA CENTRO	147,861
CONFINDUSTRIA LA SPEZIA	17,892
CONFINDUSTRIA L'AQUILA	13,104
CONFINDUSTRIA LIVORNO E MASSA CARRARA	29,232
CONFINDUSTRIA MARCHE NORD	55,188
CONFINDUSTRIA NOVARA-VERCELLI	43,029
CONFINDUSTRIA ROMAGNA	28,098
CONFINDUSTRIA FIRENZE	124,047
CONFINDUSTRIA BARI	58,149
SICINDUSTRIA	119,700
CONFINDUSTRIA UDINE	27,720
CONFINDUSTRIA UMBRIA	44,856
CONFINDUSTRIA VENEZIA	81,459
CONFINDUSTRIA VENEZIA GIULIA	38,997
CONFINDUSTRIA VERONA	89,775
CONFINDUSTRIA VICENZA	15,939
UNINDUSTRIA (Rome, Viterbo, Latina, Frosinone and Rieti)	239,274
UNINDUSTRIA CALABRIA	102,312
UNIONE INDUSTRIALE TORINO	139,167
UNIONE INDUSTRIALI ALESSANDRIA	44,226
UNIONE INDUSTRIALI DI NAPOLI	124,047
UNIONE INDUSTRIALI PISANA	23,814
UNIONE INDUSTRIALI SAVONA	21,798
<b>INTERNATIONAL ASSOCIATIONS</b>	
CER-COM.CHEMINS FER EUROPEENS	254,303
UIC - UNION INTERNATIONALE DES CHEMINS DE FER	380,465
UITP - UNION INTERNATIONALE DES TRANSPORTS PUBLICS	55,213
EUI EUROPEAN UNIVERSITY INSTITUTE	30,000
<b>OTHER ASSOCIATIONS</b>	
CONSEIL DE COOPERATION ECONOMIQUE	25,000

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COUNCIL FOR THE UNITED STATES AND ITALY	12,500
CONSUMERS' FORUM	21,000
FONDAZIONE ACCADEMIA NAZIONALE DI SANTA CECILIA	200,000
FONDAZIONE FS	4,000,000
FONDAZIONE PER LO SVILUPPO SOSTENIBILE	15,000
FONDAZIONE REI	50,000
I.G.I. - Istituto Grandi Infrastrutture	30,000
ISTITUTO PER GLI STUDI	20,000
ITALIACAMP	120,000
PIATTAFORMA BLOCKCHAIN UPA	20,650
SDA BOCCONI	30,000
THE EUROPEAN HOUSE-AMBROSETTI S.p.A.	20,000
TRACE INTERNATIONAL, INC	16,046
TRILATER COMMISSION	25,000
ASPEN INSTITUTE ITALIA	35,000
ASSOCIAZIONE CIVITA	22,000
ASSONIME	191,900
<b>Total</b>	<b>8,534,283</b>

The table below summarises the information required by the above law for 2019 about the funds received:

**Beneficiary**

MEF in favour of TELT	Chapter 7122	79,757,976
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#### 45. Events after the reporting date

After the end of the year, the outbreak of a novel coronavirus, COVID-19, was widely reported in January 2020. The epidemic rapidly spread to many other countries around the world, leading the World Health Organisation to define it a "pandemic".

Italy is currently one of the countries hardest hit and this has put extreme pressure on the country's healthcare system, with the government authorities consequently issuing a series of measures to contain the risk of further infection spreading throughout the population.

The COVID-19 emergency has affected the regular, ordinary performance of company activities, despite the mitigation actions that the company has already taken or is taking for the primary purpose of ensuring business continuity while protecting its workers' health and safety.

The company is conducting a broad and extensive analysis of the effectiveness and efficiency of its operations in light of the effects of a probable decrease in demand for services. However, it cannot currently rule out the need for the selective, temporary suspension of partial, targeted operations in certain units where it is impossible for workers to work remotely.

In order to ensure that this situation does not alter the company's current, confirmed medium- and long-term prospects of a strong performance, management is constantly monitoring developments in the emergency. This will, as soon as these developments make it possible, enable management to accurately quantify the possible impact of COVID-19 and, at the same time, identify, with equal accuracy, the possible targeted actions to spur recovery, including on the basis of exceptional measures taken by the Italian and European institutions deeply focused on preparing aid packages for production companies and businesses.



## Proposed allocation of the profit for the year of Ferrovie dello Stato Italiane S.p.A.

Since 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 €11,333,643.52 to the legal reserve;
- and carrying forward the remaining €215,339,226.87.

Rome, 31 March 2020

The board of directors

The Chairman

The CEO

**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 2019 pursuant to article 154-bis, paragraph 5, of Legislative Decree no. 58/1998**

1. The undersigned Gianfranco Battisti and Roberto Mannozi, 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 SpA, and
- the effective application

of the administrative and accounting procedures in preparing the separate financial statements at 31 December 2019.

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.

31 marzo 2020

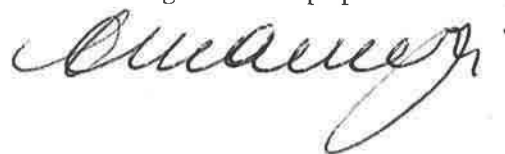
Gianfranco Battisti

Chief Executive Officer



Roberto Mannozi

Manager in charge of the company's  
accounting documents preparation



Piazza della Croce Rossa, 1 - 00161 Roma

Ferrovie dello Stato Italiane S.p.A. – Società con socio unico

Sede legale: Piazza della Croce Rossa, 1 - 00161 Roma

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

## Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

*To the sole shareholder of  
Ferrovie dello Stato Italiane S.p.A.*

### Report on the audit of the separate financial statements

#### *Opinion*

We have audited the separate financial statements of Ferrovie dello Stato Italiane S.p.A. (the "company"), which comprise the statement of financial position as at 31 December 2019, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of Ferrovie dello Stato Italiane S.p.A. as at 31 December 2019 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 and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

#### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the separate financial statements" section of our report. We are independent of the company in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



### **Emphasis of matter**

We draw attention to the “Events after the reporting date” section of the notes to the separate financial statements, where the directors disclosed the uncertainties arising from the potential effects of the COVID-19 outbreak.

We did not qualify our opinion in these respects.

### **Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the separate financial statements of the current year. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### **Recoverability of the carrying amount of investments in subsidiaries**

*Notes to the separate financial statements: section on accounting policies – paragraph “Equity investments” and note 10 “Equity investments”*

<b>Key audit matter</b>	<b>Audit procedures addressing the key audit matter</b>
<p>The separate financial statements at 31 December 2019 include investments in subsidiaries of €37,936,238 thousand recognised at acquisition or incorporation cost.</p> <p>At each reporting date, the directors check whether there is evidence that these equity investments may be impaired.</p> <p>If indicators of impairment are identified, the directors check the recoverable amount of the equity investments by comparing their carrying amount to their value in use, calculated using appropriate valuation methods under the circumstances.</p> <p>As disclosed in the notes to the separate financial statements at 31 December 2019, based on their analyses, the directors did not identify indicators of impairment in the company’s investments in subsidiaries.</p> <p>Considering the materiality of the financial statements caption, we believe that the recoverability of the carrying amount of investments in subsidiaries is a key audit matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"><li>— understanding the process adopted to measure equity investments in subsidiaries and to identify any related indicators of impairment;</li><li>— checking, also involving our own valuation specialists, the analyses made by the directors and the reasonableness of the conclusions reached, including in the light of available information and the knowledge acquired through our audit of the separate and consolidated financial statements;</li><li>— assessing the appropriateness of the disclosures provided in the notes about the measurement of investments in subsidiaries.</li></ul>



### ***Responsibilities of the company's directors and board of statutory auditors ("Collegio Sindacale") for the separate financial statements***

The 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 and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the company's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the separate financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the company or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the company's financial reporting process.

### ***Auditors' responsibilities for the audit of the separate financial statements***

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit 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 company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on



the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the company to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

#### ***Other information required by article 10 of Regulation (EU) no. 537/14***

On 4 November 2014, the company's shareholders appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2014 to 31 December 2022.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the company in conducting the statutory audit.

We confirm that the opinion on the separate financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

### **Report on other legal and regulatory requirements**

#### ***Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98***

The company's directors are responsible for the preparation of a directors' report and a report on corporate governance and ownership structure at 31 December 2019 and for the consistency of such reports with the related separate financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the company's separate financial statements at 31 December 2019 and their compliance with the applicable law and to state whether we have identified material misstatements.



**Ferrovie dello Stato Italiane S.p.A.**

*Independent auditors' report*

*31 December 2019*

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the company's separate financial statements at 31 December 2019 and have been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Rome, 22 April 2020

KPMG S.p.A.

(signed on the original)

Benedetto Gamucci  
Director of Audit

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

**REPORT OF THE BOARD OF STATUTORY AUDITORS  
ON THE 2019 ANNUAL REPORT  
SEPARATE FINANCIAL STATEMENTS AT 31 DECEMBER 2019  
AND  
CONSOLIDATED FINANCIAL STATEMENTS  
AT 31 DECEMBER 2019  
OF FERROVIE DELLO STATO ITALIANE S.P.A. –  
SINGLE-MEMBER COMPANY  
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 2019**

Dear Shareholder,

The current composition of the board of statutory auditors, appointed for three years and, in any case, until the shareholder's meeting called to approve the 2021 financial statements, is the result of the shareholder's resolution passed on 3 July 2019 appointing the following statutory auditors: Alessandra dal Verme, chairwoman, Susanna Masi and Gianpaolo Davide Rossetti, standing statutory auditors, Letteria Dinero and Salvatore Lentini, alternate statutory auditors.

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 sound administration, particularly with respect to the adequacy of the organisational, administrative and accounting system adopted by FS Italiane S.p.A. and that it is effectively working.

When FS Italiane S.p.A. 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 control, internal audit and risk management systems, the statutory 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.

The draft separate financial statements of Ferrovie dello Stato Italiane S.p.A. - single-member company (“FS Italiane S.p.A.”), which have been submitted for your approval, were approved by the board of directors in its meeting of 31 March 2020.

During the year, we carried out the supervisory duties required by the law, considering the code of conduct recommended by the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili). With respect to the activities we performed, the following should be noted.

We acquired sufficient information on the general performance and outlook and on the company’s most significant transactions in terms of size or characteristics.

To the best of our knowledge, 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 that would jeopardise the integrity of the company’s assets.

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 and consolidated financial statements, reflect, and are in line with, the company’s interests.

The independent auditors, KPMG S.p.A., issued their report on FS Italiane S.p.A.’s separate financial statements at 31 December 2019, as per article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014, 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 certain information on corporate governance and the ownership structure, required by article 123-bis.4 of Legislative decree no. 58/98, are consistent with the separate financial statements of FS Italiane S.p.A. at 31 December 2019 and have been prepared in compliance with the applicable law.

In their report on FS Italiane S.p.A.’s separate financial statements at 31 December 2019, issued as per article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of

Regulation (EU) no. 537 of 16 April 2014, the independent auditors also drew attention to the “Events after the reporting date” section of the notes to the separate financial statements, where the directors disclosed the uncertainties arising from the potential effects of the COVID-19 outbreak, specifying that their opinion was not qualified in these respects. The independent auditors also issued their audit report on the consolidated financial statements of FS Italiane group at 31 December 2019 expressing an unqualified opinion, but including an emphasis of matter paragraph. Specifically, in their report, the independent auditors drew attention to the “Events after the reporting date” section of the notes to the consolidated financial statements, where the directors disclosed the uncertainties arising from the potential effects of the COVID-19 outbreak”, specifying that their opinion was not qualified in these respects.

With respect to the supervisory activities concerning the independence of the auditors entrusted with the statutory audit, in our role of Internal control and audit committee, we note that, in the additional communication provided pursuant to article 11 of Regulation (EU) no. 537/2014, KPMG S.p.A. confirmed its independence under article 6.2.a) of the same Regulation.

We monitored the independence of the independent auditors pursuant to articles 10, 10-*bis*, 10-*ter*, 10-*quater* and 17 of Legislative decree no. 39/2010 and article 6 of the European Regulation, also with specific reference to the adequacy of the provision of non-audit services.

Based on the documentation and the information received, we have nothing to report about KPMG S.p.A.’s independence. During the year, we regularly met the independent auditors to exchange significant data and information and to fulfil our supervisory duties with respect to the statutory 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.

During the year, we met 17 times. The minutes of these meetings are kept in the relevant book.

In addition, we attended:

- two shareholder’s meetings;
- 25 board of directors’ meetings.

Such meetings were held in compliance with relevant legislation, regulations and by-laws. During the board of directors’ meetings, we met our obligations to periodically report to

the board of directors and the board of statutory auditors as per article 2381 of the Italian Civil Code.

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 the internal controls and risk management and internal audit system with respect to financial reporting.

We conducted our supervisory activities based on, inter alia: (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.

We have nothing to report with respect to the Internal Control and Risk Management System (ICRMS) or the anti-corruption policies and refer readers to the annual report for information in this respect.

With respect to the processing of corporate information, FS Italiane S.p.A.'s board of directors adopted the "Regulation for the internal management and disclosure of insider information and the processing of confidential information" (the insider dealing regulation), on 27 May 2016, as updated and amended in the meeting of 13 September 2017. This regulation was implemented in group measure no. 261/AD of 21 January 2019 signed by the CEO and general director. In accordance with the Insider regulation, FS Italiane S.p.A. has also adopted a "Procedure for the internal management of the log of people with access to insider information", included in the above measure of 21 January 2019, setting out the methods for the management of the insider information log. Again as part of the fight against market abuse, in its meeting of 17 April 2018, FS Italiane S.p.A.'s board of directors approved the "Code of conduct for the identification of insiders and the notification of transactions involving FS financial instruments undertaken by them (the "Internal dealing code"). The Internal dealing code was implemented with group measure no. 264/AD of 19 March 2019, signed by the CEO and general director.

Also in our role of Internal control and audit committee, we monitored the financial reporting process and received evidence of the activities carried out by the manager in charge of financial reporting, most recently during the meeting of 25 March 2020. We have nothing to report in this respect.

We also gained an understanding and supervised, 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. 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.

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 the latter and the CEO on 31 March 2020; (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 the company's administrative/accounting system is substantially adequate and reliable in fairly presenting operations.

With respect to the most significant transactions carried out by the company, during the year, the necessary activities continued for the FS Italiane group to acquire an investment in the companies under extraordinary administration, Alitalia - Società Aerea Alitalia S.p.A. and Alitalia Cityliner S.p.A.. FS Italiane S.p.A. did not receive a formal reply to the letter it sent to the extraordinary administration of Alitalia on 20 November 2019 and the procedure for the sale of its assets, in which FS Italiane S.p.A. participated, was unsuccessful.

During the year and after the reporting date, we did not receive any complaints pursuant to article 2408 of the Italian Civil Code. There was no need to intervene due to failure of the board of directors as per article 2406 of the Italian Civil Code.

Based on our supervisory and monitoring activities, we have nothing to report.

We examined the draft separate financial statements at 31 December 2019 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. 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.

The company ended 2019 with a profit of €226,672,871.00. For additional information, reference should be made to the notes to the separate financial statements.

We acknowledge the information provided in the annual report on the COVID-19 outbreak. Reference should be made to the notes to the consolidated financial statements for information about the potential effects on the group.

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Finally, having considered the separate financial statements at 31 December 2019, 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 FS Italiane S.p.A. at 31 December 2019, as submitted by the board of directors to the sole shareholder.

## **CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2020**

Dear Shareholder,

The consolidated financial statements of Ferrovie dello Stato Italiane group (“FS Italiane group”) at 31 December 2019, 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), endorsed by the European Union, and are accompanied by a directors’ report and the statement of the manager in charge of financial reporting, as well as a schedule describing the group’s consolidation scope and equity investments.

They also include the reconciliation between profit for the year and equity in FS Italiane S.p.A.’s separate financial statements and the related consolidated figures at 31 December 2019, compared to 31 December 2018.

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, financial performance and cash flows 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.

The documentation examined and information received did not show any non-compliance with legislation governing the preparation of consolidated financial statements.

The independent auditors issued their report as per articles 14 of Legislative decree no. 39/2010 and 10 of Regulation (EU) no. 537 of 16 April 2014, stating that the consolidated financial statements at 31 December 2019 comply with the IFRS, are presented clearly and give a true and fair view of FS Italiane group's financial position, financial performance and cash flows as at and for the year ended 31 December 2019. In their report, the independent auditors also drew attention to the "Events after the reporting date" section of the notes to the consolidated financial statements, where the directors disclosed the uncertainties arising from the potential effects of the COVID-19 outbreak", specifying that their opinion was not qualified in these respects.

The directors' report includes the consolidated non-financial statement pursuant to Legislative decree no. 254 of 30 December 2016 (the "decree"). We examined KPMG S.p.A.'s report on the consolidated non-financial statement which stated that, based on the procedures performed, nothing has come to their attention that would had led them to believe that the 2019 consolidated non-financial statement of the Ferrovie dello Stato Italiane group had not been prepared, in all material respects, in accordance with the requirements of articles 3 and 4 of the decree and the Global Reporting Initiative Sustainability Reporting Standards issued in 2016 by GRI - Global Reporting Initiative.

*After examining the annual report, we acknowledge that "also in order to ensure that this situation does not alter the group's current, confirmed medium- and long-term prospects of a strong performance, management is constantly monitoring developments in the emergency. As soon as it is possible to move forward from this phase of uncertainty, in which no predictions are reliable, management will accurately quantify the fall-out of COVID-19 and, at the same time, identify, with equal accuracy, the potential targeted actions to spur recovery, including on the basis of exceptional measures taken by the Italian and European institutions deeply focused on preparing aid packages for production companies and businesses."*

We also learnt from the annual report that the group has taken all necessary steps following the pandemic to ensure the occupational health and safety of its employees. Furthermore,

again with respect to the COVID-19 health emergency and the effects for the group, the annual report shows that the FS Italiane group has conducted an analysis of the effectiveness and efficiency of reorganising passenger and freight transport in response to that described above, with selective projects and the temporary, targeted suspension of its operations in certain units at operating and maintenance sites where it is impossible for workers to work remotely.

Finally, we invited the parent to have the board of directors provide reliable estimates, as soon as possible and even on an ongoing basis, of the effects of the current emergency for group companies, starting with the lockdown measures, which have prohibited the mobility of citizens, and considering any government measures to assist the companies, including in relation to the service contracts in place.

Rome, 23 April 2020

THE BOARD OF STATUTORY AUDITORS

Alessandra dal Verme	Chairwoman (signed on the original)
Susanna Masi	Standing statutory auditor (signed on the original)
Gianpaolo Davide Rossetti	Standing statutory auditor (signed on the original)